Overview

Africa achieved relatively high growth rates in the first decade of the twenty-first century, culminating in a continent-wide average growth rate of 6.1 per cent in 2007. Although rates varied across the continent, this relatively fast growth was generally shared, with several countries experiencing growth rates that exceeded their population growth rates, thus leading to increases in per capita income. This rapid growth was generally due to increased investment financed by high commodity prices, resource extraction, foreign direct investment (FDI) and inflows of other foreign resources, as well as macroeconomic stability and better economic management. This relatively rapid growth was however, not accompanied by growth in employment, as the rates of unemployment and underemployment increased in most African countries. Unemployment rates remained in double digits in a large number of African countries. The 2008 global financial and economic crises exacerbated the unemployment problem through their impacts on growth, export earnings, government revenues and foreign capital inflows into Africa.

"Africa has been unable to create enough jobs to significantly reduce unemployment despite impressive growth before the crisis"

Like the Ouagadougou Declaration and Plan of Action on Employment and Poverty Alleviation in Africa (2004) and the objectives of the New Partnership for Africa's Development, the Economic Report on Africa 2010 (ERA 2010) focuses on how African countries can use the lessons provided by the recent global economic crisis to pursue policies which will help them not only to recover from the crisis but also to lay a foundation for sustainable high growth that generates high-paying employment for Africans as a way of reducing poverty. Of particular concern is how to rapidly generate stable and high-income employment to absorb the increasing number of unemployed among vulnerable groups - youth, women and the physically challenged. ERA 2010 argues that the current global economic crisis offers African countries an opportunity to develop policies to counter the problems created by the crisis and at the same time lay the foundation for sustainable, employment-intensive, high-growth-rate economies that are structurally diversified to replace the current economic structures which rely almost exclusively on natural resource extraction to generate economic growth.

ERA 2005 argued for developing agro-business as a mechanism for reducing unemployment and poverty in Africa, especially among rural people and women (UNECA, 2005). Five years after the publication of ERA 2005, unemployment remains high and rising in spite of historically high growth rates in gross domestic product (GDP). ERA 2010 therefore reinforces the message of ERA 2005 that African countries should pay special attention in their development policies to reducing unemployment. Although both ERA 2005 and ERA 2010 focus on reducing unemployment, there are differences in emphasis and conditions. First, the environments within which the two reports were written are different: ERA 2005 was written in a period of robust economic growth and a lot of optimism in Africa, while ERA 2010 is being written in a period of serious global economic crisis with severe implications for Africa's economic future. Second, while ERA 2005 emphasized agro-industry as a mechanism for achieving high employment, ERA 2010 stresses structural transformation through appropriate macroeconomic policies as the mechanism for achieving high employment growth. Finally, ERA 2010 focuses on both short-term countercyclical policies and long-term strategies.

"Africa's development strategies must focus on employment generation"

This report is organized into two parts. The first part, consisting of chapters 1 to 3, discusses current trends in the global economy and African economies. The second part, covering chapters 4 to 6, is the thematic part and deals with how to use the challenges created by the recent global economic crisis as an opportunity to develop and implement policies that lead to the structural transformation of African economies and result in sustained high growth with a high level of employment creation. Chapter 1 of the report examines global economic developments and their implications for Africa. This is followed by an analysis in chapter 2 of economic and social conditions in Africa in 2009 and the prospects for 2010, while chapter 3 discusses selected current and emerging development issues for Africa in 2009.

Part II, the thematic part of the report, is devoted to the issue of reducing high unemployment through the promotion of high-level sustainable growth. Special attention is paid to reducing unemployment among vulnerable groups. Chapter 4 discusses the major drivers of economic growth in Africa since 1990, with a view to understanding the sources of the observed jobless growth in the last decade, as well as discussing the impact of the recent global crisis on these drivers. This is followed in chapter 5 by a discussion of what countercyclical and long-term policies African countries can pursue to recover from the effects of the crisis and lay a foundation for long-term high employment-elastic economic growth that is accompanied by structural transformation. Chapter 6 presents and discusses four country case studies of recent economic growth and employment generation and draws lessons for policies to generate high-employment growth for African countries. The chapter also concludes the report.

Developments in the world economy and their implications for Africa

The global financial crisis continued to have a negative effect on the world economy in 2009, although there are signs that the world economy has began to stabilize. The world economy contracted by 2.2 per cent, trade volume decreased by 12.4 per cent and there was a rapid decline in FDI flows to developing countries. The contraction was much more concentrated in the developed world, which saw a 3.5 per cent decline in GDP while the developing world recorded 1.9 per cent growth. Associated with the economic downturn has been a sharp increase in unemployment, with unemployment in most member countries of the Organisation for Economic Cooperation and Development exceeding 10 per cent. While economic activity is expected to expand in 2010, the recovery is likely to be anaemic (IMF, 2009a, UN-DESA, 2010).

"There are signs that the world economy has begun to stabilize"

GDP growth in Africa declined from 4.9 per cent in 2008 to 1.6 per cent in 2009 and is expected to rise to 4.3 per cent in 2010. The volume of export growth is expected to recover from -4.9 per cent in 2009 to 4.2 per cent in 2010; the current account and fiscal balance and savings and investment rates all declined. Unemployment rates remained in double digits in 2009 as in previous years, and are expected to remain high in 2010.

The current global recession will have significant effects on current-account and fiscal balances in 2010. Regions with current-account surpluses - Japan, China, India and the countries of the Gulf Cooperation Council - experienced a decline in these surpluses in 2009 and possibly in 2010. The fiscal balance in industrial countries as a whole and in all major countries and regions sharply deteriorated in 2009. This decline was mainly driven by lower revenues, owing to the slowdown in income growth and higher expenditure as countries pursued expansionary countercyclical fiscal policies. Developing countries as a group experienced a negative fiscal balance of 3 to 5 per cent of GDP. While the fiscal positions of industrialized countries are expected to improve in 2010, they are still expected to have negative fiscal balances, albeit reduced ones.

Commodity prices fell at the beginning of 2009, but have since rebounded and are expected to stabilize in 2010 and rise moderately in 2011. The rebound in 2009 was mainly due to increased petroleum prices, resulting in part from increased demand from China following its stimulus package as well as the upward revision of expected world demand. However, as a result of the depreciation of the United States dollar, 2009 commodity prices were below their 2008 levels in real terms. Besides the prices of crude oil, the prices of other commodities (e.g. food and tropical beverages, agricultural produce and mineral ores) fell significantly in 2009.

> *Global commodity prices and inflation declined significantly in 2009*

As a result of the global economic crisis, inflation rates declined in all parts of the world in 2009. Global inflation fell to 1.3 per cent in 2009, and is expected to rise to 2.2 per cent in 2010. Inflation rates were lowest in developed countries in 2009, with an average rate of 0.1 per cent, while emerging and developing countries had moderate inflation of 4.3 per cent. Inflation rates for 2010 are expected to be 1.3 and 4.7 per cent for developed and developing countries respectively.

Global trade, FDI, official development assistance (ODA) and remittances were negatively affected by the recession in 2009, and may continue to be negatively impacted by the economic crisis in 2010. World trade contracted in 2009, and this was reflected in negative growth rates of exports for all regions of the world. Growth in world trade is expected to recover in 2010 as the global economy gradually recovers from the recession. Accompanying the decline in world trade was a reduction in foreign exchange reserves in many regions of the world in 2009, with China as the major exception.

In 2009, global FDI flows contracted by 43 per cent. Most of the decline was accounted for by a fall in FDI flows to developed countries, although FDI to East and South-east Asia witnessed significant declines. Although the flow of FDI is expected to increase in 2010, the rise is not likely to be evenly spread over all parts of the world. ODA flows to Africa peaked at US$ 24.5 billion in 2007. As a result of the world economic crisis, FDI flows decreased by 11 per cent in 2009 and are expected to decrease further as the developed countries continue to face fiscal stress and are preoccupied with domestic concerns. While Africa attracts a relatively small proportion of the world's FDI, these flows may be more critical to economic performance in Africa than elsewhere.

Remittance flows constitute a significant and growing source of foreign flows to the developing world. In 2009, remittances to the developing world decreased by 5.3 per cent from US$ 420.1 billion in 2008. For 2010, the rate of decline in remittance flows to developing countries is expected to be slow. The global economic crisis has negatively affected unemployment rates and the working poor around the world. According to the International Labour Organization, global unemployment jumped from 5.9 per cent in 2008 to an estimated 6.9 per cent under the best scenario in 2009, or 7.4 per cent according to the worst scenario. According to worst-case estimates, working poverty rates increased to 28.2 per cent in 2009, while the proportion of those in vulnerable employment increased from 49.8 per cent to 52.8 per cent in 2009.

In Africa, the global recession had severe negative consequences on several aspects of economic performance. Besides the significantly lower growth rate, the volume of trade, export revenue, the investment rate, the savings rate, FDI and international reserves declined, while both the current account and the fiscal balance became negative in most African countries. In addition, official unemployment increased, together with the proportion of workers who are poor and are in vulnerable employment situations.

Recent economic and social performance in Africa

> *The global financial crisis adversely affected growth and employment in Africa*

Africa's growth slows down, with significant variations in 2009

As a result of the global economic recession, Africa's economic growth continued to slow in 2009 to 1.6 per cent, down from 4.9 per cent in 2008. In spite of the fall in world commodity prices, primary commodity exports continue to be the major driver of growth in Africa. Although oil and other commodity prices fell generally in the early part of 2009, they rebounded in the second half of 2009 and remained high. Thus, oil-exporting African countries grew at 2.5 per cent compared to an average of 0.5 per cent for non-oil African economies in 2009.

There were considerable regional variations in growth in 2009 across African regions and countries. Growth was highest in East Africa at 3.9 per cent, followed by North Africa at 3.5 per cent, West Africa at 2.4 per cent and Central Africa at 0.9 per cent, while Southern Africa posted a negative growth rate of 1.6 per cent. Of the 53 African countries, only 7 grew at 5 per cent or more in 2009, while 29 grew at less than 3 per cent. This compares to 25 countries growing at 5 per cent or more and 16 countries growing at less than 3 per cent in 2008.

The combination of a decline in energy and food prices around the world, weak domestic demand resulting from the global recession, and favourable food supplies contributed to a decline in inflation in Africa in 2009. Again, there are wide variations, with oil-exporting countries posting the lowest inflation while countries that experienced currency depreciation (e.g. Uganda and Zambia) saw higher rates. With increased spending needs and reduced revenues stemming from the slowdown in economic activity, many African countries experienced fiscal deficits in 2009; however, because of prudent fiscal policies in the past, many African countries had the fiscal space for countercyclical policies. In a departure from past practice, where monetary policy was geared strictly towards inflation targeting, there is evidence that monetary authorities in African countries supported expansionary fiscal policies with prudence in 2009. Real exchange rate movements were mixed: while some countries (especially those with fixed exchange regimes, such as those in Communauté financière africaine (CFA), and those with higher inflation rates) experienced a real appreciation of their currencies, other countries experienced depreciation.

The average current account balance decreased by 3.5 per cent in Africa in 2009, although there were wide variations across the continent. As a group, oil-exporting countries experienced only 0.7 per cent declines in their external balance, while oil importers as a group experienced a 6.2 per cent fall. In some oil-importing countries, increased demand for mineral exports (e.g. gold in Ghana, Mali and the United Republic of Tanzania) helped to improve the external balance in 2009. The global crisis presents African countries with the prospect of unfavourable external balances in the future as export growth decreases.

> *"Many African countries implemented expansionary fiscal and monetary policies in 2009"*

Unemployment and vulnerable unemployment rates remained very high in 2009

As indicated above, the global economic crisis exacerbated the already high unemployment rates and vulnerable employment in Africa. North Africa was hardest hit in terms of open unemployment, with unemployment rising above 10 per cent in 2009. In sub-Saharan Africa, the major employment problem was the large increase in informal sector employment and other forms of vulnerable employment.

Prospects for 2010: a slow and variable recovery with increased vulnerability

Economic activity in Africa is expected to recover in 2010, with GDP projected to grow at an average rate of 4.3 per cent. The projected regional growth rates are 4.2 per cent for North Africa, 5.1 per cent for oil-exporting sub-Saharan Africa and 4.9 per cent for oil-importing sub-Saharan Africa. Of course, if commodity prices continue to recover and remain high in 2010, oil-exporting African countries are likely to grow faster than their oil-importing counterparts. Yet the expected economic growth falls short of the 7 per cent pace required for achieving the Millennium Development Goals. The expected GDP growth rate is also not likely to be accompanied by increased job creation, if historical trends are used to predict job creation. This means that unemployment and vulnerable employment as well as working poverty in Africa are likely to increase in 2010.

The expected increase in economic growth will be driven by both domestic and international factors, including increased demand for and prices of African exports, rising private capital inflows, increased ODA inflows and remittances as well as the continued stimulus of fiscal and monetary policies in many African countries. It is also expected that African countries will continue to maintain a stable macroeconomic environment, improved economic management and political stability. These are the same drivers of growth that have left economic performance in Africa vulnerable to volatility in world commodity markets in the past.

On the positive side, Africa has a large and growing labour force and underutilized capacity that can be employed to increase output. This labour force is increasingly educated, young and innovative. The slack in economic activity means that African governments can pursue policies to put these unemployed resources to work without igniting inflation, if this is done with care. These policies can also lay the foundation for structural transformation and long-term, sustainable high-employment-generating economic growth and poverty reduction. Africa's long-term growth prospects and ability to sustain high rates of employment generation and broader social development depend on success in economic diversification (UNECA and AUC, 2007). Policies as well as institutional reforms formulated and implemented for Africa should therefore pay attention to this goal.

> *"African labour force is increasingly educated, young and innovative"*

Recent trends in social development in Africa

Rapid population growth with increased poverty

Africa's population increased by 2.3 per cent between 2008 and 2009, reaching about 1 billion people. Seventy per cent of the population is aged 30 or younger, making Africa one of the youngest continents in the world. This population provides Africa with a large pool of labour upon which it could draw for rapid economic growth. The rapid population increase, together with increased rural-urban migration, creates many problems, including inadequate provision of sanitation and social services, housing and employment (see below).

Although accurate data on poverty in Africa are hard to come by, there is evidence that poverty rates are high and rising. In 2005, the proportion of people living in extreme poverty, using the new US$ 1.25 per day poverty line, was 51 per cent in sub-Saharan Africa and 3 per cent in North Africa. Although a gender breakdown is not provided, it is generally agreed that women and children are more likely to be poor than men. The current economic crisis is likely to exacerbate the incidence and severity of poverty in Africa, and again women and children are likely to be the most affected by the crisis.

Human capital formation is mixed, at best

> *Africa made remarkable progress in primary school enrolment*

It is generally agreed that an educated and healthy labour force is necessary for rapid economic growth. Africa is making remarkable progress in this direction. Net primary enrolment rates rose from 71 to 74 per cent between 2006 and 2007 in sub-Saharan Africa, and from 91 to 96 per cent in North Africa. At the current rates, Africa could achieve 100 per cent enrolment by 2015. However, the quality of primary education, as well as completion rates, especially among females, leave much to be desired. In addition, gross enrolment ratios in secondary and tertiary education are very low compared with those of other regions of the world, and graduates are less trained in appropriate skills. Although literacy rates have improved, the challenge is for African educational systems to produce graduates with the skill sets that are necessary to develop African economies.

Average life expectancy in Africa was about 55 for men and 57 for women in 2009, although levels vary enormously across the continent. Life expectancy ranges from a high of more than 70 for countries like Mauritius, Morocco and Tunisia to a low of about 46 for Lesotho, Zambia and Zimbabwe; the low numbers are due largely to the HIV/AIDS epidemic. As a result of targeted intervention programmes, HIV prevalence rates have stabilized and those with the virus are living longer. The prevalence of other diseases such as tuberculosis and malaria has, however, been trending upwards in Africa. On the positive side, malaria has virtually been eliminated, and the prevalence rate of tuberculosis decreased from 65 per 100,000 in 1990 to 44 per 100,000 in 2007 in North Africa.

Under-five mortality rates in sub-Saharan Africa dropped from 160 per 1,000 in 2006 to 145 per 1,000 in 2007. However, this rate is still unacceptably high. Under-five mortality rates in North Africa decreased from 83 in 1990 to 35 per 1000 in 2007. In contrast, maternal mortality is extremely high, decreasing from 920 per 10,000 in 1990 to 900 per 10,000 in 2005. About 80 per cent of these deaths are preventable. On the positive side, the proportion of people with access to clean drinking water increased to 60 per cent in 2006. Much of this improvement took place in urban areas, while a majority of African population lives in rural areas. The challenge, then, is to provide access to clean water for those in the rural areas. Improving human capital is essential for improved labour productivity, employment and economic growth in the future.

Gender equity is improving, but very slowly

Twelve African countries have shown improvements in the number of women in national parliaments as of 2009, with Rwanda achieving gender parity (56.3 per cent) and Angola, Burundi, Mozambique, South Africa, Uganda and the United Republic of Tanzania achieving 30 per cent representation of women. The number of women ministers in African countries was low in 2009. On the negative side, violence against women still remains high, although it appears to be receiving increasing attention. While primary and secondary school enrolment rates for girls increased in 2009, gender equity has not been achieved.

> *Despite increasing attention, violence against women remains high*

Unemployment and vulnerable employment remains too high and rising

Unemployment rates were high even in times of rapid economic growth. The current economic crisis has exacerbated the unemployment problem. Official unemployment rates in 2008 were 7.6 per cent in sub-Saharan Africa and 10.1 per cent in North Africa. While the rate of unemployment is relatively low in sub-Saharan Africa, the proportion of workers in vulnerable employment is about 77 per cent of the labour force, and is likely to increase with the economic recession as an increasing number of people are not able to find jobs in the formal sector. Those in vulnerable employment are also likely to fall into the category of the working poor. Reducing poverty in Africa will therefore require African countries to increase efforts to create jobs for those in vulnerable employment situations.

While the unemployment effects of the global financial and economic crisis cut across all groups, in Africa it is the poor that bear the brunt of the crisis owing to the lack of social safety nets. Accordingly, long-term growth and employment strategies should pay special attention to vulnerable groups, including women, young people and the rural poor. Indeed, in the short run African countries should pursue countercyclical policies that create employment for vulnerable groups. Of course, appropriate policy interventions are likely to differ across countries and possibly income levels as well as with the structure of unemployment. In the long term, however, African countries have to pursue high employment elasticity growth strategies.

Selected current and emerging development challenges for Africa in 2009

Of the several development challenges and issues facing Africa in 2009, the continent's continued marginalization in international and global affairs, its ability to mobilize resources (domestic and foreign) to finance development, issues of global climate change and its inability to generate high-paying employment for the growing labour force stand out as major concerns.

Developments in international trade in 2009

Africa's global trade remains concentrated in a few primary commodities and destinations

Africa continued to play a marginal role in world trade in 2009, with about a 3.4 per cent share of global merchandise trade and an insignificant share in trade in services. Commodities continue to be the major exports, and export destinations remain concentrated in industrialized countries, although South-east Asia and Brazil are beginning to be important destinations for African exports. The reliance on a narrow range of commodities as well as a narrow range of export markets makes African export earnings extremely vulnerable to volatility in these markets. Intra-African trade continued to be minimal, at less than 10 per cent of total trade in 2009.

There was no major progress in world trade negotiations in 2009, although African countries continued to be interested in market access provision in agriculture and non-agricultural market access under the Doha round of World Trade Organization negotiations. Although no negotiations took place in 2009, it appears the year was devoted to marshalling political will and preparing the ground for negotiations to resume in 2010. The development of a new international governance architecture represented by the G-20 forum and the restructuring of the negotiating process in 2009 were the two major dynamics in political economy that could have consequences for Africa.

No significant changes in the negotiations on economic partnership agreements (EPAs) occurred in 2009. However, African trade ministers endorsed an EPA template jointly prepared by the African Union Commission and the Economic Commission for Africa (ECA). Countries that signed the interim agreements mainly focused on market access in the European Union. In some of the groupings, it was anticipated that comprehensive EPAs would be concluded and signed by the end of 2008. However, several outstanding issues such as the African regional integration processes and other trade-related issues that were of concern to African countries made it difficult to conclude the negotiations. Of particular concern is what a comprehensive EPA would do to existing regional groupings and relationships as well as intra-African trade generally. ERA 2010 therefore urges African countries to continue to negotiate the full regional EPAs with a more coordinated strategy at the continental level, focusing on a comprehensive development dimension, and linking the EPA negotiations to the world trade negotiations.

The second global review of the Aid for Trade (AfT) initiative concluded that progress had been made. By 2007, commitments to Africa had risen by 62 per cent to US$ 8.3 billion. Economic infrastructure (60 per cent) and productive capacity (36 per cent) accounted for the bulk of these commitments. The review indicated areas of emphasis on future AfT commitments, including honouring of pledges, increased ownership of AfT projects by Africans and better and more effective implementation of projects.

Financing development in the context of the global economic crisis

> *Both internal and external sources of development financing declined in 2009 due to the crisis*

Africa continues to face challenges in financing development, as the global economic crisis decreased both internal and external resources in 2009. In terms of domestic resource mobilization, the ratio of gross domestic savings to GDP dropped from 25 per cent in 2008 to 19.3 per cent in 2009, while the ratio of tax revenues to GDP decreased by 21 and 10 per cent in sub- Saharan Africa and North Africa respectively. African countries made attempts to increase government revenues through improved tax and customs administration. These efforts should be sustained and expanded. Trade revenues, which have been the main source of financing development in Africa, decreased in 2009. For some selected African countries, both export revenues and imports fell by about 25 per cent. The decline in export revenues can be attributed to the global economic crisis, which decreased demand for commodities, with a consequent collapse in commodity prices.

Private capital inflows to Africa reached US$ 87 billion in 2008, but estimates by the United Nations Conference on Trade and Development suggest that private capital inflows decreased by 67 per cent in 2009 as a result of a reduction in FDI in the mineral extraction sector due to the collapse of world commodity prices. Available data suggest that remittances to Africa fell by 7 per cent in 2009 (9.2 per cent in North Africa and 3.3 per cent in sub-Saharan Africa) owing to decreased economic activity and increased unemployment in high-income countries. The inflow of ODA has been an important source of development finance, especially in the areas of infrastructure, education and health. In 2008, ODA flows to Africa increased by 12.5 per cent over 2007. Though ODA data for Africa are not yet available, estimates show that the member countries of the Development Assistance Committee of the Organisation for Economic Cooperation and Development will cut ODA to all developing countries by US$ 22 billion in 2009, suggesting that their aid to Africa will decrease. It was, however, hoped that aid to Africa from non-members of the Committee increased in 2009.

Several African countries continued to benefit from debt forgiveness under the Heavily Indebted Poor Countries initiative in 2009. However, the economic crisis increased the debt of African countries, as the average debt-to-GDP ratio rose from 22.4 per cent in 2008 to 25.4 per cent in 2009. The debt-service-to-export ratio also increased, to 16.2 per cent from 15.9 per cent in 2008. If this increased debt ratio becomes a trend, Africa may be in danger of slipping back to the unsustainable high debt levels it recorded before the initiative. The global financial crisis has reinforced

Africa's weakness vis-à-vis the world financial architecture, where it is not a party to most decision-making regarding rules governing global financial flows.

The global financial and economic crises also highlight the need for African countries to pursue policies to use domestic resources as the major source of development financing, as the current policy of relying on external financing makes development dependent on uncontrollable forces. African countries should therefore pay serious attention to enhancing domestic resource mobilization through the use of creative and appropriate financial and capital market reforms, especially policies that expand the banking base to those hitherto unbanked.

"Africa's long-term development requires increased dependence on domestic sources of finance"

Climate change mitigation is necessary but costly

There is ample scientific evidence that global climate change is real, and the social, ecological and economic impact on Africa will be negative and substantial. Agricultural output is expected to decrease by 50 per cent in Africa, resulting in severe undernourishment as a result of unchecked climate changes. The health burden and conflicts will increase as populations fight over dwindling resources. The need for Africa to develop adaptation and mitigation strategies cannot be overemphasized. The costs of adaptation and mitigation are, however, extremely high and beyond the means of African countries. It is estimated that the cost of adaptation could be anywhere between 5 and 10 per cent of continental GDP. It is therefore important for the international community to help in financing the cost of climate change adaptation and mitigation in Africa.

While Africa will be the most affected by climate change (even though it contributes the least), it is the least able to finance mitigation and adaptation measures. There are limited resources available to the international community as a whole, and Africa in particular, for adaptation and mitigation. Indeed, less than 15 per cent of resources pledged for mitigation of climate change have so far been disbursed. Although mitigation of and adaptation to climate change is costly, the related measures will not create negative consequences for development as they could create jobs - green jobs - for the growing labour force in Africa. Indeed, the prospect of global climate change underlines the need to radically transform carbon-based economies into green economies. Africa's low level of development in the current carbon-based economy will give it an advantage in the green economy, since the changes will be less costly than in other areas that are already steeped in the carbon economy.

Africa actively participated in the United Nations conference on climate change in Copenhagen in 2009. Although the 2009 Copenhagen accords were not adopted, preparations for the conference allowed Africa to develop a framework and procedures to counter climate change. For example, the Climate for Development in Africa project jointly organized by the African Development Bank, the African Union Commission and ECA speaks to the seriousness with which Africa is taking the issue of climate change. In addition to this project, a comprehensive African Climate Change Programme is being developed under the auspices of the African Ministerial Conference on the Environment.

"The 2009 Copenhagen's conference allowed African countries to develop a framework and procedures to counter climate change"

High unemployment hinders poverty reduction

For most people, gainful employment is the only way out of poverty. This is especially the case for youth and other disadvantaged groups. Unfortunately, unemployment and underemployment rates in Africa are high and continue to rise even during rapid economic growth, depriving people of this route out of poverty. Unemployment remained in double digits in North Africa. In sub-Saharan Africa, the official unemployment rate was in single digit; however, over 75 per cent of the labour forces were employed in the low-productivity informal sector in vulnerable employment. While several reasons can be given for the high rates of unemployment, it is clear that African economies were not able to create enough jobs to employ the growing labour force because the sectors that anchor economic growth tend to be capital-intensive enclave sectors.

High and rising unemployment not only makes it difficult to reduce poverty rates, it also reduces the pace of economic growth as important resources are not put to work. In addition, high unemployment discourages investment in human capital and leads to skill loss. A further important reason for Africa to worry about high unemployment rates, especially among young people, concerns social stability. Frustration caused by persistent unemployment and lack of opportunities is likely to prompt young people to gravitate towards a charismatic and opportunist social revolutionary who blames the current structure of society for their problems. This is another reason why African countries should pay serious attention to unemployment problems.

Promoting high-level sustainable growth to reduce unemployment in Africa

In spite of relatively high GDP growth in Africa in the last decade, unemployment remains high and continues to grow. The problem is widespread; of the four countries studied, economic growth was accompanied by increasing unemployment in three of them, while the fourth showed a drastic rise in informal sector employment. The problem of high and rising unemployment persists, making it difficult for the continent to reduce poverty rapidly. High unemployment not only impedes progress in poverty reduction but also has the potential to decrease human capital formation, increase income inequality and cause major social upheaval in African societies. There is an urgent need to create employment for the growing labour force, especially among youth and other vulnerable groups. The positive news is that African labour is increasingly educated and healthy, and hence likely to be productive.

"High unemployment in Africa stems from both supply and demand sources"

High and growing unemployment rates in Africa stems from both supply and demand sources. On the supply side, the labour force in Africa is rapidly growing owing to high population growth and increased labour participation, especially among women. On the other hand, demand for labour has not grown fast enough as a result of two factors. First, economic growth has not been robust enough. Although economic growth has been rapid by historical standards in the last decade, the high growth of 6.1 per cent recorded in 2007 still falls short of the 7 per cent that is required to attain the Millennium Development Goals. Second, the employment elasticity of output growth has been very low mainly because the sectors that have been driving growth in Africa in the last decade are capital-intensive enclave sectors. The problem of high unemployment and underemployment has been exacerbated by the current global economic crisis.

ERA 2010 argues that the global economic crisis provides African countries with a unique opportunity to pursue policies that will not only counter the effects of the recession but also lay the foundation for structural transformation and rapid and sustainable growth based on diversified economies and, more important, rapidly develop large and labour-absorbing sectors of African economies in order to create jobs to employ the rapidly growing labour force. This can be done through appropriate investment in infrastructure and human capital, renewed and creative efforts at domestic resource mobilization, factor market reforms, incentives to support private-sector employment and efforts to increase productivity and incomes in the informal sector.

The major drivers of African economic growth in the last two decades have been increased accumulation, especially in infrastructure, human capital, and to some extent stable macroeconomic and political environments, as well as improved economic management. This increased accumulation has been financed mainly by increased export earnings resulting from increased commodity prices, increased FDI flows to exploit natural resources and increased ODA and remittances from abroad. The sectors that drove economic growth are generally small resource-extractive sectors, subject to extreme volatility caused by changes in world commodity markets, and have low employment elasticities. These flows decreased with the global economic crisis, leading to slow economic growth and increased unemployment.

Generating rapid employment growth will require rapid economic growth rates above those achieved in the last decade, as well as a structural shift of the growth-driving sectors of the economy away from sectors which are not labour-intensive to large and expanding highly labour-intensive sectors. In this regard, agro-industry, labour-intensive manufacturing and services, especially service exports, are sectors to be explored and expanded. This structural transformation will not only decrease the boom-and-bust episodes tied to the volatility of international commodity prices that have characterized economic performance in Africa, but will allow African countries to pursue effective economic policies that are not dictated by what happens elsewhere. In addition, employment policy should pay special attention to increasing the productivity and incomes of the informal sector by virtue of its size and contribution to employment.

"Economic transformation is essential for high-level, employment-intensive sustainable growth in Africa"

African countries can pursue several short-term and long-term policies to achieve the needed structural transformation that generates high growth with increased employment creation. These policies should be based on a comprehensive development planning framework that embodies well-designed and implemented macroeconomic and sectoral strategies. In the short term, African countries can pursue expansionary countercyclical fiscal and monetary policies that focus on expanding investment in infrastructure and human capital formation. This investment should, however, focus on labour-intensive activities, and employment should target vulnerable groups. Given the slack in resource use and because of prudent fiscal policies in the past, several African countries have the fiscal space to engage in expansionary policies without destabilizing the macroeconomic environment. In addition to fiscal expenditure in these areas, African countries could use the provision of social services, such as education, health, water and sanitation, as mechanisms for job creation in the short run.

Long-term policies will involve structural transformation that can be achieved through several possible means. These include investing the rents from commodity exports in labour-intensive non-resource sectors to expand output and increase productivity in these sectors; making resources (e.g. financing) available to priority sectors at reasonable rates or in an expeditious way; aggressive efforts to attract FDI in non-resource-extraction sectors, especially in the areas of service exports, agro-industry and "green" industries, such as renewable energy, where Africa may have a comparative advantage; and creating an enabling environment for the private sector to invest and create jobs. In addition, job creation in Africa may depend on the size of markets. Given the small sizes of individual African economies, rapid growth and job creation may depend on how much African countries have access to international markets. Without waiting for the Doha round of world trade negotiations to conclude, intra-African trade offers opportunities for individual African countries to enlarge their markets and reap the benefits of scale and scope economies.

Long-term policies aimed at job creation will also involve labour market reforms in African countries. Structural transformation implies the destruction of old jobs and the creation of new ones. This is possible only if the labour market is flexible enough to allow employers to get rid of workers whose skills are no longer needed and engage those whose skills are needed, as well as allowing wages to reflect skill scarcity instead of setting wages without regard to relative scarcity. Indeed, general factor market reforms to remove distortions that encourage capital-intensive production techniques at the expense of labour-intensive ones are necessary in African countries in order to encourage the use of labour-absorbing technologies. One of the reasons given for slow economic growth in Africa has been the lack of skilled labour, yet an increasing number of university graduates are unemployed, suggesting a mismatch between the skills African education systems are producing and those businesses need. Long-term employment policy should address this mismatch through appropriate curricular and pedagogical reforms.

"Factor market reforms and increased productivity are essential for high employment-generating growth"

Given the excessively high and persistent unemployment faced by vulnerable groups, special employment policies have to be targeted on these groups if unemployment among them is to be reduced. Among the reasons given for high unemployment among these groups are lack of skills and work experience, geographical mismatch and labour market discrimination. Targeted skill training and employment programmes for these groups, as well as efforts to decentralize employment in order to bring employment closer through rural industrialization, may be necessary. Finally, where possible, affirmative action programmes in employment for these groups may be necessary.

One of the factors that have accounted for slow growth in Africa is slow or no growth in total factor productivity. Accelerating the growth rate of income will involve efforts to increase total factor productivity growth in Africa. African countries can achieve this through a number of policies such as technology transfer through non-resource-related FDI, a serious and credible commitment to research and development in Africa, the provision of better and more efficient infrastructure, and continuous improvements in economic management combined with macroeconomic and political stability. Finally, there cannot be increased employment if African countries are not committed to employment creation. Employment creation should therefore be an integral part and parcel of Africa's development agenda: programmes, projects and policies should be evaluated in part on their capacity to generate employment. The effective design and implementation of employment-generating growth strategies requires accurate and timely employment data that should be regularly collected and analysed by African countries.

While African countries have common characteristics, there is also heterogeneity among them. This means that not all policy prescriptions will be applicable to all countries. For example, while open unemployment may be the major problem in North African countries, underemployment or vulnerable employment may be the major issue in West Africa. This means that appropriate policies may differ across countries, regions or income levels.

The current global economic crisis has demonstrated the vulnerability of Africa to the fortunes of the global economy. It has also demonstrated that Africa cannot rely on external sources to finance its development in a sustainable way. There is therefore a need for African countries to increase their efforts to mobilize domestic resources to finance development. In the final analysis, Africa's development is the responsibility of Africans, and the argument that Africa is a poor continent that cannot finance its own development is getting tired. If Africa can increase its savings rate to those of East Asian countries, it will have enough resources to finance its development needs. Innovative and effective ways of increasing the savings rate, raising the efficiency of tax collection and expanding the tax base should be an important priority in Africa.

"The argument that Africa is too poor to finance its own development is getting tired"

Conclusion

The global economic crisis has continued to have a negative impact on African economies with economic growth falling to 1.6 per cent in 2009, export volumes and earnings falling because of declining world commodity prices, and a concomitant increase in fiscal and international balances. These developments have reduced Africa's ability to finance accumulation and provide needed social services. While data for 2009 are not yet available, it is expected that the crisis resulted in increased unemployment and underemployment in African countries, thus exacerbating the already high unemployment rates.

Given that global commodity markets are expected to stabilize in the medium term, the medium-term outlook for Africa is a little better than it was in 2009, assuming macroeconomic and political stability as well as continued improvements in economic management. African economies are projected to grow at 4.3 per cent in 2010. However, this will not be enough to achieve the Millennium Development Goals, and unemployment may continue to rise in 2010. The challenge facing African countries in the short and long term is to find ways of solving the triple problems of slow growth, high and rising unemployment and increasing poverty in a time of global economic crisis. The message of ERA 2010 is that while the global crisis poses a severe development challenge to Africa, it also provides a unique opportunity for African countries to pursue policies which will enable them not only to recover from the recession but also to lay the foundation to transform their economies for sustainable long-term growth that generates employment and rapidly reduces poverty.

> To reduce poverty, employment-focused growth should target vulnerable groups

In the short run, African countries should pursue expansionary countercyclical fiscal and monetary policies to finance investment in infrastructure, education and health care as a way to recover from the economic downturn. A large proportion of the projects in this package should focus on labour-intensive projects, such as rural roads and water projects. While these expansionary policies may result in fiscal deficits, a large number of African countries have the fiscal space to pursue such policies given their prudent fiscal policies in the past; hence they can afford moderate fiscal deficits without rekindling the macroeconomic instability of past generations.

Long-term strategies involve investment that will transform the structure of African economies from reliance on low-employment-generation natural resource extraction to high-employment labour-intensive manufacturing, agro-industry and service provision. In addition to changing the pattern of investment and production, it will also require not only an increase in the quantity of human capital, but a change in the type of human capital that will be provided. Factor markets will have to be reformed to encourage the use of labour-intensive production techniques, in contrast to current policies which favour capital-intensive techniques. There is a need to pay special attention to vulnerable groups, such as women and young people, with special targeted employment interventions.

Moreover, African countries need to pay attention to policies that increase growth in total factor productivity. These policies may include improved economic and political management as well as political stability, technology transfer and investment in research and development. Finally, Africa cannot continue to rely on the international community to finance its development agenda. It is therefore important for African countries to boost their efforts to increase the mobilization of domestic resources to finance African development through innovative programmes. Increasing the savings rate to the levels attained by East Asian countries, will generate substantial revenue to finance development in Africa. Financing development from domestic resources will not only reduce the volatility inherent in African development, but will also make Africans "masters of their destinies".

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