UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
ECONOMIC COMMISSION FOR AFRICA

AFRICAN UNION

*Thirty-third meeting of the Committee of Experts*

*Ninth meeting of the Committee of Experts*

Meeting of the Committee of Experts of the Seventh Joint Annual Meetings of the ECA Conference of African Ministers of Finance, Planning and Economic Development and AU Conference of Ministers of Economy and Finance

Abuja, Nigeria
25-28 March 2014

E

Distr.: General

E/ECA/COE/33/2
AU/CAMEF/EXP/2(IX)
27 February 2014

Original: English

# Overview of recent economic and social developments in Africa

## *Theme: Industrialization for inclusive and transformative development in Africa*

## A. Introduction

1. Africa's growth rate slowed from 5.7 per cent in 2012 to an estimated 4.0 per cent in 2013, still almost twice as high as the global average, but slightly lower than the average for developing countries. Export performance continued its post-2011 improvement in absolute terms, thanks to rising commodity exports and diversifying trade partners, although low export-product diversification and high dependence on primary commodities are still major constraints on Africa's external trade. Intra-African trade remains low, largely because of high trading costs exacerbated by inefficiencies in customs and administrative procedures.

2. Despite the improved export and still fairly strong growth performance, Africa's financing gap remains large, against a backdrop where the global economic slowdown and more stringent budgetary consolidation in many donor countries are expected to affect official development assistance to the continent. Africa's economic transformation thus has to rely increasingly on domestic sources of finance and African countries need to develop innovative approaches to development financing from both internal and external sources.

3. Africa's medium-term growth prospects are strong, bolstered by relatively high commodity prices; increasing domestic demand, easing infrastructural constraints, ever-tighter trade and investment ties with emerging economies and improving global economic and regional business environments. That said, the continent's medium-term growth outlook still faces several downside risks, including unexpected adverse developments in the global economy, external shocks due to changes in weather conditions, and political instability and civil unrest in some countries.

4. To translate rapid economic growth into sustained and inclusive development, Africa must follow through on development strategies that foster economic diversification, create jobs, reduce inequality and poverty, and boost access to basic services.

## B. Developments in the world economy and implications for Africa

5. Global economic growth dropped to 2.1 per cent in 2013, but this is projected to rebound to 3.0 per cent in 2014 and 3.3 per cent in 2015[1], owing to increased economic activity in the United States of America and the euro area, and also to stabilizing growth in most emerging economies, notably China.

6. The European Union's economy contracted by 0.1 per cent in 2013, but is forecast to grow by 1.4 per cent in 2014 thanks to increased exports and business confidence. Economic growth also decelerated in the United States to 1.6 per cent in 2013, largely because of fiscal tightening and spending cuts (sequestration), political brinksmanship on the government budget, reduced business and entrepreneurial investment and slow recovery of the labour market. The world's largest economy is projected to grow at 2.5 per cent in 2014[2], underpinned by a rebound in private consumption, recovering real estate, supportive monetary conditions and easing fiscal consolidation.

7. Japan's economy grew at 1.9 per cent in 2013, following fiscal stimulus packages geared at improving public infrastructure as well as quantitative and qualitative monetary easing, but growth is projected to decline to 1.5 per cent in 2014 with the introduction of a consumption tax and the unwinding of stimulus packages.

---

[1] UN-DESA, 2014.
[2] UN-DESA, 2014.

8. Expansion in East and South Asia moderated to 5.6 per cent in 2013, mainly owing to a decline in exports induced by China's marginal slowdown to 7.7 per cent, which is expected to continue in 2014, slowing down further to 7.5 per cent (despite the recent pick-up in export growth and industrial production). India's growth declined to 4.8 per cent in 2013, owing to a reversal in capital outflows and exchange rate depreciation, although it is projected to return to its potential 5.3 per cent growth path in 2014, underpinned by increased investment and government-backed structural reforms.

9. Western Asia's growth slipped a little from 3.2 per cent in 2012 to 3.7 per cent in 2013, as political instability and social unrest, notably in Iraq, the Syrian Arab Republic and Lebanon, weighed heavily. Economies in Latin America and the Caribbean grew by 2.6 per cent in 2013, reflecting faltering external demand, low commodity prices and weakening domestic conditions (UN-DESA, 2014).

10. The global unemployment rate was estimated at 6.0 per cent in 2013, and the number of unemployed is set to rise from 202 million in 2013 to 205 million in 2014, as subdued private capital flows and fiscal austerity continue to restrict investments and job creation (ILO, 2013a). Global youth unemployment remains elevated, and it is projected to stagnate at around 12.8 per cent until 2016, as the rebound in global growth will not be sufficient to lift depressed labour markets.[3]

11. The global inflation rate was 2.5 per cent in 2013, down from 2.9 per cent in 2012, owing mainly to large output gaps in most economies, and softening global commodity prices and insipid demand from key emerging markets (UN-DESA, 2014). It is projected to increase to 2.7 per cent in 2014, with the forecast rebound in economic activity, although prudent monetary and fiscal policies in most countries are expected to keep it in check.

12. The International Monetary Fund (IMF) index for all commodity prices was volatile in 2013 and reached its annual high of 191 in February, before steadily declining to 184 in September, owing to weak global demand and deceleration of economic activity in emerging and developed economies. In 2014, global commodity prices are expected to change little, largely unaffected by growth, although supply constraints may exert some upward pressure.

13. In 2013, global exports grew at only 2.3 per cent, down from 3.1 per cent in 2012 as import demand from major developed countries contracted sharply. Global foreign direct investment (FDI) inflows stabilized in 2013 at around 2.3 per cent of world GDP and are expected to rise to 2.4 per cent in 2014.

14. Key risks to the global economy include continued fiscal consolidation and austerity programmes in major developed countries, weakening global demand, financial market turbulence, and paltry growth in the euro area.

---

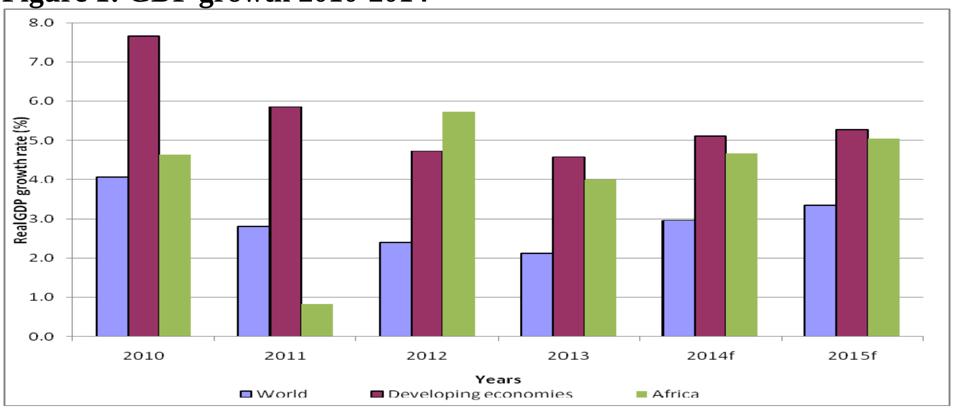
[3] However, the advanced estimate for the United States GDP shows an annualized growth of 3.2 per cent for the fourth quarter of 2013, higher than the initial estimate, which might lead to a relatively higher annual growth rate and estimate for both 2013 and 2014 respectively (UN-DESA, February 2014, Monthly Briefing).

## C. Africa's economic performance in 2013

### 1. Africa's growth potential

15. Africa's growth potential remains largely untapped. The continent's GDP growth rate slowed from 5.7 per cent in 2012 to 4.0 per cent in 2013, against developing economies' average of 4.6 per cent (figure 1). The slowdown was mainly due to weakened global demand following the financial and debt crisis in the eurozone and sluggish growth in some emerging economies, together with political instability and civil unrest in some major commodity producing countries, especially in Central and North Africa.

**Figure 1: GDP growth 2010-2014**

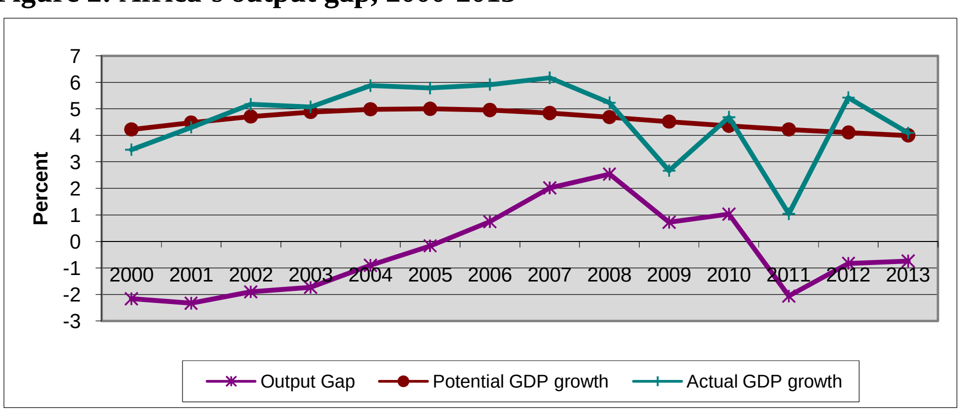



**Source:** UN-DESA, 2014.

16. Growth in Africa continued to benefit from relatively high commodity prices, increased trade and investment ties with emerging economies, increased domestic demand, underpinned by a growing class of new consumers associated with urbanization and rising incomes, and public spending on infrastructure. The continent's growth in 2013 was also underpinned by increased agricultural output, thanks to favourable weather conditions in most parts of the region.

17. That said, however, Africa's output gap – the difference between actual and potential real output as a percentage of potential output estimated using the Hodrick-Prescott filter – was generally negative over the period 2000-2013, signifying that African countries were underperforming (figure 2).

**Figure 2: Africa's output gap, 2000-2013**



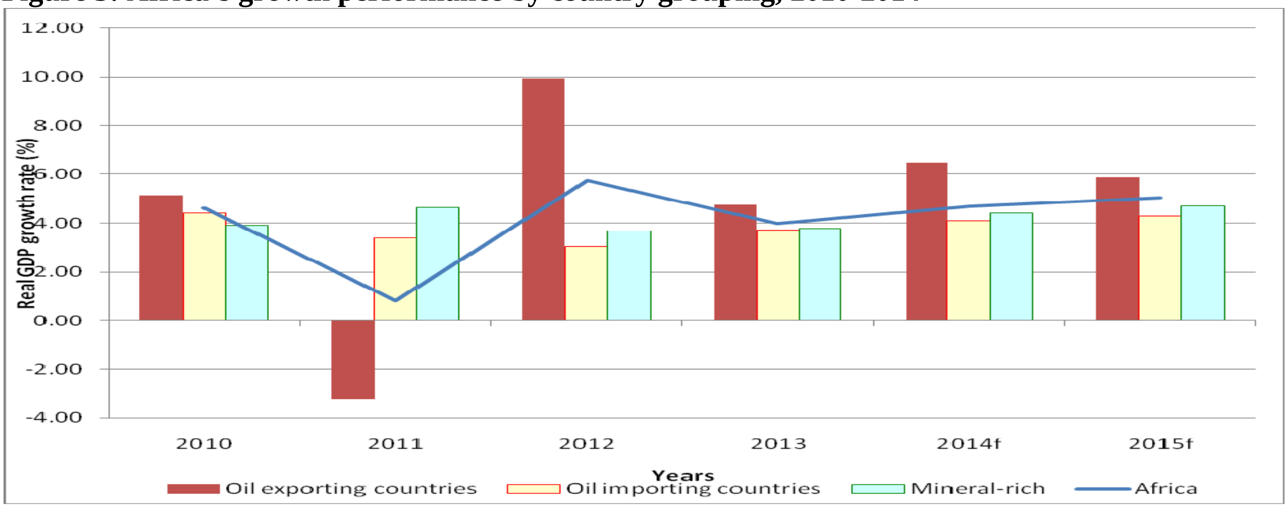

**Source:** Calculations based on UN-DESA (2014).

18. During the period 2009-2013, African economies grew by 3.6 per cent a year, below the continent's potential of about 4.2 per cent over the same period. This gap demonstrates the existence of spare capacity in Africa, suggesting that growth can be fostered with policies that stimulate aggregate demand and trade within Africa and between Africa and the rest of the world.

## 2. Stronger growth in countries rich in oil and minerals

19. In 2013, although GDP growth was relatively strong across Africa, it showed some divergence between oil-exporting and oil-importing countries (figure 3).

**Figure 3: Africa's growth performance by country grouping, 2010-2014**




**Source:** UN-DESA, 2014.

20. Growth in oil-exporting African countries fell from 9.9 per cent in 2012 to 4.7 per cent in 2013. A recovery accounted for the unusually high growth in 2012, while the decline in 2013 was mainly attributable – in addition to the high baseline – to subdued global demand combined with disruptions in oil production and political unrest in some of Africa's major oil-producing economies such as Libya. The economies of oil-importing countries grew by 3.7 per cent in 2013, up from 3.1 per cent in 2012, while mineral-rich economies recorded 3.8 per cent in 2013 from 3.7 per cent in 2012.

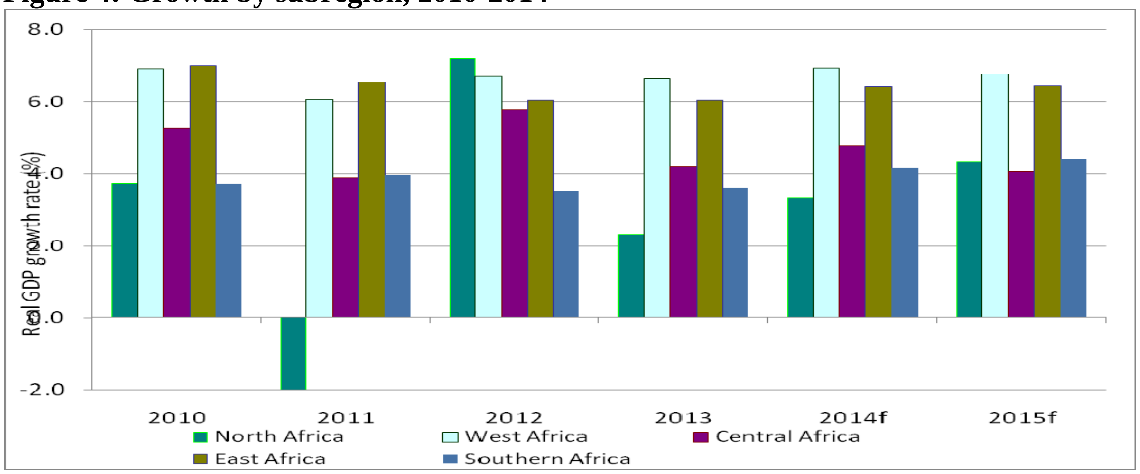
21. Growth is expected to accelerate in the oil-exporting countries to 6.5 per cent in 2014, with a slight decline to 5.9 in 2015, while mineral-rich economies will accelerate to 4.4 per cent, in 2014 and 4.7 per cent in 2015, as stability returns to countries such as Egypt, Libya and Mali. The forecast pick-up also reflects investment and production at new mineral sites in, for example, Angola (coal), Botswana (copper, coal and diamonds), Ghana and Liberia (gold), Namibia (uranium and diamonds), Sierra Leone (iron ore and diamonds) and Zambia (copper). Oil-importing economies are also expected to record strong growth, at 4.1 per cent in 2014 and 4.3 per cent in 2015, mainly driven by strong expansion in services and agriculture (assuming favourable weather conditions prevail).

## 3. Subregional growth outcomes

22. Growth varied among Africa's subregions in 2013 slightly more than in 2012, but remained respectable in all (figure 4).

23. West Africa led, though unchanged at 6.6 per cent in 2013. Growth in the subregion's largest economy, Nigeria, remained unchanged at 6.5 per cent in 2013, as increases in domestic demand seem to have compensated for a decline in oil output and weaker global oil prices. Investments in oil and mining supported growth in the Niger at 5.7 per cent. Côte d'Ivoire posted 8.8 per cent growth, driven by large infrastructure projects reflecting a more stable political environment, a more propitious investment climate and greater capital spending by the Government. In Ghana, growth stayed robust (8.0 per cent), thanks to higher oil production. Iron ore production remained the main growth driver in Liberia and Sierra Leone, which turned in strong growth of 7.4 per cent and 14.5 per cent, respectively.

**Figure 4: Growth by subregion, 2010-2014**




**Source:** UN-DESA, 2014.

24. East Africa's growth also remained robust but unchanged at 6.0 per cent in 2013. Growth in the subregion's largest economy, Kenya, rose to 5.0 per cent in 2013 from 4.6 per cent in 2012, owing mainly to increased consumer spending. The economy of the United Republic of Tanzania grew by 7.2 per cent in 2013, mainly due to increased private consumption and investment in natural gas. That of Uganda grew by 5.8 per cent in 2013 compared to 4.4 per cent in 2012, reflecting greater activity in construction, transport, telecommunications and financial services, as well as investments in exploration and construction of the burgeoning oil industry. Expansion in agricultural and service sectors was one of the major factors underpinning Ethiopia's growth of 6.9 per cent in 2013. Growth continued to be strong in Rwanda (7.4 per cent) and Eritrea (6 per cent), and less so in Seychelles (3.2 per cent).

25. Growth in Central Africa slowed from 5.8 per cent in 2012 to 4.2 per cent in 2013, largely owing to political instability and violence, especially in the Central African Republic, where the economy contracted by 8.9 per cent in 2013. In 2013, oil production underlay robust growth in the Republic of Congo (6.0 per cent), Gabon (5.5 per cent), Cameroon (5.0 per cent) and Equatorial Guinea (1.8 per cent). The decline in oil production from some of Chad's large and maturing oilfields cut growth from 5.9 per cent in 2012 to 4.5 per cent in 2013.

26. Growth in Southern Africa edged up from 3.5 per cent in 2012 to 3.6 per cent in 2013, mainly due to increased investment in the subregion's mining sector. South Africa's recovery (2.7 per cent in 2013 against 2.5 per cent in 2012), was marginal, partly because of labour unrest in mining and the economic slowdown in key emerging markets, the country's most important export destinations. Zambia, with increased copper production and consumer spending, registered the highest growth in the subregion at 7.7 per cent, followed by Angola's 6.8 per cent, which as in

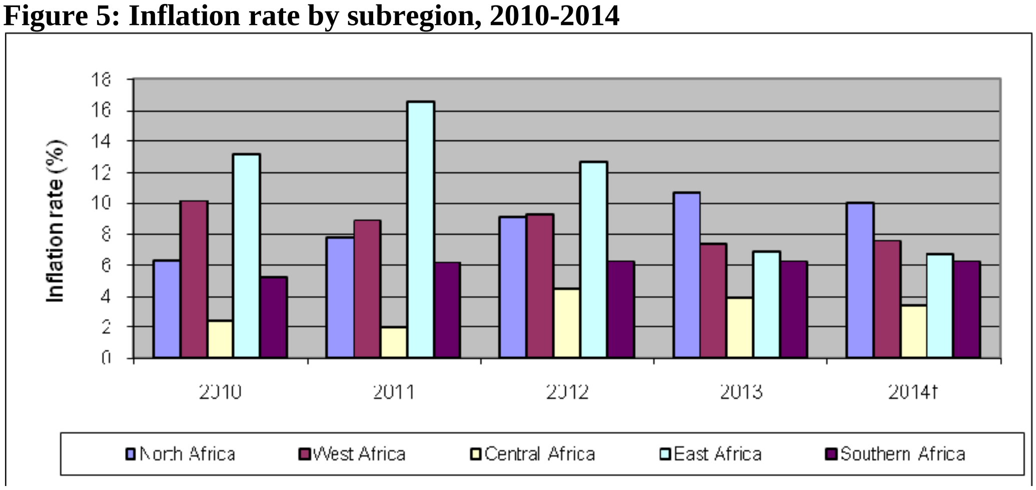
previous years relied heavily on oil output. Growth in Mozambique decelerated to 6.5 per cent in 2013 from 7.4 per cent in 2012, mainly owing to floods in early 2013 that affected agriculture, electricity generation and coal production.

27. Political instability and disruptions to oil output undermined growth in North Africa – particularly in Egypt, Libya and Tunisia – cutting it to 2.3 per cent from 7.2 per cent in 2012. Mauritania registered the strongest growth, at 6.1 per cent in 2013, down from 7.4 per cent in 2012, mainly reflecting increased investment in the oil and mining sectors. Morocco's growth accelerated to 4.6 per cent in 2013 from 2.7 per cent in 2012, propelled by robust domestic demand and improved agricultural performance. Increased oil production and continued expansionary fiscal policy enabled 3.0 per cent growth in Algeria. Growth continued to weaken in Egypt, as aggregate demand, especially investment, and tourism receipts all fell owing to political uncertainty. Instability in Libya hurt oil output and exports, cutting growth to -3.0 per cent (after the prior year's sharp recovery). The Sudan, still absorbing the shocks of oil and population losses to South Sudan, returned to growth (2.0 per cent) after its 2012 contraction (4.0 per cent), reflecting growth in services, agriculture and manufacturing.

## 4. Declining inflationary pressure amid tight monetary policy

28. The Africa-wide inflation rate fell from 8.2 per cent in 2012 to 8.0 per cent in 2013 and is projected to drop further to 7.8 per cent in 2014. Factors include the easing of international food and fuel prices, together with tighter monetary policy in most African countries (figure 5).

**Figure 5: Inflation rate by subregion, 2010-2014**

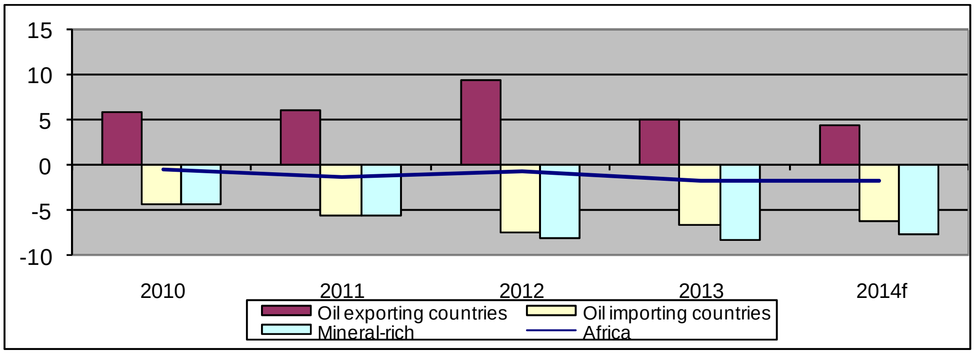



**Source:** UN-DESA, 2014.

## 5. Mixed external performance across country groupings

29. Africa's current account deficit widened from 0.8 per cent of GDP in 2012 to 1.8 per cent in 2013, but is expected to narrow slightly to 1.7 per cent in 2014 (figure 6). In oil-exporting countries, external balances are seen as staying positive, although falling, but negative and narrowing in oil-importing and mineral-rich countries.

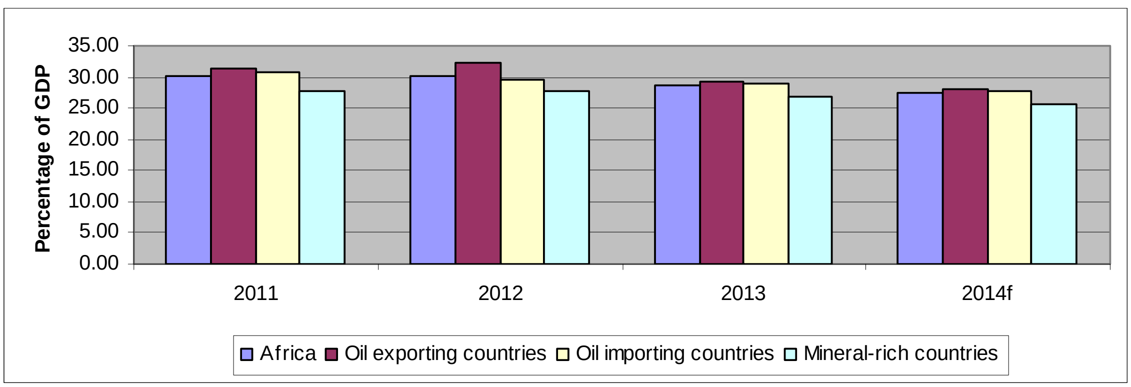
**Figure 6: Current account balance by economic grouping, 2010-2014 (% of GDP)**




**Source:** Calculations based on EIU (2013).

30. Africa's exports are projected to decline further to 27.5 per cent of GDP in 2014, in all subregions except East Africa (figure 7). There they show a slight gain is observed owing to increasing non-traditional exports such as floriculture and trade in services, especially in Ethiopia, Kenya and the United Republic of Tanzania.

**Figure 7: Total exports by subregion, 2011-2014**




**Source:** Calculations based on EIU (2013).

## D. Recent developments in Africa's trade

### 1. Diversification of African exports

31. If it is to boost its trade and sustain GDP growth, Africa must diversify its exports. Although Africa's exports have generally kept growing in absolute terms, they showed declines in 2013 relative to aggregate output and, although the volume of African merchandise trade grew faster than that of non-African economies from 2011 to 2012, Africa's share of world exports is still low. In 2012, the continent accounted for just 3.3 per cent of world merchandise exports (UNCTAD, 2013c) – as against 4.9 per cent in the period 1970-1979, although a little better than the 2.8 per cent seen in 2000-2010 (UNCTAD, 2013). Africa's share of world imports has witnessed a similar slowdown.

32. Even if trade between Africa and its traditional partners (the European Union and the United States) has continued to increase in recent years in absolute terms, Africa is diversifying its sources of imports and export destinations in favour of developing economies. Between 2000 and 2012, Africa's share of total world exports to developing countries increased from 2.6 per cent to 3.8 per

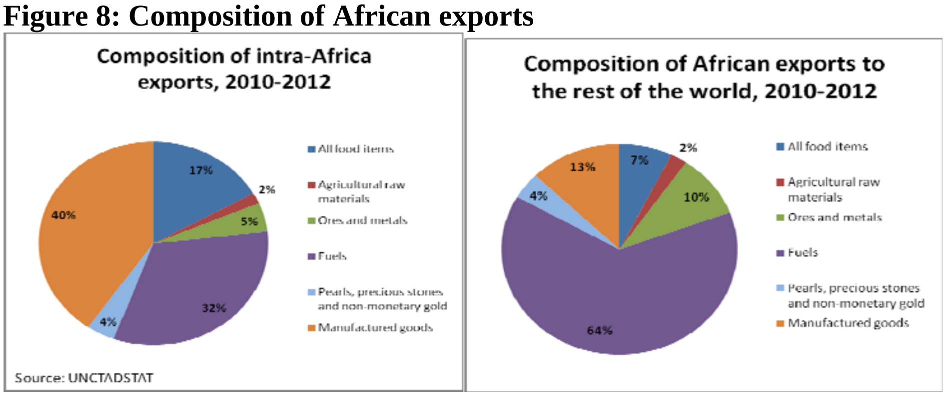
cent. After 2009, the BRICS grouping of countries became the second largest trading partner (after the European Union) for Africa, excluding South Africa (ECA, 2013c).

## 2. Intra-African trade

33. Formal intra-African trade in merchandise is rising but informal trade remains significant. Intra-African trade rose from $67.7 billion in 2011 to $73.7 billion in 2012 (UNCTAD, 2013c). In 2012, the share of intra-African trade accounted for 11.5 per cent of Africa's total trade. Between 1996 and 2011, Africa's trade with the rest of the world grew at 12 per cent, faster than the 8.2 per cent registered for intra-African trade. High commodity prices largely explain this, as Africa's trade with the rest of the world is skewed towards primary commodities (dominated by minerals, oil and other metal products – figure 8), unlike intra-African trade (UNCTAD, 2013).

34. Informal intra-African cross-border trade is not recorded but is nonetheless significant, accounting for 30-40 per cent of total trade within the Southern African Development Community (SADC). In West Africa, the informal sector makes up a large proportion of GDP in some countries, with estimates ranging between 20 and 90 per cent (ECA, AfDB, AUC, 2010). Strategies to formalize informal agents – in trade and other sectors – should therefore be considered.

**Figure 8: Composition of African exports**




**Source:** UNCTAD, 2013, accessed 6 September 2013.

## 3. Trade in services

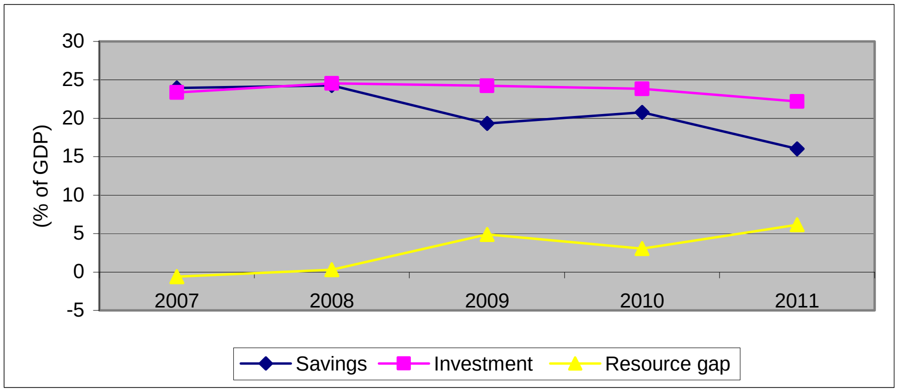
35. The steep increase of global trade in services in the past three decades has also been reflected in Africa. Services are the fastest growing sector in the global economy, accounting for one fifth of global trade and three quarters of global output; the value of Africa's exports of commercial services to the world more than doubled over the last decade (WTO, 2013).

## E. Untapped approaches to bridge Africa's financing gap

## 1. Investment in Africa

36. Scaling up both domestic and external financial resources is central to Africa's industrialization, as its financing gap remains large, at around 6 per cent of GDP in 2011, with the gross domestic savings rate consistently lower than the gross domestic investment rate since 2008 (figure 9).

**Figure 9: Africa's domestic financing gap, 2007-2011**




**Source:** Calculations based on World Bank (2013).

37. FDI flows to Africa have been steadily rising over the last few years, from $20 billion in 2001 to $50 billion in 2012, which was 5 per cent higher than in the previous year. Although these inflows are concentrated in the extractive industries, there are an increasing number of success stories of market-seeking investments, in particular in the manufacturing sector, which are not directly linked to these industries.

38. Since 2010 diaspora remittances have become Africa's largest external source of finance, with an estimated inflow of $62.5 billion in 2012, up from only $13.5 billion in 2001. At 12.4 per cent per transaction in 2012 (World Bank, 2013), Africa remains the most expensive region to which to remit funds. If this cost can be brought down to around 5 per cent – a target set by the Group of Eight and the Group of 20 for 2014 – Africans could save up to $4 billion a year (World Bank and European Commission, 2013).

39. Total official development assistance to Africa increased from $51.3 billion in 2011 to US$ 56.1 billion in 2012, despite the continuing global financial crisis and the turmoil in the eurozone, which has led several donors to tighten their aid budgets. Much of this assistance to the region (40 per cent of commitments in 2011) targeted social infrastructure (health and education sectors), with only about 2 per cent targeting industry, mining and construction.

40. As domestic savings and external capital flows have often fallen below the levels needed to bridge the financing gap, many African countries have resorted to external borrowing to finance domestic investment. As a result, foreign debt as a share of GDP has continued to rise, from 22.7 per cent in 2010 to 24 per cent in 2013.

41. Although tax revenues are the largest source of domestic resources in Africa, tax collection as a share of GDP increased only marginally, from 26.6 per cent in 2009 to 27.0 per cent in 2011. Worse, several countries have tax ratios below 10 per cent, including the Central African Republic, the Democratic Republic of the Congo, Ethiopia, Liberia, Nigeria and the Sudan. The challenges in expanding and exploiting the tax base are still pervasive in most African economies (AEO, 2013).

### 2. Sources of finance to support Africa’s growth and transformation

42. The financing of Africa’s industrialization and economic transformation has to be increasingly based on domestic public and private resources (ECA, AUC, 2013) and, for that to happen, Africa needs to explore untapped approaches to raising capital to meet its development agenda. In addition to traditional domestic sources of finance, such as taxes and levies and private savings, Africa needs to adopt a broader and more diversified set of instruments, mechanisms and financial products, and an enabling environment for mobilizing resources from non-traditional sources. Fresh approaches to development financing revolve around sovereign wealth funds, pension funds, insurance savings, private equity funds, diaspora and sovereign bonds, remittances, public-private partnerships – together with the curtailment of illicit financial flows.

## F. Need for transformative policies to address inclusive growth

43. Africa is making progress on some of the key social development challenges, but too tardily to meet its social development goals, including the targets in the Millennium Development Goals.

### 1. Improvement in some key social indicators

44. Africa continues to make steady progress in tackling some of its key social and economic challenges. In many countries, the incidence of extreme poverty is on the decline. Attending primary school is becoming the norm, with most countries having achieved universal primary enrolment (above 90 per cent). Nearly one half of African countries have achieved gender parity in primary school. On the political front, 20 per cent of seats in African national parliaments are now held by women, a figure surpassed only in Latin America and the Caribbean. Health has also seen major gains: between 1990 and 2011, under-five mortality declined from 146 to 90 deaths per 1,000 live births, a 38 per cent decrease. Similarly, the maternal mortality rate declined between 1990 and 2010 from 745 to 429 deaths per 100,000 live births, a 42 per cent decrease. Strong gains have been made in HIV/AIDS: adult HIV/AIDS prevalence declined from 5.9 per cent in 2001 to 4.9 per cent in 2011, HIV/AIDS-related deaths fell by 32 per cent between 2005 and 2011, and new infections among children also tumbled by 52 per cent in 2001-2012, largely reflecting the scaling up of antiretroviral therapy.

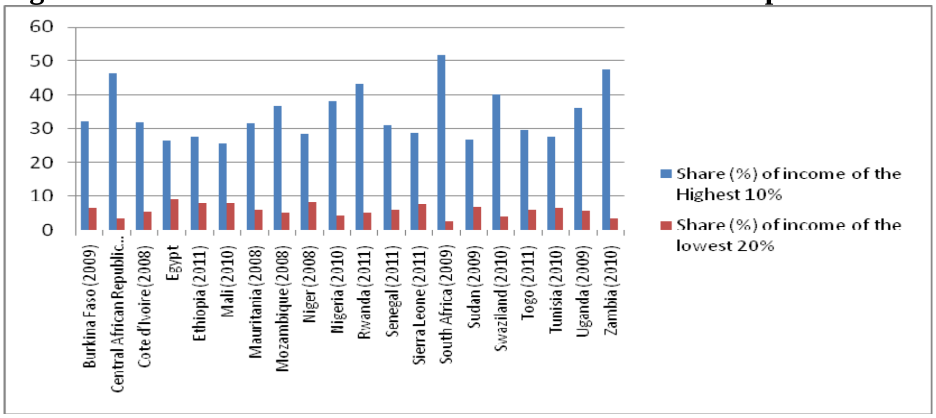
### 2. High poverty levels and limited access to social services

45. The continent is still well off target for most of the Millennium Development Goals. At 48 per cent, nearly one half of Africans are in extreme poverty, and 72 per cent of the continent’s youth lives on less than two dollars a day. Burundi, Ethiopia, Nigeria, Uganda and Zambia have a youth poverty rate of over 80 per cent (Mubila, 2012). Underweight prevalence is second only to Southern Asia (United Nations, 2013). While the world as a whole is on track to meet the target for the proportion of the population using improved drinking water sources, Africa is not, and the continent now accounts for more than 40 per cent of people without access to safe drinking water worldwide. Furthermore, most of the continent is not on track to meet the improved sanitation facility target; coverage edged up by a mere 4 percentage points during 1990 to 2010, with stark disparities between rural and urban areas.

### 3. Inequality undermining efforts to reduce poverty

46. The unimpressive impact of growth on livelihoods and access to social services has widened gender, income and rural-urban inequalities, resulting in a rising incidence of poverty in many African countries (figure 10), where the poorest 20 per cent of the population account for less than 10 per cent of their country's total income while the richest 10 per cent control between one fourth and one half of it.

**Figure 10: Income distribution between the richest and the poorest**



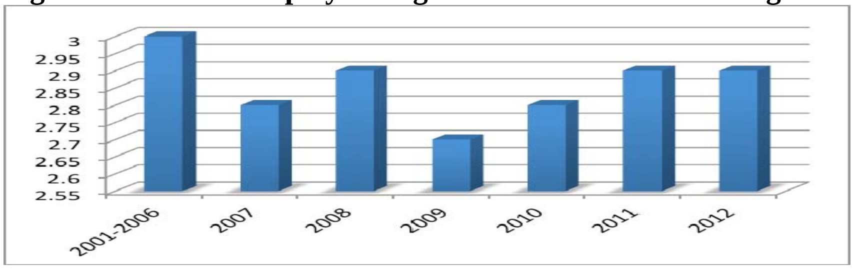

**Source:** Database of the World Bank's World Development Indicators, November 2013.

47. The Gini coefficient for Africa – a measure of income inequality – was 44.2 in 2008, ranking it as the second highest region, after Latin America and the Caribbean (Oritz and Cummins, 2011). A 1 per cent increase in inequality increases poverty by 2.16 per cent in Africa, where gender inequalities persist. In countries such as Algeria, Côte d'Ivoire and Mauritania, women's wages are onely around one half the wages of men for similar work.

48. Gender and spatial disparities in access to social services are of concern: births to women in the richest quintile are nearly three times as likely to be attended by a trained professional as those in the poorest quintile, while 90 per cent of women in urban areas had at least one antenatal care visit during pregnancy versus 71 per cent of women in rural areas. Children and adolescents from the poorest households are at least three times as likely to be out of school than children from the richest households, and children from the poorest households are more than twice as likely to be stunted as those from the richest households, leading to further school dropouts (ECA, AUC, AfDB, UNDP, 2013). In short, slow progress in addressing poverty and inequality has undermined opportunities for human development for large segments of the population.

49. Labour market indicators are still positive after the 2008-2009 global economic and financial crisis. Employment growth in Africa (excluding North Africa) was firm at 2.9 per cent in 2012 (figure 11) and the employment-to-population ratio reached 65.1 per cent in the same year, largely driven by women's increased participation, and only second to East Asia, at 69.8 per cent. By contrast, in the rest of the world the employment-to-population ratio in 2012 remained stagnant at 60.3 per cent (ECA, AUC, AfDB, UNDP, 2013).

**Figure 11: Annual employment growth in Africa – excluding North Africa (total, %)**




**Source:** Calculations based on ILO (2013b).

50. The indicator for the working poor (working people whose incomes fall below a given poverty line) has also maintained its positive trend in Africa, mainly because of minimum wage policies that, in some countries, have taken wages above the international poverty line; and the harnessing of natural resources, which has triggered improvements in working people's conditions (ECA, AUC AfDB, UNDP, 2013; ILO, 2013b). In some North African countries, however, this indicator has worsened, as governments are giving more priority to unemployment reduction.

51. Most Africans are locked into vulnerable jobs with low wages and low productivity. With 46.5 per cent of workers earning less than $1.25 a day in 2012, vulnerable employment in Africa is stubbornly high compared with other regions (ILO, 2013b). This largely stems from an abundant labour supply coupled with an absence of social safety nets, which makes it difficult for many low skilled workers to exit the labour market, as they have no alternative means of survival (United Nations, 2013).

52. The figures remain highly skewed towards women and youth. In 2012, 84.9 per cent of African women were in vulnerable employment – the majority of them contributing family workers – against 70.6 per cent of men (ECA, AUC, AfDB, UNDP, 2013). Cultural impediments and scarce economic opportunities still push women into informal and vulnerable jobs.

53. These challenges are particularly pressing for the young generation of Africans. The continent has the world's youngest population, and one that has been growing faster than elsewhere in the world. Yet formal employment is elusive for the majority, most of whom are underemployed or self-employed in the informal or agricultural sectors.

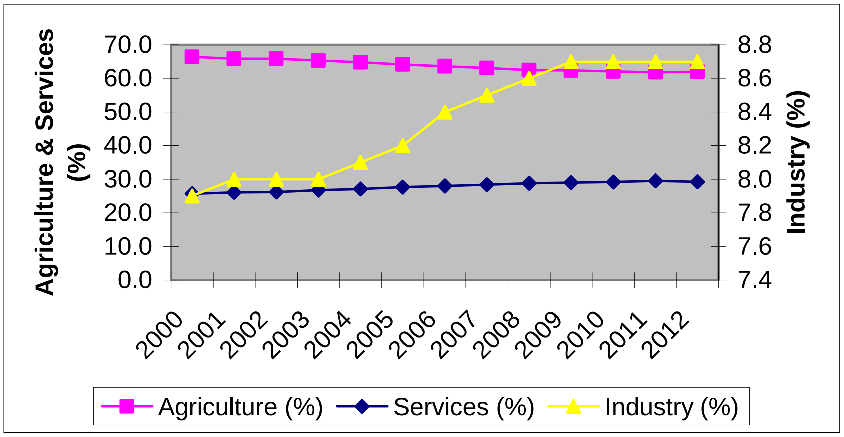
54. Although official youth unemployment rates in Africa (excluding North Africa) are lower than in most other regions, they are much higher than adult unemployment rates: in 2012 the rates rose, respectively, by some 12 per cent and some 6 per cent. While lack of skills is commonly the main hurdle for youths trying to enter the labour market, it is sometimes both the lack of jobs and the mismatch between skills demanded and supplied that is the main source of unemployment (AfDB, 2012).

### 4. Employment prospects hindered by tardy labour-productivity gains

55. Labour productivity increased by an average 1.6 per cent in 2000-2011 and by 2.3 per cent in 2012-2013, but remains low compared to East Asia, where it grew by 7.5 per cent over the same period. It is expected to drop to a cumulative 1.9 per cent over 2014-2016, mainly because of inadequate investment in human and financial capital (ILO, 2013a).

56. Part of the productivity growth in Africa is due to the shift of labour from less productive to more productive sectors, particularly from agriculture to services, but, alongside low agricultural productivity, jobs are not moving out of agriculture or industry as fast as expected. Services are absorbing most of the fall in agriculture's share, leaving employment in industry almost stagnant at 8.6 per cent over the past 12 years (figure 12). This is likely to hinder economic and employment prospects, as most of the jobs in agriculture and services remain informal with low productivity and wages, and poor working conditions.

**Figure 12: Employment share by sector, Africa (excluding North Africa)**




**Source:** Based on ILO estimates (ILO, 2013c).

## 5. Strengthening human capital

57. Stronger human capital is critical for employment, labour productivity and industrialization. Decent jobs and steep poverty reduction hinge on success in diversifying the economy from low-productivity agricultural and informal sectors to high-productivity sectors such as manufacturing and modern services. Consequently, policies to improve education and health should be part of economic growth and transformation strategies.

### (a) Need for further improvement in education

58. The progress in universal primary enrolment has not been matched by gains in completion, which, as reported by the United Nations in its 2012 report on the Millennium Development Goals (United Nations, 2012), has stayed at 70 per cent in Africa over the last decade (excluding North Africa) compared with the global rate of 90 per cent (United Nations, 2012). Higher levels of education are important for pupils to acquire the skills needed by employers or to engage in independent technical and entrepreneurial activities. Basic literacy and numeracy alone - the main elements of a good primary education- are not enough to get a good job: employers want assurances that young people applying for work have, beyond these fundamental skills, the ability to use their knowledge to provide solutions to problems, take the initiative and communicate with others, rather than just following prescribed routines.

59. Lower secondary school enrolment extends and consolidates the basic skills learned in primary school; upper secondary school deepens general education and adds technical and vocational skills. Neither is possible, however, without ensuring that all children complete a good quality primary education which is a prerequisite in building the skills that individuals, societies and economies need.

60. Secondary school enrolment – at 40 per cent in Africa (excluding North Africa) in 2010 – is an important channel through which young people acquire skills that improve opportunities for good jobs, as compared to the 90 per cent plus in developed countries and South-East Asia (UNESCO, 2012).

### (b) Lifelong impacts of inequitable access to primary education

61. Inequitable access to primary education greatly affects completion rates, and also the acquisition of skills. Low completion rates are mainly attributable to households' failure to enrol their children in school at the right age, hence having an effect on completion rates, as the peer pressure of age cohorts and household demand for older children's labour takes hold. This means that such children are more likely to drop out than those who started school at the right age, an outcome exacerbated by poverty, poor health and nutritional status, or lack of parental awareness of the importance of sending children to school on time (UNESCO, 2011).

62. Another contributing factor to low completion rates is teacher quantity and quality, a serious constraint to educational attainment. Even with the 59 per cent increase in the preparation of trained teachers between 1999 and 2010, the number of new teachers needed in Africa only to achieve universal primary education has been calculated at more than 2 million (UNESCO, 2012). In many countries, the proportion of teachers trained to national standards is very low, and they may often lack the necessary subject knowledge and ability to deliver instruction effectively.

### (c) Better health for higher productivity and economic transformation

63. Ill health affects productivity through a range of channels. In agriculture, which employs the bulk of Africa's workforce, absenteeism due to morbidity and caring for the sick, alongside loss of savings and assets when dealing with diseases, are the channels linking health to productivity. When illness leads to long-term incapacity, risk-averse behaviour becomes even more apparent, as households sell important assets and withdraw children from school. Risk aversion as a coping strategy is exacerbated by the persistence in the African policy landscape of out-of-pocket spending on health services, which represents a substantial factor leading households into poverty.

64. In Egypt, Ethiopia, Swaziland and Uganda, prevalence of stunting in early childhood as reflected later in life in the working-age population is in the range of 40-67 per cent. The associated GDP productivity loss is substantial, estimated at 0.5 per cent to 3.8 per cent.

## G. Conclusions

65. Although robust, Africa's recent growth remains below potential and has failed to translate into meaningful job creation and the broad-based economic and social development needed to reduce high poverty and inequality rates seen in many countries. It is therefore essential that African countries embark on strategies to transform their economies through increased value addition in the primary commodity sector and diversify into higher-productivity employment-generating sectors, especially manufacturing and modern services.

66. Industry – and manufacturing in particular – has traditionally been a source of substantial employment generation in developed and developing countries. Yet Africa's decade-long high growth notwithstanding, the contribution of the sector to aggregate output and GDP growth has either stagnated or declined in most countries.

67. Reversing this trend calls for industrial policies in long-term planning frameworks that address constraints to economic diversification and development. To finance the necessary investments, Africa needs to tap new sources of finance, especially innovative domestic sources.

68. A well crafted growth and transformation strategy that enhances the productive capacities of all segments of the labour force tends to reduce inequality by promoting equal opportunities for employment—and so economic transformation strategies should embody policies to promote high-quality education and health services, powering greater productivity and more inclusive growth.

**References**

AfDB (African Development Bank Group). 2010. "*Infrastructure Deficit and Opportunities in Africa*." Economic Brief 1 (September). Available at http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ECON%20Brief_Infrastructure%20Deficit%20and%20Opportunities%20in%20Africa_Vol%201%20Issue%202.pdf. Accessed January 2014.

AfDB (2013). African Development Bank online data portal (accessed on 15 November 2013).

AfDB, OECD, UNDP, ECA (2008). *African Economic Outlook 2008: Developing Technical and Vocational Skills in Africa*. OECD, Paris.

__________ (2012). *African Economic Outlook 2012: Promoting Youth Employment*. OECD, Paris.
__________ (2013). *African Economic Outlook 2013*: *Structural Transformation and Natural Resources.* OECD, Paris.

African Growth Initiative at Brookings and ECA (2013). *AGOA – an empirical Analysis of the Possibilities post-2015*. Addis Ababa.

AUC (2013). AU Youth and Women Employment Pact for Africa. Draft paper for the ninth ordinary session of the Labour and Social Affairs Commission of the African Union, Addis Ababa
Beck, T., S.M. Maimbo, I. Faye and T. Triki (2011). *Financing Africa: Through the Crisis and Beyond*. World Bank, Washington DC.

ECA (2011). *Public-Private Partnerships' implementation in the Energy Sector in Africa: Challenges, Best Practices and New Trends*. ECA, Addis Ababa.

_________ (2013a). *Trade facilitation from an African perspective*. ECA, Addis Ababa.

_________ (2013b). Report on international and intra-African trade. Presented on the eighth session of the Committee on Trade, Regional Cooperation and Integration, 6-8 February 2013. ECA, Addis Ababa.

_________ (2013c). *Africa–BRICS Cooperation: Implications for Growth, Employment and Structural Transformation in Africa*. ECA, Addis Ababa.

_________ (2013d). Private equity and its potential role in economic growth in Africa: demystifying the asset class for policymakers. ECA, Addis Ababa.

ECA, AfDB, AUC (2010). *Assessing Regional Integration in Africa IV: Enhancing Intra-African Trade*. ECA, Addis Ababa.

ECA, AUC (2013). *Economic Report on Africa 2013, Making the Most of Africa's Commodities—Industrializing for Growth, Jobs, and Economic Transformation.* ECA, Addis Ababa.

ECA, AUC, AfDB, UNDP (2012). *MDG Report 2012 – Assessing Progress in Africa towards the Millennium Development Goals. Emerging perspectives from Africa on the post-2015 development agenda.* ECA, Addis Ababa.

_________ (2013). *MDG Report 2013 – Assessing Progress in Africa towards the Millennium Development Goals (MDGs): Food security in Africa: Issues, Challenges and Lessons*. ECA, Addis Ababa.

ECA, AUC, NEPAD, WFP (2013). The cost of hunger in Africa: social and economic impact of child undernutrition in Egypt, Ethiopia, Swaziland and Uganda. ECA, Addis Ababa.

ECA, NEPAD (2013). *Mobilizing Domestic Resources for Implementing NEPAD National and Regional Programmes and Projects—Africa looks within*. ECA, Addis Ababa.

ILO (2013a). *Global Employment Trends 2013: Recovering from a Second Jobs Dip*. ILO, Geneva.
_________ (2013b). *Global Employment Trends 2013,* ILO, Geneva.

_________ (2013c). *Key Indicators of the Labour Market (KILM)*, seventh edition. Available at http://www.ilo.org/empelm/pubs/WCMS_114060/lang--en/index.htm. Accessed October 2013.

IMF (2013). *World Economic Outlook: Transitions and Tensions*. World Economic and Financial Surveys, October 2013. IMF, Washington DC.

Karl, Kurt (2012) Re-insurance in sub-Saharan Africa: gearing up for strong growth. Swiss Re presentation, African Insurance Organization (AIO) meeting, 2 October 2012, Mauritius.

Kwadwo Asenso-Okyere, Catherine Chiang, Paul Thangata, and Kwaw S. Andam (2011). Interactions between health and farm labor productivity, International Food Policy Research Institute (IFPRI), Washington DC.

Mevel, S., and S. Karingi (2012). Deepening regional integration in Africa: a computable general equilibrium: assessment of the establishment of a continental free trade area followed by a continental customs union. Paper presented at the African Economic Conference 2012, 30 October-2 November 2012, Kigali.

Mohamed, H (2012). Statement by Mr. Hassan El Sayed Mohamed, President of the African Insurance Organisation (AIO) at the eighteenth African Reinsurance Forum and fortieth anniversary celebration of AIO, Balaclava, Mauritius. AIO, October 2012.

Mohamed, H (2013). Statement by Mr. Hassan El Sayed Mohamed, President of the African Insurance Organisation (AIO) at the opening ceremony of the fortieth conference and Annual General Assembly of AIO, Cairo, Egypt. AIO, May 2013.

Mubila, M., L. Lannes and M.S. Ben (2012). Income inequality in Africa. Briefing Note No. 5, African Development Bank, Tunis.

NEPAD, ECA (2013). Mobizing domestic financial resources for implementing NEPAD national and regional programmes and projects – Africa looks within. NEPAD Planning and Coordinating Agency and ECA, Addis Ababa and Pretoria.

OECD (2011). *OECD Factbook 2011–2012: Economic, Environmental and Social Statistics*, OECD, Paris. Available at http://www.oecd-ilibrary.org/content/book/factbook-2011-en.

Ogalo, V. (2010). *Informal cross-border trade in EAC: Implications for Regional Integration and Development.* CUTS African Resource Centre, Nairobi.

Ortiz, I., and Cummins M. (2011). Global inequality: beyond the bottom billion. UNICEF, New York.
Stiglitz, J., and R. Hamid (2013). Sub-Saharan Africa's sub-prime borrowers. Project Syndicate, the World's Opinion Page, available at http://www.project-syndicate.org/commentary/sub-saharan-africa-s-subprime-borrowers-by-joseph-e--stiglitz-and-hamid-rashid and http://www.todayszaman.com/newsDetail_getNewsById.action;jsessionid=7A209A32A9B3DB7688C535CE26E3BDE9?newsId=319292&columnistId=0

Sy, Amadou N.R. (2013) *First Borrow*. Finance and Development, June 2013, Vol. 50, No. 2.

United Nations (2012), *The Millennium Development Goals Report 2012*. New York.

United Nations (2013). *A New global Partnership: Eradicate poverty and Transform Economies Through Sustainable Development*, Report of the High-Level Panel of Eminent Persons on the Post-2015 Development Agenda. New York.
UNCTAD (2013a). *World Investment Report 2013*. Geneva, 2013.

_________ (2013b). *The Economic Development in Africa Report 2013*. Geneva, 2013.

_________ (2013c). UNCTADStat Database. Accessed November 2013, at http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx.

UN-DESA (2014). *LINK Global Economic Outlook*. New York.

UNDP (2013). *Human Development Report 2013*. United Nations Development Programme, New York.
UN-Women (2010). *Unleashing the Potential of Women Informal Cross Border Traders to Transform Intra-African Trade*. UN-Women, New York.

UNESCO (2011). *UNESCO and Education – Everyone has the Right to Education*. UNESCO, Paris.
__________ (2012). *Global Digest of Education Statistics, A Focus on Secondary Education*. UNESCO, Paris.
World Bank (2005). *The Construction of a Knowledge-based Society*, World Bank, Washington DC.
_________ (2010). *International Trade in Services: New Trends and Opportunities for Developing Countries*. Accessed November 2013 on https://openknowledge.worldbank.org/bitstream/handle/10986/2476/555440PUB0Int01EPI1972196101PUBLIC1.pdf?sequence=1

_________ (2013). *Africa's Pulse Report*, available at http://www.worldbank.org/content/dam/Worldbank/document/Africa/Report/Africas-Pulse-brochure_Vol7.pdf. Accessed November 2013.

_________ (2013). *Migration and Development Brief No. 21, Migration and Remittance Flows:* Recent *Trends and Outlook, 2013-–2016*. Available at http://siteresources.worldbank.org/INTPROSPECTS/Resources/334934-1288990760745/MigrationandDevelopmentBrief21.pdf. Accessed November 2013.

_________ (2013). *World Development Indicators*. Online database, accessed November 2013.

World Bank and European Commission (2013). *Send Money Africa Report*, January 2013. Available at https://sendmoneyafrica.worldbank.org/sites/default/files/SendMoney_Africa_Remittances_Report_2013.pdf. Accessed November 2013.