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Survey of Economic and Social Conditions in Africa in 2007

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ACRONYMS

CIS	Commonwealth of Independent States
DRC	Democratic Republic of Congo
EIU	Economist Intelligence Unit
FDI	Foreign Domestic Investment
GDP	Gross Development Product
IMF	International Monetary Fund
MDG	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
ODA	Official Development Assistance
REER	Real Effective Exchange Rate
NER	Nominal Exchange Rate
UN-DESA	United Nations Department for Economic and Social Affairs
UNECA	United Nations Economic Commission for Africa
VAT	Value Added Tax

A. INTRODUCTION

The recent sub-prime mortgage crisis in the United Sates and the resulting global financial market turmoil along with the depreciation of the dollar present serious challenges to world growth in 2008. The credit crunch is now projected to have greater impact on growth than was expected in 2007 in the United States and other developed economies. This will slow demand for exports from developing and transition economies, which will in turn result in lower growth in these economies. Despite the slowdown, growth in developing and transition economies is expected to remain robust, but it is likely to be insufficient to counter the effect of lower growth on world growth in developed economies.

The slowdown in world growth and the high oil prices are expected to have an adverse impact on growth in many African countries, especially oil-importing and landlocked countries. However, the continent as a whole is projected to sustain high growth in 2008. To sustain high growth in the face of global challenges, it needs effective strategies to manage commodity export revenues to hedge against future shocks, increase domestic investment and promote diversification, and to mobilize internal and external resources to confront development-financing challenges.

This survey discusses major developments in the world economy in 2007 with their likely implications for African countries. It proceeds with a review of the performance of African economies at the macroeconomic and sectoral level, including prospects for 2008. The survey further examines key trends in social development with an emphasis on education, health, youth unemployment, gender equality and aging. It concludes by highlighting a number of important economic and social challenges that deserve the urgent attention from African policy makers and the development community at large.

B. GLOBAL ECONOMY

World economic growth slowed to 3.7 per cent in 2007, from 3.9 per cent in 2006.[1] High prices for oil and other inputs combined with some turbulence in financial markets have contributed to this slowdown. The recent sub-prime mortgage crises resulted in lower than expected US growth rates and slowdown in demand for imports, exerting some negative effects on growth in other industrial countries. However, these effects have been balanced by domestic demand-led growth in other regions.

Globally, growth rates were highest in the Commonwealth of Independent States (CIS) as well as in East Asia, with rates above 8 per cent. Growth in developing countries declined only slightly from 7.0 per cent in 2006 to 6.9 per cent in 2007. For 2008 world growth is projected to be around 3.4 per cent.

Global current account imbalances are large but have stabilized in 2007. Among developed countries the deficit remained constant in 2007 at around $US600 billion, despite sizable surpluses in Germany and Japan. The US trade deficit declined from a record high of $US844 billion in 2006 to $US780 billion in 2007, due to higher exports. Oil-exporting countries have a combined surplus

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[1] All the growth and price data used in this Survey are from UN-DESA, October 2007, except for Swaziland and Seychelles, for which the data are from the EIU online database.

of $US500 billion and most developing regions are running surpluses. Developing Asia's surplus exceeded $US200 billion, with China being the largest contributor. The current trends are expected to continue in 2008.

Despite continued high oil prices, global average inflation remained low in 2007 (2.8 per cent compared to 2.9 per cent in 2006), partly due to restrictions on wage increases, a tight macroeconomic policy stance in both advanced and developing countries, and the supply of cheap manufactures from China. However, inflation risks have increased due to falling unemployment especially in Europe, and high commodity prices.

Prices of major African export commodities such as coffee, cocoa, cotton and tropical logs have remained stable, whilst the recent promotion of the use of bio fuels has led to notable increases in the prices for agricultural commodities such as wheat, maize and sugar. Another important development of high relevance for Africa is the rapid increase in South-South trade and capital flows. FDI from the South increased from just 5 per cent of world outward flows in 1990 to 17 per cent in 2005. FDI to Africa is increasingly coming from Asia, especially China, India and the Gulf states. At the same time FDI flows within Africa increased substantially in 2006, mainly originating in South and Northern Africa. These FDI flows are concentrated in the natural resource and services sectors.

The intensification of ties with Asia in terms of aid, trade and FDI holds both benefits and challenges for Africa. African exports to China have more than quadrupled between 2000 and 2005, reaching $US19.5 billion. Asian growth expands export markets for Africa and creates new opportunities for employment creation in local and foreign firms. However, African manufacturing firms confront the risk of loosing local markets if they are not able to compete with imports from Asia.

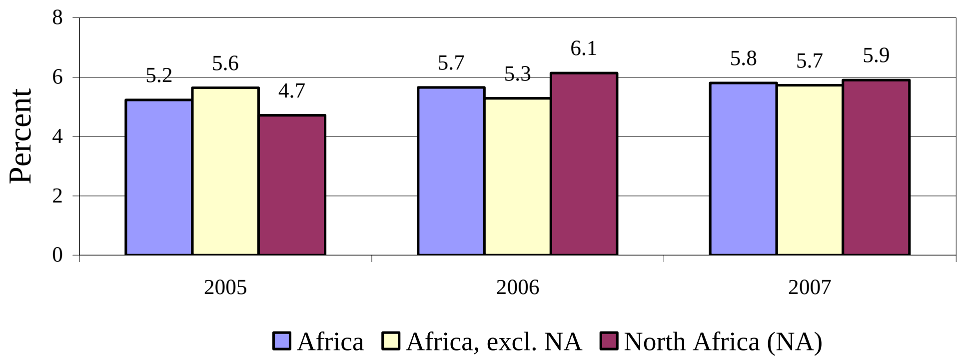
C. OVERALL ECOMOMIC GROWTH PERFORMANCE IN AFRICA

Africa's economic growth rate slightly up in 2007

Africa has maintained the strong growth momentum of the last few years and achieved a 5.8 per cent growth rate in 2007, up from 5.7 per cent in 2006 and 5.2 per cent in 2005 (figure 1). As in previous years, this growth performance was driven mainly by robust global demand and high commodity prices. Other factors underpinning sustained growth momentum in Africa include continued consolidation of macroeconomic stability and improving macroeconomic management, greater commitment to economic reforms, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. Africa has also witnessed a decline in political conflicts and wars, especially in West and Central Africa, though peace remains fragile in some parts of the continent.

African exports of goods and services recorded a 15.2 per cent increase in value in 2007 compared with a 13.2 per cent increase in imports (UN-DESA, October 2007a). Many African countries have implemented macroeconomic as well as microeconomic reforms that have resulted in a generally improved business environment and investment climate. Increased aid and debt relief have helped the continent to attract high net private capital inflows, although the volume has declined over the past three years ($US29 million in 2005, $US25 million in 2006 and $US22 million in 2007). Also macroeconomic stability, among other factors, has contributed to an increase in the domestic savings rate from 25.3 per cent in 2006 to 26.3 per cent in 2007 (see IMF 2007a).

Figure 1. Real GDP growth in Africa, 2002-2008



Source: UN/DESA, October 2007.
Notes: Partial estimates for 2007 and forecast for 2008

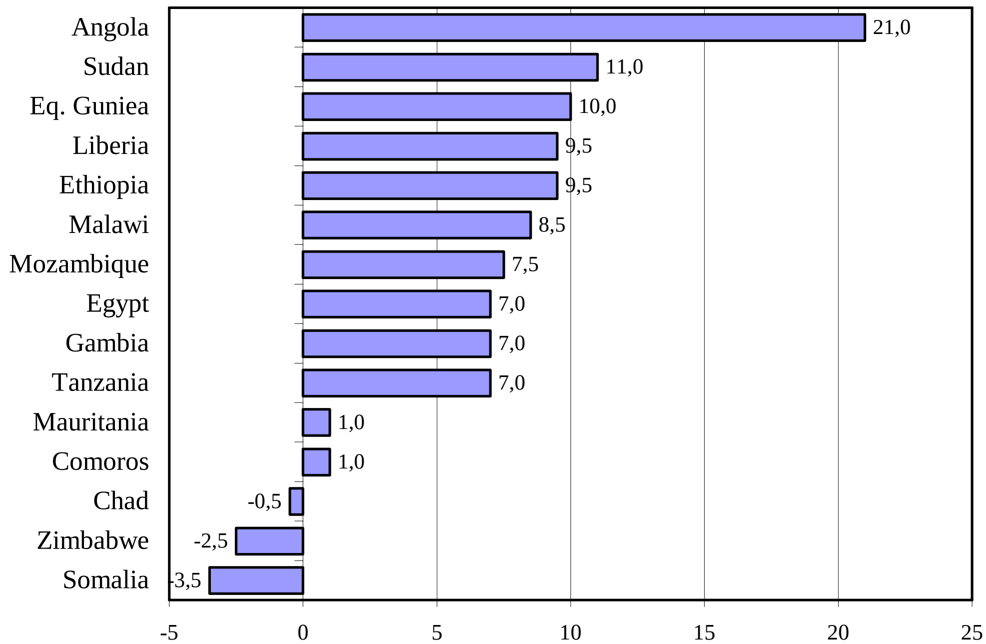
These improvements need to be widened, deepened, and sustained if Africa is to accelerate and sustain growth beyond the ongoing commodity boom. The continent also needs to promote high-quality growth that is broadly shared in terms of generating decent employment, helping to reduce poverty and achieving the Millennium Development Goals (MDGs). The recorded real per capita income growth rate (0.3 per cent during 1990-2002 and 3.0 per cent in 2003-2007) is insufficient for Africa to make any significant progress towards achieving the MDGs. Africa's ability to accelerate and sustain growth hinges crucially on its progress towards diversification of the sources of growth and success in mobilizing domestic and external financial resources to increase domestic demand in general and investment demand in particular.

High growth variability across countries

The vulnerability of Africa's growth to developments in commodity markets and political instability can be easily seen from a cursory look at the list of top and least performers in 2007 (figure 2). Six of the top performers are oil- or mineral-rich economies (Angola, the Sudan, Egypt, Equatorial Guinea, Mozambique and Tanzania), while one country (Liberia) is a post-conflict recovery case. The structure of the remaining top-performing economies is heavily dominated by agriculture (Ethiopia and Malawi) or services (the Gambia).

Aside from Egypt, the top-performing economies are characterized by extremely limited diversification in terms of manufactured output and exports and lack the requirements for sustaining growth. It is interesting to note that the least-performing five economies share similar characteristics to the top performers. Mauritania and Chad are oil-rich countries while Zimbabwe is a mineral-rich country. However, Somalia and Zimbabwe suffered from political instability that has had adverse consequences on economic performance. Chad, Mauritania and the Comoros are confronted with declining commodity output and exports, a situation that illustrates the urgent need for economic diversification on the continent.

Figure 2. Top 10 and bottom 5 performers in Africa in 2007 (% annual growth)

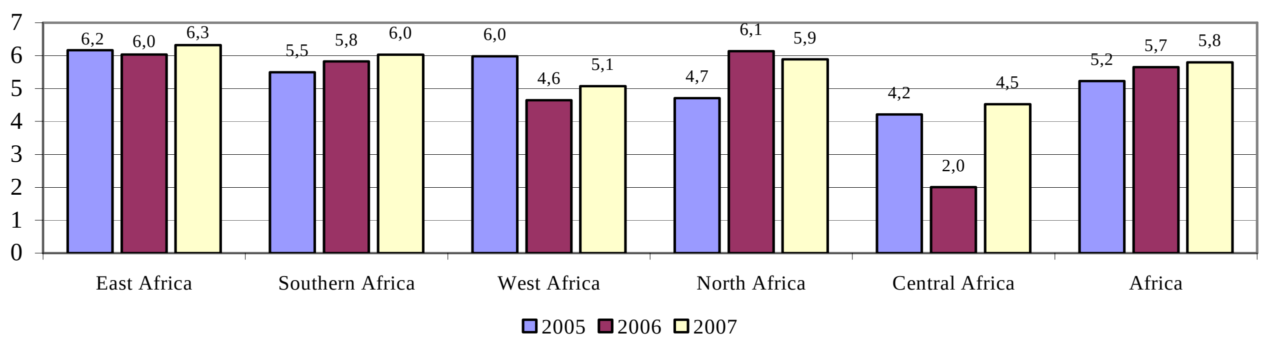


Source: UN-DESA, October 2007a.

Subregional growth performance also varied substantially

Whereas growth performance slightly decelerated in North Africa, all other regions experienced higher growth in 2007 compared with 2006 (figure 3). This indicates that growth in Africa is widely shared across regions. East Africa, a non-oil region with limited mineral exports, continued to lead economic performance in Africa, whereas Central Africa lagged behind all other regions in 2007.

Figure 3. Subregional growth performance 2005-2007 (%)



Source: UN-DESA, October 2007a.

Strong commodity demand and continued high prices combined with favourable rainfall and accelerated growth in agriculture boosted economic activity in the industrial and services sectors as well as overall growth in most of the countries of East Africa. Ethiopia led the region with a 9.5 per cent real GDP growth rate in 2007, followed by Tanzania (7.0 per cent), Democratic Republic of Congo (DRC) (6.5 per cent), Madagascar (6.4 per cent), Kenya (6.1 per cent) and Uganda (6.0 per cent) and Seychelles (5.8 per cent). Other growth factors in the region include increased government investment in infrastructure, policies to encourage private sector development and investment in manufacturing, as well as rising FDI and tourism receipts.

The end of fighting boosted agriculture and growth in the DRC, while Kenya recorded broad-based growth involving most economic sectors. The three least-performing countries in the region continue to suffer from the same factors that constrained growth in previous years: civil conflict in Somalia (-3.5 per cent), political instability and excessive economic controls by the central government in Eritrea (2.0 per cent growth) and low vanilla export prices and tourism receipts in the Comoros (1.0 per cent). Despite progress, East Africa’s growth remains constrained by inadequate infrastructure, especially roads and power supply, which raises production costs and undermines international competitiveness.

With increasing oil production, Angola continued to lead Southern Africa in terms of real GDP growth (21.0 per cent in 2007). The factors driving growth in other countries of the region include the improved performance of the agricultural, mining and tourism sectors and expansion in manufacturing and construction. Malawi sustained the high growth, recording a rate of 8.5 per cent in 2007, owing to continuing agricultural recovery, while macroeconomic stability and continued donor support assisted Mozambique in maintaining high growth (7.5 per cent in 2007). Economic performance in South Africa remains robust (4.8 per cent), thanks to expansion in construction and mining and increased investment in the corporate sector. Zimbabwe and Swaziland continue to be the least performing countries in Southern Africa owing to political instability in Zimbabwe and impact of drought and decline of production in the textile industry in Swaziland.

As in previous years, North Africa’s growth remained high (5.9 per cent in 2007) with increased oil and gas production and high oil prices. Additional growth factors include increased FDI flows (to the Sudan for example) and increased public investment (Algeria and Libya). The Sudan recorded the highest growth rate (11.0 per cent) in 2007 followed by Egypt (7.0 per cent) and Tunisia (6.0 per cent). Economic reforms that stimulated domestic investment and a rebounding tourism sector underpinned growth in Egypt, while growth in Tunisia benefited from expansion in industry and the services sectors, which contributed to faster economic diversification. Real GDP growth rate declined sharply in Morocco (from 7.9 per cent in 2006 to 3.0 per cent in 2007) due to adverse weather conditions and a decline in agricultural output and in Mauritania (from 11.4 per cent in 2006 to 1.0 per cent in 2007) because of contraction in oil production caused by technical problems at the Chinguetti field.

Accelerated growth in Senegal and Guinea-Bissau in 2007 relative to 2006 and sustained recovery in Liberia and Sierra Lone underpinned the rise in GDP growth in West Africa this year (5.1 per cent, up from 4.6 per cent in 2006). The region as a whole benefited from good rainfall and strong agricultural performance as well as high commodity prices, despite the negative effect of energy cost on oil-importing countries. Côte d'Ivoire and Guinea are the two countries in the region with the lowest growth rates in 2007, at 2.0 and 1.5 per cent, respectively. Political instability, depleted infrastructure and weak economic institutions adversely affected investment and production in Côte d'Ivoire, especially in the cocoa and petroleum sectors. In addition to political instability, growth in Guinea remains weak due to the poor performance of agriculture, weak infrastructure and the burden of high oil prices.

Although still lagging behind other regions, real GDP growth in Central Africa jumped from 2.0 per cent in 2006 to 4.5 per cent in 2007. Increased oil and gas production and revenue stimulated non-oil activity and pushed growth to 10.0 per cent in Equatorial Guinea and 4.9 per cent in Gabon in 2007. However, owing to lower oil production, growth decelerated from 6.1 per cent in 2006 to 4.0 per cent in 2007 in the Republic of Congo and from 0.5 per cent to -0.5 per cent in Chad. This underscores the need for economic diversification away from the resource sector for these countries to accelerate and sustain growth.

Expansion of oil-related services, a continued construction and tourism boom underpinned strong economic performance in Sâo Tome and Principe (6.5 per cent), while a weak business environment inhibited growth in Cameroon. Political instability continued to discourage investment and constrain the provision of essential public services in the Central African Republic. Besides addressing security problems, achieving high and sustained growth in Central Africa will require substantial investment in infrastructure to induce private sector activity and economic diversification.

D. WIDENING MACROECONOMIC IMBALANCES IN RESOURCE-POOR AFRICAN COUNTRIES

Fiscal sustainability remains a challenge for oil-importing countries

On average, Africa maintained an overall budget surplus, though slightly lower in 2007 (2.4 per cent of GDP) compared to 2006 (2.8 per cent). Only 15 of the 42 African countries with available data had a budget surplus in 2007 and while over 60 per cent of oil-exporting countries had fiscal surpluses, 76 per cent of oil-importers had deficits. Indeed, high oil prices put pressure on the fiscal balances of oil-importing African economies, with 93 per cent of them having a deficit over 1998-2007 (table 1).

Table 1. Distribution of fiscal deficits in Africa by resource group, 1998-2007 (average)

	Oil countries	Non-oil countries	Mineral-rich	Non-mineral-rich
Countries with surpluses	7	2	1	1
Less than 5%	2	2	1	1
5% to 10%	3	0	0	0
More than 10%	2	0	0	0
Countries with deficits	6	27	9	18
Less than 5%	5	18	6	12
5% to 10%	1	7	2	5
More than 10%	0	2	1	1
Total number of countries	13	29	10	19

Source: EIU, October 2007.
Notes: Due to data limitations, only 42 countries are covered. The 11 excluded countries are the Central African Republic, the Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone, and Somalia.

In 2007, all the 10 highest surplus African countries are oil-rich, mineral-rich or both. The countries with the largest budget deficits are mostly countries that are exposed to recurrent internal shocks (e.g. rainfall irregularities and political conflicts) and external shocks (e.g. agricultural commodity markets). These countries (including Eritrea, Ghana, Guinea, Malawi, Sâo Tome and Principe and Zimbabwe) lack adequate economic diversification for helping them to absorb the impact of shocks on their fiscal performance.

It is worth noting that although most oil-importing African countries had to live with budget deficits over the last decade, the average deficit has been small relative to GDP owing to cautious fiscal policy. Fiscal management involved removal or reduction of fuel subsidies, wide-scale privatization of public enterprises and rationalization of government consumption of oil. At the same time, many countries were able to increase tax revenue thanks to GDP growth and tax reforms, including introduction of Value Added Tax (VAT) and other strategies that enhance efficiency in tax administration.

However, tight fiscal policy often meant less spending on basic public services and slow progress towards achieving the MDGs. Most African countries allocate only 3 to 4 per cent of GDP to health and education and fall short of the benchmark of 20 per cent of government budget earmarked for education and 15 per cent for health (World Bank/IMF 2005; UNECA 2007a). In some countries, budget cuts also target capital expenditure, resulting in slower growth of public infrastructure and poor maintenance of existing infrastructure. This in turn undermines private investment and productive capacity utilization.

Maintaining fiscal stability in the face of high oil prices remains a major concern for many governments that rely heavily on donor support (UNECA 2007b). It is important that donors and the international development community at large scale up financial support, preferably through grants and debt relief, for oil-importing African countries to maintain fiscal stability. Recent increases in aid flows to Africa were largely due to the debt relief delivered to a select group of countries, while FDI inflows were concentrated in resource-rich countries. Therefore, donors have the responsibility not just to live up to their commitments to increase the quantity of aid but also to improve its quality.

Inflationary pressure is intensifying in many African countries

Inflation remains moderate for Africa as a whole (6.3 per cent in 2007), but inflationary pressure is intensifying especially in oil-importing African countries due to high oil prices. About 60 per cent of African countries recorded inflation rates of 5 per cent or above in 2007, up from 52 per cent in 2006 (table 2). The respective percentages for oil-exporting and oil-importing economies are 54 and 65 per cent in 2007. Whereas high oil prices raise production costs for oil-importing countries, causing prices to increase, increased oil revenues fuel domestic demand and cause prices to rise in oil-exporting countries - e.g., Angola (12.6 per cent) and the Sudan (9.0 per cent). Due to their stronger impact on the price of basic consumer goods, high inflation rates in countries such as Zimbabwe (6840 per cent), Guinea (24 per cent) and Eritrea (23.5 per cent) are a major concern for the poor who lack adequate safety nets.

At the same time, governments rely on tighter fiscal and monetary policies beside currency appreciation to avoid acceleration of inflation at the cost of lower growth. The potential adverse growth impact of these policies makes macroeconomic management increasingly difficult and costly for oil-importing countries.

Table 2. Distribution of inflation rates in Africa, 2007 (53 countries)

Range	Africa	Oil-rich	Non-oil	Mineral-rich	Non-mineral
Less than 5 %	21	7	14	3	18
Between 5 and 10 % (10% excluded)	20	5	15	8	12
Between 10 and 20 % (20% excluded)	9	1	8	3	6
20% and higher	3	0	3	2	1
Total number of countries	53	13	40	16	37

Source: UN-DESA, October 2007a.

Oil-exporting countries need appropriate policies to avoid economic overheating. To do so, they must direct a sizeable proportion of oil revenues to finance real domestic investment. This will help them to build productive capacity instead of direct increases in government and private consumption that create excess demand when the economy does not have the capacity to respond. They must also consider saving an appropriate part of the revenues for stabilization purposes and for the service of future generations.

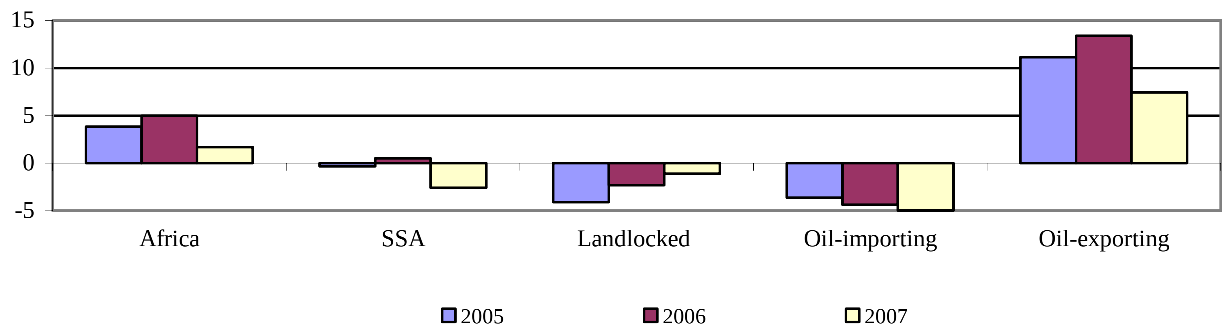
E. EXTERNAL BALANCES ALSO A CONCERN FOR OIL IMPORTING AFRICAN COUNTRIES

Developments in the balance of payments

Africa's current account surplus declined from 5.0 per cent of GDP in 2006 to 1.7 per cent in 2007 (figure 4). This decline was the result of widening current account deficits in oil-importing countries (from –4.4 per cent of GDP in 2006 to –5.0 per cent in 2007). At the same time, oil-exporting countries continued to enjoy a high current account surplus (7.5 per cent in 2007). This means that, in absolute terms, the trade surpluses of oil-exporters outweigh the trade deficits of oil-importers. Due to high transportation costs and weak international competitiveness, landlocked African economies tend to have larger current account deficits compared with other African countries. However, these deficits have declined in 2007, thanks to increased aid flows, mostly in the form of debt relief.

Current account sustainability in oil-importing Africa countries is a challenge that poses risks to macroeconomic stability and growth prospects especially for landlocked economies. Rationalizing oil consumption and developing alternative sources of energy such as hydropower is one way that oil-importing African countries can reduce their import bill. In the short term, oil-importing countries need external support to meet their expenditure needs while minimizing macroeconomic instability. Medium-to long-term strategies must focus on increasing investment in infrastructure, building productive capacity, diversifying exports and promoting international competitiveness.

Figure 4. Current account balance in Africa by category, 2005-2007 (% of GDP)



Source: International Monetary Fund, World Economic Outlook Database, October 2007.
Note: Excluding Somalia due to lack of data

Currency appreciation threatens international competitiveness

In line with the Euro, the CFA appreciated substantially against the US dollar in nominal terms. As a result, exports of the Franc Zone are losing competitiveness outside the Euro area. Most other African currencies have also continued to appreciate against the US dollar in 2007. Since the bulk of African exports are valued in US dollars and export prices have remained fairly stable, currency appreciation, in addition to discouraging imports from Africa, implies a decline in the profitability of African export-oriented activities. It makes imports cheaper in domestic markets and discourages exports, putting pressure on the current account balance. This has been the case in most commodity-rich countries, with negative effects on economic diversification and job creation.

Based on real effective exchange rate (REER), 23 of the 36 African countries with available data experienced currency appreciation over 2002-2007.[2] However, only 3 countries recorded more than a 10 per cent average annual currency appreciation rate, and none of the countries considered experienced a REER depreciation of more than 10 per cent per annum. Zimbabwe, Angola, Zambia, the Sudan and South Africa were the 5 African countries with the highest REER appreciation rates in 2002-2007, whereas Seychelles, Malawi, Tanzania, Madagascar, and Libya were the 5 countries with the highest depreciation rates. Increasing domestic price levels have been the main source of REER appreciation in countries such as Zimbabwe where the Nominal Exchange Rate (NER) depreciated substantially.[3] Conversely, in other countries such as Libya, the REER depreciated despite NER appreciation. Libya maintained a low domestic price level relative to foreign price levels and experienced deflation between 2000 and 2004.

In addition to income from commodity exports, REER appreciation in some African countries resulted from scaled-up expenditures, aid and other capital inflows, remittances and high earnings from tourism. Seventy per cent of oil-exporting countries experienced REER appreciation. To address possible Dutch Disease problems, commodity-rich countries in particular need to closely coordinate monetary and fiscal policies, increase productivity and strengthen the supply side of their economies by using the export earnings to finance public infrastructure, which will promote private sector development (IMF 2007b).

The issue of management of oil revenue is critical in light of the fact that most resource-rich countries are accumulating large amounts of foreign exchange reserves, resulting from current account surpluses as well as FDI and ODA inflows.[4] On average, foreign exchange reserves exceeded 29 per cent of Africa’s GDP over 2006-2007. Most African countries maintained adequate reserves; only 6 of the 48 countries with available data had a reserve-short-term debt ratio of less than one in 1998-2005. Reserves build up may generate excess liquidity and require sterilization measures to avoid inflationary pressures or overheating. Close coordination of fiscal and monetary policy is therefore essential for governments to manage reserves effectively and avoid disruptive volatility in exchange rate, inflation and output growth (UN-DESA 2007b).

Africa needs to reduce external debt and increase non-debt generating resources

The analysis of the level and quality of Africa’s growth and financing constraints points to the strong need for the continent to reduce external debt and mobilize more domestic and external resources. Despite debt relief initiatives, Africa’s external debt remains high and unchanged at $US255 billion in 2006 and 2007. Long-term debt accounted for about 94 per cent of the total debt in 2007. However, while official debt declined considerably with the debt relief initiative, from $US205.7 billion in 1999 to $US144.5 billion in 2007, the debt owed to banks and other private creditors rose from $US92.4 billion in 1999 to $US110.2 billion in 2007.

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[2] The REER index is defined as [Pd/Pf*NER], where Pd is the domestic price level, Pf is foreign (US) price level, NER is the official exchange rate expressed in terms of the domestic currency price of the US dollar (period average). Thus, REER represents the quantity of foreign goods that can be purchased with one unit of domestic goods.
[3] The Zimbabwean dollar, for example, depreciated from 162 to the US dollar in 2006 to 250 in 2007.
[4] Ranking countries according to holdings of foreign exchange reserves as a ratio of GDP shows that high reserves originate mainly from commodity revenues and private capital flows and that none of the top 10 high reserve countries is a high aid-recipient country.

Improved economic performance in Africa over the last 5 years was associated with notable increases in domestic savings and investment rates. For Africa as a whole, savings rose from 19 per cent of GDP in 1998-2001 to 22 per cent in 2002-2005 and 26 per cent in 2007, while domestic investment increased from 19.7 per cent to 20.1 and 22.1 per cent over the same period.

Nevertheless, domestic resource mobilization remains insufficient for Africa to finance the investment needed for achieving the MDGs and African countries will continue to rely on external capital inflows (mainly ODA, FDI and remittances) to fill the resource gap in the near future (UNECA 2008). While FDI inflows go mainly to resource-rich countries to finance investment in extractive industry, more ODA flows are directed to non-oil economies (table 3). Workers remittances are almost of the same magnitude as FDI. The international community is urged to live up to its commitments to scale up aid to Africa under various initiatives such as the Multilateral Debt Relief Initiative (MDRI). In the meantime African governments should ensure that external assistance is used to build productive capacity and deliver public services to reduce poverty and accelerate progress towards meeting the MDGs.

Table 3: External flows, domestic saving and investments, 1998-2005[a] (average)

Indicator	**Oil economies**	**Non-oil economies**	**Africa excluding North Africa**	**Africa**
ODA and official aid ($ billion)	6.9	16.0	19.4	22.9
FDI, net inflows ($ billion)[b]	11.1	5.5	9.2	16.7
Workers' remittances and compensation of employees, received ($ billion)[c]	8.4	6.0	4.7	14.4
Gross Domestic Investments (per cent of GDP)[d]	22.2	19.1	18.8	20.6
Gross Domestic Savings (per cent of GDP)[e]	26.7	15.6	19.2	20.9
External debt (per cent GDP) [f]	53.2	45.7	51.0	49.3
External debt (per cent total exports)[g]	150.2	162.5	153.8	155.8

Source: World Development Indicators, 2007; OECD (online database, February 2008); IMF World Economic Outlook database, October 2007; OECD 2007 (online database, October 2007).

Notes: a: For FDI and ODA, the data are for 1998-2006. The remaining indicators are for 1998-2005. The following countries have been excluded due to lack of data: b. Libya and Namibia; c. Angola, the Central African Republic, Chad, DRC, Djibouti, Equatorial Guinea, Eritrea, Liberia, Seychelles, Somalia, Zambia, Zimbabwe; d. the Central African Republic, Equatorial Guinea, Liberia, Libya, and Somalia; e. the Central African Republic, Equatorial Guinea, Liberia, Libya, and Somalia; f. Libya, Namibia, Somalia; g. Equatorial Guinea, Libya, Namibia, and Somalia.

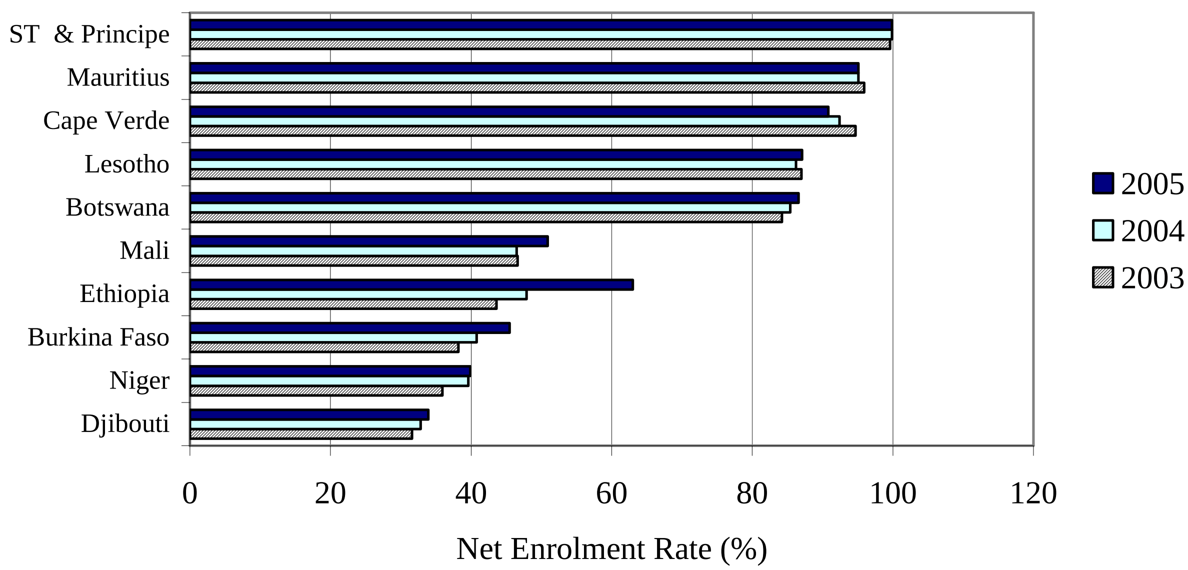
F. TRENDS IN SOCIAL DEVELOPMENT IN AFRICA

In the context of slow social development despite relatively high growth on the continent, this section reports on a range of key social conditions in Africa in 2007. The discussion is based on the most recent data available and focuses on education, health, youth unemployment, gender equality and aging.

Education[5]

Education systems are important for knowledge and learning to expand people's choices, and to enable people to live healthier and longer. In this respect, it is encouraging that the average net primary enrolment rate in Africa, excluding North Africa has increased from 64 per cent to 70 per cent from 2004 to 2005. This trend indicates a more optimistic scenario for progress towards achieving universal primary education (MDG 2) (Figure 5). A reflection of this increased primary school enrolment is the commensurate decrease in the number of out-of-school children which has fallen from 43 million in 1999 to 30 million in 2005.

Figure 5: Progress in net primary school enrolment rates selected African countries, 2003-2005



Source: United Nations Statistics Division.

As a consequence of improved access to primary education, basic literacy rates amongst youth in Africa have risen from an average of 64.8 per cent over the period 1985-1994 to 72.5 per cent over the period 1995-2005. Compared to other regions, the rise is more impressive in North African countries where the total literacy rate increased from 66.7 to 84.3 per cent. It is even more encouraging that the largest gains are being witnessed amongst young females, closing the gender disparity in literacy. Young female literacy rates in Africa have increased from 58.0 to 66.9 per cent in comparison to a smaller increase (from 72.0 to 78.4 per cent) for young men. Again, the strongest gains are being achieved in North Africa where young female literacy rates have increased by over 20 percentage points from 1985-1994 to 1995-2005.

The significant increase in primary school enrolments in Africa, particularly in regions other than North Africa, is an important step, but completing the cycle of basic schooling remains a major challenge. In fact, only 60 per cent of children in Africa, excluding North Africa, complete

[5] For education data, see UNESCO's Institute of Statistics online database, www.uis.unesco.org.

the full cycle of primary education. Generally, children leave school for a variety of reasons including costs, income foregone, care activities within households (particularly for girls), and the poor quality of education. With respect to the last reason, high pupil-teacher ratios resulting in large class sizes, seriously affect the quality of teaching and learning in many African countries.

In addition to the issue of quality of education, access to higher levels of education continues to be inadequate in Africa, particularly in regions other than North Africa. The gross enrolment ratio in secondary education in these regions increased from only 25 per cent in 2000 to 32 per cent in 2005. A similar picture for these regions is evident in the tertiary gross enrolment ratio which lags behind other regions by a considerable margin and remains at around 5 per cent (as of 2005). In comparison, North Africa has significantly increased enrolment in secondary and tertiary education. For example, countries like Algeria and Morocco have increased secondary gross enrolment ratios from 75 to 83 per cent and from 41 to 49 per cent respectively, between 2002 and 2005. Over the same period, the gross tertiary enrolment ratio in Tunisia increased from 23 to 30 per cent.

Health

Compared to other regions, African countries are characterized by poor health as evidenced by indicators on HIV/AIDS, tuberculosis and malaria, infant, child and maternal mortality. All regions, except North Africa continue to be severely affected by HIV/AIDS. About 68 per cent of the 33.2 million people living with HIV/AIDS globally are in Africa outside of North Africa, though the adult HIV prevalence rate varies from less than 2 per cent in some countries of the Sahel to above 15 per cent in many of the countries in Southern Africa (UNAIDS, 2007). Although the adult HIV prevalence rate in Africa, excluding North Africa, has slightly declined from 5.8 per cent in 2001 to 5.0 per cent in 2007, HIV/AIDS remains the leading cause of adult morbidity and mortality on the continent (UNAIDS, 2007).

The proportion of women infected with HIV is high and increasing on the continent. In fact, women now constitute 61 per cent of the infected people in Africa outside of North Africa. Young people, particularly young women, are more vulnerable to acquiring HIV than prime age adults. About 4.3 per cent of young women aged 15-24 in Africa, excluding North Africa, have the HIV virus compared to 1.5 per cent of young men (UNAIDS, 2006). The vulnerability of African women and girls to HIV infection is mostly linked to underlying gender inequalities, societal norms and discrimination, in addition to physiological reasons.

Besides HIV/AIDS, tuberculosis and malaria are the next leading infectious diseases that cause morbidity and mortality on the continent. In this regard, while the situation is deteriorating in other regions, it is improving in North Africa (table 4).

Table 4: Trends in tuberculosis incidence, prevalence and deaths in Africa

	North Africa			Africa excluding North Africa		
	1990	2000	2005	1990	2000	2005
TB Incidence- Number of new cases per 100,000 population (excluding HIV-infected)	54	50	44	148	253	281
TB Prevalence- Number of existing cases per 100,000 population (excluding HIV-infected)	59	53	44	331	482	490
TB Deaths - Number of deaths per 100,000 population (excluding HIV-infected)	5	4	3	37	54	55

Source: United Nations Statistics Division.

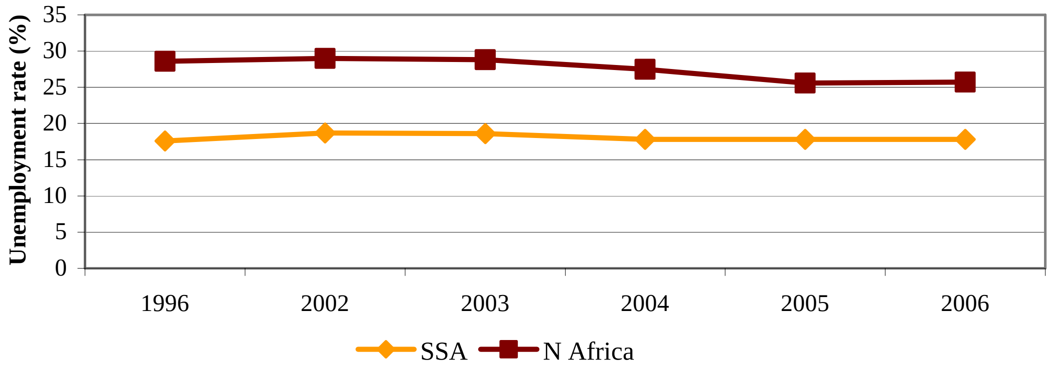
Malaria is the leading cause of child mortality in Africa and of anaemia in pregnant women. Although the use of insecticide-treated bed nets by children under 5 in malaria prone areas is reported to have improved from 2.1 in 2001 to 5 per cent in 2005, the scale of the need is still large (WHO, 2006).

While Africa as a whole has made progress in improving infant and child mortality rates since 1990, there has been wide variation across the region. Some countries especially in North Africa have achieved much more progress in tackling infant and child mortality than countries in other regions. Similarly, maternal mortality continues to be a major health challenge in all regions excluding North Africa, having only fallen from 920 deaths per 100,000 live births in 1990 to 900 in 2005. The mortality ratio for North Africa has decreased more substantially over the same period from 250 to 160 deaths per 100,000 live births (WHO, 2007).

Africa's youth continue to face many challenges in the labour market

Most African youths entering the labour market continue to face bleak prospects, ending up unemployed, underemployed or stuck in poorly paid jobs in the informal economy. The youth unemployment rate remains at 18 per cent on average in the continent, excluding North Africa (ILO, 2006). In contrast, the unemployment rate in North Africa has been slightly declining from 28.6 per cent in 1996 to 25.7 per cent in 2006 (figure 6). On the gender dimension, though young females in regions other than North Africa have lower unemployment rates than young males, this does not imply, however, that they have better access to the labour market. Rather, these young women do not have the opportunity to actively search for a formal job and hence have to take up employment in the informal sector or remain outside the labour force. In North Africa, even more young women stay out of the job market for cultural reasons.

Figure 6: Youth unemployment rates remains high but are slightly declining in North Africa



Source: ILO Key Indicators of the Labour Market Version 5 CD-ROM.

While the measured rate of unemployment does provide a partial insight into the difficulties African youth experience in finding a job, it does not reveal the full story in terms of access to decent employment. In this regard, ILO estimates that there were approximately 45 million youths in Africa, excluding North Africa, who were working in 2005 but nonetheless living below the poverty line of $US1 per day (ILO, 2006). The working poverty rate for youths in regions other than North Africa has only declined marginally over the last decade from 59.0 per cent in 1995 to 57.7 per cent in 2005. In comparison, the average youth working-poverty rate in North Africa has been below 4 per cent over the same period.

Gender equality

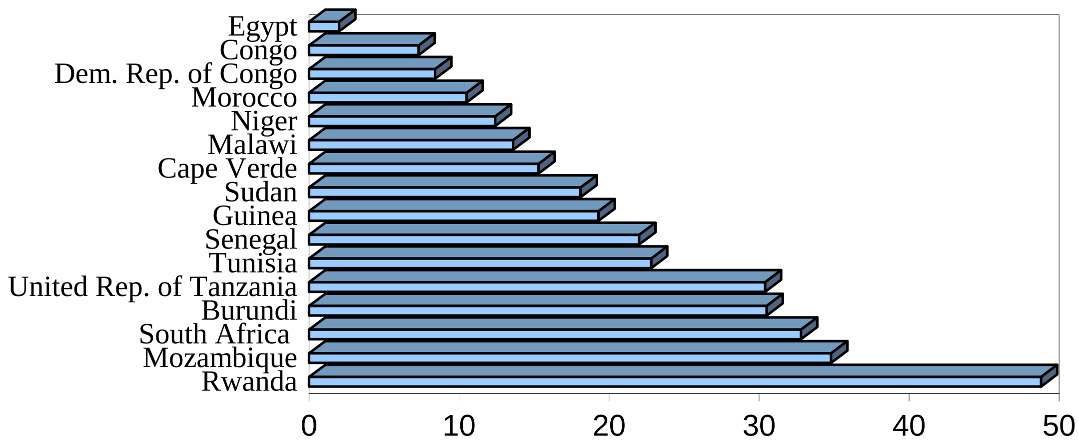
Efforts to promote gender equality, equity and women's empowerment in Africa gained momentum on several fronts over recent years. For example, 51 African countries have ratified the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW) and 17 have signed the Optional Protocol. Many countries have aligned their national legislation to the provisions of CEDAW. Moreover, between 1995-2005, 48 African countries prepared national plans of action for poverty reduction that included strategies for increasing gender equity. Some African countries also have strategies for supporting women's entrepreneurship through micro-credit schemes and capacity-building in enterprise management.

Women's participation in governance

Although many countries have significantly increased the level of women's representation in parliament, gender equality and equity principles are not yet fully integrated into democratization processes, and women continue to be under-represented in most structures of power and decision-making.

The number of women parliamentarians is still low on average (figure 7). The continental average for Africa stands at 15.5 per cent with 10.6 per cent for North Africa and 17.1 per cent for other regions, which means that many African countries still lag behind the 30 per cent landmark committed to in Beijing. Only five African countries have reached the target of 30 per cent or more of women's representation in parliament (Rwanda, Mozambique, South Africa, Burundi and Tanzania) with Rwanda reaching the record level of 48.8 per cent, surpassing the Scandinavian average of 40 per cent women representatives in parliament (figure 4).

Figure 7: **Percentage of women in national parliaments (lower or single house) for selected African countries (situation as of 30 November 2007).**



Source: Inter-Parliamentary Union.

The elderly

Contrary to commonly held perceptions, the number of older persons aged 60 or more in Africa is large and growing very rapidly. As of 2007, it is estimated that the population of older persons reached 50.5 million in 2007, representing over 5 per cent of the population. Moreover, older persons in Africa will grow at an annual rate of 3.1 per cent between 2007 and 2015, and 3.3 per cent between 2015 and 2050 which is faster than the growth rate of the general population. Consequently, by 2050, it is projected that the number of older persons will exceed 206 million and account for around 10.4 per cent of the population[6].

Northern Africa and Southern Africa are the most rapidly ageing regions in the continent. In 2007, older people made up 7 per cent and 6.9 per cent of the population of these two regions respectively. Projections indicate that the proportion of older people in Northern Africa will increase, rapidly to 8.2 per cent by 2015. Southern Africa is also projected to experience a relatively rapid increase, but at a slower rate. By 2015, older people will represent between 4.3 per cent and 5.1 per cent of the total population in Eastern Africa, Central Africa and West Africa.

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[6] See the Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, *World Population Prospects: The 2006 Revision*, http://esa.un.org/unpp.

The rapid growth of older persons in African countries poses an important challenge given the lack of adequate formal institutional support systems for the elderly. This adds pressure on family resources as the aged are cared for in the context of the extended family. The rise in the dependency ratio implied by the rapid increase of the number of older persons will reduce the gains from growth and public expenditure increases in terms of living standards in general and poverty reduction in particular.

G. PROSPECTS FOR 2008 – BRIGHTER OUTLOOK DESPITE RISKS

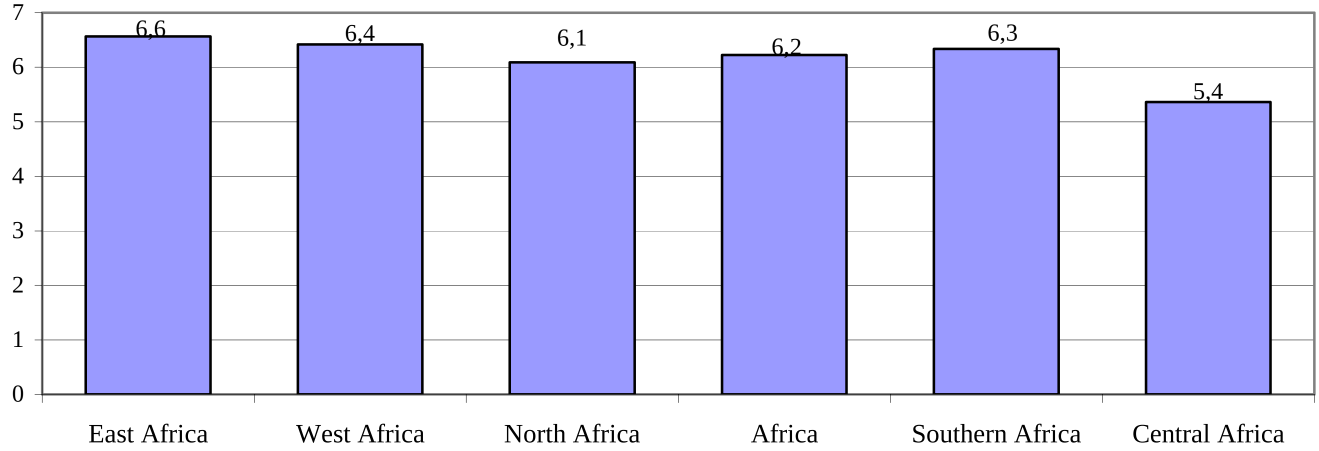
Despite risks, Africa's medium-term outlook remains positive. Real economic growth in Africa is projected to slightly improve to 6.2 per cent in 2008 compared with 5.8 per cent in 2007 (figure 8). East Africa is expected to continue to lead the five regions with a growth rate of 6.6 per cent, followed by West Africa (6.4 per cent), Southern Africa (6.3 per cent), North Africa (6.1 per cent), and Central Africa (5.4 per cent). West Africa is projected to have the largest increase in GDP growth, owing to increased oil production and solid growth in Nigeria. However, it is worth noting that failure to manage post-election violence in Kenya could have adverse effects on growth in East Africa in 2008.

The realization of Africa's projected growth rate will be influenced by the extent to which the slowdown in the US economy will affect the global economy. It is assumed that robust demand for Africa's commodity export and high prices will continue with high growth in Asia and in the absence of a significant drop in growth in Europe. Continued effective macroeconomic management and improving governance and security situation are other factors that contribute to this positive outlook, though many parts of Africa still suffer from conflicts and insecurity.

On the downside, there are many risks to Africa's growth over the medium-term. Any substantial slowdown or adverse adjustments in the global economy might cause demand for Africa's exports to contract. A fall in demand and prices will have negative effects on Africa's growth outlook. Fluctuations in oil prices will have adverse growth impacts on oil-importing countries. The continent also needs to manage risks to growth prospects emanating from unpredictable fluctuations in external capital, especially aid, and currency appreciation that can adversely affect international competitiveness. Unpredictable weather changes and conflicts are additional factors that can influence Africa's growth prospects in 2008.

Over the medium-to-long-term Africa needs to diversify the sources of growth in order to reduce vulnerability to shocks, create descent jobs and accelerate progress towards meeting the MDGs. It is also crucial that Africa introduces effective strategies to combat epidemics such as HIV/AIDS and malaria, and mitigate their economic and social impact.

Figure 8. Projected real GDP growth by region for 2008 (%)



Source: UN-DESA, October 2007.

H. CONCLUSION: KEY ECONOMIC AND SOCIAL ISSUES IN AFRICA

Discussion of recent economic and social developments in Africa highlights a number of important issues that deserve the urgent attention of policy makers and the development community at large. Key current economic and social challenges include:

Accelerating and sustaining growth

The analysis shows that African countries have recorded strong economic performance for the third consecutive year, with an average growth rate of 5.8 per cent. The strong performance is due to a range of factors, including high commodity demand and prices and increased output in key sectors such as agriculture and services. However, growth in Africa remains volatile due to limited economic diversification and investment in social sectors remains low relative to Africa’s social development goals. Among other policy measures, Africa needs to increase investment in infrastructure and human capital development and promote private investment in order to diversify sources of growth and achieve high and stable growth rates.

Maximizing benefits and confronting the challenges of high oil prices

Persistent high oil prices will remain an important challenge to growth and macroeconomic stability in the medium-term. Increased energy cost is constraining investment and growth in many oil-importing African countries that are also confronted with other challenges to macroeconomic stability, including intensifying inflationary pressures, and increasing fiscal and current account deficits. In addition to good macroeconomic management, oil–importing countries will need increased external support to maintain growth and reduce growth volatility. Oil-exporting countries need to manage oil revenues to ensure diversification of the sources of growth and export base and avoid excessive currency appreciation and buildup of reserves.

Translating development financing commitments into action

The evidence on the translation of donor commitments into action in the context of the Monterrey Consensus suggests that substantial progress has been made in the area of external debt relief. In contrast, very limited progress has been made in the other core areas of the Consensus. Monitoring of the commitments made by both African countries and their development partners is essential if the objectives of the Monterrey Consensus are to be realized. African leaders have recognized this and put in place a mechanism to monitor progress in the implementation of their commitments as well as those of their development partners. The recent institutionalization of an African Ministerial Conference on Financing for Development is a bold step by African leaders in this area. It is worth mentioning that at the Tenth African Union Assembly of Heads of State and Government in Addis Ababa, Ethiopia in January 2008, the leaders took a Decision to request African countries to participate fully in the 2008 Review Sessions to the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus scheduled to take place 29 November - 2 December 2008, in Doha, Qatar.

The international community has also put a mechanism in place to monitor donor performance. For example, they have established an African Partnership Forum and an African Progress Panel, both of which will monitor progress in the implementation of key commitments on development finance. Ultimately, the effectiveness of these monitoring mechanisms shall be assessed in terms of how they are able to turn promises made by development partners into deeds. For it is only through the implementation of these commitments that African countries can achieve meaningful results in poverty reduction and lay the foundation for a brighter future for its people.

Translating economic growth into social development

Strong economic performance in Africa in recent years has not translated into meaningful gains in terms of social development. African governments need to increase investments in social sectors, especially education and health, and also to improve the efficiency of social sector expenditures. At the same time, there is a need to increase the gains from growth by better targeting employment creation through broader and more flexible macroeconomic frameworks and sectoral policies.

Policies in favour of socially excluded groups

African governments and partners need to establish strategies to ensure that economic growth benefits socially excluded groups, including women, youth, the aged, and people living with HIV/AIDS. Besides increasing public investment in social services that target these groups, African governments need to consider policies that promote their access to education/training and health facilities, their participation in the labour market, and in general, their human rights. At the same time, development partners need to use their assistance’s programmes to support these objectives. In the longer term, a more inclusive society will help countries remain politically and socially stable and enhance their growth potential.

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