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Overview of Economic and Social Conditions in Africa in 2008

Table of contents

Page

A. Introduction 1

B. Developments in the global economy 1

C. Overall economic performance in Africa 3

- Africa's economic growth rate down in 2008 3
- Growth performance continues to vary considerably across subregions and countries 4

D. Macroeconomic imbalances largely driven by commodity shocks 6

- Growing fiscal deficits in oil-importing countries 6
- Africa experienced high inflation rates in 2008 7

E. External imbalances worsened in most African countries in 2008 8

- Developments in the balance of payments 8
- Exchange rate volatility up in 2008 9
- Harnessing internal and external resources essential to enable Africa to boost growth 11

F. Trends in social development 12

- Poverty and unemployment 12
- Education: remarkable increases in primary school enrolment rates 13
- Health: mixed progress in combating HIV/AIDS and other epidemics and reducing infant, child and maternal mortality rates 14

G. Growth prospects for 2009 darken as the global recession deepens 16

H. Conclusions and key policy issues 17

References 19

A. Introduction

1. Economic performance in Africa declined in 2008 and is projected to slow steeply in 2009. Africa's economic downturn is spurred by the financial turmoil that originated in the United States and affected most countries of the world. For the continent as a whole, despite this decline, fiscal and current account balances have improved, and domestic savings and investment rates increased, mainly as a result of high commodity prices in the first half of 2008. However, Africa's average inflation rate rose significantly, threatening macroeconomic stability and food security in many countries. Also, economic performance, driven mainly by revenues from oil and mineral exports in resource-rich countries, conceals considerable variation across countries and remains insufficient for Africa to meet the millennium development goals (MDGs).

2. The continent needs short-term measures to mitigate the economic and social impact of the global downturn as well as long-term measures to accelerate and sustain broad-based growth and reduce vulnerability to external shocks. While food prices are generally declining, they remain above historical levels in some countries and many African countries, still face the challenge of mounting food shortages due to production constraints and inadequate emergency planning and assistance. In addition to falling commodity prices, slowing official and private capital inflows threaten the recent achievements made by many African countries in terms of sound macroeconomic and public expenditure management and progress towards meeting the MDGs.

B. Developments in the global economy

3. In 2008, the bursting of the United States housing bubble quickly spread its effects to the rest of the world through the global financial network. The credit crunch that ensued made banks less willing to lend to each other and to consumers, drying up liquidity in the process, while risk perceptions started to rise sharply. The destruction of trillions of dollars in wealth has dragged down household spending on durable goods as well as corporate investments (United Nations 2009).

4. World growth declined from 3.7 per cent in 2007 to 2.5 per cent in 2008, and a global recession is expected for 2009, with substantive negative growth rates in industrialized countries. The United States economy has been in recession since the end of 2007. In the euro area, Japan and the United Kingdom, gross domestic product (GDP) is expected to decline by more than 4 per cent in 2009. The situation in which all major industrialized countries are expected to slide into recession at the same time is unprecedented (IMF 2009a).

5. All developing regions have been affected by the crisis, with growth already slowing down in 2008. For 2009, a further slowdown is expected, driven by a decline in both foreign and domestic demand. For most developing regions, especially Asia, significant GDP growth is expected for 2009, but growth projections have been constantly revised downward since the beginning of 2009, and some countries such as Mexico and Russia are expected to experience a fall in GDP (IMF 2009a). It is worth noting that economic developments in the first quarter of 2009 and the uncertainty about the size and effectiveness of the various rescue packages make

projections highly uncertain. There is a considerable downside risk, with a more severe global economic recession and a greater decline in GDP growth possible in most regions.

6. The financial crisis and world recession will have significant effects on current account and fiscal balances. Japan and developing Asia, including China, have experienced a decline in current account surpluses in 2008, while Latin America has moved from a small surplus to a small deficit. Middle Eastern countries have also seen a decline in current account surpluses due to falling oil prices. Africa is one of the few regions where the current account surplus increased significantly in 2008, albeit from a low level. The fiscal balance deteriorated in industrialized countries as a whole and in all major economies and regions. This was mainly driven by lower revenues stemming from the slowdown in growth and higher expenditure resulting from efforts to mitigate the economic and social effects of the financial crisis (United Nations 2009).

7. Commodity prices stabilized after a rapid decline in the second half of 2008. Prices of both food and minerals had reached long-term peaks by mid-2008. The commodity price boom ended in mid-2008 as supply began to respond to the extremely high prices and demand fell with the slowdown in the world economy. By the end of 2008, most commodity prices had lost all their gains recorded during the boom although some prices started to pick up a little at the beginning of 2009. Oil prices have broadly stabilized and are expected to rise slowly in 2010.

8. Average world inflation increased from 3.5 per cent in 2007 to around 6 per cent in mid-2008, the highest rise since the late 1990s. However, as world demand declined in the wake of the financial crisis, most commodity prices also declined, easing global inflationary pressures. Accordingly, and as a result of rising unemployment and contained wage increases, inflation rates for 2009 are expected to fall back to 2007 levels in most regions. This has prompted most industrialized countries to ease monetary policies, with zero or close to zero interest rates in the United States, Japan and the United Kingdom (ECB 2009).

9. Global trade, foreign direct investment (FDI) and remittances continued to grow in 2008, but will also be adversely affected by the recession in 2009. Growth in world trade slowed in 2008 owing to slowing demand in members of the organization for economic cooperation and development (OECD) and mounting difficulties in obtaining trade credit. In the fourth quarter of 2008, world trade declined by 6 per cent quarter on quarter, and a further contraction is expected for 2009. Fiscal expansion induced by stimulus packages, mainly implemented by rich countries, is likely to have a relatively low impact on foreign trade; the packages are designed to stimulate domestic demand, including public expenditure on infrastructure and basic services. Another factor contributing to the expected fall in trade is the observed tendency towards protectionism in some countries in the form of tariff increases, non-tariff barriers and subsidies (ECB 2009, World Bank 2009a).

C. Overall economic performance in Africa

Africa's economic growth rate down in 2008

10. Economic growth in Africa in 2008 was 5.1 per cent, down from 6 per cent in 2007 (figure 1). The main driver of growth in Africa was the rise in commodity prices, especially oil. Oil-exporting African countries contributed 61.4 per cent of the overall growth of the continent and grew at 5.9 per cent, compared to 4.4 per cent for the non-oil countries. In addition to the robust effect of high commodity prices, it is important to underscore the other key factors, especially good macroeconomic policies and institutional reforms, underpinning high growth performance in Africa in recent years. In many African countries, the adoption of sound and sustained macroeconomic policy has helped boost the confidence of both domestic and foreign investors and stimulate growth.

11. Moreover, by strengthening economic and corporate governance, including measures to combat corruption, undertaking reforms to improve the business environment and consolidating peace in many conflict areas, the continent has attracted significant private capital inflows and stimulated private-sector development. Doing business has become easier in Africa as many countries have implemented many reforms in recent years. For example, in 2007 and 2008, 28 economies implemented 58 reforms, as against 24 economies and 49 reforms in the year before. The pace of reforms is gathering momentum, with a 70 per cent rise in the number of countries reforming between 2005 and 2008. Consequently, in 2008 Africa's regional ranking on the pace of reform improved to third place after Europe and Central Asia, up from fifth place in 2007. Three African countries (Senegal, Burkina Faso and Botswana) were among the top 10 business reformers in 2007 and 2008 (World Bank 2009b).

12. Finally, increased donor assistance and debt relief have helped many countries free resources for investment in infrastructure, human capital development and poverty reduction. As a result, many low-income African countries have begun to diversify their production base, improve trade capacity and increase productivity as well as exports. In terms of volume, Africa's exports of goods and services increased by 13 per cent between 2006 and 2008, while imports increased by 6.6 per cent over the same period. However, the continent's terms of trade increased by only 1.4 per cent annually during this period.

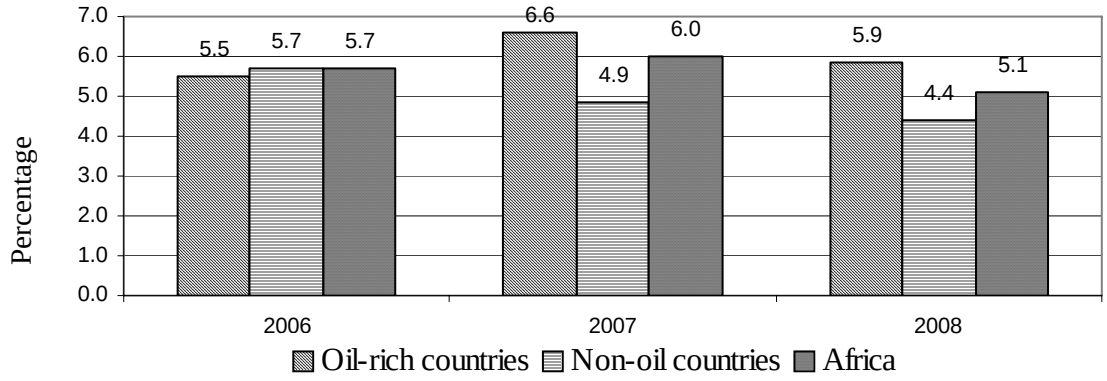
13. The role played by high commodity prices, political stability and sound macroeconomic policies in Africa's growth performance in 2008 was reflected in how individual countries performed. Although 8 of the top 10 performers are mineral-rich or oil-exporting countries and one country (Liberia) is a post-conflict case, improved macroeconomic management characterizes many of the high-performing economies.[1] On the other hand, all the worst-performing countries (the Comoros, Chad, Eritrea, Guinea, Somalia and Zimbabwe) have

[1] The top-performing African countries in 2008 were Angola (12.9 per cent), Equatorial Guinea (9 per cent), Liberia and Ethiopia (8 per cent each), the Congo (7.8 per cent), the Democratic Republic of the Congo (7.2 per cent), the United Republic of Tanzania (6.8 per cent), Malawi (96.6 per cent) and Egypt and Botswana (6.5 per cent each).

experienced either severe political instability or external shocks or both. Diversification of production and exports remains a priority for both top and bottom performers.

14. In addition to strategies to diversify production and exports, efforts to sustain sound macroeconomic management, introduce institutional reforms, improve the mobilization of domestic resources and increase non-debt-generating external capital inflows are critical for Africa to maintain growth in a turbulent global economic environment. In this context, the international community must also play its part in helping African low-income oil-importing countries that need external support to mitigate the economic and social effects of the global recession, food shortages and low export earnings.

Figure 1. Growth in Africa, oil and non-oil economies, 2006-2008 (per cent)



Source: UN-DESA, 2008.

Growth performance continues to vary considerably across subregions and countries

15. GDP growth decelerated in three of the five subregions of the continent in 2008 (table 1). West and Central Africa grew at 5.4 and 4.9 per cent in 2008, compared with 5.2 and 3.9 per cent in 2007. GDP growth rates in 2008, decreased in North Africa (to 5.4 per cent), Eastern Africa (5.7 per cent) and Southern Africa (4.2 per cent). High commodity demand and prices are still among the key factors supporting growth in all African subregions.

Table 1. Subregional growth performance, 2006-2008 (per cent)

	2006	**2007**	**2008**
Eastern Africa	6.2	6.3	5.7
Southern Africa	6.1	6.2	4.2
North Africa	5.8	5.9	5.4
West Africa	4.6	5.2	5.4
Central Africa	1.8	3.9	4.9
Africa as a whole	5.7	6.0	5.1

Source: UN-DESA, 2008.

16. Despite the slowdown, Eastern Africa maintained the highest growth on the continent over 2006-2008. Again, Ethiopia led the subregion with an 8.0 per cent real GDP growth rate in 2008, followed by the Democratic Republic of the Congo (7.2), the United Republic of Tanzania (6.8 per cent), Seychelles (6.2 per cent), Uganda (6.0 per cent), Rwanda (5.8 per cent), Madagascar (5.2 per cent), and Burundi and Djibouti (5.0 per cent each). Growth plummeted in Kenya from 6.1 per cent to 3.5 per cent, largely owing to post-election violence and a sharp fall in tourism. Growth remained weak in Eritrea (1.0 per cent) owing to poor rainfall, weak agricultural production and a poor business environment. Political instability disrupted tourism and FDI inflows as well as overall growth in the Comoros (0.5 per cent).

17. Growth factors in Eastern Africa included expansion in agriculture, horticulture and services, especially finance, telecommunications and construction. The subregion also benefited from healthy inflows of aid and strong growth in tourism and FDI. However, growth in some Eastern African countries such as Uganda remains constrained by infrastructure bottlenecks, especially energy and transportation.

18. High oil revenues and tourism receipts continued to boost growth in North Africa. Egypt grew at 6.5 per cent, followed by the Libya Arab Jamahiriya (6.2 per cent), the Sudan (6.0 per cent), Morocco (5.1 per cent) and Tunisia (4.8 per cent). Economic growth recovered markedly in Mauritania (from 1 per cent in 2007 to 4.2 per cent in 2008), but declined in Algeria (from 4.6 per cent to 3.3 per cent). Besides the strong rise in oil and mineral exports that boosted both public and private consumption in most countries, North Africa saw a rebound in agricultural output as well as a construction boom due to high demand for tourism-related and residential buildings. Growth slowed in Tunisia owing to food and oil costs and weaker European Union demand for exports, and in the Sudan as a result of declining oil production.

19. In West Africa, GDP growth was strong in most countries, thanks to accelerated recovery in Liberia (8.0 per cent), increased oil production and prices and growth in non-oil sectors in Nigeria (6.1 per cent each), high FDI inflows and remittances in Cape Verde (5.8 per cent), and expansion in mining activity in Sierra Leone (5.8 per cent), Ghana (6.0 per cent) and Burkina Faso (4.3 per cent). Growth in construction and tourism together with high public spending underpinned a high GDP growth rate in the Gambia (5.8 per cent). Growth also remained high in Benin (4.7 per cent), with a recovery in re-export activity and cotton production and strong growth in construction.

20. Strong activity in the mining and service sectors, among other factors, supported growth in Senegal (4.6 per cent) and the Niger (4.0 per cent), whereas growth in Mali (3.9 per cent) benefited from rapid expansion in the non-mining sector. Economic performance was relatively weak in other countries of the subregion. Guinea-Bissau grew at 3.3 per cent thanks to a recovery in agricultural output and rising donor support and Togo at 2.9 per cent owing to growth in cotton production and in manufacturing and services. Recovery in the oil sector and peace dividends underpinned 2.8 per cent growth in Côte d'Ivoire in 2008, while political upheavals condemned Guinea to a 2.0 per cent growth rate.

21. Economic performance in Central Africa accelerated from 3.9 per cent in 2007 to 4.9 per cent in 2008, thanks largely to increased public investment in infrastructure in Equatorial Guinea (9.0 per cent), and significant expansion in oil production and activity in the non-oil sector in the Congo (7.8 per cent) and Gabon (3.9 per cent). Growth also remained high in Sao Tome and Principe (5.3 per cent), despite delays in the disbursement of some donor funds and the impact of high inflation and energy costs.

22. Growth improved in the Central African Republic (to 4.4 per cent) with the resumption of donor support and the improved political situation, and in Cameroon (to 3.9 per cent) as a result of developments in infrastructure and the exploitation of natural resources. Despite an improvement, Chad (1.0 per cent) remains the least performing country in the subregion as a result of political conflict and the erratic flow and management of oil revenue.

23. Southern Africa's economic performance slowed from 6.2 per cent in 2007 to 4.2 per cent in 2008 as most of the larger economies posted lower growth rates. Despite deceleration, Angola maintained the highest growth rate in the subregion in 2008 (12.9 per cent), followed by Malawi (6.6 per cent), Botswana (6.5 per cent), Mozambique (6.2 per cent), Zambia (5.9 per cent), Mauritius (5.4 per cent), Lesotho (5.0 per cent) and Namibia (3.5 per cent). GDP growth slowed sharply in South Africa (from 5.1 per cent in 2007 to 3.1 per cent in 2008), and remained low in Swaziland (2.0 per cent), while Zimbabwe's economy continued to contract (-4.5 per cent).

D. Macroeconomic imbalances largely driven by commodity shocks

Growing fiscal deficits in oil-importing countries

24. The sharp increase in oil and food prices in the first half of 2008 has had different impacts on fiscal balances in oil and non-oil African economies. Fiscal deficits were recorded in 86 per cent of oil-importing countries in 2008, up from 76 per cent in 2007 (table 2). On the other hand, the combined fiscal surplus of oil-exporting African countries amounted to 7.7 per cent of GDP in 2008, up from 5 per cent in 2007. All the 10 countries with the largest fiscal surplus are either oil-rich (7 countries) or mineral-rich (3 countries), which indicates that the overall relatively favourable fiscal position of the continent is a mere indication of the fiscal position of oil-exporting countries. The data show that with the exception of Egypt and Ghana, all the top 10 deficit-countries were subjected to political conflict and/or external shocks.

25. Despite the deficit position of the majority of the countries, fiscal management has been sound in most countries, as the deficit remained below 5 per cent of GDP in 79 per cent of the deficit countries. While many governments raised revenues by widening the tax base and improving tax collection, public expenditure also increased at higher rates owing to high food and energy prices and the need to mitigate their impact, especially on the poor. To contain mounting fiscal deficits, some African governments have reduced expenditure on public services and development projects. In the context of the global economic downturn, such measures will have significant negative social effects, highlighting the need for increased external support

including aid and debt relief as well as concessional lending by international financial institutions.

Table 2: Distribution of fiscal deficits in Africa in 2008 (42 countries)

	Oil countries	Non-oil countries	Mineral-rich countries	Non-mineral-rich countries	Sub-Saharan countries
Countries with surpluses	8	4	2	2	10
More than 10 per cent	6	0	0	0	4
Less than 5 per cent	2	3	1	2	5
5 per cent to 10 per cent	0	1	1	0	1
Countries with deficits	5	25	8	17	26
More than 10 per cent	0	2	1	1	2
Less than 5 per cent	4	18	5	13	19
5 per cent to 10 per cent	1	5	2	3	5
Total number of countries	13	29	10	19	36

Source: ECA calculations based on data from the Economist Intelligence Unit, November 2008.
Note: Owing to data limitations, only 42 countries are covered. The 11 excluded countries are the Central African Republic, the Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone and Somalia.

Africa experienced high inflation rates in 2008

26. Inflation in Africa, excluding Zimbabwe, was 10.7 per cent in 2008, up from 6.4 per cent in 2007. Over 90 per cent of the 52 African countries with available data recorded an inflation rate of 5 per cent or more in 2008, compared with 60 per cent of them in 2007 (table 3). Only three countries (the Central African Republic, the Comoros and Côte d'Ivoire) had inflation rates of less than 5 per cent in 2008. Africa's recent inflation has been mostly imported in the form of high energy and food prices associated with high global demand in the first half of 2008.

27. Other factors contributing to the inflationary pressure on the continent in 2008 included sustained government spending and robust domestic demand, especially in oil-exporting countries. This was the case in oil economies such as Angola, Egypt and the Sudan, where inflation was 12.6, 17.1 and 15.0 per cent respectively. Zimbabwe aside, Ethiopia recorded the highest inflation rate in Africa in 2008 (41 per cent), owing mainly to high energy and food costs coupled with drought, followed by Guinea (30 per cent), Sao Tome and Principe (28 per cent) and Kenya (25 per cent). Zimbabwe still has the highest inflation on the continent (11 million per cent).

Table 3: Distribution of inflation rates in Africa, 2008 (51 countries)

Range	Africa	Oil countries	Non-oil countries	Mineral-rich countries	Non-oil, non-mineral rich countries	Sub-Saharan countries
Less than 5 per cent	3	1	2	1	2	3
From 5 to below 10 percent	23	7	16	5	18	19
From 10 to below 20 per cent	19	0	19	8	11	16
20 per cent and higher	6	0	6	2	4	6
Total number of countries	51	8	43	16	35	44

Source: UN-DESA, 2008.
Note: Excluding Seychelles and Swaziland for lack of data.

28. Increased inflation rates in Africa have complicated macroeconomic management and contributed to a reversal in the achievements made over the last two decades in terms of poverty reduction. Tightening fiscal and monetary policies may harm the poor with no significant impact on inflation. In most African countries, monetary policy is focused on controlling the money supply to reduce core (non-food) inflation. Weak financial markets mean that these countries lack effective indirect monetary tools. They are also characterized by relatively poor coordination between fiscal and monetary policies.

29. In countries where the financial markets are more sophisticated, governments have relied on interest rates and Treasury bill rates as the main monetary policy instruments. For example, South Africa increased the repurchase rate by 50 basis points to 12 per cent in June 2008, raising the prime lending rate to 15.5 per cent. In Egypt, the overnight deposit and lending rates were also raised by 50 basis points to 11 and 13 per cent respectively in August 2008. High interest rates can have strong adverse effects on growth and, in turn, on government revenue.

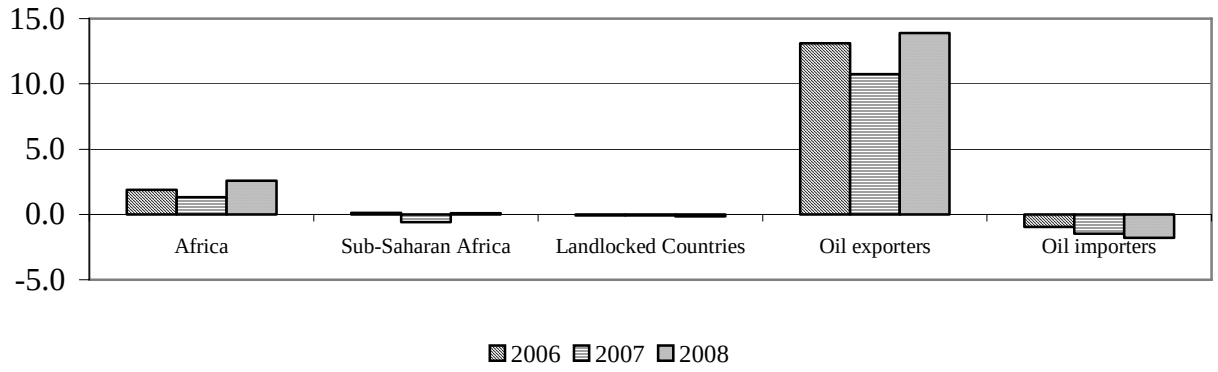
E. External imbalances worsened in most African countries in 2008

Developments in the balance of payments

30. Despite their downward trend in the second half of 2008, high energy and food prices resulted in rising current account deficits in 31 oil-importing African countries with available data. On average, the current account deficit in these countries increased from –1.5 per cent of GDP in 2007 to –1.8 per cent in 2008. Current account deficits have also increased, though slightly, in landlocked African economies that have received relatively high flows of official development assistance (ODA) in recent years. On the other hand, for oil-exporting countries, current account surpluses increased from 10.7 per cent in 2007 to 15.9 per cent in 2008, thanks to high oil prices in the first half of the year. Thus, the overall current account position of the 42 African countries with available data, which showed a surplus of 2.6 per cent in 2008, is a reflection of the high revenues generated by oil-exporting countries (figure 2).

31. The data clearly show mounting threats to current account sustainability in oil-importing African countries. This, together with internal imbalances and inflationary pressure, posed severe risks to macroeconomic stability and growth prospects in 2008 and beyond. In addition to rationalizing energy consumption, these countries should adopt strategies to diversify exports, promote tourism and attract remittances. In the short term, however, oil-importing African economies need more aid inflows to manage their external balances effectively. Meanwhile, oil exporters should devote a sizeable proportion of their export earnings and accumulated reserves to boost public investment in infrastructure, human capital development and public service delivery instead of low-return excess foreign currency reserves.

Figure 2: Current account balance in Africa by category, 2006-2008 (percentage of GDP)



Source: ECA calculations based on data from the Economist Intelligence Unit, November 2008.
Note: Data cover only 42 African countries. The 11 excluded countries are: the Central African Republic, the Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone and Somalia.

Exchange rate volatility up in 2008

32. In terms of nominal exchange rates, 18 of the 35 African currencies with available data appreciated against the United States dollar in 2008, with 16 depreciating and remaining unchanged. For the second consecutive year, the CFA franc, which is pegged to the euro, appreciated substantially against the United States dollar. In fact, many of the countries with strong primary commodity exports experienced currency appreciation in 2008. Overvalued exchange rates can discourage non-commodity exports from Africa, resulting in reduced international competitiveness or the problem of the "Dutch Disease". However, many African currencies began to depreciate against the United States dollar in late 2008.

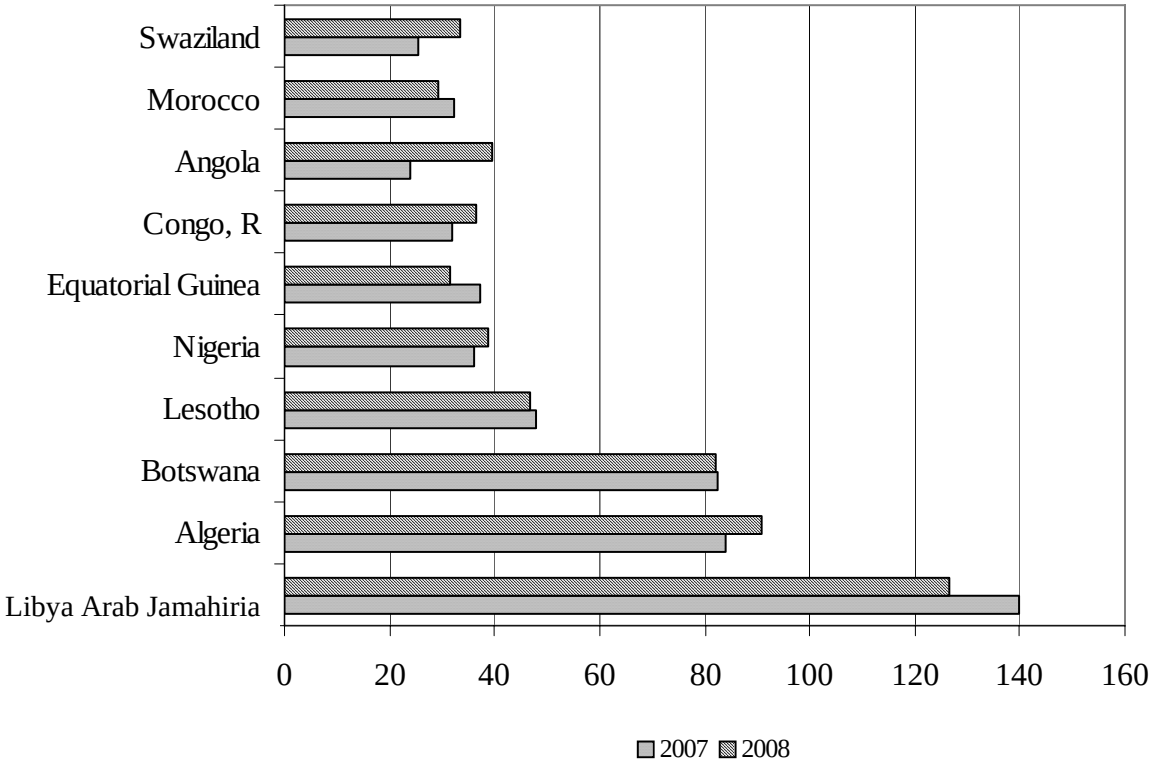
33. In terms of the real effective exchange rate (REER), 28 of the 38 African countries with available data experienced currency appreciation in 2008. However, only 6 recorded REER appreciation of more than 10 per cent, while three countries had REER depreciation of more than 10 per cent. Kenya, Madagascar, Mauritius, Mozambique and Zambia were the five African countries with the highest REER appreciation rates in 2008. Burundi, Ghana, Namibia, Seychelles and Zimbabwe were the five with the highest depreciation rates. This shows that both resource-rich and resource-poor countries can be confronted with large REER depreciation or appreciation, mainly as a result of fluctuations in the domestic price level.[2] High as opposed to low domestic prices cause the REER to appreciate, even if the nominal exchange rate is constant.

34. Owing to high current account surpluses in oil-exporting African countries, the continent's foreign exchange reserves continued to rise, from 32.6 per cent of GDP in 2007 to 34.5 per cent in 2008. Of the 42 African countries with available data, 34 maintained foreign exchange reserves of 10 per cent of GDP or more in 2008. The list of the top 10 African countries in terms of foreign exchange reserves as a ratio of GDP indicates that high reserves originate mainly from commodity revenues and private capital flows, and that none of these countries is a major aid recipient (figure 3).

35. Oil-exporting African economies need to coordinate fiscal and monetary policies closely to manage their foreign exchange reserves effectively and create a fiscal space for countercyclical interventions that can mitigate the impact of the global financial crisis and the deepening economic downturn. This will also help them to manage risks emanating from disruptive exchange rate volatility and inflationary pressure while at the same time spurring domestic investment for fast and sustained growth.

[2] The REER index is defined as [Pd/Pf*NER], where Pd is the domestic price level, Pf is foreign (United States) price level, and NER is the official exchange rate expressed in terms of the domestic currency price of the United States dollar (period average). Thus, REER represents the quantity of foreign goods that can be purchased with one unit of domestic goods.

Figure 3. Top 10 countries in terms of foreign reserves (percentage of GDP)



Source: Economist Intelligence Unit, November 2008.
Note: Excluding the following countries owing to a lack of data: Central African Republic, the Comoros, the Democratic Republic of the Congo, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, the Niger, Sierra Leone and Somalia.

Harnessing internal and external resources essential to enable Africa to boost growth

36. Africa's average gross domestic savings rate increased from 21.8 per cent of GDP in 2004 to 26.3 in 2007. However, the domestic investment rate remained almost unchanged at around 22 per cent over the same period, far below the level required for achieving the MDGs. This partly reflects weaknesses in the domestic and regional financial markets and the inability, especially of resource-rich countries, to use commodity revenues to boost domestic investment. Owing to low income, both domestic savings and investment rates are lower in oil-importing African countries than in oil exporters.

37. Besides harnessing more domestic resources, Africa needs to mobilize increased non-debt-generating external resources to boost domestic investment. As of July 2008, 19 African countries had benefited from major reductions in official debt (United Nations 2008a). However, while Africa's official debt declined, the debt owed to banks and other private creditors rose considerably, so that overall debt remained high. ODA to Africa remains below the

level of $72 billion per annum considered necessary to permit achievement of the MDGs (United Nations 2008a). Meanwhile, more needs to be done for the continent to improve aid quality and effectiveness and to enhance development through trade.

38. Honouring commitments to aid has become even more important in the light of Africa's reduced access to private capital stemming from the current global financial crisis. Development partners can signal their commitment to scale up aid to Africa by establishing rolling indicative timetables showing how they intend to reach their goals on aid quantity. This must be accompanied by measures to improve the delivery and management of aid. The Paris Declaration on Aid Effectiveness as well as the Accra Agenda for Action provide useful frameworks for improving aid effectiveness, and these need to be fully implemented.

39. The rather ineffective use of trade for development is a reflection of domestic supply constraints, including poor infrastructure, a weak human capital base, and such external trade constraints as the stalemate of the Doha round of trade negotiations and the disputed agricultural subsidies by the European Union, the United States, Japan and Canada. Besides raising public and private investment in infrastructure – now at some $52 billion annually - Africa needs substantial improvements in market access, as well as stronger regional market integration to enhance global competitiveness. Also, in the face of the global financial turmoil and increasing uncertainties, African countries should continue to consolidate their recent economic reforms to create a business environment attractive to private capital inflows.

F. Trends in social development

40. Africa has continued to make considerable progress in a number of social development areas, with concrete gains in such areas as primary school enrolment, measles vaccination, the use of insecticide-treated bed nets, reductions in HIV prevalence rates in some countries and some aspects of gender equality. However, very limited headway has been made on poverty, eradicating hunger, maternal mortality and addressing disparities due to gender income and disability. This section examines the trends in social development in Africa using the most recent data available, focusing on poverty and employment, education and health, with special attention to vulnerable and marginalized groups.

Poverty and unemployment

41. Data on income poverty in Africa are not complete, making close monitoring and tracking of progress in poverty eradication at the national and regional level a major challenge. According to recent estimates, the percentage of the population living in extreme poverty in sub-Saharan Africa (using the new US$ 1.25 per day international poverty line) has almost doubled, from 200 million in 1981 to 380 million in 2005 (Chen and Ravallion 2008). Meanwhile, sub-Saharan Africa's unemployment rate declined only marginally, from 8.5 per cent in 1997 to 8 per cent in 2007, and is expected to rise sharply in 2009 as a result of the global economic recession. Unemployment is higher among disadvantaged groups, including women (9.1 per cent), young people (13.7 per cent) and people with disabilities (ILO, 2008). Also, unemployment is higher in North Africa (11.7 per cent in 1997 and 10.9 per cent in 2007) than in sub-Saharan Africa.

Women and young people recorded higher unemployment rates in North Africa, at 16.2 per cent and 24.5 per cent respectively (ILO, 2008).

42. The proportion of people in a vulnerable employment situation is high in sub-Saharan Africa, accounting for more than 70 per cent. The burden of vulnerable employment continues to fall heavily on women, who remain mainly in the agriculture and informal sectors. Indeed, slow progress on social development is most pronounced for marginalized and vulnerable groups in African countries, including women, older persons, young people, persons with disabilities, orphans and vulnerable children, internally displaced persons and indigenous people. The exclusion of these groups from society is reflected not only in their lower incomes and poorer outcomes in the labour market, but also in lower educational attainment rates, poor health status and underrepresentation in political processes and at policymaking levels.

43. The main challenges in fostering the social inclusion of vulnerable groups include lack of implementation of commitments and policies; inadequate financial resources to support spending on social programmes; technical capacity constraints; lack of relevant data to support policies; and war and conflicts. The need for the social inclusion of vulnerable and marginalized groups and the strengthening of social protection systems has been magnified by the recent food and energy crises and the global economic recession.

Education: remarkable increases in primary school enrolment rates

44. The average net primary enrolment rate in sub-Saharan Africa increased from 56 per cent in 1999 to 71 per cent in 2006. In North Africa the initial enrolment figures were above 85 per cent in 1991, except for Morocco, which started from 56 per cent in 1991 and reached 86 per cent in 2003; no change has been registered since. The improvements in primary enrolment rates are driven largely by a combination of strong commitment by government, which has expanded primary education facilities and eliminated school fees, and support from the donor community (United Nations, 2008a). Progress has been especially remarkable in Benin, Ethiopia, Guinea, Madagascar, the Niger and the United Republic of Tanzania, where educational coverage has risen by more than 50 per cent since 1999 (UNESCO, 2009). If the current rates are sustained, many countries in Africa will be able to achieve enrolment of 100 per cent by 2015.

45. Although the primary enrolment rate has been improving, the primary completion rate is an area of concern. Between 1999 and 2006, the completion rate improved from 49 per cent to 60 per cent in sub-Saharan Africa, and from 86 per cent to 92 per cent in North Africa. The completion rates for girls in sub-Saharan Africa are much lower than for boys. The major reasons for dropping out of school include lack of resources to meet costs, domestic care activities within households (particularly for girls), early marriages, child labour, teenage pregnancies, poor quality of education and long distances to school. It is important to ensure that the most vulnerable and marginalized children are enrolled and remain in school by pursuing targeted programmes and interventions aimed at poor households and at girls. The pupil-to-teacher ratio needs to be further improved from 45 in 2006.

46. The gross enrolment ratio in secondary education in sub-Saharan Africa rose from only 25 per cent in 1999 to 32 per cent in 2006. The tertiary gross enrolment ratio in sub-Saharan Africa stood at around 5 per cent in 2006, compared to 17 per cent for developing countries and 25 per cent for the world. North Africa has made significant progress in increasing enrolment in secondary and tertiary education. The major challenges affecting secondary and tertiary education include the shortage of trained teachers and a lack of resources to cover the cost of education.

47. The youth literacy rate improved from 68 per cent in 1995 to 86 per cent in 2007 in North Africa. In sub-Saharan Africa, the literacy rate improved from 53 per cent to 62 per cent for adults and from 64 per cent to 72 per cent for young people aged 15 to 24 over the same period (UNESCO, 2009). However, it is important to note that large disparities in literacy rates are evident in many countries in relation to gender, poverty, place of residence, ethnicity, language and disability (UNESCO, 2009).

48. In 2006, the ratio of girls to boys' gross enrolment in primary education reached 0.89 in sub-Saharan Africa and 0.93 in North Africa, thanks to efforts by governments and donors (United Nations, 2008a). North Africa achieved the strongest gains, with young female literacy rates increasing by over 20 percentage points from the 1980s to 2007, followed by Southern Africa, Eastern Africa, West Africa and Central Africa, which recorded the lowest gains (ECA, 2007). The literacy rate for young women in sub-Saharan Africa increased from 58.6 per cent for the period 1985-1994 to 67.3 per cent in 2007. Yet the gap between the female and male literacy rates is not decreasing fast enough, especially in sub-Saharan Africa, where the ratio of young female to male literacy rates has remained more or less static over the last decade, at around 0.87.

49. Gender parity has deteriorated at the secondary level in sub-Saharan Africa, where the gross enrolment ratio of girls to boys in secondary education fell from 0.82 in 2000 to 0.80 in 2006 (United Nations, 2008b). The gross enrolment rate in secondary education for girls reached only 28 per cent. Far fewer African countries are making progress in achieving gender parity in tertiary education. The ratio of female to male tertiary enrolment rates reached only 0.68 in sub-Saharan Africa. In comparison, North Africa has achieved gender parity in enrolment in tertiary education (United Nations, 2008b).

Health: mixed progress in combating HIV/AIDS and other epidemics and reducing infant, child and maternal mortality rates

50. As a result of extensive and targeted prevention programmes, the HIV prevalence rate has either stabilized or declined in most African countries (UNAIDS, 2008). The adult HIV prevalence rate in sub-Saharan Africa declined from 5.8 per cent in 2001 to 5.0 per cent in 2007. The adult prevalence rate is lowest in North Africa (less than 1 per cent) and highest in Southern Africa, where in 2007 it exceeded 15 per cent in seven countries. HIV/AIDS remains the leading cause of adult morbidity and mortality on the continent. However, in many countries of the region there are positive signs of behaviour change that suggest a stabilization of the epidemic,

especially among young people (15-24). The adoption of safer behaviour has resulted in a decrease in the number of new infections in Rwanda and Zimbabwe. This shift in behaviour is especially encouraging since young people have delayed the onset of sexual activity in seven of the most affected countries (Burkina Faso, Cameroon, Ethiopia, Ghana, Malawi, Uganda and Zambia) (United Nations, 2008a).

51. Thanks to declining prices of antiretroviral drugs, out of 4.6 million Africans living with the virus and requiring antiretrovirals, nearly a third are undergoing treatment. The number of people who received antiretroviral treatment in Central, Eastern, Southern and West Africa taken together increased from 100,000 in 2003 to 2.1 million in 2007 (UNAIDS, 2008). The coverage of people who received treatment improved from 2 per cent in 2003 to 28 per cent in 2006. Four countries (Botswana, Namibia, Rwanda and Senegal) have already achieved the goal of treating at least 50 per cent of patients (UNAIDS, 2008). In 2007, over 470,000 HIV-positive pregnant women were reported to have received antiretroviral drugs for prevention of mother-to-child transmission, an increase of over 50 per cent from 2006. While the overall unmet HIV treatment gap is still high, more attention should be given to women, who constituted 57 per cent of infected people in sub-Saharan Africa in 2003 and 61 per cent in 2007 (UNAIDS, 2008).

52. Overall trends in tuberculosis incidence, prevalence and deaths have been rising in sub-Saharan Africa in contrast to North Africa. By the end of 2006, 10 countries (the Comoros, Egypt, Ghana, the Libya Arab Jamahiriya, Mali, Mauritius, Morocco, Sao Tome and Principe, Seychelles and Tunisia,) had already halted and started to reverse overall and smear-positive tuberculoses incidence, as specified in the core MDG targets (WHO, 2008). In 2006, tuberculoses incidence, prevalence and death rates in sub-Saharan Africa were 291, 521 and 59 per 100,000 people (excluding those infected with HIV) respectively. The rates for North Africa were 44 for tuberculoses incidence and prevalence and 4 for deaths.

53. In Africa malaria is still the leading cause of child mortality and of anaemia in pregnant women. Although data on malaria incidence and death rates are not comprehensive, coverage of key malaria control interventions has increased in several countries thanks to the availability of funding and increased national attention to malaria control. Two thirds of African countries have adopted policies that include the use of effective anti-malaria drugs. Since 2007, 25 countries have been implementing a policy of treatment using artemisinin-based combination therapy, with 20 of them introducing a countrywide policy shift from chloroquine (AUC and WHO, 2008). The use of insecticide-treated bed nets by children under age five in malaria-risk areas in sub-Sahara Africa is reported to have improved from 2.1 per cent in 2001 to 5 per cent in 2005 and 8 per cent in 2007 (United Nations, 2008a).

54. Preventable diseases and malnutrition are still the leading causes of the high infant and under-five mortality rates. However, the continent has witnessed a decline in both rates. Between 1990 and 2007, the infant and under-five mortality rates declined from 111 and 187 per 1,000 live births to 89 and 148 for sub-Saharan Africa and from 58 and 79 to 36 and 46 for North Africa. West and Central Africa recorded the highest mortality rates and the lowest average rate of decline (1.2 per cent) compared to Eastern and Southern Africa (1.7 per cent) and North

Africa (3.2 per cent). There is also wide variation within countries, with higher mortality rates recorded for rural and poor families.

55. Similarly, maternal mortality has been considerably reduced in North Africa, from 250 per 100,000 live births in 1990 to 160 in 2005. But maternal mortality remains unacceptably high in the rest of the continent. In 2005, the rate stood at 760 (down from 790 in 1990) in Eastern and Southern Africa, and 1,100 (the same as in 1990) in West and Central Africa (WHO, UNICEF, UNFPA and World Bank, 2007). Also, the lifetime risk of maternal death is unacceptably high in sub-Saharan Africa, at 1 in 23 compared to only 1 in 140 in North Africa, 1 in 92 in the world and 1 in 8,000 in industrialized countries. Obviously, progress in reducing maternal mortality in sub-Saharan Africa has been negligible, although there are significant disparities across countries arising from differences in income and other factors.

56. One of the key factors contributing to high maternal mortality in Africa is the high rate of adolescent pregnancies due to early marriage and teenage pregnancies. The risk of maternal mortality for very young mothers (15-19) is twice as high as that for mothers aged above 20. UNICEF (2008) estimates that 70,000 very young mothers (15-19) die every year from pregnancy-related complications. About 80 per cent of maternal deaths are preventable if women have access to essential maternity and basic health-care services. Efforts to expand the coverage of essential services and strengthen health systems should be combined with action to educate and empower women.

G. Growth prospects for 2009 darken as the global recession deepens

57. Africa's growth prospects for 2009 have been constantly revised downwards. In early 2009, the real GDP growth rate in Africa was expected to fall to 2.0 per cent in 2009 from 5.1 per cent in 2008. Subregional growth rates in 2009 were projected to range from -1.2 per cent in Southern Africa to 1.9 per cent in Central Africa, 3.1 per cent in North Africa, 3.1 per cent in West Africa and 3.8 per cent in Eastern Africa. However, the continent's growth prospects for 2009 are subject to strong uncertainties stemming mainly from the world financial crisis and the deepening global recession.

58. The chances of a rebound in growth in Africa in 2009 are slim, and hinge on the ability of economic stimulus packages in developed countries to enhance not only domestic demand but also demand for commodity exports from Africa. Nevertheless, sustained economic reforms, the easing of inflation, domestic currency depreciation and efforts to revive domestic demand would contribute to a positive, albeit weaker growth performance in Africa in 2009. Average inflation in Africa is expected to ease in 2009, as oil and food prices decline.

59. Lower energy and food prices in 2009 should reduce the pressure on government budgets. This will support government efforts to consolidate effective macroeconomic management and institutional reforms, which should further stimulate private investment and growth on the continent. In line with global financial trends, governments are expected to maintain or lower interest rates to encourage bank lending to the private sector. They are also expected to allow exchange rates to adjust to stabilize the external sector and promote

international competitiveness. In fact, most African currencies are expected to depreciate in 2009, as a result of the recession and slowing export earnings and capital inflows.

60. As external capital inflows are likely to decline in 2009 because of the difficult economic conditions in major donor countries, African countries should use all available ODA inflows to boost domestic demand. Improving political and economic governance and the security situation are additional actions that can help Africa to avoid a severe slowdown. However, while the political situation is improving in countries such as the Comoros and Kenya, the continent faces persistent conflicts in countries such as the Central African Republic and the Democratic Republic of the Congo.

61. The political and governance environment also remains tenuous in countries such as Chad, the Sudan and Zimbabwe. The recent food crisis and looming starvation are threats to political and social stability, especially in Eastern and West Africa and in conflict countries. Rising poverty rates also compound the effect of epidemics such as HIV/AIDS and malaria, hampering economic and social progress on the continent. Finally, owing to the limited diversification of production structures and high dependence on rain-fed agriculture, Africa also remains vulnerable to weather shocks and climate change. Some countries in the Horn of Africa were still experiencing severe drought conditions and food shortages in early 2009.

H. Conclusions and key policy issues

62. Economic performance in Africa continues to depend heavily on global commodity demand and prices because of the limited transformation of production structures. However, the GDP growth rate remained relatively high at 5.1 per cent in 2008. The global economic downturn and recession will have substantial effects on Africa through reduced capital inflows and lower demand and prices for primary commodity exports. Thus, Africa's GDP growth is projected to fall sharply in 2009. Meanwhile, as in previous years, economic performance varies considerably across countries and subregions, and remains insufficient for achieving the MDGs.

63. In 2008, high oil prices translated into high GDP growth rates as well as favourable internal and external balances in oil-exporting African countries. However, the continent recorded high inflation rates in 2008 that resulted in declining standards of living, especially in sub-Saharan Africa.

64. Although food prices are on the decline, they are likely to stay high in the medium term. At the same time, many African countries continue to suffer from food shortages and food insecurity due to drought, conflicts and rigid supply conditions, among other factors. In addition to strengthened emergency measures, long-term responses are essential for Africa to meet the challenges of the food and financial crises, growth volatility and slow social development. In the short run, governments need greater policy flexibility as well as external support to combat food shortages through, for example, lower tariffs on food imports, subsidies and cash transfers to poor households. In the long run, governments should invest more in agriculture and infrastructure - where the main constraints on growth are found - especially energy, communication, roads and public service delivery in the areas of education and health. This,

together with effective macroeconomic management and institutional reforms, will stimulate private-sector development and investment, accelerating job creation and poverty reduction.

65. In this context, resource-rich African countries need to use commodity revenue and accumulated reserves from the commodity boom to enhance the diversification of production structures and international competitiveness. This requires increased productivity-enhancing public investment, especially in infrastructure, technology and human capital development.

66. African governments and development partners need to sustain and strengthen efforts to mobilize more resources from domestic and external non-debt-generating sources to increase emergency aid and debt relief as well as concessional lending to finance short-term strategies to mitigate the adverse effects of the global crisis. In addition to efforts to sustain ODA flows, increased debt relief and lending by international financial institutions remain essential for low-income countries. The International Monetary Fund, the World Bank, regional development banks and others are urged to design special stabilization and development funds such as the "Vulnerability Fund" recently proposed by the President of the World Bank, the Emergency Liquidity Facility and the Trade Financing Initiative proposed by the African Development Bank.

67. Beyond emergency and stabilization objectives, special funds and lending facilities should aim at promoting productive capacity and economic growth in low-income countries to address long-term growth challenges. In this regard, the threats posed by the recent crisis and the deepening global recession also call for the speedy and successful conclusion of the Doha round of trade negotiations and highlight the need to avoid protectionist tendencies in the recovery plans being implemented by the rich countries.

68. Africa's development strategies should continue to focus on social development, with special attention to vulnerable groups. Policy targeting should include combating poverty and hunger, creating decent work opportunities, improving access to education and health-care services, promoting gender equality, ensuring the social inclusion of vulnerable groups, designing effective redistribution policies and strengthening social protection systems. These issues are at the core of the social policy framework for Africa and the Windhoek Declaration on Social Development, which were adopted at the conclusion of the first African Union conference of African ministers in charge of social development in October 2008.

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