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Overview of the Economic Report on Africa 2006: "Recent economic trends in Africa and prospects for 2006"

Summary

The present report reviews the economic and social conditions in Africa for 2005. It also presents an outlook for medium-term developments and prospects for growth in 2006. Overall, the report finds that economic conditions in the region have improved over the recent period but much more remains to be done to significantly reduce poverty and improve social conditions in Africa. The report concludes with a set of policy recommendations aimed at accelerating and sustaining growth in African countries as a means of creating more employment, reducing poverty and improving social conditions consistent with achieving the Millennium Development Goals.

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I. The global economy

1. Although the world economy slowed down in 2005 relative to 2004 (from 5 to 4.3 per cent), it displayed resilience in the face of the increase in energy prices. The global strong performance was driven by rising domestic demand in the United States, Canada, China and India. That helped to partly offset weaker growth in Japan (2.8 per cent) owing to slow inventory accumulation, the euro zone (1.2 per cent) owing to weak household spending, and the United Kingdom (1.75 per cent), which experienced a deceleration of private and government consumption.[1] Growth in Latin America slowed down relative to 2004 (from 5.8 to 4.2 per cent), owing to lower import demand from China and industrialized economies and stabilization in commodity prices. Growth also decelerated relative to 2004 in transition economies (from 6.7 to 5.3 per cent) and in Asia (from 7 to 6.5 per cent).

2. Many developments witnessed in 2005 in the world economy have important implications for African economies in the short run and medium term. The sustained rise in oil prices will continue to put pressure on energy costs for all the countries and the import bill for oil-importing ones. The rising short-term interest rates driven by monetary policy tightening, especially in the United States, imply higher costs of debt service for countries with high proportions of short-term debt in total foreign liabilities. The macroeconomic imbalances, especially the widening budget and current-account deficits in the United States, will exert further pressure on short-term interest rates. The appreciation of the dollar, due partly to rising interest rates and strong recovery in the United States, will also contribute to increasing import costs and the debt service burden for African countries.

3. The year 2005 was also marked by a number of positive developments in the international community with regard to commitment to support national and regional development efforts in Africa. The global review of the Millennium Development Goals by the General Assembly, the report of the Commission for Africa led by the Prime Minister of the United Kingdom, Tony Blair, and the focus of the 2005 G8 Summit on development financing for Africa are but a few examples of the global reaffirmation of the determination to contribute to acceleration of growth and alleviation of poverty in Africa, notably through higher aid flows and debt alleviation. The emerging consensus is that efforts to increase growth need to be supported by strategies for enhancing efficiency of aid utilization and better targeting of poverty reduction in national development agendas.

II. Overall growth performance in Africa

A. Strong growth performance in 2005

4. In 2005, African economies as a group grew by 5.3 per cent, a slight improvement from 2004 (5.2 per cent), and still much higher than in 2003 (4.3 per cent) (see figure 1).[2] Sub-Saharan Africa grew at the same strong rate as the continent as a whole. On a disaggregated level, as many as 23 countries recorded

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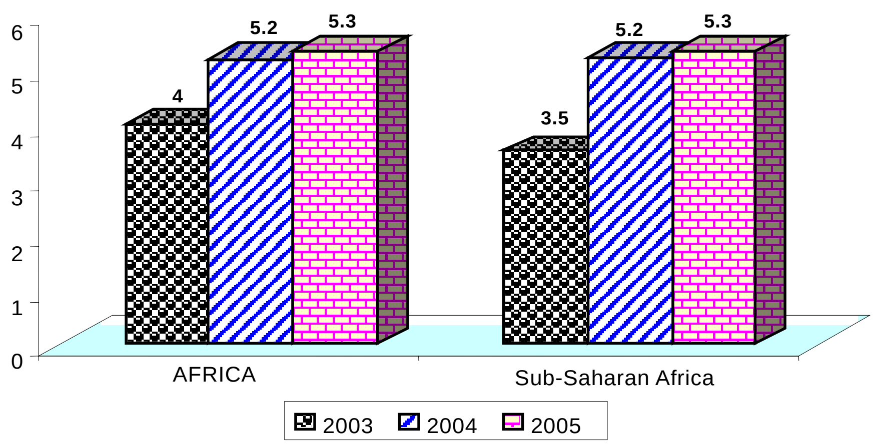
[1] OECD data. Board of Governors of the Federal Reserve System, “Monetary Policy Report to the Congress” (New York, 15 February 2006).

[2] The information presented in the present document is based on data available up to 30 March 2006.

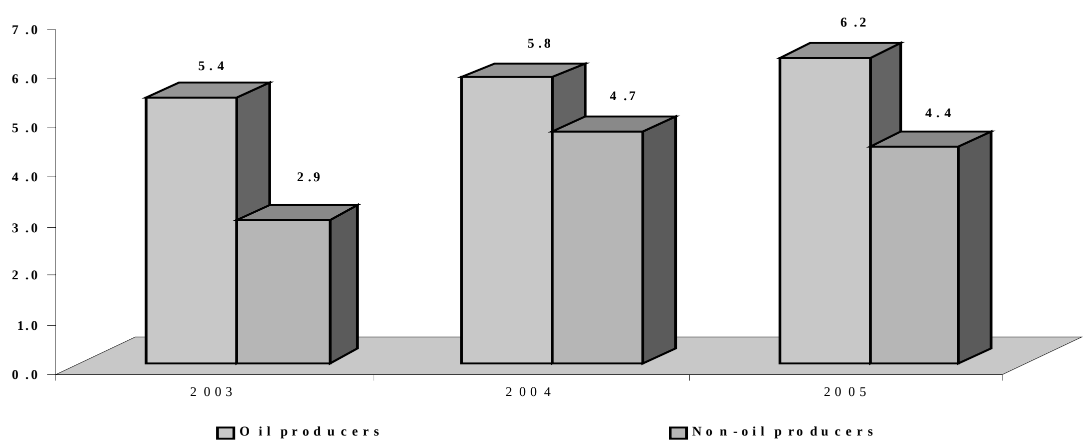
improvements in growth rates in 2005 relative to 2004. However, the strong performance was uneven across the continent. In particular, as a continuation of recent trends, oil-based economies as a group grew by 6.2 per cent in 2005 compared to 4.4 per cent for non-oil economies owing to the higher oil prices and production (see figure 2). It should be noted that for non-oil producers, growth actually fell between 2004 and 2005, the reverse of what was the case for oil exporters. Nevertheless, growth in 2005 was strong for both groups of economies.

Figure 1
Real GDP growth rate in Africa, 2003-2005



Source: Economist Intelligence Unit.

Figure 2
Growth of real GDP in African oil compared to non-oil economies, 2003-2005

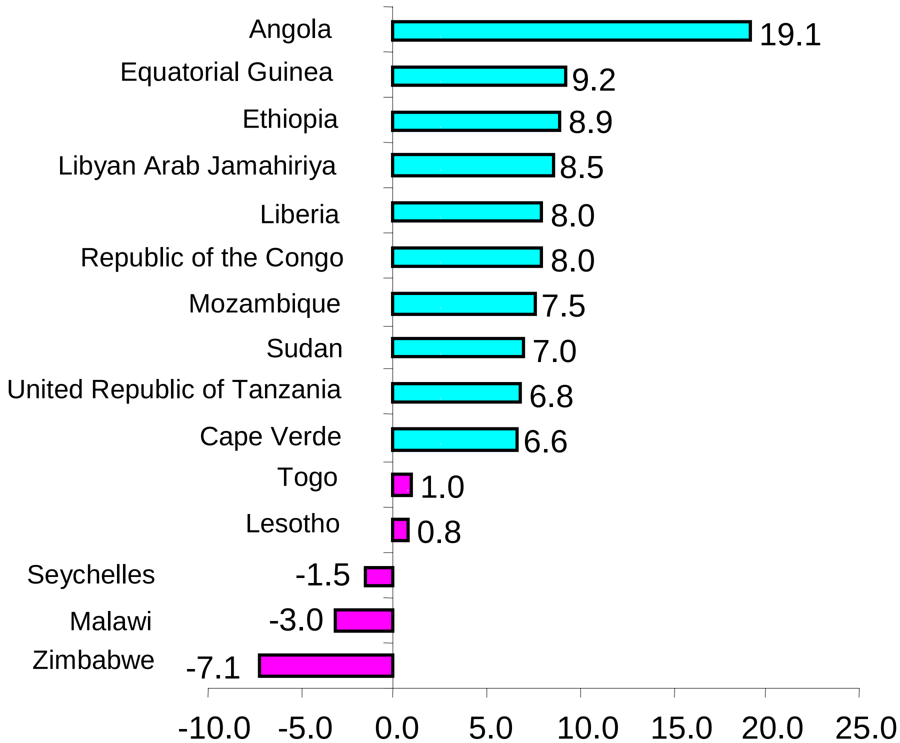


Source: Economist Intelligence Unit.

5. The strong growth performance achieved in 2005, as in recent years, represents a major turnaround from decades of economic decline and stagnation. A key driver of that recovery is the improvement in macroeconomic management in many African countries, which has resulted in controlled inflation rates and consolidation of fiscal balances. Another favourable factor is the increase in international prices of key export commodities for Africa. The total commodity price index increased by an average of about 30 per cent in 2005 relative to 2004, led by crude oil prices, which rose by more than 40 per cent compared to 13 per cent for non-energy commodity prices. Among non-energy commodities, metals and minerals increased by 25.4 per cent while prices of agricultural products, raw materials and fertilizers rose by 7.6, 7.1 and 6.6 per cent, respectively. In contrast, export prices of cotton, tea and cocoa continued to decline owing mainly to global excess supply.

6. In 2005, 8 of the top 10 growth performers achieved the 7 per cent growth rate threshold estimated to reach the Millennium Development Goals: Angola, Equatorial Guinea, Ethiopia, the Libyan Arab Jamahiriya, Liberia, the Republic of the Congo, Mozambique and the Sudan (see figure 3). Half of the high performers are oil-exporting economies, reflecting the impact on export revenues of high oil prices and production. However, it is notable that the other half are non-oil economies: Ethiopia, Liberia, Mozambique, the United Republic of Tanzania and Cape Verde. Zimbabwe, Malawi and Seychelles exhibited the weakest performance in 2005 as in 2004, as a result of continuing instability in Zimbabwe, and adverse effects of the tsunami and weak performance in tourism and tuna exports in Seychelles. The weak performance in Malawi in 2005 was due to lower agricultural production caused by droughts. Slow growth in Togo is attributable to political tension and a decline in phosphate and cotton production.

Figure 3
Top 10 and bottom 5 performers in Africa in 2005 (per cent annual growth)



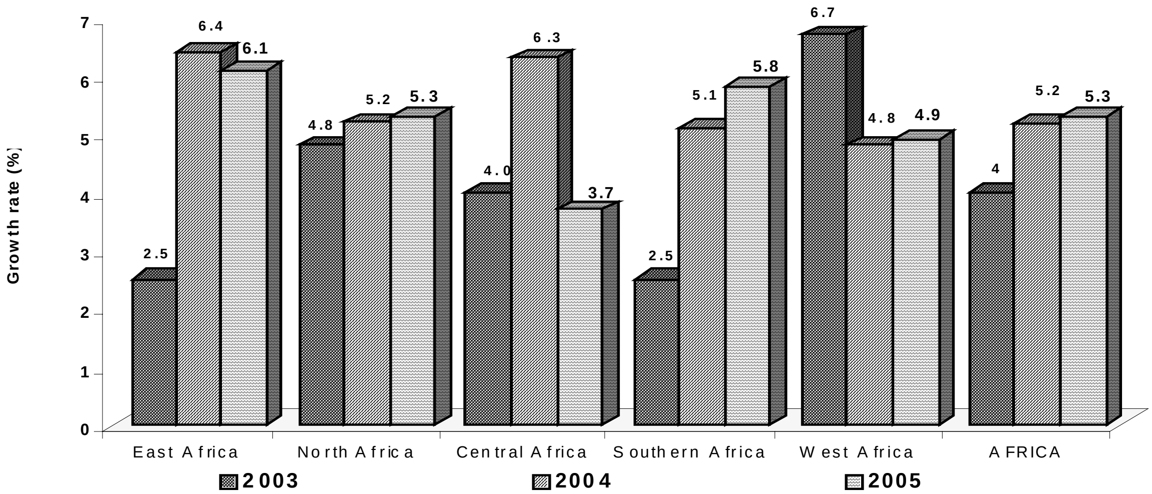
Source: Computed from Economist Intelligence Unit data.

B. Subregional growth performance remains uneven

7. East Africa led the subregional growth performance for the second consecutive year with real GDP growth at 6.1 per cent in 2005 (down from 6.4 per cent in 2004) (see figure 4). In 2005, half of the 12 countries of the subregion (with adequate data) showed improved growth over that of 2004.[3] The top performers in the subregion were Ethiopia (8.9 per cent), the United Republic of Tanzania (6.8 per cent), the Democratic Republic of the Congo (6.5 per cent) and Uganda (5.5 per cent). The economic performance was driven primarily by better performance in agriculture, except for the Comoros, Djibouti and Eritrea. In the Comoros, growth was sustained by donor support while growth in Djibouti was boosted by public and private investments in new port facilities. Eritrea's economic growth was low partly because of droughts that adversely affected agricultural production.

[3] Excluding Somalia, for which there are no adequate data.

Figure 4
Growth by subregion, 2003-2005



Source: Economist Intelligence Unit.

8. Growth in North Africa remained strong in 2005, improving slightly from 5.2 to 5.3 per cent relative to 2004. Growth in the subregion was driven mainly by the strong performance of the oil sector in Algeria, Egypt and the Sudan. However, the subregion suffered from unfavourable weather conditions as well as the end of the Multifibre Agreement on Textile and Clothing on 1 January 2005. Morocco, the only non-oil producer in the subregion, experienced considerable slowdown in real GDP growth from 4.2 per cent in 2004 to 1.8 per cent in 2005 owing to sharp contraction in agricultural output. Likewise, weak export growth of textile impacted negatively on GDP growth in Tunisia, which declined from 6 per cent in 2004 to 4.3 per cent in 2005. Mauritania registered a strong growth of 5.5 per cent in 2005, supported by good performance in the services sector and donor-funded infrastructure investments.

9. Central Africa was the least performing subregion in 2005, with growth declining from 6.3 per cent in 2004 to 3.7 per cent in 2005. Growth decelerated in all the countries in the subregion except for the Central African Republic and Gabon, which recorded moderate improvements (from 1.3 to 2.2 per cent and 1.4 to 2.1 per cent, respectively). Chad and Equatorial Guinea both experienced a marked slowdown, from 29.7 to 5.9 per cent and from 32.9 to 9.2 per cent, respectively, owing to the completion of major investment projects in the oil sector.

10. Growth in southern Africa picked up from 5.1 per cent in 2004 to 5.8 per cent in 2005 owing mainly to higher growth in Angola, Mozambique and South Africa. At 19.1 per cent, Angola was the fastest growing economy in Africa in 2005, thanks to higher oil revenues. South Africa's higher growth is due to higher domestic demand and exports as well as better performance in tourism. Growth in Zambia declined slightly relative to 2004 (from 5.4 to 5.1 per cent) as adverse effects of droughts in the agricultural sector were offset by positive outcomes in other sectors, such as increased copper production. Zimbabwe's economy continued to contract (-7.1 per cent), bringing the real GDP level to 36 per cent below that of 1999.

11. Growth in West Africa improved marginally in 2005 (from 4.8 to 4.9 per cent), marked by a predominance of the tertiary sector.[4] However, at a disaggregated level, substantial increases in growth were registered in a number of countries: Cape Verde (4.4 to 6.6 per cent), Liberia (from 2.4 to 8 per cent), Mali (from 2.2 to 6 per cent) and Niger (from 0 to 4.5 per cent). High GDP growth rates were also recorded in Senegal (6.1 per cent), Sierra Leone (6.3 per cent), Nigeria (6 per cent) and the Gambia (5.0 per cent). Four countries experienced declines in growth: Burkina Faso (4.6 to 3.5 per cent), Côte d'Ivoire (from 1.6 to 1 per cent), Ghana (from 5.8 to 4.3 per cent) and Guinea-Bissau (4.3 to 2.3 per cent).

C. Medium-term trends

12. How have African economies performed in the medium-term recently? Figure 5 presents average growth rates over the 1998-2005 period.[5] Interestingly, half of the top 10 performers in 2005 have also been among the top 10 performers over the past eight years: Angola, Equatorial Guinea, Ethiopia, Mozambique and the Sudan. Seychelles and Zimbabwe are among the weakest performers in 2005 and over the past eight years. The medium-term evidence also indicates that high growth is not restricted to oil-rich countries. Of the top 10 performers 6 are non-oil exporters: Botswana, Ethiopia, Mozambique, Rwanda, Senegal and Uganda. Growth in those countries was driven by the effect of comprehensive and sustained economic reforms as well as political stability in post-conflict countries such as Mozambique, Rwanda and Uganda.

13. The group of least developed countries[6] in Africa has performed particularly well, recording an average growth rate of 5.3 per cent during the 1998-2005 period, higher than the sub-Saharan average (3.6 per cent) and the average for the continent (4 per cent).[7] At a disaggregated level, oil-producing African least developed countries outperformed non-oil producers (7.5 per cent and 4.4 per cent, respectively) while landlocked least developed countries performed worse in terms of growth (3.9 per cent).

[4] See Economic Commission for Africa, West Africa Subregional Office. "Report on economic and social conditions in West Africa in 2005 and Prospects for 2006" (Part I: Economic Conditions).

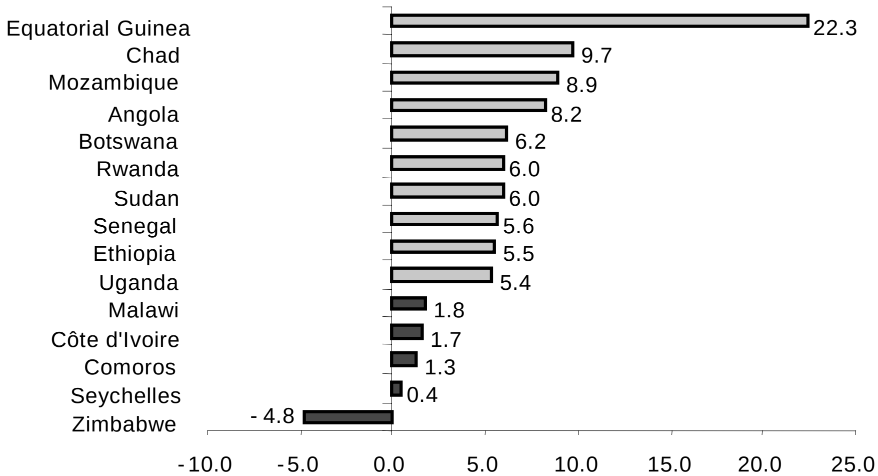
[5] The choice of that period is governed by data consistency.

[6] Of the 53 African countries, 34 are least developed countries.

[7] For further details on progress among African least developed countries, see Economic Commission for Africa, 2006, "Challenges and opportunities for African least developed countries". Progress report on the implementation of the Brussels Programme of Action for African Least Developed Countries, Mid-Term Review 2001-2005 (February), prepared by the Economic and Social Policy Division.

Figure 5

Top 10 and bottom 5 performers in Africa, 1998-2005 (average annual growth in percentage)



Source: Economist Intelligence Unit.

D. The pattern of growth still raises some concerns

Growth rates remain insufficient to reach the Millennium Development Goals

14. Despite recent strong growth, there are concerns about its impact on social development and its sustainability in the medium term. While African countries have achieved higher growth rates than in previous decades, they still fall short of the threshold required to accelerate poverty alleviation and achieve the Millennium Development Goals. On a medium-term basis, only four countries met the 7 per cent growth threshold (see figure 5): Equatorial Guinea, Chad, Angola and Mozambique. That evidence suggests that few African countries have been able, up to now, to sustain sufficiently high economic growth rates required to achieve the Millennium Development Goals.

15. Another important challenge constraining poverty reduction is the high levels of inequality in many African countries.[8] Indeed, empirical evidence suggests that high inequality substantially reduces the rate at which growth is transformed into poverty reduction.[9] Therefore, in addition to strengthening strategies for accelerating growth, achieving broad-based development must remain one of the priorities in debates over national economic policy.

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[8] Inequality manifests itself in various forms: income inequality, asset inequality, and inequality in access to education, health services and labour markets. Moreover, in addition to vertical inequality, evidence continues to show substantial horizontal inequality (e.g., at the regional level) across the continent.

[9] See A. Fosu (2006) "Inequality and the growth-poverty nexus: specification empirics using African data". *Applied Economic Letters*, forthcoming.

Job creation remains a challenge

16. Another disappointing feature of the growth record in Africa is that recent strong growth rates of GDP have not been accompanied by substantial gains in job creation, which raises serious concerns about the continent's ability to achieve meaningful poverty reduction.[10] The first cause of the low employment performance on the continent is the inability to sustain high growth over an extended period. High volatility of GDP growth reduces incentives for job creation in the private sector owing to uncertainty of future profitability. The second cause is that growth rates have not been high enough in many countries to generate enough demand for labour. In addition, in many countries, GDP growth has not kept pace with the growth of the labour force. Indeed the strong average performance at the continental level masks wide disparity across countries, with many countries stuck in a low-growth equilibrium. The third cause of poor employment performance is the shift of economic activity away from agriculture into capital-intensive sectors such as mining and oil production. From 1994 to 2003, 35 out of 51 countries (with adequate data) experienced a decline in the share of agriculture in GDP.[11] That shift of economic activity away from agriculture has been accompanied by little or no increase in productivity in the agricultural sector and very low absorption of labour into the non-agricultural sector, resulting in high underemployment in the rural/agricultural sector.

Saving and investment rates remain low

17. Among the factors explaining the slow growth in many African countries is low domestic investment. Average gross domestic fixed investment for the continent was only 20 per cent in the 2000-2003 period. Domestic investment has not recovered from the decline in the early 1980s and has not responded to economic reforms aimed at macroeconomic stabilization. Out of 46 countries with adequate data, only 9 achieved high investment rates, that is, at least 25 per cent of GDP during 2000-2003 (see figure 6). An important constraint to investment is the high costs of credit owing to high interest rates as well as a general lack of access to credit, especially for medium and small enterprises. The cost of doing business in African economies is also generally perceived as being much higher than in other regions, thus discouraging both domestic and foreign direct investment.[12]

18. Saving rates are also low in most African countries, due mostly to low incomes and inefficiencies in savings mobilization by financial systems. However, low saving rates provide only a partial explanation for the low levels of investment. While saving rates have increased since the mid-1990s, it has not been accompanied by substantial recovery in investment (see figure 7). In addition to the cost of doing business, the causes for the weak linkage between saving and investment in Africa include the inefficient financial markets which make it difficult to optimally allocate capital in the economy.[13]

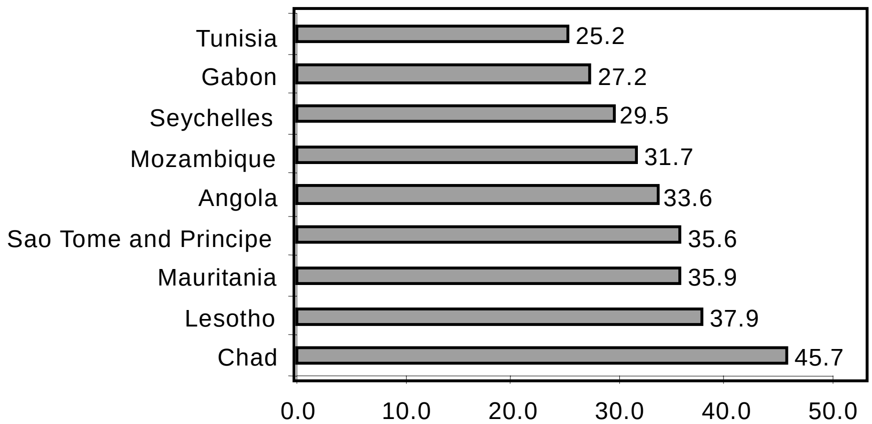
[10] The issues paper provides a detailed discussion of the employment challenge in Africa: ECA (2006): "Meeting the challenge of employment in Africa". Paper prepared for the 39th session of the Commission Conference of African Ministers of Finance, Planning and Economic Development, Ouagadougou, Burkina Faso, 10-14 May 2006.

[11] World Bank, *World Development Indicators* 2005 (CD-ROM edition).

[12] Economic Commission for Africa, Economic Report on Africa 2005 (Addis Ababa, 2005).

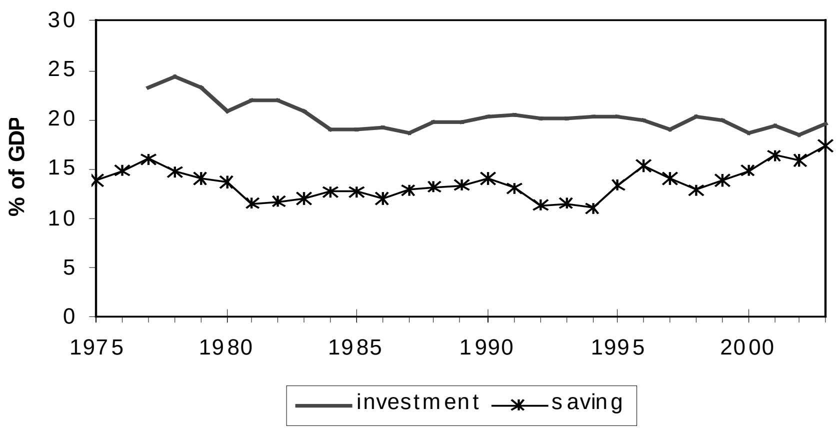
[13] L. Senbet and I. Otchere, "Financial Sector Reforms in Africa. Perspectives on Issues and Policies". Paper presented at the Annual World Bank Conference on Development Economics, Dakar, January 2005.

Figure 6
African countries with at least 25 per cent investment-GDP ratio, 2000-2003



Source: World Development Indicators 2005.

Figure 7
Gross domestic fixed investment and saving (percentage of GDP) in Africa, 1975-2003



Source: World Development Indicators 2005.
Note: This figure represents 26 African countries with adequate data for saving and fixed investment over the period 1975-2003.

E. The case of conflict and post-conflict countries

19. Post-conflict countries face particular challenges arising from the effects of war and the immense financial needs associated with reconstruction. Those countries are faced with the challenge of making myriad policy priorities, from infrastructure and energy to social service delivery and from macroeconomic stabilization to micro-level and regulatory reforms. Nonetheless, many post-conflict countries have recorded high growth rates in recent years, owing primarily to the restoration of peace, but also to government efforts to invest in reconstruction, often

with generous support from the donor community.[14] Countries such as Mozambique, Rwanda and Uganda are good examples of economies achieving strong performance in their post-conflict era.

20. Countries that are still in conflict face even bigger challenges with regard to development, employment creation and poverty reduction. Insecurity in those countries also threatens the economic activity and political stability in neighbouring countries and the region. Efforts at the national, regional and international levels must be initiated and sustained to achieve peaceful settlement of conflicts and also to establish institutional mechanisms of democratic governance as a way of preventing future conflicts.[15]

III. Internal macroeconomic balances continue to improve

A. Improvements in fiscal balance

21. One of the positive features of recent economic growth in Africa is the improvement in the fiscal balance in many countries. The average fiscal position on the continent improved from a deficit of 0.7 per cent of GDP in 2004 to a surplus of 0.7 per cent in 2005. The number of countries with fiscal surpluses increased from 8 in 2004 to 12 in 2005 (see table 1). The continent's improvement in the fiscal position was, however, driven mainly by the sizeable fiscal surpluses recorded by oil producers: the Libyan Arab Jamahiriya (27 per cent of GDP), Equatorial Guinea (20 per cent), the Republic of the Congo (13.7 per cent), Algeria (11.7 per cent), Gabon (11.1 per cent), Cameroon (3.7 per cent) and the Sudan (1.2 per cent). Four non-oil economies also recorded fiscal surpluses: Sao Tome and Principe (44.6 per cent), Seychelles (1.5 per cent), Lesotho (0.5 per cent) and Kenya (0.3 per cent).

22. Nevertheless, fiscal imbalances remain a critical problem in a large number of African countries. As many as 28 countries recorded fiscal deficits in 2005 compared to 32 in 2004. Moreover, many countries still depend heavily on official development aid (ODA) to finance their budgets,[16] which raises concerns with regard to sustainability of development programmes. Therefore, fiscal consolidation, including strategies for increasing domestic revenue mobilization, must remain high on the agenda for economic reforms on the continent.

[14] A. K. Fosu and P. Collier, eds. *Post-Conflict Economies in Africa* (New York, Palgrave Macmillan, 2005).

[15] A. K. Fosu, "Post-conflict economies in Africa: Synthesis and lessons", in Fosu and Collier, op cit.

[16] For country-level evidence, see the discussion of the case of Uganda by L. Ndikumana and J. Nannyonjo (2005), "Fiscal policy and post-conflict state building: lessons from Uganda". Prepared for the Public Finance in Post-Conflict State Building project of the New York University's Center on International Cooperation.

Table 1
Distribution of fiscal deficits in Africa, 2004 and 2005 (number of countries)

	2004	*2005*
Countries with surpluses	**8**	**12**
Less than 5 per cent	3	6
5 per cent to 10 per cent	3	0
More than 10 per cent	2	6
Countries with deficits	**32**	**28**
Less than 5 per cent	23	19
5 per cent to 10 per cent	8	8
More than 10 per cent	1	1
Total number of countries	**40**	**40**

Source: Economist Intelligence Unit.

B. Inflation remained contained in single digits in most countries

23. In 2005, the inflation outlook remained satisfactory with a majority of countries recording single-digit inflation rates (see table 2). After declining from 10.4 to 7.8 per cent between 2003 and 2004, the mean inflation for the continent increased slightly to 8.2 per cent in 2005. The number of countries experiencing high inflation, that is, above 10 per cent, declined from 16 in 2004 to 14 in 2005. Nonetheless, inflation increased in 30 out of 51 countries, including 8 of the 13 oil-producing countries: Cameroon, Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Gabon, the Libyan Arab Jamahiriya and Nigeria. Inflation remained high in Angola at 22 per cent, but that represented a major improvement from 2004 (43.6 per cent) and a gigantic achievement from the triple-digit inflation rates experienced until 2002. Burundi and the Democratic Republic of the Congo, however, experienced spikes in inflation (from 8 to 16.3 per cent and from 3.9 to 23 per cent, respectively) owing, among other factors, to major droughts in Burundi and supply-side bottlenecks, a legacy of the civil war in the Democratic Republic of the Congo.

Table 2
Distribution of inflation rates in Africa, 2003-2005 (number of countries)

Range	*2003*	*2004*	*2005*
Less than 5 per cent	23	28	24
Between 5 and ten per cent (10 per cent excluded)	15	6	13
Between 10 and 20 per cent (20 per cent excluded)	8	14	10
20 per cent and higher	5	3	4
Total number of countries	**51**	**51**	**51**

Source: IMF, 2005. World Economic and Financial Surveys, World Economic Outlook Database, September 2005.

IV. External balances also improved

A. Developments in the balance of payments

24. Despite the increasing downward pressure from the trade deficit in services, the continent's trade surplus (goods and services combined) has increased since 2003, mainly because of rising international oil prices coupled with expansion in crude oil production. Africa's trade surplus increased to $27.7 billion in 2005 from $12.7 billion in the previous year as a result of a 45 per cent increase in the region's oil trade surplus (IMF 2005). Strong performance in merchandise trade and net current transfers resulted in a current-account surplus for the second consecutive year. Out of the 37 non-oil economies with adequate data, however, only 9 experienced an improvement in their current-account balance from 2004 to 2005, suggesting the importance of oil revenues as a dominant explanatory factor in the improvement.

B. External debt

25. Africa's total external debt stock stood at $285.8 billion in 2005. Although, debt-service payments fell from $32.8 billion in 1997 to $23.1 billion in 2002, they have risen again to $31.8 billion in 2005.

26. To alleviate the burden of debt-service obligations for the continent, the G8, at its Summit in Gleneagles in 2005, committed to cancel the debt of 14 African countries that had already reached the heavily indebted poor countries completion point. They are Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, the United Republic of Tanzania, Uganda and Zambia. Those countries are expected to start benefiting from complete debt cancellation beginning early in 2006, which should improve their debt position in the coming years. However, while those measures are a step in the right direction, they are insufficient to meet the development financing needs of African countries. Many low- and middle-income countries are not beneficiaries of the multilateral debt relief initiative. The debt owed by the sub-Saharan African countries that qualify for debt write-offs under the multilateral debt relief initiative represents only 25 per cent of the sub-continent's debt stock. Nor does the debt cancellation take into account domestic debt, which is substantial for many of those countries.

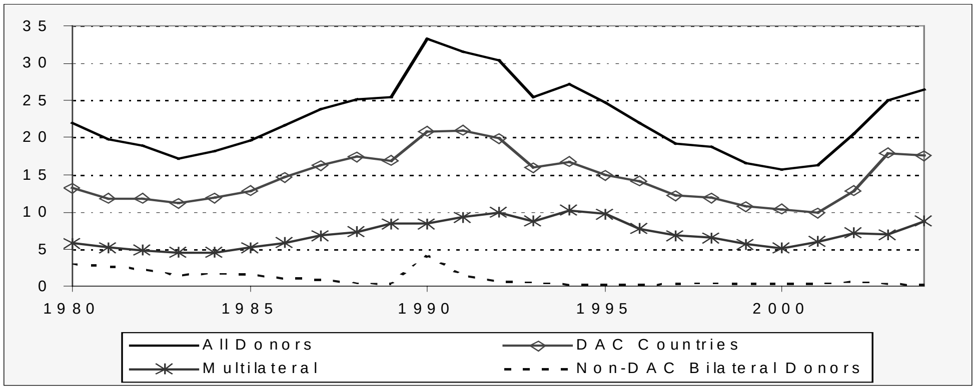
C. Official development assistance

27. Total official development assistance (ODA) to Africa continues its recovery from the long decline experienced between 1990 and 2001 (see figure 8). In 2004 ODA from all development partners stood at $26.5 billion compared to $16.2 billion in 2001 (in constant 2000 dollars). However, total aid to Africa has not yet reached the historical peak achieved in 1990 at $33.3 billion.

28. The increase in aid since 2001 came from the Development Assistance Committee (DAC) as well as multilateral donors. However, the rise in aid from 2003 to 2004 derived mostly from multilateral organizations, notably the World Bank, the African Development Bank and United Nations agencies (WFP, UNICEF and

UNHCR). That group contributed $2.3 billion (in nominal value) to the aid increase in 2003-2004 while DAC donors disbursed a meagre $150 million and non-DAC bilateral donors have actually reduced aid to Africa for three consecutive years.

Figure 8
Official development aid to Africa (constant 2000 US$ billion)



Source: OECD 2005, International Development Statistics online databases.

D. Foreign direct investment

29. During 2002-2004, Africa received a little over 2 per cent of foreign direct investment (FDI) inflows in the world and less than 10 per cent of flows to developing economies. In 2004, FDI to Africa stood at $18.1 billion, unchanged from 2003. The distribution of FDI flows was uneven across subregions, with North Africa receiving about 30 per cent of the total compared to 10 per cent for East Africa. However, East Africa saw the largest increase in FDI (54.1 per cent), while southern Africa recorded a decline of more than 31.5 per cent in FDI from 2003 to 2004. Natural resource-rich countries continued to dominate in FDI inflows, with oil exporters capturing over 65 per cent of the annual FDI inflows to the region between 2002 and 2004.

30. The heavy concentration of FDI in extractive industries raises concerns with regard to the impact on employment and poverty reduction as well as potential adverse effects on the environment. Given that production technology in those sectors is highly capital intensive, investment is generally accompanied by little job creation. Moreover, production in those sectors carries insufficient spillover effects on the rest of the economy as output is exported with little value added. Investments in extractive industries, especially oil, also tend to create environmental hazards with detrimental effects on the well-being of local populations. Those adverse effects on the economy, the environment and society need to be addressed by appropriate regulation.

E. Exchange rates remained stable in 2005

31. Most African currencies remained stable in 2005. In particular, the CFA franc was especially stable in 2005 with an appreciation of only 0.3 per cent against the United States dollar. Of the 28 African currencies that appreciated, it was only the

Egyptian pound that experienced an appreciation of more than 5 per cent, owing to strong foreign exchange inflows.

V. Slow progress in social development

A. Human development record is still low

32. Despite the recent robust GDP growth performance and improvements in macroeconomic balances in many African countries, the continent has registered slow progress in the fight against poverty, illiteracy, endemic diseases, gender inequality, and other social problems. While the developing world in general has made significant progress towards achieving the Millennium Development Goals over the past decade, most African countries are still lagging behind in both investments and outcomes in key areas of social and economic development.[17] Unfortunately, sub-Saharan Africa is the only region in the developing world where the poverty headcount has increased since 1980.[18] In the 2005 *Human Development Report*, 30 of the 32 countries classified in the "low human development" category are from sub-Saharan Africa (UNDP 2005).

33. Nevertheless, the majority of African countries actually experienced an increase in their human development index (HDI)[19] between 1995 and 2003, with 16 countries registering declines. Figure 9 shows the top 10 countries with the greatest improvements and those with the largest declines in HDI. Note that six of the top performers in human development also rank among the top performers in medium-term growth as indicated in figure 5 (Equatorial Guinea, Ethiopia, Mozambique, Rwanda, the Sudan and Uganda). Top performers in human development include post-conflict countries as well, which also posted high growth rates in the past years: Rwanda, Uganda and Mozambique. The decline in HDI in southern African countries as shown in figure 9 can be attributed to the worsening health situation owing to HIV/AIDS.[20]

34. An important cause of the slow progress in human development is the fact that growth has not been accompanied by significant job creation. The concentration of growth in capital-intensive sectors, such as oil and mining, and the shift away from agriculture without absorption of the displaced labour have contributed to job losses, thus the worsening of living standards.

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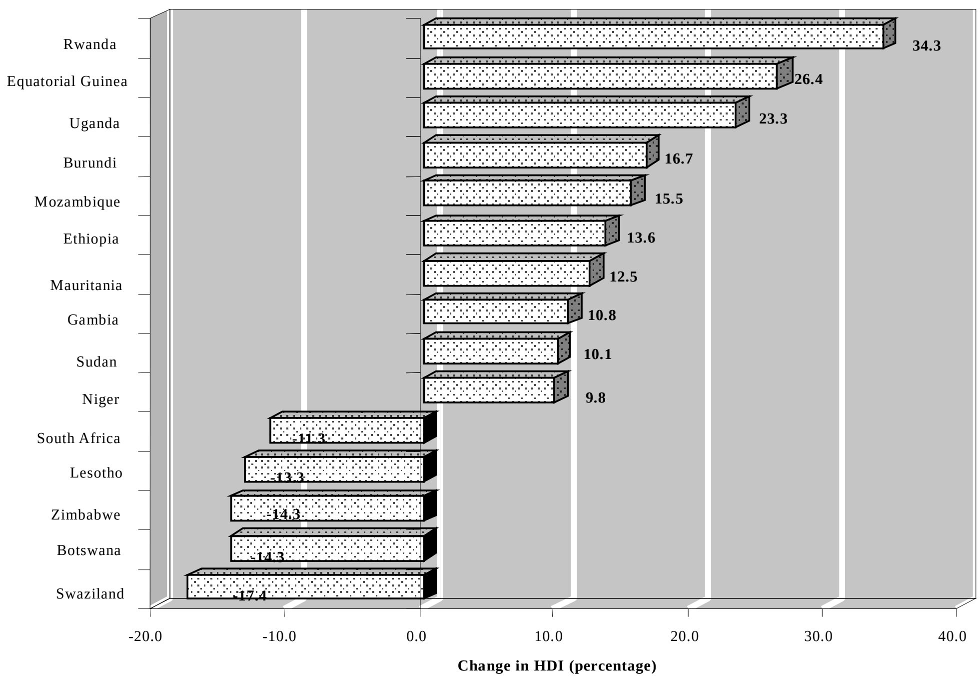
[17] Economic Commission for Africa, *The Millennium Development Goals in Africa: Progress and Challenges* (Addis Ababa, 2005).

[18] ECA (2005). *Economic Report on Africa 2005*.

[19] The Human Development Index measures a country's achievements in three aspects of human development: longevity, knowledge and a decent standard of living. Longevity is measured by life expectancy at birth; knowledge is measured by a combination of the adult literacy rate and the combined gross primary, secondary and tertiary enrolment ratio; and standard of living, as measured by GDP per capita.

[20] In 2003, southern African countries exhibiting high HIV/AIDS prevalence rates were: Botswana (37.3 per cent), Lesotho (28.9 per cent), South Africa (21.5 per cent) and Swaziland (38.8 per cent).

Figure 9
Top 10 and bottom 5 performers in human development (change in HDI between 1995 and 2003 in percentage)



Source: UNDP, *Human Development Report* 2005.

35. The performance in social development on the continent, however, exhibits significant disparities across countries. While many countries are experiencing worsening social conditions, several have made progress towards meeting the Millennium Development Goals.[21] That is illustrated by progress in various dimensions of social development, such as higher access to clean water and sanitation, increase in literacy, reduction in maternal and child mortality, and overall improvement in life expectancy. For example, out of the 51 countries with adequate data, child mortality declined in 34, stagnated in 9 and increased in 8 countries. Nonetheless, all African countries still need to increase efforts to accelerate progress towards achieving the Millennium Development Goals.

B. Progress in closing the gender gap is still not enough

36. In addition, African countries face the critical issue of pervasive gender inequality in basic rights, access to productive resources and economic opportunities, and lack of political voice. The international development community has come to the realization that the issue of gender inequality can no longer be relegated to the domain of advocacy, but must occupy the centre stage in the

[21] ECA, *Annual Economic Report on Africa 2005.*

economic development policy discourse.[22] The focus on gender inequality is illustrated by the large and growing number of national and international declarations and conventions on the issue. However, actual implementation of those instruments remains weak, perhaps because of the lack of effective institutional backing.

37. There are important reasons why policymakers in Africa should care about gender inequality and seek ways to eliminate it. One overriding reason is that while gender inequality harms women primarily, it also imposes heavy costs on society as a whole. A comprehensive study by the World Bank[22] concluded that "while disparities in basic rights; in schooling, credit and jobs; or in the ability to participate in public life take their direct toll on women and girls, the full costs of gender inequality ultimately harm everyone".

38. Throughout the continent, there are visible gains in closing the gender gap, especially in education over the past decades. Enrolment rates of girls in elementary and secondary schools have increased substantially, and often faster than those of boys (see table 4). The gender gap in school enrolment is closing progressively, as illustrated in the increase in the ratio of female to male enrolment primary school completion rates.

39. It is also clear that some countries still exhibit massive gender gaps in education regardless of the progress achieved over the past years. Women, especially, are still lagging behind in higher education, with only a few countries reaching gender parity in recent years (see figure 10).

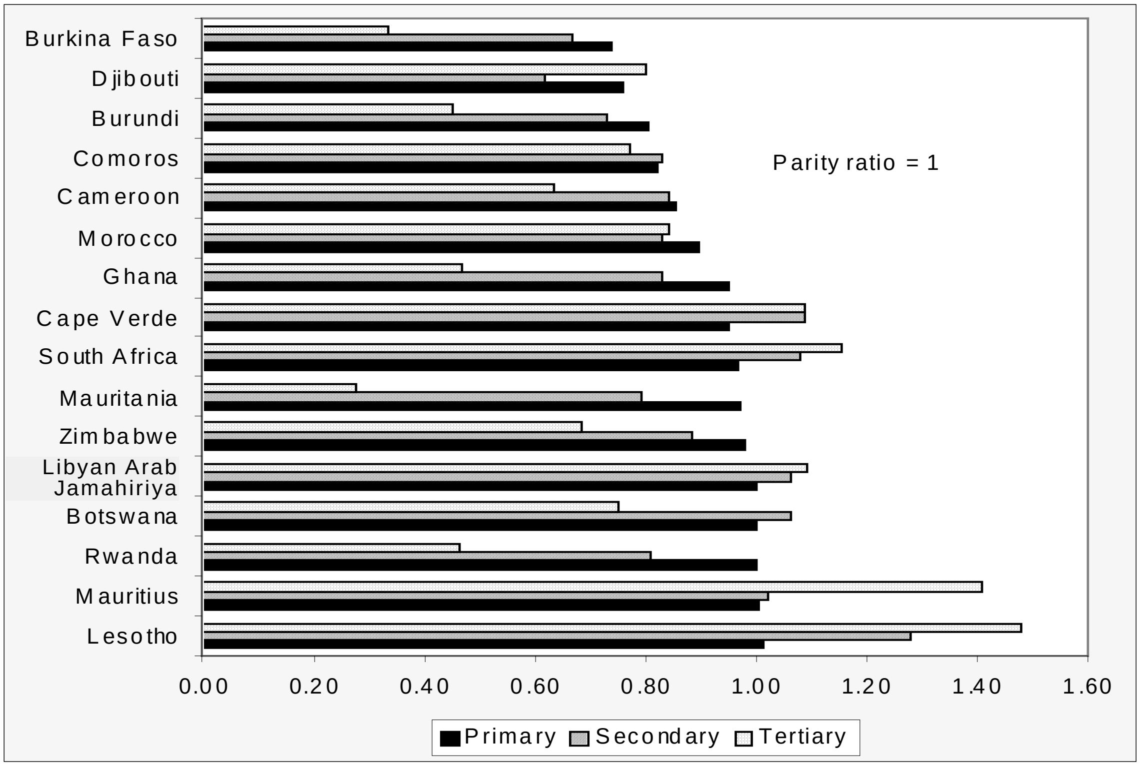
[22] World Bank, *Engendering Development through Gender Equality in Rights, Resources, and Voice*. Washington, D.C., World Bank, 2001.

Table 3
Gender gap in education, 1990-2002

	Ratio of girls to boys in primary school		*Ratio of young literate females to males (% of age 14-25)*		*Ratio of female to male primary completion rate*	
	2002	*% change 1990-2002*	*2002*	*% change 1990-2002*	*2002*	*% change 1990-2002*
Algeria	98.6	18.3	91.1	15.1	0.99	16.3
Burundi	79.4	-2.9	96.9	26.3	0.72	-16.0
Chad	58.8	41.9	84.4	30.7	0.47	108.4
Comoros	82.2	15.7	79.5	2.2	0.89	n.a.
Djibouti	71.2	1.7	91.2	16.7	0.84	n.a.
Ethiopia	n.a.	n.a.	82.1	24.3	0.54	n.a.
Ghana	91.0	18.5	95.7	11.9	1.05	38.7
Madagascar	n.a.	n.a.	92.5	8.1	1.03	-0.4
Malawi	92.5	14.7	76.7	13.5	0.96	23.6
Mali	71.3	22.5	n.a.	n.a.	0.64	-0.7
Mauritania	93.8	38.9	72.7	12.0	0.90	38.1
Morocco	87.8	25.2	79.2	28.2	0.89	30.8
Mozambique	79.0	8.2	64.3	34.2	0.67	3.0
Niger	69.0	24.0	44.4	18.8	0.71	25.3
Rwanda	94.8	-1.6	96.9	12.1	0.95	-5.3
Senegal	87.1	27.2	72.5	20.1	0.81	n.a.
South Africa	100.4	-2.7	100.0	0.2	1.06	n.a.
Sudan	85.8	10.9	88.5	23.7	0.85	4.5
Swaziland	94.4	-2.1	101.8	0.9	1.05	-3.3
Uganda	96.3	24.7	85.7	13.1	0.86	n.a.
Zimbabwe	95.4	-0.7	97.3	2.9	0.94	0.0

Source: *World Bank African Database* and *World Development Indicators, World Bank*, 2005 (CD-ROM).

Figure 10
Gender gap in enrolment (female/male ratio) in 2002



Source: World Bank, World Development Indicators 2005.
Note: The figure includes only countries with adequate data.

VI. Medium-term growth and development prospects for 2006

40. Africa is expected to continue with the strong growth performance posted over the past two years. The growth rate is projected at 5.8 per cent in 2006, with 34 countries posting higher growth than in 2005 (including slower contraction in Zimbabwe and Seychelles). Growth performance will be driven by several factors, which are discussed below.

A. Favourable factors for growth

Oil export revenues are expected to remain high

41. Oil-rich countries are expected to benefit from continued strong performance in exports, thanks to high international oil prices. However, the gains from the oil boom accruing to oil economies will be counterbalanced by the adverse effects of higher energy costs on growth among non-oil economies.

Global demand will support higher exports

42. Global demand for African products is expected to remain upbeat owing to economic recovery in major industrial countries. While growth in the euro area is expected to be moderate, the United States and emerging Asian economies, led by China, are likely to experience substantial growth in the coming two years.[23]

Delivery of promised new aid and debt relief will boost domestic expenditure

43. Delivery of the promised aid and debt relief will allow African countries to boost expenditures in key sectors, including infrastructure and social services. Higher investments in public infrastructure are critical to improving the investment climate through lower production costs. Improved conditions will boost private investment, which will lead to increased economic growth rates.

Better macroeconomic fundamentals will serve to contain long-term inflation expectations

44. Success in consolidating macroeconomic management will help not only in containing inflation in the short run, but also in containing long-term inflation expectations. That will in turn help in maintaining low long-term interest rates, thus reducing the cost of long-term borrowing for the government and the private sector. Containing long-term inflation expectations is also necessary to minimize lasting effects of short-term shocks to the price level, such as those arising from energy price hikes.

Improved political stability

45. Some countries, such as Burundi, the Democratic Republic of the Congo, Liberia and Sierra Leone, are expected to benefit from improvements in political stability. Consolidation of political stability will necessitate support from the international community both financially and politically. The dividends from such support are high in terms of economic recovery and peacebuilding, at the country and regional levels.

B. Constraints to medium-term growth

The rise in world interest rates will increase the cost of debt servicing

46. To contain inflationary pressures, the United States and other major industrial countries will likely pursue their “prudent” tightening of monetary policy by raising short-term interest rates (Federal Reserve Board 2005). Higher world interest rates will raise the cost of external debt service for African countries, which will dampen growth.

Droughts remain a major threat to agricultural production

47. Agricultural production is expected to be severely affected by climatic shocks, including droughts (especially in Burundi, Rwanda and Kenya), floods, and desertification (in the Sahel region).

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[23] Board of Governors of the Federal Reserve System, “Monetary Policy Report to the Congress” (New York, 15 February 2006).

HIV/AIDS pandemic remains a threat to labour supply and labour productivity

48. Economic growth in many countries will be compromised by the increasing spread of the HIV/AIDS pandemic, which undermines labour supply and labour productivity.

Insufficient economic diversification remains an important source of vulnerability to shocks

49. Lack of diversification of the production and export base constitutes an important source of potential instability and vulnerability to shocks. Oil economies are particularly vulnerable to swings in international prices. Competitive pressure from emerging economies, such as China and India, is an important constraint to manufacturing sector growth, especially in the textile industry.

Inefficient infrastructure remains a constraint to private sector growth and economic diversification

50. Lack of efficient infrastructure undermines productivity and international competitiveness, which ultimately slows down economic growth.

VII. Conclusion and policy recommendations

51. The evidence surveyed in the present paper calls for a number of policy recommendations, including the following:

Consolidating macroeconomic management

52. At the macroeconomic policy level, African countries need to continue to pursue fiscal discipline and prudent monetary policy to consolidate macroeconomic stability. Efficient macroeconomic management will, among other gains, reduce inflation expectations, which will minimize long-term effects of supply shocks, such as oil price increases.

Promoting economic diversification

53. The concentration of growth in natural resource sectors exposes African countries to terms of trade shocks. Efforts must be undertaken to promote new investments in manufacturing and service sectors to reduce the vulnerability of African countries to those types of shocks and dependency on commodity exports.

Alleviating energy and public infrastructure bottlenecks

54. The provision of public infrastructure and reliable energy sources is essential for unlocking the potential of the private sector and increasing access to social services and markets for the poor; it is therefore an important element of the poverty eradication agenda. Improvement of the stock of infrastructure must then rise at the level of a national priority in the effort to increase economic growth in the medium term.

Achieving greater gender equity

55. Efforts to increase gender equity in basic rights, access to productive resources and economic opportunities, and political voice must be supported and intensified at the national, regional and international levels.

Intensifying efforts at regional integration

56. Efforts at regional integration need to be intensified as a means of expanding trade opportunities and increasing the continent's leverage in world trade negotiations.

Addressing climate shocks

57. African countries need to seriously invest in strategies for climate risk management in order to increase their preparedness in handling climate shocks.

Curbing the spread of the HIV/AIDS pandemic

58. Public investments in preventive and educational programmes to fight the spread of the disease will help to curb the trend of the epidemic while at the same time creating jobs for those who will be employed in those programmes.

Emphasizing job creation as a means of accelerating poverty eradication

59. In addition to raising the overall rates of economic growth, African countries need to design strategies for increasing the employment gains from growth. That will require both higher public investments in labour-intensive infrastructure and service delivery programmes as well as providing incentives to the private sector to increase overall labour intensity of production.