Overview of the recent economic and social development performance of Africa

Global performance and implications for African economies

1. Global gross domestic product (GDP) of the African economies is projected to have grown at a more moderate pace of about 3.2 per cent in 2018 and 2019 (figure I). Looking forward, the relatively strong global growth, and higher commodity prices are expected to raise demand for exports from African countries, resulting in higher export revenue, especially in commodity-exporting countries.

2. Despite relatively strong growth, the global economy is expected to encounter some risks and uncertainties in the short- to medium-term. The protectionist policies of the United States of America and the associated retaliatory actions by trading partners and trade tensions pose a systemic risk without policy cooperation. As a good portion of exports from Africa is shipped to China, an expected economic slowdown in China would adversely affect the trade performance of Africa, which could be exacerbated by the United States protectionist policies. The global financial environment, triggered by monetary policy tightening in developed economies, could lead to higher financing costs for developed countries, especially those in Africa. A hard landing in China, tensions in the Middle East and the Democratic People’s Republic of Korea, along with volatility associated with equity prices in the financial markets and oil prices present uncertainties and risks to growth in Africa and the global economy.

Recent economic developments in Africa

3. As compared with 2017, economic growth in Africa declined slightly from 3.4 to 3.2 per cent in 2018 (figure I). Strengthening global demand and a moderate increase in commodity prices, sustained investment in infrastructure, higher oil prices and production, particularly from new fields, strong private consumption and favourable weather conditions are key factors supporting the economy.
4. Some of the largest economies in Africa, such as Angola, Nigeria and South Africa, are rebounding on the back of private consumption, but their levels of economic growth remain relatively low. Growth in non-resource rich countries, such as Cote d’Ivoire, Ethiopia, Kenya and Senegal remains strong, driven largely by high public investment, especially in infrastructure. The projected GDP growth rate of 3.2 per cent is not sufficient to achieve the Sustainable Development Goal, including Goal 1 of eradicating poverty. Africa needs to accelerate its rate of growth to double-digit figures between now and 2030 by increasing the level of investment to 30 to 35 per cent of GDP and substantially improving productivity. Investment is currently 25 per cent of GDP, much lower than that of East Asian and the Pacific economies, which were about 32 per cent in 2017 (World Bank, 2018b). Productivity growth remains low relative to the rest of the world, and is below the levels needed for the continent to speed up economic diversification and enhance its competitiveness in the world market. African countries must embark on reforms that would help build resilience, raise potential growth and inclusiveness and contribute towards the achievement of the Sustainable Development Goals.

5. Accordingly, it is important to note that despite the uptick in growth since the commodity price slump that commenced mid-2014, the per capita growth rates of the subregions of Africa have been below their population growth rates. In 2017, North Africa was the only subregion in which its population growth rate, 1.8 per cent, was below the subregion’s per capita growth, standing at 4.8 per cent. However, if Libya is excluded, the subregion’s growth rate was only 1.4 per cent, putting North Africa in line with the rest of the African subregions of reporting an economic growth rate that was less than their population growth rate. This indicates the need for African countries to enhance efforts to finance programmes that would further strengthen economic growth to accommodate population growth. Any effort related to this should be coupled with activities aimed at making government expenditure more efficient through improved public financial management and efficient allocation of expenditures. Specifically, in Africa, there is a need to widen fiscal space by enhancing resource mobilization through effective tax policy and administration and widening the tax base.
Steady growth among the subregions

6. Apart from East and West Africa, growth in the subregions declined over the 2018 period, weighing on the continent’s overall growth (figure II). Notably, however, the economic performances have varied across countries. East Africa remains the most rapidly growing subregion, with growth rising from 6.1 per cent in 2017 to 6.2 per cent in 2018, aided by government spending on infrastructure and rising domestic demand. In addition to agriculture, which is the traditional driver of growth in the subregion, the industrial and services sectors are expanding, particularly in Ethiopia, Kenya, Rwanda and the United Republic of Tanzania. At the same time, oil and gas explorations, favourable weather conditions and enhanced regional integration efforts in the regional economic communities and the establishment of the African Continental Free Trade Area (AfCFTA) present large potential for growth in the subregion. The mining sector in the Democratic Republic of the Congo, Madagascar, Rwanda and Uganda are also expected to continue to propel growth.

Figure II
Economic growth by regional grouping, 2015-2019

Source: United Nations Department of Economic and Social Affairs (forthcoming).

Notes: e, estimates; f, forecasts.

7. In West Africa, GDP expanded by 3.2 per cent in 2018, as compared with 2.4 per cent in the previous year. The countries in the subregion, with the exception of Burkina Faso, Guinea and Guinea-Bissau, registered an increase in their growth rates. Ghana and Nigeria benefited from the recovery in oil prices and increased production of oil and all the countries in subregion, except Liberia and Sierra Leone, recorded an expansion in the services sector. Benin, Côte d’Ivoire, Ghana, the Niger and Senegal benefited from relatively buoyant markets for mineral and agricultural commodities, increased private consumption and public investment.

8. Average GDP growth in Southern Africa declined moderately in 2018 to 1.2 per cent from 1.5 per cent in 2017. Factors supporting the economies included a moderate increase in commodity prices, such as for copper and diamonds, leading to a strong mining sector, and improved energy supply, which is having positive spillover effects on other sectors. GDP growth in the subregion is expected to reach 2.1 per cent in 2019, aided by expected higher global prices and an increase in agricultural output, assuming that the weather conditions improve. Botswana, Malawi, Mauritius and Zambia recorded the highest growth rates in subregion of 4.4, 4.4, 3.7 and 4.1 per cent, respectively.
9. The economies of Central Africa recovered in 2018, expanding by 2.3 per cent, after contracting by 0.2 per cent in 2016 and stagnating in 2017. They are expected to expand, on average, by 2.7 per cent in 2019. Some of the key factors propelling the growth are improvement in oil prices and new oil and gas production (Cameroon, the Congo and Equatorial Guinea); strong performance in the agribusiness, manufacturing and services sectors (Cameroon, the Congo and Gabon); expansion of the tourism and construction sectors (Sao Tome and Principe); resumption of diamond exports in the Central African Republic; and the spillover effects from the economic recovery of Nigeria (Cameroon and Chad). However, low economic diversification (the Congo, Equatorial Guinea and Gabon) and adverse weather conditions remain key risks that could derail economic growth in the subregion.

10. Despite declining from 5.3 per cent in 2017 to 3.7 per cent in 2018, GDP growth in North Africa remains strong, mainly underpinned by economic expansion in Egypt (5.8 per cent) – the largest economy in the subregion – Libya (11.0 per cent) and Morocco (3.5 per cent). The downturn of the economies in the subregion can mainly be attributed to a reduction in private consumption resulting from rising inflation in such countries as Algeria, Egypt and the Sudan and political instability in Libya. Tunisia benefited from an increase in tourism and more productive manufacturing and industrial sectors enabled the economy to grow by 2.4 per cent in 2018 as compared with 1.9 per cent during the previous year.

Narrowing fiscal deficits with rising external debt

11. The fiscal deficit of Africa is estimated to have narrowed from 5.3 per cent of GDP in 2017 to 5.0 per cent in 2018 (figure III). This can be attributed to ongoing fiscal consolidation efforts in many countries, such as reduced subsidies, the recovery of oil prices and increased oil production (Angola, Chad, Nigeria and Ghana) and a widening tax base and automation of the tax administration (the Congo, Lesotho, Malawi and Nigeria). Significant improvements can be noted among the mineral-rich and oil-exporting countries, with their fiscal deficits narrowing from 12.2 per cent and 13.1 per cent in 2015, to 5.1 per cent and 5 per cent in 2018, respectively. The fiscal position of Africa is projected to remain stable at 5 per cent in 2019, supported by improving global economic conditions, particularly among commodity-exporting countries. However, commitments to continue to invest in infrastructure development are expected to weigh on the positive trend related to the fiscal deficit in the medium-term.

12. Despite the reduction in fiscal deficits, public and foreign debt (weighted) have increased marginally, rising by 2.1 percentage points (from 48.4 per cent in 2017) and 1.9 percentage points (from 35.5 per cent), respectively (figure IV). Both types of debt stabilized significantly in oil-importing countries, but they remain relatively high in oil-importing and mineral-rich countries. Foreign debt is estimated to have been 44.9 per cent of GDP in oil-importing countries and 44.3 per cent in mineral-rich countries in 2018, while public debt is estimated to have been 63.0 per cent of GDP in oil-importing countries in 2018, and 47.5 per cent of GDP in mineral-rich countries (EIU, 2018).

13. Most African Governments have taken steps to strengthen their debt management procedures. This, however, has failed to spur growth in such countries as Angola, Mozambique and Zambia, where debt levels remain relatively high. Monetary tightening in most developed economies and the associated rise in interest rates raise doubts on the sustainability of debt dynamics in some of those African countries.
14. Driven by the commitment to meet regional and global development goals, countries are strengthening their efforts to close the infrastructure deficit on the continent, which resulted in a higher share of total public debt to GDP from 33.4 per cent in 2016 to 51 per cent in 2018.

15. The continental debt levels have raised the risk of debt distress. More than 28 per cent of African countries recorded a debt-to-GDP ratio that exceeded 50 per cent in 2018 and some countries, such as Djibouti, Mauritania, Mauritius, Seychelles and the Sudan, recorded debt-to-GDP ratios that exceeded 100 per cent. African Governments need to focus on managing debt, particularly in terms of the associated sources and the term structures, to be within sustainability levels without strangling the desired growth. This entails rebalancing fiscal policy framework in order to maintain stable income and expenditure flows, and preventing the deterioration of their fiscal and debt position.
Inflation declines amid tight global monetary policy

16. Inflation continued to trend lower in 2018 in African countries, declining to an average of 11.1 per cent from an average of 14.4 per cent in 2017, reflecting the relatively stable exchange rates and declining food prices. The decline largely outweighed the effects of increased global oil prices, especially in oil-importing countries. Inflation fell significantly in oil-exporting countries from an average of 20.7 per cent in 2017 to 15.4 per cent in 2018, underpinned by declining inflation in the three large economies of Angola, Nigeria and South Africa. As a result of the lower inflation, monetary authorities were able to maintain their policy rates, while some countries, namely Cabo Verde, Egypt, Ghana and those in the West African Economic and Monetary Union, were able to cut their interest rates.

17. In general, inflation declined moderately in oil-importing countries in 2018. However, in some of them, inflation increased, for example, in Ethiopia, due to currency devaluation and an increase in public sector credit, in the Sudan, due to a rise in fiscal deficits and a cut in subsidies, and in Egypt, due to higher imported oil prices which increased inflationary pressures. In terms of subregions, inflation rate increased the most in West Africa followed by North Africa, as a poor harvest in the Sahel region resulted in higher food prices and higher import prices, which led to an increase in production costs.
Narrowing current account deficits as exports from Africa pick up

18. Current account deficits continued to narrow in 2018, to 3.1 per cent as compared with 3.9 per cent in 2017, underpinned by shrinking current account deficits in oil-exporting and mineral-rich countries. Those countries have benefited from the increase in oil and commodity prices and oil production. The continent’s largest oil exporters, Angola and Nigeria, recorded improved current account balances. However, some countries, such as Mauritania, Mozambique, the Niger and Seychelles, reported widened current account deficits because of increased demand for capital imports, high fuel prices, especially in oil-importing countries, high price of food imports and increased interest payments on government debts.

19. Merchandise exports in Africa increased in 2017, after slowing for four consecutive years, as global exports increased by 10.6 per cent, the largest increase since 2012. Exports expanded globally in 2017, with Africa registering the highest increase of 18.3 per cent compared to the Americas, Asia and Europe. The expansion in African exports was mainly on the back of higher commodity prices, and investment and consumption expenditure. As a result, the continent’s share of total world exports increased from 2.2 per cent in 2016 to 2.4 per cent in 2017.

20. The increase in export receipts has helped to stabilize the level of foreign reserves in Africa. As a percentage of GDP, reserves increased from an average of 6.8 per cent in 2017 to 7.1 per cent in 2018, underpinned by economic growth in oil-exporting countries. In general, however, reserves remain below the levels before the decline in commodity prices in 2014.

Intra-African trade remains more diversified and industrialized

21. Primary commodities and raw materials still represent the lion’s share of merchandise exports from Africa. Fuels alone accounted for 39.4 per cent of the value of the continent’s total exports in 2017. The share of manufacturing exports of total exports from Africa has remained relatively stable over time. It ranged between 24.3 per cent in 1996 to 26.2 per cent in 2016 and then decreased slightly to 23.9 per cent in 2017 (figure V(a)). Over the period 2015–2017, on average, South Africa, Nigeria and Algeria were the top African exporters to the rest of the world. In contrast, merchandise imports to Africa paint a considerably different picture, with total manufactured goods representing 66 per cent of total merchandise imports in 2017, most of which were imported from the rest of the world (figure V(b)). This is a reflection of the continent’s comparatively low technology base, low productivity and continued dependence on external partners to meet its industrial needs.

---

1ECA calculations based on UNCTAD (2018b).
22. Regarding intra-African trade, it is important to note that three quarters of African exports to African partners are concentrated in only 13 African countries, with South Africa alone capturing about 45 per cent of that share. Over the period 2015–2017, South Africa was the leading exporter to other African economies of food items, ores and metals, and machinery and transport equipment, accounting for shares of 28.9, 25.4 and 60.2 per cent, respectively. Eswatini was the leading exporter of raw agricultural materials, averaging 20.1 per cent of total exports in that sector, and Nigeria was the leading exporter of fuels, averaging 30.7 per cent.

23. When reviewing imports from African partners, the picture tends to be relatively less distorted, as 19 African countries are the recipients of three quarters of intra-African imports. As with exports, South Africa had the largest share, however, its domination in intra-African imports is considerably less pronounced. On average, over the 2015–2017 period, South Africa was the leading intra-African importer of food items, agricultural raw materials and fuels, Zambia was the leading intra-African importer of ores and metals and Namibia was the leading intra-African importer of machinery and transport equipment.

Source: ECA calculations based on UNCTAD (2018b).
24. Intra-African services exports increased from $95.7 billion in 2016 to $109.1 billion in 2017, with travel, transport and other business services being the most predominant exports, accounting for 44.4, 28.3 and 14.4 per cent of the continent’s total services exports in 2017, respectively. This supports the call for trade policies aimed at enhancing the performance of the services sector, especially modern services, that have proven to have a significant impact on both developed and developing countries’ productivity. Regulatory frameworks are needed for the services subsectors that comprise a greater proportion of the sector’s exports, such as travel and transport, to boost the performance and productivity of those sectors through increased and fair competition.

Establishment of the African Continental Free Trade Area

25. Taking into account, the characteristics of trade in Africa discussed in the previous paragraphs and the current uncertain global context, deepening regional integration in Africa is becoming more and more necessary. Empirical analysis conducted by the Economic Commission for Africa (ECA) indicates that the establishment of AfCFTA could help boost intra-African trade and its industrial content, thereby contributing significantly to the transformation and development of Africa (ECA, 2015). It is expected that AfCFTA would also attenuate the domination by the largest economies of Africa of the intra-African market. Indeed, the ECA analysis shows that all countries would benefit from trade expansion following the removal of tariff and non-tariff barriers within the continent and that least-developed countries would likely reap the most benefits in relative terms, especially with regard to expanding industrial exports (ECA, 2018).

26. The emergence of mega-regional trade agreements being negotiated without Africa could negatively affect the continent’s trade performance. Some examples of those agreements are the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, signed on 8 March 2018 in Santiago, and the Regional Comprehensive Economic Partnership, which is expected to be signed soon. In that context, the AfCFTA reforms – on which Africa has full control – can be seen as powerful tools that could help mitigate the possible negative effects from external shocks on African economies. They can also contribute towards enhancing the continent’s trade performance by making African economies more competitive and enabling the development and upgrading of regional value chains that can assist African countries in integrating into global value chains.

Foreign direct investment inflows to Africa continue to decline

27. Foreign direct investment (FDI) inflows to Africa continued to slide in 2017, dropping by 21.5 per cent, while globally, FDI fell by 23.4 per cent. The negative global trend was led mostly by inflows into the industrialized economies, which tumbled by 37 per cent. Abetted by the accelerating regional integration efforts, FDI inflows to Africa are projected to have strengthened by 20 per cent in 2018 to $50 billion, mostly as a result of the expected recovery in commodity prices and investments in infrastructure projects (UNCTAD, 2018a). FDI outflows from Africa increased by 8 per cent to $12.1 billion, which reached developed and developing countries. South Africa was the largest source of investment outflows abroad followed by Nigeria and Morocco.
Medium-term forecasts and prospects for Africa

28. Real GDP growth in Africa is expected to increase marginally from 3.2 per cent in 2018 to 3.4 per cent in 2019 and reach 3.7 per cent in 2020 (figure VI). The expansion is envisioned to be driven mainly by the continued increase in private consumption, rising and sustained public investment, higher commodity prices, ongoing exploration and production of oil and expected favourable weather conditions. With the exception of North Africa, the subregions of Africa are expected to post positive growth in real GDP in 2019 and in 2020.

Figure VI
Growth prospects for Africa by subregion, 2016–2020

Source: Based on United Nations Department of Economic and Social Affairs (2019).

Note: e, estimates.

29. It should be noted, however, that most African economies may face downside risks as a result of the tightening of the monetary policy and protectionist policies in the advanced economies, weather-related shocks, especially in agricultural-dependent economies, threats of terrorism and conflict, and high risk of debt distress, which may hinder growth prospects in some countries. African countries need to enhance their resilience through the appropriate combination of fiscal, monetary, exchange rate and prudential policies to maintain their growth momentum.

Recent social developments in Africa

30. Progress in reducing poverty in Africa remains steady, albeit at a slow pace. The poverty headcount ratio dropped from 54.3 per cent in 1990 to 36 per cent in 2016 (ECA 2017a; African Union Commission and OECD, 2018). However, the level of poverty reduction has not matched population growth. Despite the improving poverty headcount ratios, the number of people in absolute poverty remains constant at about 390 million (ECA, 2017a). An important feature of poverty in Africa is the poverty gap, which is

---

2 The poverty gap provides a measure of how far below the poverty line the poor in a given country or region fall. This gap is expressed as a share of the poverty line and represents the average distance to the poverty line among all the poor.
15.2 per cent compared to 8.8 per cent globally. This partly explains the slow drop in poverty on the continent and contributes to the income-related inequities in accessing public services, particularly health.

31. Income inequality is relatively high, at 0.44, measured by the Gini coefficient, despite being on the decline. However, nine countries in which the Gini coefficient increased over the period 1993–2008 are in Southern Africa (Cornia, 2016). During that period, the inequality levels declined in seven out of the 12 countries in West Africa, and a slow decline occurred in some countries in East Africa.

32. Unemployment slightly exceeded 7 per cent in 2017. It is expected to remain constant until 2019, as countries intensify effort to diversify their economies. However, the share of the African population (excluding North Africa) classified as extremely working poor (those earning less than $1.90 a day) declined from 52.8 per cent in 2000 to 33.5 per cent in 2015 (excluding North Africa) (ECA 2017a), and is projected to continue to decline in 2019 to 30.4 per cent (ILO, 2018).

33. Most of the continent’s working poor are predominantly employed in the informal sector, which is characterized by low productivity and low incomes. By the very nature of that sector, it is difficult to estimate the actual numbers of people working in that sector. The limited data available indicate that 53 per cent of non-agricultural employment in sub-Saharan Africa and 31 per cent in North Africa (Zulu, Assefa and Sinha, 2016) is in the informal sector. Women are disproportionately represented in informal employment, with a proportion of 74 per cent. They tend to be working in difficult situations characterized by, for example, low pay and no access to social protection services.

**Gender inequality and discrimination against women**

34. Africa has made steady progress towards reaching gender parity in public leadership, especially among cabinet and parliament members, but more efforts in this area are required to reduce significantly gender disparities. A recent report by the World Economic Forum found that at the current pace, “it will take 135, more than a century to close the gender gap between women and men in sub-Saharan Africa and North Africa fares even worse” (World Economic Forum, 2018).

35. With regard to health, the under-five mortality ratio in Africa fell by 58 per cent from 148.2 deaths per 1,000 live births in 1990 to 62.8 deaths in 2017. The pace of progress in reducing under-five mortality has been the most rapid in Africa among the regions of the world (WHO, 2018). Eight countries, Algeria, Cabo Verde, Egypt, Libya, Mauritius, Morocco, Seychelles and Tunisia, have already met the Sustainable Development Goals under-five mortality target of below 25 deaths per 1,000 live births. Notwithstanding this notable progress, Africa, as a whole, has the highest proportion of under-five deaths globally. Similar progress was noted in the maternal mortality ratio, which declined by 35 per cent from 846 deaths per 100,000 live births in 2000 to 546 deaths per 100,000 live births in 2015 in sub-Saharan Africa. However, that figure remains 2.5 times higher than the global average of 216 deaths per 100,000 live births (ECA 2017b).

36. Glaring gender disparities in the employment sector remain a critical concern. Women represent 54.8 per cent of the extremely working poor compared to 51.3 per cent of men in 2000, representing a gender gap of 3.5 per cent, despite dropping slightly to 3 per cent in 2014 (ECA, 2017a).

37. Insights into gender inequalities within employment sectors point to significant occupational segregation. Women remain concentrated in sectors

---

with low technical skills requirements, such as wholesale and retail trade, in which they represent about 60 per cent of the employees (figure VII). A majority of them is also involved in subsistence agriculture. Related to that is the gender gap pay, with women earning between 75 and 85 per cent of men’s pay, when performing a similar job, at a similar level (ECA, 2017c).

Figure VII

Gender occupational segregations


Note: The calculations are based on 22 African countries.

38. The ongoing gender inequality and discrimination against women has a high macroeconomic cost to the continent and hinders development. The United Nations Development Programmer (UNDP) estimates that costs associated with gender inequality are, on average, $95 billion per year, and that they peaked at $104 billion in 2014. That represents about 6 per cent of the continent’s GDP (UNDP, 2016). Undoubtedly, gender inequality will impede efforts to attain the double-digit growth required for Africa to deal effectively with its population growth.

39. Primary school enrolment has increased significantly in sub-Saharan Africa, with the number of students more than doubling between 1990 and 2012, from 62 million to 149 million. Universality of primary school cycles has improved, with 15 countries having abolished school fees since 2009, enabling more children to attend primary school. However, it should be noted that students must still bear indirect costs, such as transport and educational
The gender gaps in the primary education in Africa have also largely been closed, with the ratio of female to male primary enrolment rates reaching 92 per cent, though rates vary among countries (ECA, 2017a). Gender gaps in primary completion rate remains wide, 9.6 per cent for women and 20.8 per cent for men, however they widen as the level of education increases.\(^4\)

**Fiscal policy, social development and inequality**

40. ECA (forthcoming) points out that African government expenditure on health and education have a positive and significant effect on investment and real GDP per capita. Governments need to increase funds extended to health and education to accelerate growth, as the current levels of expenditure devoted to those sectors are below their counterparts in developing countries. Currently, the proportion of government budgets spent on health averages about 10 per cent in Africa, which is below the rate of 15 per cent set under the Abuja Declaration. On the other hand, government expenditure on education as a share of total government expenditure averages about 14 per cent,\(^5\) also below the 20 per cent target. As governments strive to increase spending on health and education, there is also need to ensure that spending is more efficient to enable increased access and enhance the quality of health and education services.

41. Public expenditure on education and health has increased even though the contributions towards improved aggregate outcomes have not been inclusive. Overall gains in Africa could be expanded and sustained if member States were to be more innovative in their efforts to mobilize fiscal revenue and effectively deploy them to finance efforts aimed at achieving sustainable development. However, cost-sharing measures (with households) for education and health services has exacerbated inequality in access to public services and contributed to the slow pace in poverty reduction.

42. The relationship between growth and social outcomes in Africa is the result of the low social investment in education and health compared to other regions. For example, maternal mortality rates and GDP per capita have a negative correlation of 0.42 in Africa, as compared with 0.61 globally, while health coverage\(^6\) and GDP per capita correlate at 0.32 in Africa and 0.58 globally (African Union Commission and OECD, 2018).

43. The gender dimensions in fiscal policies are of critical importance as they are linked with the gender disparity in economic activity (employment). The impact of this affects the mobilization of resources (revenue), such as direct tax (income and wealth) and indirect tax, such as consumption, property and trade tax. Women are often over-taxed because of the following reasons: (a) their burden of unpaid domestic work is not valued and therefore not subject to tax (in theory); and (b) women working in the formal sector often cannot claim dependants, as their children are registered under their husbands. As a result, they are required to pay more taxes. Public expenditure also has different effects on women and men, which ultimately affects the continent’s social development and social justice agenda.

---


\(^5\) Government expenditure on health and education as a share of total government expenditure was obtained by computing unweighted averages based on World Bank (2018c) for the period 2005–2015.

\(^6\) Health coverage is the actual proportion of the population utilization of health services.
Urbanization and fiscal revenues for sustainable development

44. Forty-three per cent of the people in Africa live in urban areas. By 2035, more than 50 per cent of the continent’s population will be living in urban areas, which will have profound economic and social implications (ECA, 2017a). A growing urban population, particularly the bulging middle class, presents immense opportunities for investment, production, and consumption. As in most countries worldwide, living standards are higher in urban areas relative to rural areas in African countries, in terms of income and access to services. The differences vary greatly across countries, but the overall trend remains positively skewed towards urban areas. Importantly, wage ratios for formal and informal employment have a positive urban bias, although the difference between them varies considerably across countries. The availability of higher incomes in urban areas contributes to efforts targeted to improve access to social services, such as health, education, and water and sanitation (ECA, 2012).

45. Equally important, improved welfare outcomes in urban areas reflect increased economic activities, which have a strong bearing on domestic resource mobilization. African cities that are economic hubs can effectively contribute to fiscal revenue through a wide range of innovative financing instruments.

46. The trend towards urbanization in Africa has been accompanied by an expanding consumer class of the region’s urban areas. Rising household incomes, particularly in the cities, provide a formidable base for raising revenue through consumption and property taxes to finance sustainable development.

47. In line with the rapid wave of urbanization sweeping across Africa, cities will play a critical role in pushing forward economic and social development in the region. The cities of Africa, account for, on average, about 55 per cent of total GDP (ECA, 2017a), mainly led by investment and expansion of construction, mining, electricity and the services sector. In some African regions, such as Gauteng (South Africa), and cities, such as Cairo and Lagos, the shift from rural to urban employment accounts for 20 to 50 per cent of productivity growth.

48. As urbanization intensifies in a country, and especially if income levels increase, land becomes increasingly important in financing sustainable development (UN-Habitat, 2016). Specifically, in Africa, more revenue can be generated through increased taxes resulting from the continent’s cities being based largely on the use of land and land-related activities. Land value capture has become a financing tool that can potentially create the necessary fiscal space at local and national levels (Research Group on China's Economic Growth, 2011). Borrowing from the success story of the Shenzhen special economic zone financing model in China, Africa could harness and productively use cities to raise revenue through land concessions, user charges, issuance of municipal corporate bonds and capital markets.

49. Cities also enjoy agglomerations of economic activities, such as the presence of export markets, capital markets, stock markets, financial and goods markets. Those factors boost the potential productivity of cities and make urban centres “engines of growth and development”, which, in turn, broadens the tax base. Accordingly, authorities should seize the opportunity offered by the rapid urban transition in Africa to harness urbanization as a strong vehicle for generating fiscal revenue through taxation for financing sustainable development.
Policy implications

50. The current economic growth rate in Africa of 3.2 per cent is not sufficient to eradicate poverty or achieve the Sustainable Development Goals. Africa needs to accelerate its rate of growth to double-digit figures between now and 2030 by increasing the level of investment to 30-35 per cent of GDP and substantially improve productivity.

51. African countries also need to embark on reforms that would help build resilience, raise potential growth and inclusiveness, and contribute towards the achievement of the Sustainable Development Goals. Targeted policies are required to enhance the continent’s structural transformation efforts through the facilitation of the reallocation of labour and capital towards more productive sectors. This, in turn, will help to pave the way towards achieving the Sustainable Development Goals.

52. To accelerate the region’s pace and strengthen the path towards achieving the priorities of greater prosperity, poverty reduction and sustainable development, there must be a significant reduction in maternal mortality and gender disparities in education and employment must be eliminated. This should be coupled with efforts to enhance the efficiency of government expenditure through improved public financial management and efficient allocation of expenditures. There is also need to widen fiscal space by enhancing resource mobilization through effective tax policy and administration, and widening the tax base, with due consideration of the gender dimensions of taxation and fiscal policies.

53. To reduce vulnerabilities from global economic conditions, such as the tightening of global financial markets, currency fluctuations, capital outflows and volatility of commodity prices, African countries need to enhance resilience through the appropriate combination of fiscal, monetary, exchange rate and prudential policies to maintain their growth momentum.

54. With most African countries importing a predominant amount of their manufactured and agricultural products from outside the continent and with a greater percentage of intra-African trade concentrated in machinery and transport equipment, there is need for further diversification and structural transformation to better support industrialization in Africa through trade. This offers a significant opportunity for industrial upgrading, which, in turn would lead to an increase in exports and foreign reserves and a reduction in countries’ debt-service obligations. The continent’s high debt levels could seriously affect long-term development. Accordingly, improved debt management measures are needed to more effectively manage the detrimental growth effects that may emerge through domestic currency and interest rate risks and uncertainties.

55. African countries have committed to the 15 per cent spending target of total government expenditure through different frameworks, however, the average public health expenditure has been below the target of 10 per cent. The larger remit on health goals in the 2030 Agenda for Sustainable Development and the Agenda 2063 requires renewed attention to achieving a target to ensure accelerated improvement in social outcomes. The significant household or out of pocket expenditures has led to the impoverishment of low-income groups. Accordingly, the thrust of health spending must be geared towards sustainable and inclusive spending in line with regional and international goals. Social protection instruments could be implemented to ensure low-income groups’ access to health is guaranteed.

56. In line with the 2015 Addis Ababa Action Agenda in which domestic resource mobilization is recognized as the most viable way to finance sustainable development, authorities should seize the opportunity offered by the rapid urban transition in Africa to harness urbanization as a strong vehicle for generating fiscal revenue through taxation to finance sustainable development.
References


