United Nations E/2014/17

Economic and Social Council

Distr.: General
14 April 2014

Original: English

2014 session
Item 13 of the provisional agenda*
Regional cooperation

Overview of economic and social conditions in Africa, 2013-2014

Summary

Africa's growth slowed from 5.4 per cent in 2012 to an estimated 4.0 per cent in 2013, a rate that is still almost twice as high as the global average but slightly lower than the average for developing countries. Export performance continued to improve in absolute terms, as it has done since 2011, owing to a rise in the export of commodities and the diversification of trade partners, although a low degree of export-product diversification and a high dependence on primary commodities are still major constraints on Africa's external trade. Intra-African trade remains low, largely because of high trading costs that are exacerbated by inefficiencies in customs and administrative procedures.

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

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

* E/2014/1/Rev.1, annex II.

14-30346 (E) 070514

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

I. Developments in the world economy and implications for Africa

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

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

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

4. Expansion in East and South Asia moderated to 5.6 per cent in 2013, mainly owing to a decline in exports induced by a marginal slowdown in China to 7.7 per cent that is expected to continue in 2014, to 7.5 per cent (despite the recent pickup in export growth and industrial production). In India, growth contracted to 4.8 per cent in 2013 owing to a reversal in capital outflows and exchange rate depreciation, but is projected to grow again, at a rate of 5.3 per cent, in 2014, in response to increased investment and Government-backed structural reforms.

5. Growth in Western Asia slipped a little, from 3.9 per cent in 2012 to 3.6 per cent in 2013, as political instability and social unrest, notably in Iraq, Lebanon and the Syrian Arab Republic, weighed heavily. Economies in Latin America and the Caribbean grew by 2.6 per cent in 2013, reflecting faltering external demand, low commodity prices and weakening domestic conditions.

6. The global unemployment rate was estimated at 6.0 per cent in 2013 and the number of unemployed is set to rise from 202 million in 2013 to 205 million in 2014, as subdued private capital flows and fiscal austerity continue to restrict investments and job creation.[2] The global rate of youth unemployment remains elevated and is projected to stagnate at around 12.8 per cent until 2016, as the rebound in global growth will not be sufficient to lift depressed labour markets.[3]

---

[1] The analysis in paragraphs 1-6 is based on *World Economic Situation and Prospects 2014* (United Nations publication, Sales No. E.14.II.C.2).

[2] International Labour Organization, *Global Employment Trends 2013: Recovering from a Second Jobs Dip* (Geneva, 2013).

[3] However, according to the Department of Economic and Social Affairs, the advanced estimate for the gross domestic product of the United States shows an annualized growth of 3.2 per cent for the fourth quarter of 2013, higher than the initial estimate, which might lead to a relatively higher annual growth rate and estimate for both 2013 and 2014.

7. According to the Department of Social and Economic Affairs, the global inflation rate was 2.5 per cent in 2013, down from 2.9 per cent in 2012, owing mainly to large output gaps in most economies, softening global commodity prices and insipid demand from key emerging markets. In 2014, that rate is projected to increase to 2.7 per cent, in line with the expected rebound in economic activity, although prudent monetary and fiscal policies in most countries are expected to keep it in check.

8. The International Monetary Fund index for all commodity prices was volatile in 2013 and reached a high point for the year of 191 in February, before steadily declining to 184 in September, owing to weak global demand and the deceleration of economic activity in emerging and developed economies. Global commodity prices are expected to change little in 2014 and to remain largely unaffected by growth, although supply constraints may exert some upward pressure.

9. In 2013, global exports grew at a rate of only 2.3 per cent, down from 3.1 per cent in 2012, as import demand from major developed countries contracted sharply. Globally, inflows of foreign direct investment stabilized in 2013 at around 2.3 per cent of the world gross domestic product (GDP) and are expected to rise to 2.4 per cent in 2014.

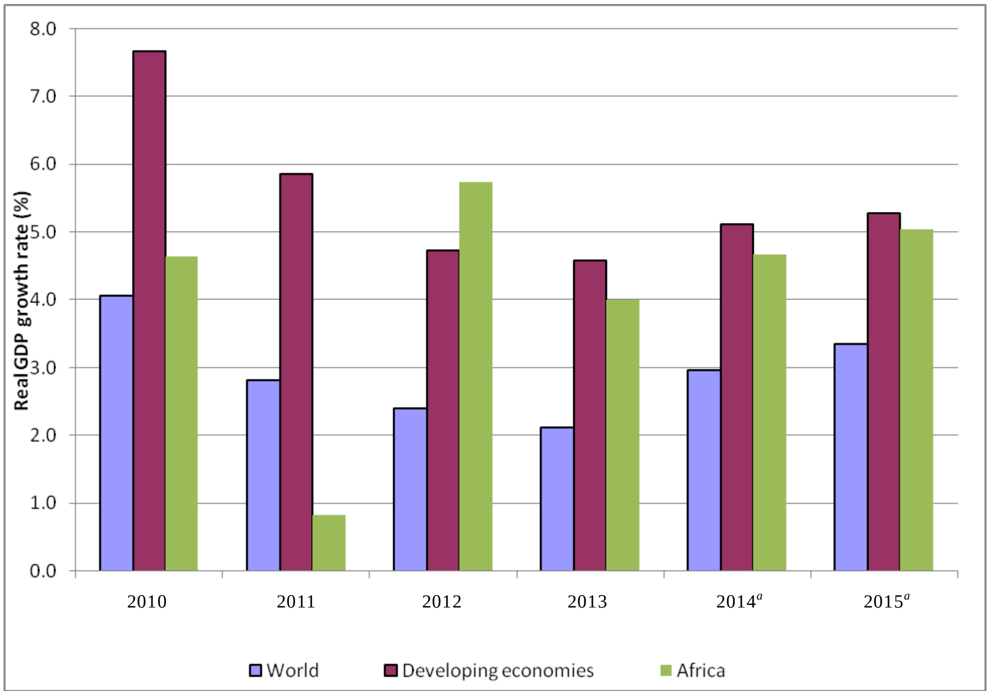
10. Key risks to the global economy include continued fiscal consolidation and austerity programmes in major developed countries, weakening global demand, financial market turbulence and paltry growth in the euro area.

II. Economic performance in Africa, 2013

Africa's growth potential

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

Figure I
Growth in gross domestic product, 2010-2014

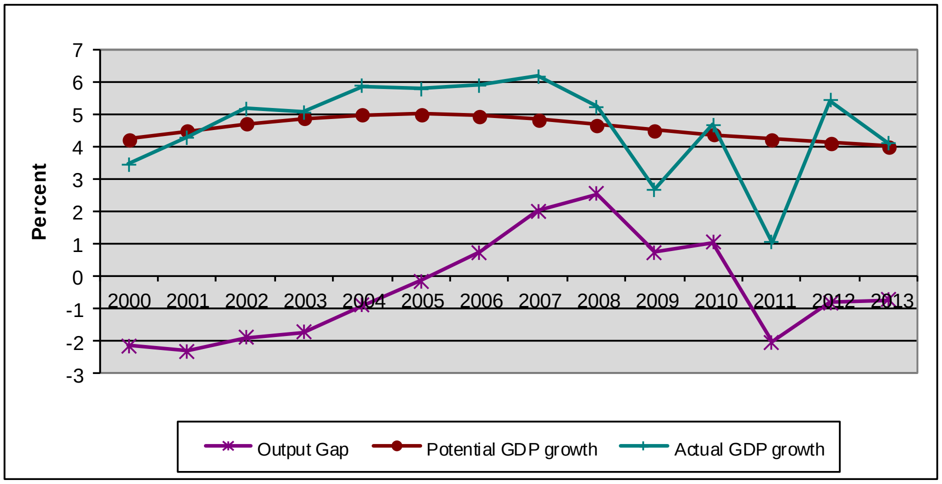


Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

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

13. That said, however, Africa's output gap — the difference between actual and potential real output as a percentage of potential output estimated using the Hodrick-Prescott filter — was generally negative during the period 2000-2013, which means that African countries were underperforming (figure II).

Figure II
Africa's output gap, 2000-2013



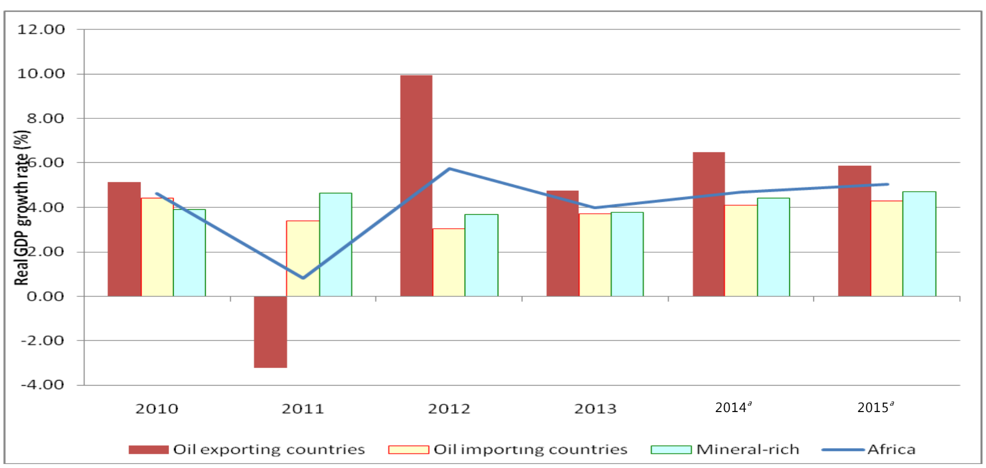
Source: Calculations based on information from the Department of Economic and Social Affairs (2014).

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

Stronger growth in countries rich in oil and minerals

15. In 2013, although GDP growth was relatively strong throughout Africa, the rates for oil-exporting and oil-importing countries differed (figure III).

Figure III
Performance in oil-exporting, oil-importing and mineral-rich African countries and in Africa as a whole, 2010-2014



Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

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

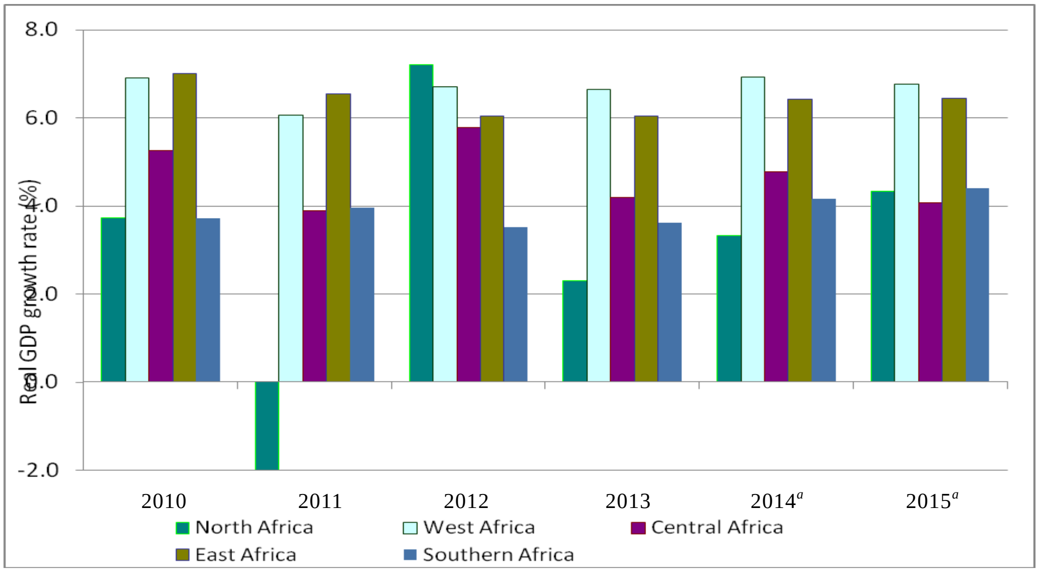
17. Growth is expected to accelerate in the oil-exporting countries to 6.5 per cent in 2014, with a slight decline to 5.9 in 2015, while mineral-rich economies will accelerate to 4.4 per cent in 2014 and 4.7 per cent in 2015, as stability returns to countries such as Egypt, Libya and Mali. The expected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

Growth outcomes by subregion

18. Growth rates among Africa's subregions varied slightly more in 2013 than they did in 2012 (figure IV).

19. West Africa's growth rate in 2013, while being the highest in the continent, remained unchanged at 6.6 per cent. Growth in the subregion's largest economy, Nigeria, remained unchanged at 6.5 per cent in 2013, as increases in domestic demand seem to have compensated for a decline in oil output and weaker global oil prices. Investments in oil and mining supported growth in the Niger, where the growth rate was 5.7 per cent. Côte d'Ivoire registered a growth rate of 8.8 per cent that was driven by large infrastructure projects made possible by a more stable political environment, a more propitious investment climate and greater capital spending by the Government. In Ghana, growth remained robust (8.0 per cent) as a result of higher levels of oil production. Iron ore production remained the main driver of growth in Liberia and Sierra Leone, which recorded strong rates of 7.4 per cent and 14.5 per cent, respectively.

Figure IV
Growth by subregion, 2010-2014



Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

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

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

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

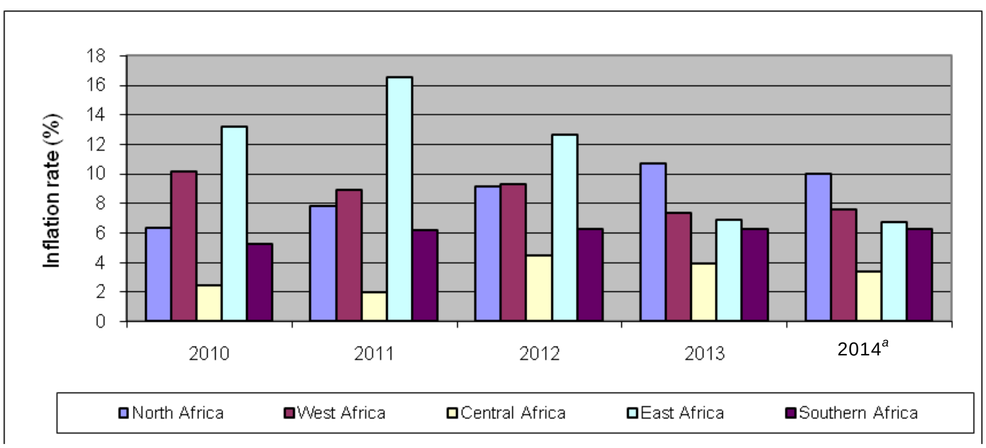
growth, as in previous years, relied heavily on oil output. Growth in Mozambique decelerated to 6.5 per cent in 2013 from 7.4 per cent in 2012, owing mainly to floods early in 2013 that affected agriculture, electricity generation and coal production.

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

Declining inflationary pressure amid tight monetary policy

24. For Africa as a whole, the inflation rate fell from 8.2 per cent in 2012 to 8.0 per cent in 2013 and is projected to drop further, to 7.8 per cent, in 2014. Factors include the easing of international food and fuel prices, together with tighter monetary policies in most African countries (figure V).

Figure V
Inflation rate by subregion, 2010-2014

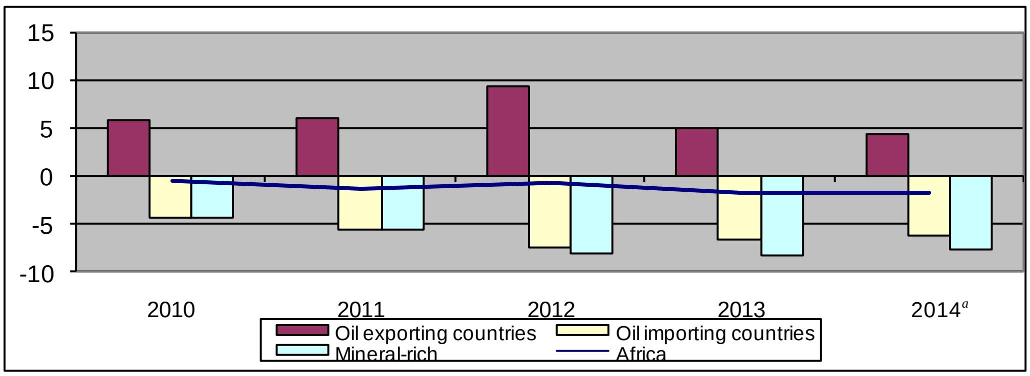


Source: Department of Economic and Social Affairs (2014).
[a] Forecast.

Mixed external performance in oil-exporting, oil-importing and mineral-rich countries

25. Africa's current account deficit increased from 0.8 per cent of GDP in 2012 to 1.8 per cent in 2013, but is expected to decrease slightly, to 1.7 per cent, in 2014 (figure VI). In oil-exporting countries, external balances are expected to fall but remain positive, while in oil-importing and mineral-rich countries they are expected to decrease and remain negative.

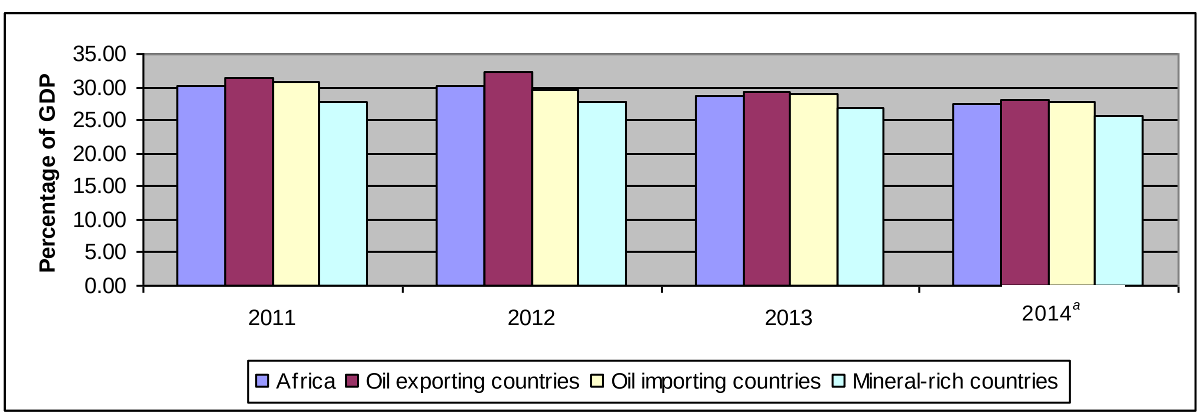
Figure VI
Current account balances of oil-exporting, oil-importing and mineral-rich countries and of Africa as a whole, 2010-2014 (percentage of GDP)



Source: Calculations based on information from the Economist Intelligence Unit (2013).
[a] Forecast.

26. Africa's exports are projected to decline further in 2014, to 27.5 per cent of GDP, in all subregions except East Africa (figure VII), where a slight gain has been observed owing to increasing non-traditional exports, such as flowers, and trade in services, especially in Ethiopia, Kenya and the United Republic of Tanzania.

Figure VII
Total exports by oil-exporting, oil-importing and mineral-rich countries and by Africa as a whole, 2011-2014



Source: Calculations based on information from the Economist Intelligence Unit (2013).
[a] Forecast.

III. Recent developments in Africa's trade

Diversification of African exports

27. If it is to boost its trade and sustain GDP growth, Africa must diversify its exports. Although the volume of exports has in general kept growing in absolute terms, it declined in 2013 relative to aggregate output and, although the volume of trade in African merchandise grew faster than it did in non-African economies from 2011 to 2012, Africa's share of world exports remains small. According to the United Nations Conference on Trade and Development, in 2012 the continent accounted for just 3.3 per cent of world merchandise exports, down from the share of 4.9 per cent recorded during the period 1970-1979 but a little better than the 2.8 per cent recorded during 2000-2010. Africa's share of world imports has experienced a similar slowdown.

28. Even if trade between Africa and its traditional partners (the European Union and the United States) has continued to increase in recent years in absolute terms, Africa is diversifying its sources of imports and its export destinations in favour of developing economies. Between 2000 and 2012, Africa's share of total world exports to developing countries increased from 2.6 per cent to 3.8 per cent. After 2009, the group of countries composed of Brazil, China, India, the Russian Federation and South Africa became Africa's second-largest trading partner after the European Union, excluding South Africa.[4]

Intra-African trade

29. Formal intra-African trade in merchandise is rising but informal trade remains significant. Intra-African trade rose from $67.7 billion in 2011 to $73.7 billion in 2012.[5] In 2012, the share of intra-African trade accounted for 11.5 per cent of Africa's total trade. Between 1996 and 2011, Africa's trade with the rest of the world grew at a rate of 12 per cent, faster than the 8.2 per cent registered for intra-African trade, mainly because of high commodity prices. Africa's exports to the rest of the world, in fact, are skewed towards primary commodities, predominantly fuels, ores and metals, while intra-African trade is dominated by the export of manufactured goods (figure VIII).

30. Informal intra-African cross-border trade is not recorded but is nonetheless significant, accounting for 30-40 per cent of total trade within the countries of the Southern African Development Community. In West Africa, the informal sector makes up a large proportion of GDP in some countries, with estimates ranging between 20 and 90 per cent.[6] Strategies to formalize informal agents — in trade and other sectors — should therefore be considered.

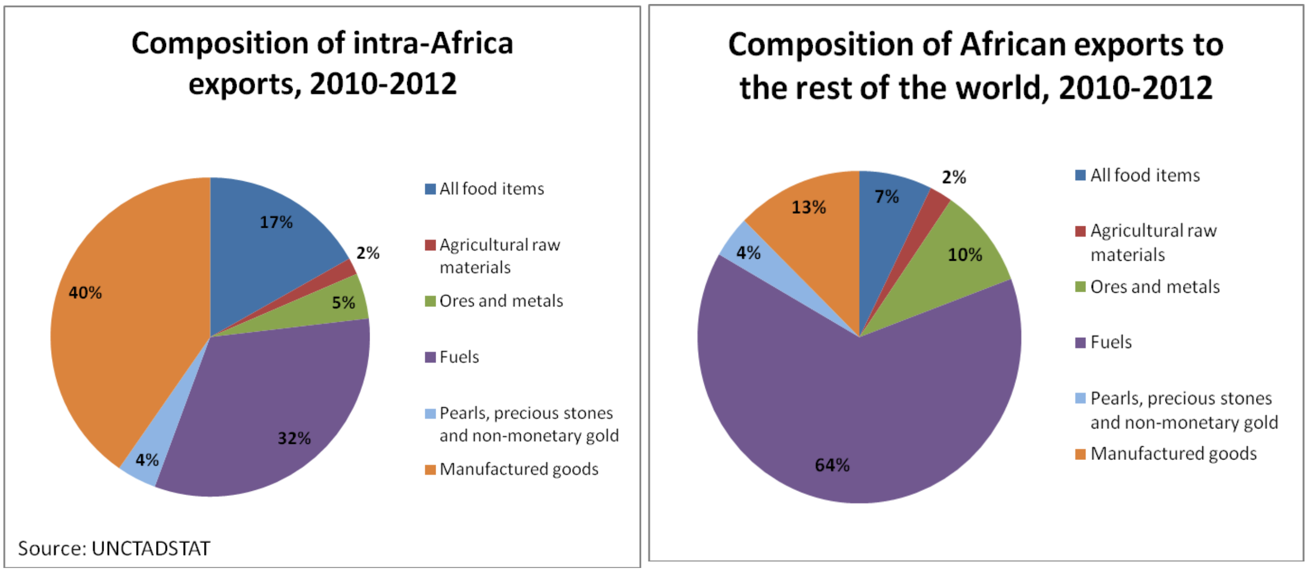
---

[4] Economic Commission for Africa, *Africa-BRICS Cooperation: Implications for Growth, Employment and Structural Transformation in Africa* (Addis Ababa, 2013).

[5] United Nations Conference on Trade and Development, UNCTADStat database. Available from http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx (accessed in November 2013).

[6] Economic Commission for Africa, African Development Bank and African Union, *Assessing Regional Integration in Africa IV: Enhancing Intra-African Trade* (Addis Ababa, 2010).

Figure VIII
Composition of African exports



Source: United Nations Conference on Trade and Development (2013).

Trade in services

31. The steep increase in global trade in services over the past three decades has also been reflected in Africa. The service sector is the fastest-growing sector in the global economy, accounting for one fifth of global trade and three quarters of global output; the value of Africa's exports of commercial services to the world more than doubled over the past decade.[7]

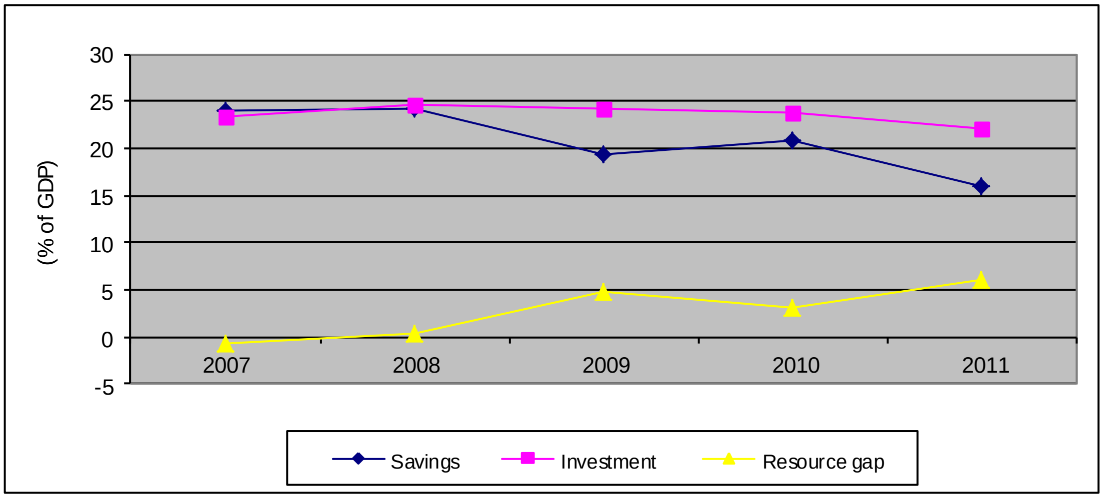
IV. New approaches to bridge Africa's financing gap

Investment in Africa

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

[7] World Trade Organization, *World Trade Report 2013: Factors Shaping the Future of World Trade* (Geneva, 2013).

Figure IX
Africa's financing gap, 2007-2011



Source: Calculations based on information from the World Bank (2013).

33. Flows of foreign direct investment to Africa have risen steadily over the past few years, from $20 billion in 2001 to $50 billion in 2012, which was 5 per cent higher than in 2011. Although most of these inflows have been to the extractive industries, there has been an increasing number of success stories of market-seeking investments, in particular in the manufacturing sector, that are not directly linked to those industries.

34. Since 2010, remittances have become Africa's largest external source of financing, with an estimated inflow of $62.5 billion in 2012, up from only $13.5 billion in 2001. In 2013, members of the diaspora had to pay 12.1 per cent per transaction valued at $200 or the equivalent in local currency to send money home, which means that sub-Saharan Africa remains the most expensive region to which to remit funds.[8] If this cost could be brought down to around 5 per cent — a target set by the Group of Eight and the Group of 20 for 2014 — it has been estimated that Africans could save up to $4 billion a year.[9]

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

36. Given that domestic savings and external capital flows have often fallen below the levels needed to bridge the financing gap, many African countries have resorted

---

[8] World Bank, "Migration and remittance flows: recent trends and outlook, 2013-2016", *Migration and Development Brief No. 21* (2 October 2013).

[9] World Bank, "African migrants could save $4 billion annually on remittance fees", Send Money Africa database. Available from http://sendmoneyafrica.worldbank.org (accessed in November 2013).

to borrowing to finance domestic investment. As a result, foreign debt as a share of GDP has continued to rise, from 22.7 per cent in 2010 to 24 per cent in 2013.

37. Although tax revenues are the largest source of domestic resources in Africa, tax collection as a share of GDP increased only marginally, from 26.6 per cent in 2009 to 27.0 per cent in 2011. Worse, several countries, including the Central African Republic, the Democratic Republic of the Congo, Ethiopia, Liberia, Nigeria and the Sudan, have tax ratios below 10 per cent. Most African economies continue to experience challenges in expanding and exploiting the tax base.[10]

Sources of finance to support Africa's growth and transformation

38. The financing of Africa's industrialization and economic transformation has to be increasingly based on domestic public and private resources.[11] For that to happen, Africa needs to explore new approaches to raising capital to meet its development agenda. In addition to using traditional domestic sources of financing, such as taxes and levies and private savings, Africa needs to adopt a broader and more diversified set of instruments, mechanisms and financial products, and create an environment conducive to mobilizing resources from non-traditional sources. Fresh approaches to development financing revolve around sovereign wealth funds, pension funds, insurance savings, private equity funds, diaspora and sovereign bonds, remittances and public private partnerships, as well as the curtailment of illicit financial flows.

V. Transformative policies for inclusive growth

39. Africa is making progress on some key challenges, but it is doing so too slowly to meet its social development goals, including the Millennium Development Goals.

Progress in some key social development indicators

40. In many countries, the incidence of extreme poverty is on the decline. Attending primary school is becoming the norm, as most countries have achieved universal primary school enrolment (above 90 per cent). Nearly one half of African countries have achieved gender parity in primary school. On the political front, 20 per cent of seats in African national parliaments are now held by women, a figure surpassed only in Latin America and the Caribbean. Major gains have also been made in respect of health: between 1990 and 2011, mortality rates for children under 5 years of age declined by 38 per cent, from 146 to 90 deaths per 1,000 live births. Similarly, the maternal mortality rate declined, by 42 per cent, between 1990 and 2010, from 745 to 429 deaths per 100,000 live births. Strong gains have been made in addressing HIV/AIDS: adult HIV/AIDS prevalence declined from 5.9 per cent in 2001 to 4.9 per cent in 2011, HIV/AIDS-related deaths fell by 32 per cent between 2005 and 2011, and new infections among children also tumbled, by 52 per cent

---

[10] African Development Bank, Organization for Economic Cooperation and Development, UNDP and Economic Commission for Africa, *African Economic Outlook 2013: Structural Transformation and Natural Resources* (Paris, 2013).

[11] Economic Commission for Africa and African Union, *Economic Report on Africa 2013* (Addis Ababa, 2013).

during 2001-2012, largely as a result of efforts to increase access to antiretroviral therapy.

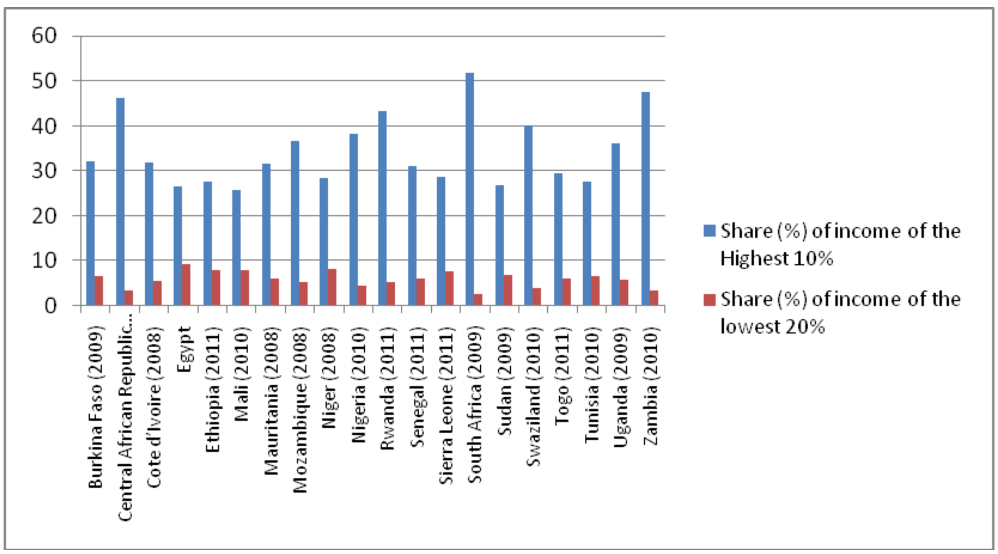
High poverty levels and limited access to social services

41. The continent is still far from reaching most of the Millennium Development Goals. A total of 48 per cent of Africans live in extreme poverty and 72 per cent of the continent's youth live on less than two dollars a day. Burundi, Ethiopia, Nigeria, Uganda and Zambia have a youth poverty rate of over 80 per cent.[12] While the world as a whole is on track to meet the target to halve, by 2015, the proportion of the population without sustainable access to safe drinking water, Africa is not, and the continent now accounts for more than 40 per cent of people without access to safe drinking water. Furthermore, most African countries are not on track to meet the target regarding access to basic sanitation; coverage edged up by a mere 4 percentage points from 1990 to 2010 and stark disparities remain between rural and urban areas.

Inequality undermining efforts to reduce poverty

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

Figure X
Income distribution inequality



Source: Database of the World Bank World Development Indicators (November 2013).

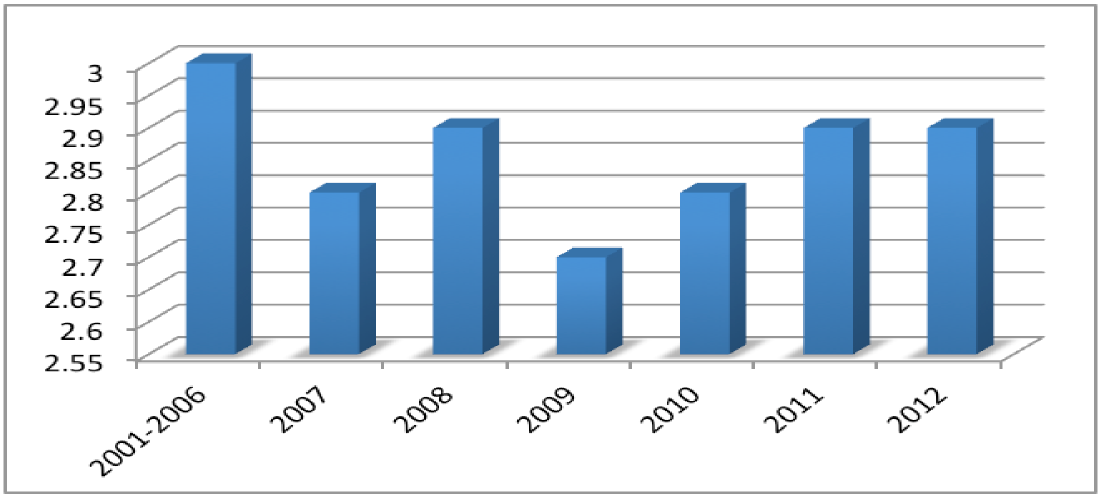
[12] Maurice Mubila, Laurence Lannes and Mohamed S. Ben Aissa, "Income inequality in Africa", *Briefing Note No. 5* (African Development Bank (Tunis, 2012)).

43. In 2008, sub-Saharan Africa was identified as the second-most unequal region in terms of income inequality after Latin America and the Caribbean.[13] An increase in inequality of 1 per cent increases poverty by 2.16 per cent in Africa, where gender inequalities persist. In countries such as Algeria, Côte d'Ivoire and Mauritania, women are paid only around one half what men are paid for similar work.

44. Disparities in terms of gender and location clearly affect access to social services: births to women in the richest quintile are nearly three times as likely to be attended by a trained professional as those in the poorest quintile and 90 per cent of women in urban areas have at least one antenatal care visit during pregnancy compared with 71 per cent of women in rural areas. Girls in the poorest 20 per cent of households are three times more likely to be out of school than girls in the highest-income group, and children from the poorest households are twice as likely to be underweight as those from richer households.[14] In short, slow progress in addressing poverty and inequality has undermined opportunities for human development for large segments of the population.

45. Labour market indicators are still positive after the 2008-2009 global economic and financial crisis. Employment growth in Africa (excluding North Africa) was firm at 2.9 per cent in 2012 (figure XI) and the employment-to-population ratio reached 65.1 per cent in 2012, largely driven by women's increased participation; that ratio was second only to that for East Asia (69.8 per cent). By contrast, in the rest of the world the employment-to-population ratio in 2012 remained stagnant at 60.3 per cent.[2]

Figure XI
Annual employment growth in Africa (excluding North Africa)
(Percentage)



Source: Calculations based on information from ILO (2013).

[13] Isabel Ortiz and Matthew Cummins, "Global inequality: beyond the bottom billion — a rapid review of income distribution in 141 countries", *UNICEF Social and Economic Policy Working Paper* (UNICEF, New York, April 2011).

[14] Economic Commission for Africa, African Union, African Development Bank and United Nations Development Programme, *Assessing Progress in Africa toward the Millennium Development Goals: Millennium Development Goals Report 2011* (2012).

46. The indicator for the working poor (working people whose incomes fall below a given poverty line) has also maintained its positive trend in Africa, mainly because of minimum wage policies that in some countries have raised wages above the international poverty line and the harnessing of natural resources, which has triggered improvements in working people's conditions.[2,14] In some North African countries, however, this indicator has worsened, as Governments prioritize unemployment reduction.

47. Most Africans are locked into vulnerable jobs with low wages and low productivity. With 46.5 per cent of workers earning less than $1.25 a day in 2012,[15] the proportion of persons in vulnerable employment in Africa is stubbornly high compared with other regions.[2] This largely stems from an abundant labour supply coupled with an absence of social safety nets, which makes it difficult for many low-skilled workers to exit the labour market, as they have no alternative means of survival.[16]

48. The figures remain highly skewed against women and youth: in 2012, 84.9 per cent of African women were engaged in vulnerable employment — the majority of them contributing family workers — against 70.6 per cent of men.[15] Cultural impediments and scarce economic opportunities still push women into informal and vulnerable jobs.

49. These challenges are particularly pressing for young Africans. The population of the continent is among the world's youngest and fastest growing. Yet, formal employment is elusive and most young people are underemployed or self-employed in the informal or agricultural sectors.

50. Although official youth unemployment rates in Africa (excluding North Africa) are lower than in most other regions, they are much higher than adult unemployment rates. Unfortunately, in 2012 unemployment rates rose for both groups, by around 12 per cent and around 6 per cent respectively. While a lack of skills is commonly the main hurdle for youths trying to enter the labour market, unemployment also results from a lack of jobs and a mismatch between skills demanded and supplied.[17]

Employment prospects hindered by late labour productivity gains

51. Labour productivity increased by an average of 1.6 per cent during 2000-2011 and by 2.3 per cent during 2012-2013, but remains low compared with East Asia, where it grew by 7.5 per cent over the same period. It is expected to drop to a cumulative 1.9 per cent over the period 2014-2016, mainly because of inadequate investment in human and financial capital.[2]

52. While the growth in productivity in Africa is partly due to the shift of labour from less productive to more productive sectors, particularly from agriculture to

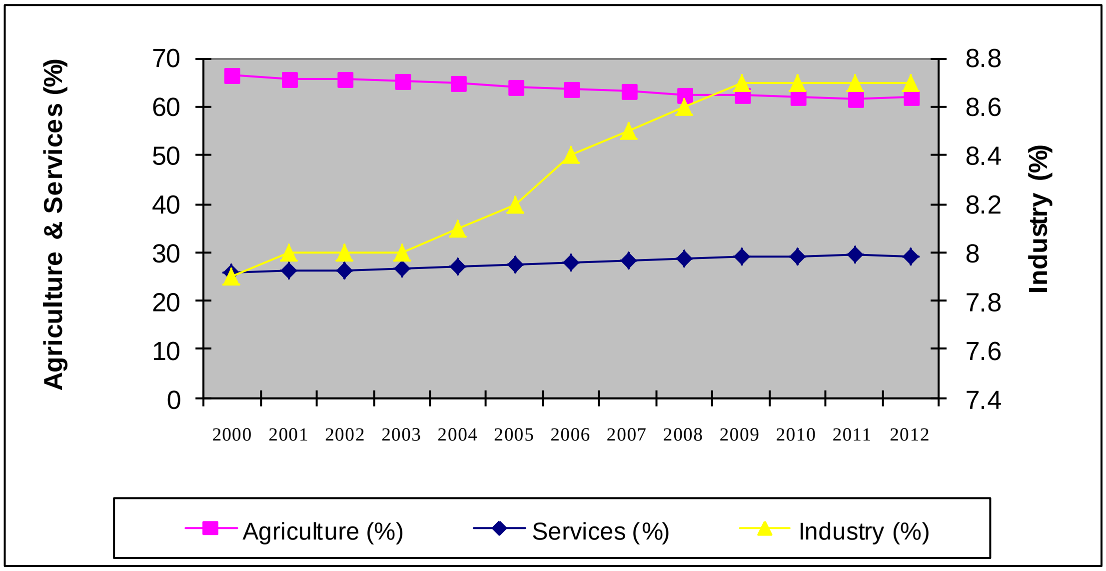
[15] Economic Commission for Africa, African Union, African Development Bank and United Nations Development Programme, *Assessing Progress in Africa toward the Millennium Development Goals: Millennium Development Goals Report 2013 — Food Security in Africa: Issues, Challenges and Lessons* (2014).

[16] *Millennium Development Goals Report 2012* (United Nations publication, Sales No. E.12.I.4).

[17] African Development Bank, draft human capital development strategy, 2012-2016. Available from www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/FINAL%20human%20capital%20development%20strategy%20(2012-2016).pdf.

services, jobs are not moving out of agriculture or industry as fast as expected. Services are absorbing most of the jobs that used to be in the agricultural sector, leaving employment in industry almost stagnant at 8.6 per cent over the past 12 years (figure XII). This is likely to hinder economic and employment prospects, as most of the jobs in the agricultura; and service sectors remain informal, characterized by low productivity, low wages and poor working conditions.

Figure XII
Employment share by sector in Africa (excluding North Africa)



Source: Calculations based on ILO estimates, Key Indicators of the Labour Market database (seventh edition). Available from http://ilo.org/empelm/pubs/WCMS_114060/lang--en/index.htm (accessed October 2013).

Strengthening human capital

53. Stronger human capital is critical for employment, labour productivity and industrialization. The creation of decent jobs and a sharp reduction in poverty hinge on diversifying the economy so that it moves from the low-productivity agricultural and informal sectors to high-productivity sectors such as manufacturing and modern services. Consequently, policies to improve education and health should be part of economic growth and transformation strategies.

Need for further improvement in education

54. The progress made in universal primary school enrolment has not been matched by gains in terms of the rates of completion of primary education, which, as reported by the United Nations in its 2012 report on the Millennium Development Goals, has stayed at 70 per cent in Africa (excluding North Africa) over the past decade, while the global rate was 90 per cent.[16] Higher levels of education are important if pupils are to acquire the skills needed by employers and engage in independent technical and entrepreneurial activities. Basic literacy and numeracy alone — the main elements of a good primary education — are not enough to get a good job: employers want assurances that young people applying for work have,

beyond these fundamental skills, the ability to use their knowledge to provide solutions to problems, take the initiative and communicate with others, rather than just follow prescribed routines.

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

56. Secondary school enrolment is an important channel through which young people acquire skills that improve opportunities for good jobs. In 2010, the secondary school enrolment rate in Africa (excluding North Africa) was 40 per cent while in developed countries and in South East Asia it was above 90 per cent.[18]

Lifelong impacts of inequitable access to primary education

57. Inequitable access to primary education greatly affects completion rates and the acquisition of skills. Low completion rates are mainly attributable to households' failure to enrol children in school at the right age, the pressure exerted by peers and household demands on older children to work. This means that children who enrol late are more likely to drop out than those who start school at the right age. Poverty, poor health and nutritional status, and a lack of parental awareness of the importance of sending children to school on time are exacerbating factors.[19]

58. Another factor contributing to low completion rates is teacher quantity and quality, a serious constraint to educational attainment. Even with the 59 per cent increase in the preparation of trained teachers between 1999 and 2010, the number of new teachers needed in Africa just to achieve universal primary education has been calculated at more than 2 million.[18] In many countries, the proportion of teachers trained to national standards is very low and many teachers often lack the subject knowledge and ability necessary to instruct effectively.

Better health for higher productivity and economic transformation

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

60. In Egypt, Ethiopia, Swaziland and Uganda, the prevalence of the working-age population that was stunted in early childhood is in the range of 40-67 per cent. The associated loss in GDP productivity is substantial and has been estimated at between 0.5 and 3.8 per cent.

[18] Institute for Statistics of the United Nations Educational, Scientific and Cultural Organization, "Opportunities lost: the impact of grade repetition and early school leaving", *Global Education Digest 2012* (Montreal, Canada, 2012).

[19] UNESCO, *UNESCO and Education: Everyone Has the Right to Education* (Paris, 2011).

VI. Conclusions

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

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

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

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