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The African Moment: On the Brink of a Development Breakthrough

Abstract: This paper presents some of the evidence that underlies the recent change in perceptions on African development and we discuss some of the key challenges facing the continent going forward. It intends to generate a debate among UNDP senior managers in Sub-Saharan Africa and aims to make the paper a common point of reference for the Organization's analysis of the challenges and opportunities facing the continent.

Keywords: Sub-Saharan Africa, Economic Development, Poverty Reduction, Millennium Development Goals

JEL: O10, O55

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1. Introduction

The May 2000 edition of The Economist magazine pictured on its cover page an outline of the African continent against a black background. Inserted into the outline of the continent was a picture of a young ragged-clad soldier with a machine gun. Over the picture in signal yellow print the headline read: 'The hopeless continent'. The special feature article concluded: *'The new millennium has brought more disaster than hope to Africa. Worse, the few candles of hope are flickering weakly.'* While the magazine faced a lot of criticism for its pessimistic outlook, simplistic analysis and its collective condemnation of African leadership, it did capture a widely held disappointment with the lack of progress, and at times outright reversal for many African countries, in the 1990s.

What a difference a decade makes and how quickly sentiments can change. In the words of UN Secretary General Ban ki-Moon (2011:1) at the Summit of the African Union in January 2011: *'Africa is on the move. The new narrative for Africa is a story of growth.'* And as Donald Kaberuka (2010:4), President of the African Development Bank, noted at the opening of the 2010 African Economic Conference, there is now *'broad agreement that an unusually strong momentum has built up in the African economies over the last decade'*. This change in perception does not mean that the immense challenges faced by the continent are being glossed over, but the Afro-pessimism of the 1990s has clearly been replaced by a much more realistic and confident outlook. African people seem to share this view. According to the Pew Research Center (2007) populations surveyed in 10 African countries tend to express a very low level of personal satisfaction with their quality of life compared to populations in other countries. However, very large majorities in most African countries are simultaneously optimistic about their future and believe that their lives will be better in the near future.

In this paper we present some of the evidence that underlies the recent change in perceptions on African development and we discuss some of the key challenges facing the continent going forward. The paper is intended to stimulate discussion among UNDP senior managers as they convene for the Global Management Meeting 26 June to 1 July 2011 in New York. We are particularly interested in generating a debate among the Resident Representatives and Country Directors that serve in Sub-Saharan Africa and we aim to make the paper a common point of reference for the Organization's analysis of the challenges and opportunities facing the continent. This type of analysis and debate should be viewed in the context of UNDP's mission as one of leveraging its global knowledge to provide upstream policy advice and to programme its resources so as to generate transformational change and advance human development. As such the paper accompanies key corporate strategic documents such as the Mid-Term Review of the UNDP Strategic Plan and the revised strategic priorities for UNDP outlined in the document: 'Aiming Higher: Strategic Priorities for a Stronger UNDP', and it discusses many of the issues raised in these documents from a distinctly African perspective.

The next section of the paper presents the evidence for why Sub-Saharan Africa appears to be on the brink of a real development breakthrough. The subsequent three sections analyse the continents challenges within three broad areas: limits to the inclusiveness of the growth process, vulnerability to shocks and threats to long-term sustainability. The task for UNDP will be to assist African peoples and governments in seizing the African moment, and turn these challenges into opportunities at global, regional and country level. In the final section of the paper we outline some proposed next steps for doing just that.

2. The African moment: on the brink of a development breakthrough

Over the last decade Africa has seen rapid and stable economic growth, reductions in poverty rates, and progress towards a range of the Millennium Development Goals. Economic growth has been broad-based, encompassing not only resource-rich economies and middle-income countries, but also oil-scarce low-income countries. This stands in stark contrast to the stagnation – and even reversal – of per capita income that the continent as a whole witnessed from the mid-1970s up to the late 1990s. In these decades, growth was volatile for many countries, with long spells of bad economic performance and no social gains. On the contrary, according to the International Monetary Fund (IMF, 2011) between 2004 and 2008, the economies of sub-Saharan Africa grew at an average rate of 6.6 percent per year, only slowing down to 2.8 percent in 2009 as a result of the global financial and economic crisis.

The latest economic projections indicate that Africa is poised to rebound strongly over the next few years and catch up with the high growth rates that it exhibited prior to the global financial and economic crisis. The continent is expected to grow 5.0 percent in 2010 and 5.5 percent and 5.8 percent in 2011 and 2012, respectively (IMF, 2011). Among the regions tracked by the IMF only Developing Asia is expected to growth faster and that is largely due to growth in China and India. In 2011 and 2012 Sub-Saharan Africa will be growing as fast as the five 'Tiger' economies of South East Asia (Indonesia, Malaysia, Philippines, Thailand, and Vietnam).

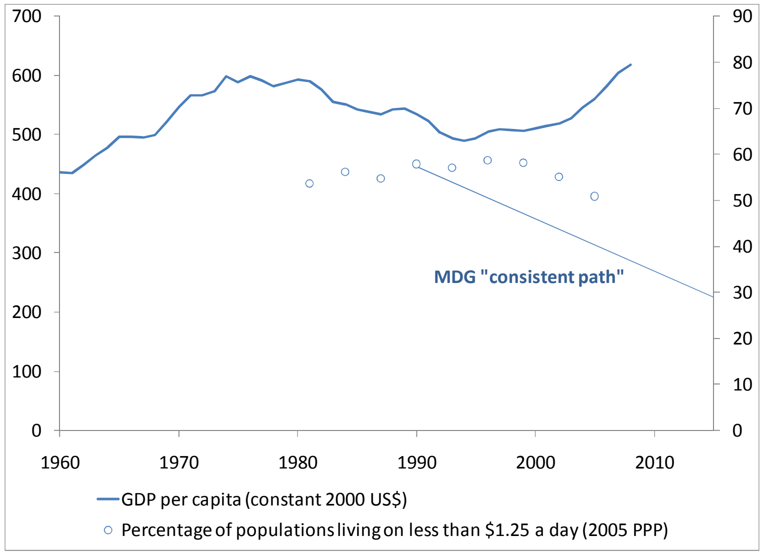
Drivers of growth

Two aspects of Africa's recent growth experience are particularly important to note. Firstly, is that the source of growth has been increases in labor productivity, as opposed to growth in the labor force (SOURCE). In the 1980s, Africa's 2.6 percent average yearly growth was driven by a 3.1 percent increase in the labor force, with labor productivity actually contributing negatively minus 0.5 percent. Similarly in the 1990s, a labor force growth of 2.8 percent a year drove economic growth of 2.6 percent – labor productivity *shrank* by minus 0.2 percent. From 2000 to 2008, Africa grew on average at 5 percent a year, with labor force growth contributing 2.2 percentage points, and labor productivity increasing by 2.7 percent. The second aspect to highlight is that Africa's economic growth has been duly only to the boom in commodity prices. Indeed, it is the case that natural resource-rich countries benefitted greatly from the boom in commodity prices. Angola grew at almost 17 percent a year between 2004 and 2008, and even though it suffered a sharp slowdown in growth in 2009, growth rebounded to 6 percent in 2010. Nigeria grew at an average of 7 percent a year between 2004 and 2009, and is projected to grow at or more than 7 in both 2010 and 2011. However, economic growth has been broad-based, encompassing not only resource-rich economies and middle-income countries, but also low-income countries that are not natural-resource-rich. There were robust growth rates in middle and low income countries. Ethiopia, for example, has grown at or more than 11 percent a year from 2004 to 2008, and even in 2009 boasted a growth rate of 9.9 percent. In 2010 growth is expected to be 8 percent, increasing to 8.5 percent in 2011. Malawi grew by over 9 percent in 2008 and was able to hold growth close to 8 percent in 2009, slowing down to 6 percent in 2010. Rwanda, Tanzania, and Uganda have also maintained rapid growth, even in the face of the global crisis (4.1, 5.5 and 7.1 percent, respectively, in 2009, and all with the exception of Uganda had higher growth rates in 2010). Ghana grew at more than 6 percent a year between 2004 and 2008, slowed down to 4 percent in 2009 and 5 percent in 2010 as the country adjusted to the effects of macroeconomic instability, but high growth is expected to resume in 2011, to close to 10 percent as a result of expected inflows of oil revenues.

The good economic performance over the last ten years has been accompanied by strong social gains. The proportion of people living in extreme poverty in Africa reduced significantly, to 51 percent in 2005, compared to a peak of around 58 percent in the late 1990s (Figure 1, World Bank, 2010). The falling poverty rates in Africa have also given a boost to the continents nascent middle class. According to data from the African Development Bank (2011) 34 percent of Africans, or 313 million people, are middle class (living on US$2-20 per day). After several decades without any change, the share of the middle class has increased from 27% in 2000. According to Sumner and Birdsal (2011) there are at least five reasons why the middle classes is important for poverty reduction. First, as small business owners their potential to hire employees. Second, their higher disposable income, a share of which could be saved and invested domestically. Third, their higher demand has potential to drive economic growth and attracts private investment. Fourth, their investment in human capital for children potentially leads to higher participation in education and a larger pool of skilled labour. And fifth, they are more likely to hold the government accountable for decisions. The continent has also made rapid progress with regards to a range of social indicators especially in terms of education and gender. For instance, primary school enrolment in sub-Saharan Africa (SSA) increased by 18 percentage points in less than ten years: from 58 percent to 76 percent between 1999 and 2008 (UN, 2010b). Considerable progress has also been achieved on reducing hunger, promoting gender equality and women empowerment, making available health services to prevent malaria and treat HIV/AIDS, as well as expanding access to safe sanitation and clean water.

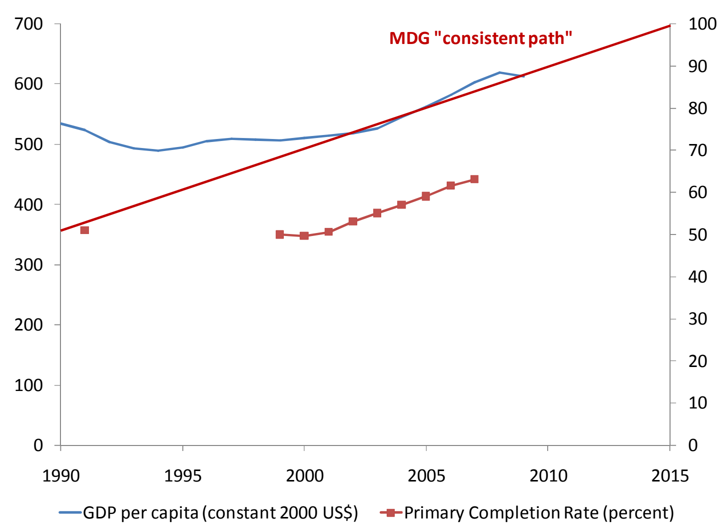
According to the 2010 Human Development Report (UNDP 2010a), the evolution of the Human Development Index (HDI) for Africa confirms the string progress seen over the last decade. In 1990, the HDI for Africa stood at 0.35. By 2000, it had deteriorated, to 0.32. Yet, by 2010 the report estimates that the index will reach nearly 0.4. This corresponds to an average annual rate of improvement in Africa between 2000 and 2010 of over 2 percent a year; by far the most rapid compared to other regions in the last decade. In fact, most human development outcomes have improved over the past ten years alongside the increase in GDP. In addition to enrolment, the primary completion rate in the region has shown sustained progress – from 52 percent in 1999 to 62 percent in 2007. As with poverty reduction, progress was slow during the 1990s but since 2000 the rate of advancement has been parallel to the path required to achieve the universal primary education Millennium Development Goal (WDI, 2010) (Figure 2). The key human development outcome measured through the life expectancy at birth has also sharply improved in recent years (Figure 3). This is especially the case in Southern Africa where mortality shot up in the 1990s as a consequence of the HIV/AIDS epidemic. However, in recent years rates of infection have slowed, access to life-saving treatment has improved and, according to UNAIDS (2010) the biggest epidemics in Sub-Saharan Africa – Ethiopia, Nigeria, South Africa, Zambia and Zimbabwe – have either stabilised or begun to decline.

Figure 1 - Evolution of income per capita and poverty in Sub-Saharan Africa



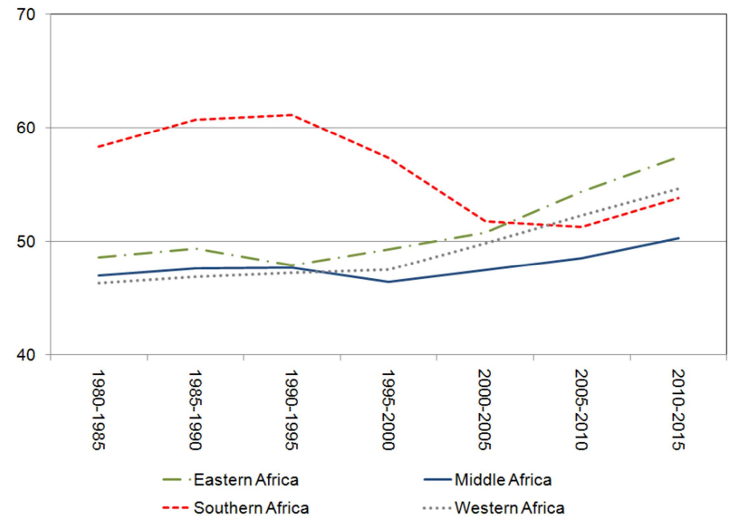
Source: UN Statistics and World Development Indicators.

Figure 2- Primary Completion Rate in Sub-Saharan Africa



Source: Own elaboration based on World Development Indicators data.

Figure 3- Life expectancy at birth in Sub-Saharan Africa (years)



Source: Own elaboration based on UN Population Division data.
Note: Both sexes using 'medium variant'.

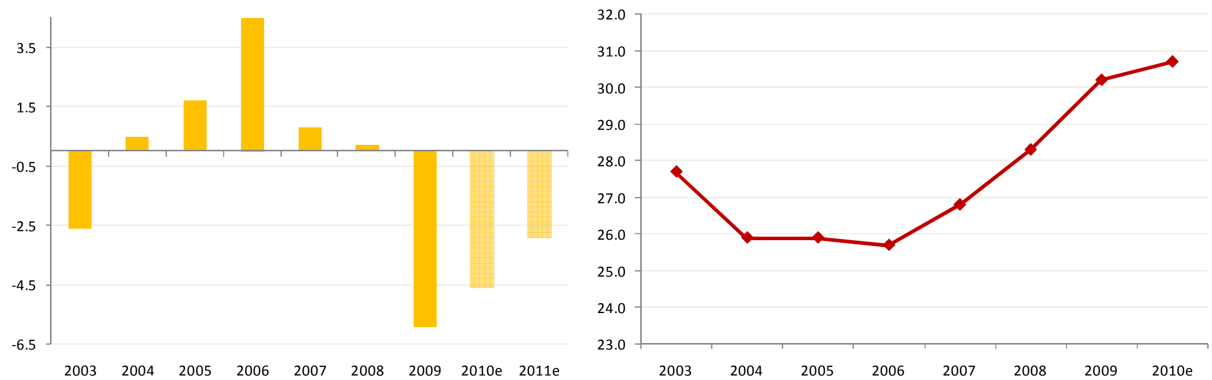
No false dawn

Unlike the experience of the mid 1970s, the current development thrust is not likely to become a 'false dawn'. The continent's solid foundations – product of years of reforms – and ensuing strong macroeconomic and productivity fundamentals, among other pillars, ensure the sustainability of the present momentum (Kaberuka, 2010). In fact, these sound fundamentals accompanied by effective policy interventions contributed to the continent's resilience during the global financial crisis of 2008/09. An increased revenue base, product of prudent spending in high-growth periods, and healthy macroeconomic indicators allowed governments to accommodate larger fiscal deficits – and greater social expenditure (Figure) – as opposed to other periods of crisis when fiscal behaviour was pro-cyclical for the most part.

The analysis by Lledó et al. (2009) of government spending vs. output growth in Sub-Saharan Africa from the 1970s and onwards, suggests that the pro-cyclical pattern of fiscal policy has reversed in the last decade[1]. The stronger macroeconomic position and sustainable indicators (deficit and debt levels, reserves and exchange rates), directly impacted by higher flows of aid, appear to have allowed more flexibility to policy makers in Sub-Saharan Africa to make increased use of counter-cylical policies in recent years.

[1] The shift towards more countercyclical policy is explained by the greater fiscal space and concessional financing, as proxied by lower external debt and larger aid flows (Ibid).

Figure 4- Fiscal Balance and Government Expenditure in Sub-Saharan Africa (*Percent of GDP)*



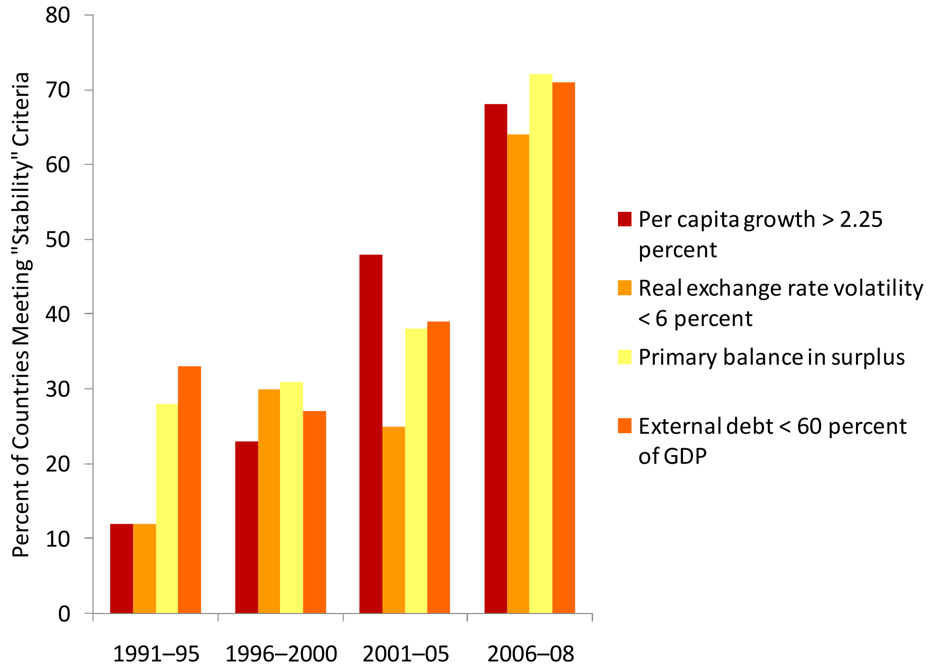
Source: Own elaboration with data from IMF (2010a).

Notes: Fiscal Balance refers to General Government Balance, including grants; Government Expenditure refers to Central Government Expenditure.

Due to the build-up of reserves and overall sound fiscal and current account balances, governments in the region were able to sustain expenditure in the presence of dwindling revenues during the crisis.[2] Anti-cyclical spending implies that, while incurring in fiscal deficits, capital, health and education continued to rise through the economic deceleration. Expenditures in education and health increased from an average of 5.5 percent of GDP between 2006 and 2007 to nearly 7 percent in 2008. This was not exclusive to higher-income economies; outlays in health and education increased in 20 of the 29 low income countries in the region. Capital spending also increased in real terms in more than half of the countries in 2009. In addition to timely and effective fiscal policy to off-set the fall in private spending, governments also implemented expansive monetary policy, while keeping inflation in check (IMF, 2010a). In fact, an increasing number of African countries have now met a set of thresholds associated with macroeconomic stability (Figure 4).

[2] Expenditure-GDP ratios rose (from 30 to 31.5 percent) in oil-exporting economies, even as their revenue-GDP ratios shrank in response to falling oil prices (from 36 percent in 2008 to 24 percent in 2009). Revenues fell by significantly less in oil-importing countries (revenue GDP ratios declined by 0.5 percent) while their expenditure grew by close to 2 percentage points (IMF, 2010a). Oil exporters like Angola, Botswana and Nigeria used the reserves built up in past years (oil exporters held a robust fiscal surplus of 6.7 percent of GDP and current account surplus of 11 percent of GDP between 2005 and 2008), to protect their economies from the crisis (Kasekende et al. 2010).

Figure 5- Policy environment in Africa as good as ever.



Source: IMF (2009)

In addition to the solid economic growth performance, and sound fiscal stance, the institutional and policy environment in Africa have improved over the past decade. Reforms of the regulatory and business environments have been carried out effectively in numerous countries across the region.[3] Regional integration has been moving forward, as demonstrated by the harmonization of legal and regulatory frameworks in Eastern Africa, or the converging macroeconomic policies in the Southern African Customs Union. The enhanced regional initiatives, and greater participation of the private sector, are contributing to improve 'scale and competition through the integration of infrastructure, markets for goods, finance, labor, and energy' (Ndulu et al. 2005).

The degree of regional integration is also evident in the development of the continent's Regional Economic Communities; for instance the planning for the creation of a monetary union by the East African Community (EAC), including a common currency by 2015. Organizations like the Economic Community of West African States (ECOWAS), and the

[3] For instance, simplifying the process of starting a business with the Guichet Unico de Empresa in Angola; easing the issuance of construction permits in Rwanda; or abridging and computerizing the process of business registration in Zambia (African Progress Panel, 2010).

Southern African Development Community (SADC) have continued to improve their policies and structures. Important initiatives have also been carried out by continental organizations like the African Union (AU), the New Partnership for Africa's Development (NEPAD), and the African Development Bank (AfDB); including the Africa Investment Initiative, the African Financing Partnership or the African Financial Market Initiative (AFMI) (African Progress Panel, 2010).

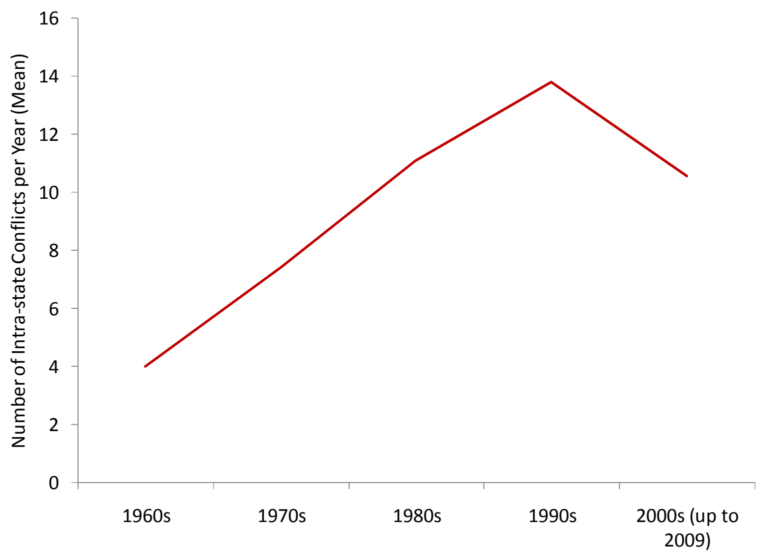
The increased attractiveness of the continent has not been overlooked by foreign investors or domestic entrepreneurs. Foreign Direct Investment (FDI) inflows into sub-Saharan Africa have achieved record levels in the past few years. Oil-exporting economies attract a large share of the influx but – while natural resources remain an important source of potential in the region – the growing FDI also reflects higher corporate profitability, as a large share of flows are going into manufacturing (UNCTAD, 2009).

Governance has also shown significant improvements over the past decade, with indicators of corruption, government effectiveness, regulatory quality, and voice and accountability registering sustained progress. Governance performance has improved in 31 out of 48 countries according to the Ibrahim's Index, as measured in the category for Safety and Rule of Law. Countries are increasingly adhering to good-governance initiatives: 30 countries acceded to NEPAD's African Peer Review Mechanism while 44 countries signed the African Convention on Preventing and Combating Corruption (African Progress Panel, 2010). Governments are increasingly being held accountable by civil society, complementing intergovernmental organizations such as the African Peer Review Mechanism (APRM). There are 'more democratic countries than ever before on the continent (more than half, as opposed to merely five at the end of the Cold War)' (African Progress Panel, 2009). Conflict has also declined, perhaps reflecting the improvements in economic and social conditions.[4] The number of civil wars, while very volatile on a yearly basis, has declined considering decadal averages since reaching a peak in the 1990s (Figure 6)

[4] Low income and poor economic performance have been shown to be associated with increases in the likelihood of conflict outbreak (Collier et al. 2009; Blattman and Miguel, 2009; Kim and Conceição, 2009)

Figure 6- Number of Civil Wars in Africa

Number of Intra-state Conflicts per Year (Mean)



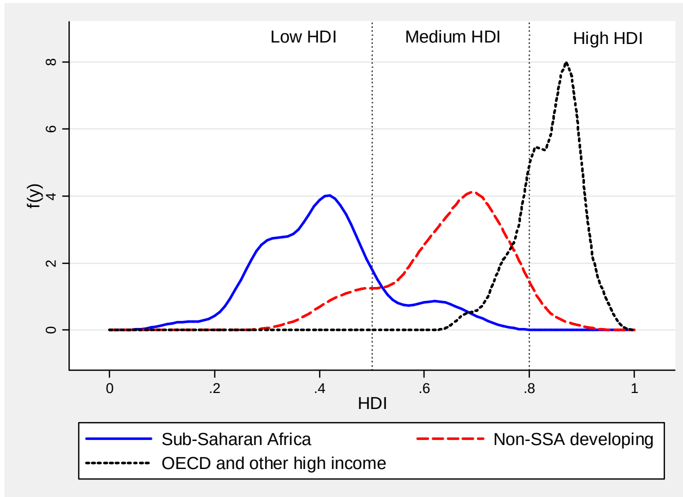
Source: Own elaboration based on the UCD-PRIO Armed Conflict Dataset, version 4 (Dec. 2009).

3. Growth is not enough

Recognizing that the economic performance and social progress in Africa over the last ten years is anchored on a solid base, the question remains as to whether this momentum can carry the continent forward at the pace required to make a developmental breakthrough. Progress remains challenging on health indicators (particularly regarding child mortality and maternal health), in managing demographic pressures (high fertility and mortality rates, high dependency ratios), and in improving food security. Additionally, although rates of improvement have been remarkable over the last ten years in terms of levels – of GDP per capita, poverty rates, life expectancy, child and maternal health – Africa still has a long way to go to converge with even the average for developing economies.

Figure 7 shows the density distributions of countries by their HDI value and by three major classifications: Sub-Saharan Africa, Non-SSA developing countries and OECD and other high income countries. The graph shows that the majority of African countries are clustered have low HDI values of less than 0.5 in contrast to high-income and other developing countries.

Figure 7- Distribution of HDI values by groups of countries



Source: Own elaboration based on data from UNDP Human Development Report Office

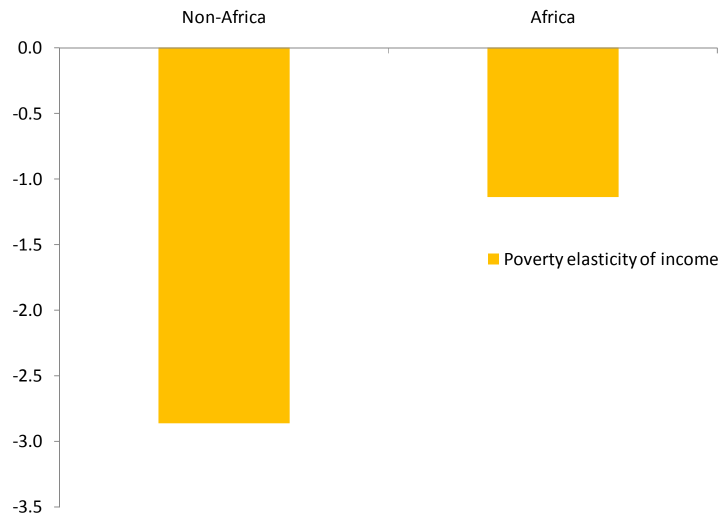
Growth and poverty reduction

A fundamental pillar going forward for Africa is rapid and sustained economic growth. Yet, while growth is important, the *nature* of growth is critical for reducing poverty and advancing human development: 'only pro-poor growth and economic transformation can do the job' of sustained and persistent poverty reduction (Zenawi, 2010). Growth that is broad-based, that generates jobs in both rural and urban areas and that increases the incomes of poor households, is crucial for reducing poverty. Evidence shows that, despite the gains in recent years, growth in Africa has not been as effective in reducing poverty as in other developing countries.

In fact, the effectiveness of growth in reducing poverty in Africa has been historically low. Fosu (2009) is one of several studies documenting that the responsiveness of poverty to income growth –the poverty elasticity of income – is significantly lower for Africa than for other regions (Figure). If these patterns hold going forward, economic growth in the region would have a smaller effect on poverty reduction than in other parts of the world or, alternatively, growth rates would have to be very high to be effective at reducing poverty.

This underlines the importance of unpacking the low poverty elasticity of income in Africa to understand what is driving the pattern. Several studies have shown that income distribution plays a dramatic role on the impact of growth on poverty reduction. Ravallion (2009a) points out that initial income distribution constitutes a factor in explaining the lack of poverty convergence – why poorer countries are not benefitting from higher rates of poverty reduction. Initial inequality slows down progress against poverty at any given growth rate (Ibid).[5] Fosu's (2009) findings are consistent, showing that that the impact of GDP growth on poverty reduction is a decreasing function of initial inequality.[6]

Figure 8- The impact of growth on poverty reduction is lower in Africa



Source: *Fosu (2009)*

Structural change and the role of agriculture

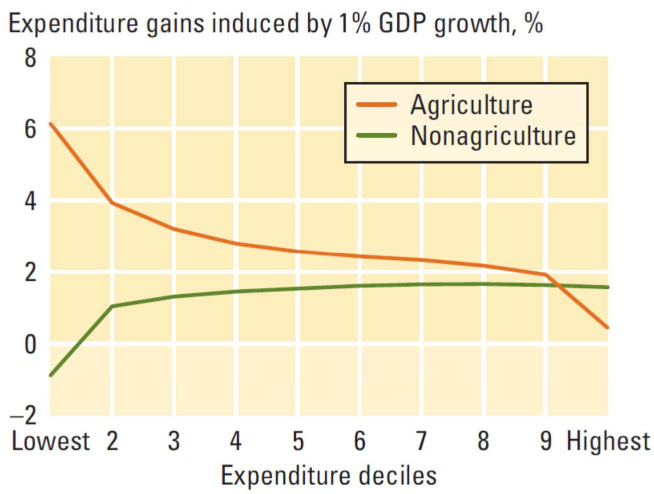
Another factor refers to the composition of economic growth, showing slow structural diversification in the region. Ndulu and O'Connell's (2000) analysis on the patterns of sectoral transformation in African countries suggest that, while agricultural output shares are just slightly higher in Sub-Saharan African than predicted on the basis of income and population, the share of the labor force in agriculture is notably large, a reflection of low productivity. A crucial determinant of overall living standards, agricultural productivity measured by the agricultural value-added per-worker, increased at a pace of 0.5 percent in Sub-Saharan Africa between 1960 and 2000, less than a third of the rate of other developing countries (Nudlu and O'Connell, 2006). This slower productivity growth in the rural sector, where the majority of the labor force in the region still works – 63 percent of the total population in 2000 – holds thus part of the explanation.

[5] More generally, for a fixed poverty line, the impact of growth depends not only on the level but also on the dynamics of income distribution. While it is certainly possible to have rapid poverty reduction with increasing inequality – China is an example – under certain assumptions on the shape of income distribution, the poverty elasticity of income would be higher with less rapid increase in inequality (ibid).

[6] These results hold for all three poverty measures considered in the study: headcount ratio, gap and squared gap (Fosu, 2009).

More productive growth originated in the agricultural sector would be poverty and inequality-reducing. In fact, the returns of increased productivity in the rural sector in terms of impacting poverty are boundless. According to the World Bank (2008), welfare gains from economic growth originated in the agricultural sector are substantially higher for households in the poorest deciles (Figure 9). With an increase of one percent of GDP growth from the agricultural sector, the three poorest deciles increased their expenditures by more than 2.5 times the growth that originated in the rest of the economy, in a sample of 42 developing countries over 1981-2003 (Ligon and Sadoulet, 2007). More recent studies have confirmed this regularity (see, for example, Christiaensen et al. 2010).

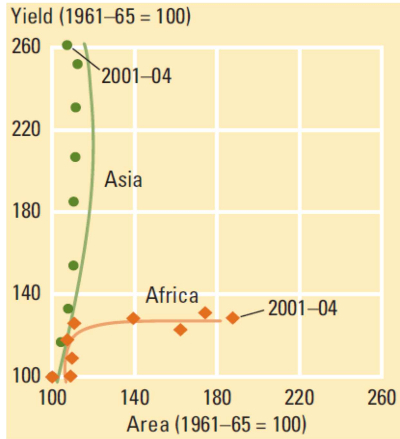
Figure 9- Agricultural development would be poverty and inequality reducing



Source: World Bank (2008)

Yet, productivity growth in agriculture is stagnant. Remarkable improvements have been accomplished in food crops including technological innovations, market-driven expansions of fertilizers and evidence of various local successes. Nonetheless, the region still faces the challenges of underdeveloped infrastructure, low fertilizer use, degraded soils, and overall lower public investment in agriculture than other regions – investment that would have tremendous returns if allocated to credit, input subsidies and support prices to farmers. The difference in productivity is clear when comparing the expansion of cereal production between the region and Asia (World Bank, 2008). In the words of Martin Ravallion (2008): *'…the key lesson for Sub-Saharan Africa is that to replicate China's success against poverty in the longer term a much higher priority must be given to agriculture and rural development in the near term'*.

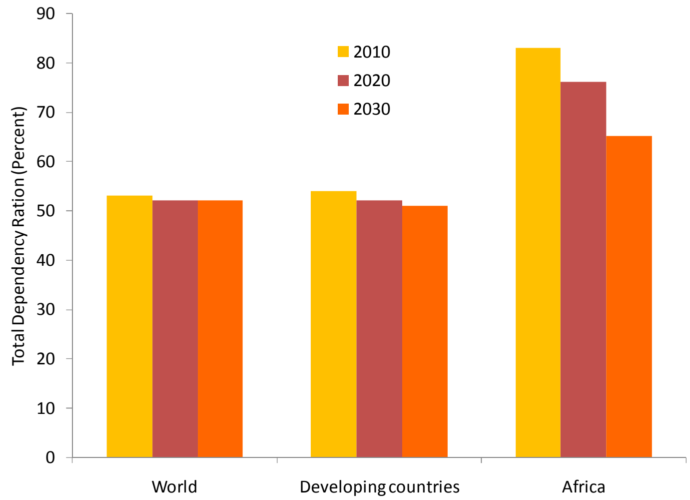
Figure 10 - Expansion of cereal production in Sub-Saharan Africa and Asia



Source: World Bank (2008)

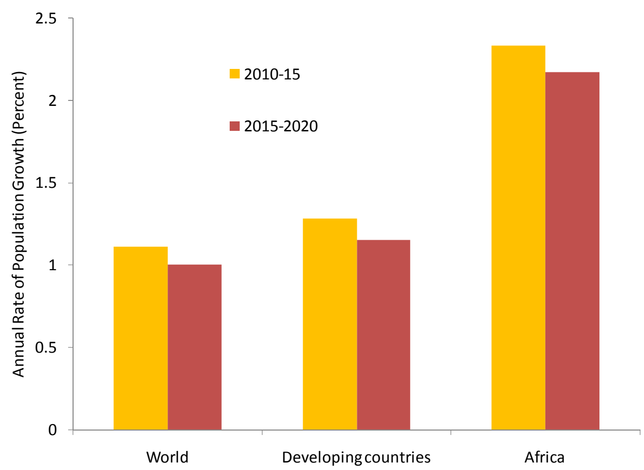
Another factor that contributes to explain the low poverty elasticity of income in Sub-Saharan Africa refers to the high dependency ratios – the ratio of elderly and young to the working-age population (Figure 11) – and fertility rates (Figure 12). The high-age dependency has an effect on savings, decreases investment in human capital, and causes a slower growth of the labor force, with the end result of decreasing economic growth. Additionally, although fast growth in the labor force has the potential to be a positive driver of growth, if employment opportunities do not match the pace of increase in population, this can turn into additional pressure on unemployment and underemployment (Ndulu and O'Connell, 2006; Ndulu et al. 2007).

Figure 11- High and persistent dependency ratios



Source: Own elaboration from UN Population Division data.

Figure 12- Population growth remains strong



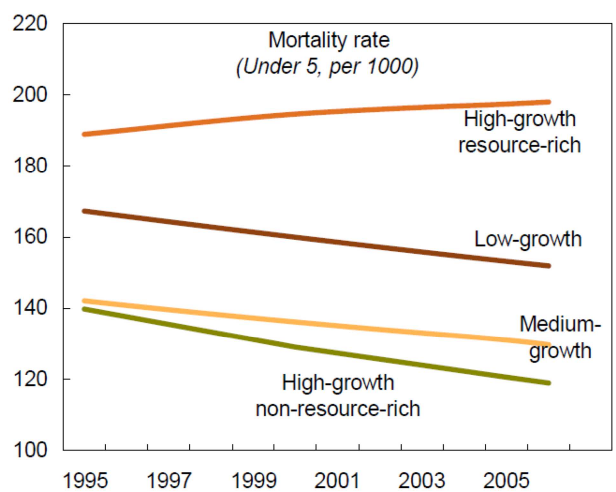
Source: Own elaboration from UN Population Division data.

4. Vulnerability to shocks

The majority of the shocks affecting African countries are endogenous (weather, civil conflict, political, etc). Although the scope of policy to prevent these shocks is limited, progress has been made in the capacity to mitigate internal-related crises. Nevertheless, countries are still vulnerable to external shocks. Arbache and Page (2007) find that while the progress in human development brought about by economic growth peaks may be relatively low, the opposite – economic decelerations – have significant negative impacts on education and health. Their results indicate that preventing growth collapses is crucial to reach the Millennium Development Goals.

As mentioned earlier, growth and resources are key for meeting the MDGs, but they are not enough. Figure presents a striking image showing which countries present the most progress towards decreasing mortality rates (IMF, 2008). It is most salient that high-growth resource-rich economies are the worst performers of the group, presenting increasing mortality rates; while high-growth non-resource-rich economies, medium-growth ones, and – particularly remarkable – low-growth countries are making distinctive progress towards this target.

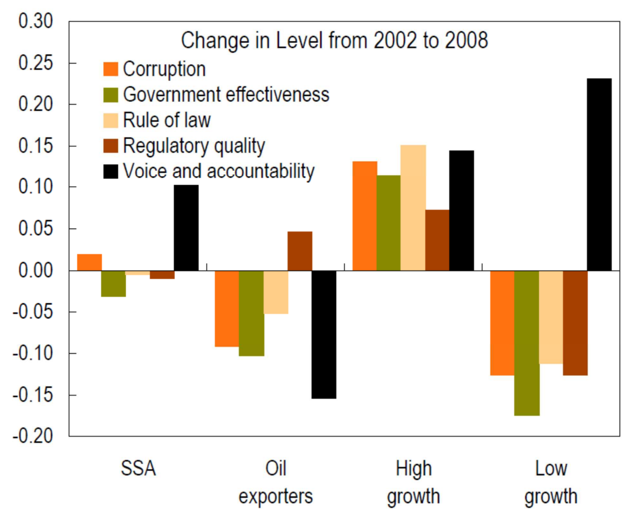
Figure 13- Growth and resources are key but not enough to meet the MDGs



Source: IMF (2008)

Furthermore, although overall governance has improved alongside growth, individual performance is diversified. Figure 1 maps the progress in control of corruption, government effectiveness, rule of law, regulatory quality, and voice and accountability, over the 2002-2008 period (IMF, 2008). High-growth economies display an improvement in all indicators, but interestingly enough, oil-rich countries show a deterioration of their scores.

Figure 1- Advances on formal side of governance, limited improvement on 'soft' aspects



Source: IMF (2009)

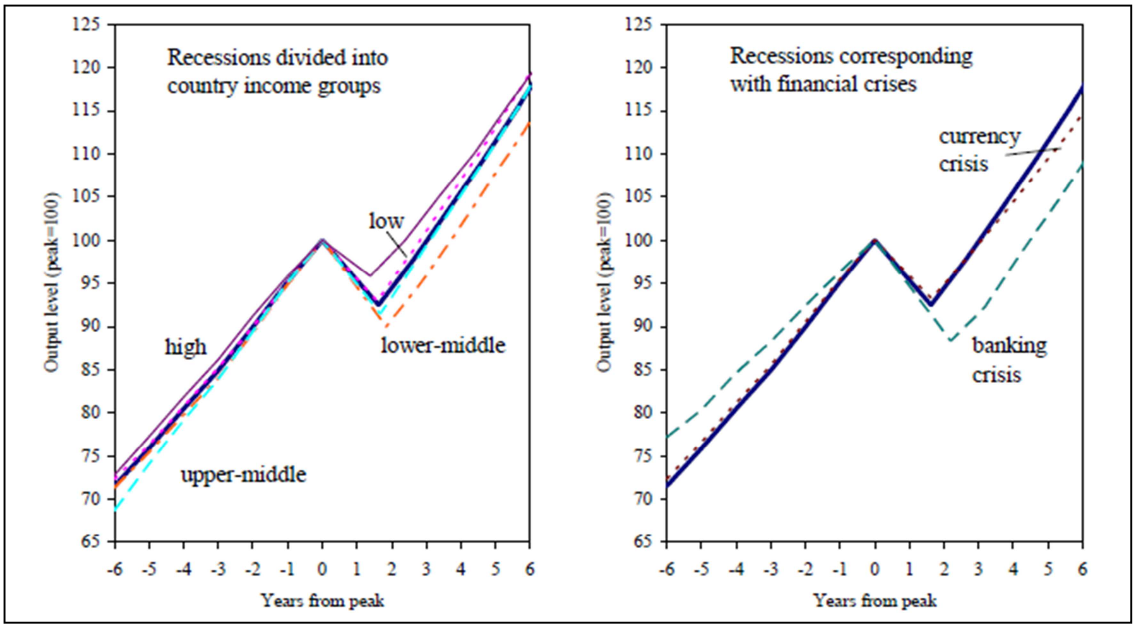
These stylized facts regarding infant mortality and governance suggest the importance of income distribution in reaching the MDGs. Natural resources-based growth – typically associated with higher inequality – coupled with lacking governance, is less successful in improving human development outcomes, than growth in countries with a more equitable distribution of income. In this sense, efforts to improve income distribution within countries and governance will prove to make growth more efficient in the fight against poverty.

Inequality, low agricultural productivity and high dependency ratios are all contributing factors behind Africa's low poverty elasticity of income, that need to be addressed. Additionally, decreasing both the short and long-term vulnerability of countries to external shocks is imperative to lessen the probability of enhancing poverty traps, and achieving long-run sustainable development (see next section for further detail on the pernicious long-term impacts of shocks).

5. Threats to sustainability

One of the most pressing long-term challenges facing Sub-Saharan Africa refers to the impact that crises may have on the potential development of the region. Economic and financial shocks initially have a nearly immediate effect on households' income through depressed earnings and wages, job losses and other means of transmission. However, evidence suggests that their impact on income as well as on human development often surpasses the transitory interlude of the crisis, impacting long term well-being, particularly in the case of low-income countries.

Figure 2- Average Evolution of Gross Domestic Product before and after Recessions



Source: Cerra and Saxena (2005)

Poor households in developing countries often lack access to credit, insurance and other income-smoothing mechanisms, and are frequently unable to maintain the consumption levels that support human development throughout shock periods. Furthermore, the falling public revenues and taxing financing conditions in times of crises limit the availability of public services i.e. education and health, and safety nets, precisely when households need them more. The impact of temporary shocks translates into permanent losses when, after savings have been depleted, households are forced to sacrifice current nutrition, education and/or health care, with the consequent loss of future human capital. This loss remains frequently long-after income recuperates from the shock, ultimately limiting the potential economic growth and development of countries (Conceição, Mukherjee, and Nayyar, 2010). In addition to persistent poverty and destitution, economic shocks also increase the likelihood of eruption of violent conflict, with dramatically high human and economic costs.

The long term impact of the financial and economic crisis then suggests a lower 'growth path' for economies following shocks. Analyzing 190 countries over a 40 year period, Cerra and Saxena (2005) conclude that, on average, GDP does not return to the pre-recession trend (Figure 15). Their results suggest that developing countries suffer from larger permanent losses than higher-income ones; and that recessions coupled with financial shocks, particularly in banking crises, are especially harmful. Cerra, Panizza, and Saxena (2009) re-examine the issue, finding that there are typically permanent outcome losses after crises and that recoveries are not faster, on average, than pre-recession growth rates. Yet, the study also demonstrates that the use of monetary and fiscal policy *is* successful in increasing the rate of recovery, and that official development assistance is especially effective in Sub-Saharan Africa.

Decreasing aid flows

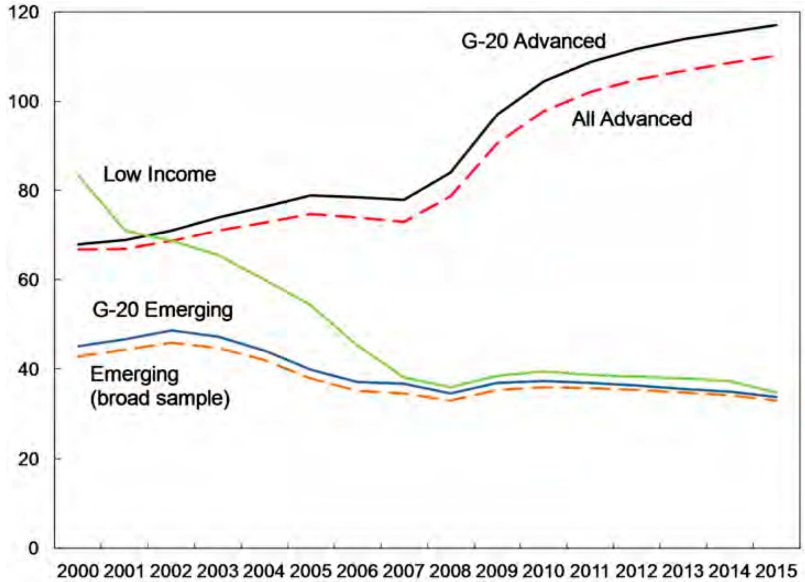
Another long-term challenge facing the region refers to the additional pressure on countries' financing and fiscal stance. By and large as a consequence from the lower growth and revenues, and – to a lesser extent – from the increased stimulus spending, budget deficits climbed in the aftermath of the recent global financial crisis, particularly in developed nations. The enlarged public debt in advanced economies implies that financing of aid for Sub-Saharan Africa will be more restricted in the medium and long term.

For the most part, the fiscal position of Sub-Saharan Africa is stable. Budget deficits increased in the region as a result of falling revenues during the 2008/09 crisis (dwindling trade leading to drops in import tariff revenues – particularly for commodity exporting countries – falling consumption and corporate taxes) as well as from countercyclical spending. Nevertheless, stimulus spending was to a great extent supported by the stronger fiscal position of these economies in the prelude to the crisis, while the overall balance for commodity exporters recovered significantly as international prices picked up. The deterioration of public finances in the region compared to the developed countries was relatively modest.

The main risk for the region, however, does not refer to the fiscal position of Sub-Saharan countries, but to that of rich economies. While the average debt level of emerging economies declined moderately after 2010, the fiscal position in advanced economies could reach 110 percent of GDP by 2015, a total of 39 percentage points above the pre-crisis level of 2008 (Figure 16) (IMF, 2010b).

Figure 3- Developed countries facing fiscal constraints

General Government Gross Debt Ratios



Source: IMF (2010b). *Note:* Percent of GDP, 2009 PPP-GDP weighted average

About two thirds of the deterioration in advanced economies' public finance is explained by the revenue side (including weaknesses from lower asset prices and financial sector profits) and by the GDP losses in the 2008-09 period (including the adverse interest rate-growth differential at this time despite dropping interest rates). Alternatively, fiscal stimulus is estimated to account for only 10 percent of the overall rise in debt. Higher interest expenditures due to increased debt and interest rates will continue to strain public finances in these countries, which will maintain to run considerable primary deficits in the medium term (Berg et al. 2009).

Cecchetti et al. (2010) assert the troublesome fact that projected deficits in industrialized economies are structural rather than cyclical in nature, and therefore more likely to persist. Moreover, pending pressures on health and pension schemes for aging populations are coinciding with the weakened fiscal stance as the demographic profile in developed countries changes and health-care costs increase. Furthermore, the interest rate-growth rate differential is likely to worsen as interest rates increase while the potential output growth rate remains low, triggering the swelling of debt ratios (Ibid). Under this scenario, significant adjustments will have to take place in order to bring public debt down to the pre-crisis level.

The weakened position of advanced economies poses risks for the region. Although the fiscal stance in Sub–Saharan Africa is relatively stable, the contraction of government revenues and fiscal space following the crisis will prove taxing to the implementation of the critical investment required to sustain long-term development in the region. This will be particularly challenging in the presence of the deteriorated fiscal positions of donor governments, with the consequent shortfalls in official finance aid.

Aid flows increased steadily between from $8 billion dollars in 2000 to $24 billion in 2008, and for the most part proved resilient in 2009 (IMF, 2010a). Nevertheless, the strained public finances of donor countries foreshadows a marked deceleration of global Official Development Assistance (ODA) in the near and medium future, increasing the likelihood of shortfalls in aid flows to the scaling-up commitment made at Gleneagles in 2005.

This shortfall is already palpable. The OECD's April 2010 adjusted estimate on the basis of DAC donors' 2009 performance, shows that some donors have reduced or postponed the pledges for 2010, with the consequent result. The ODA level for 2010 is expected to suffer a shortfall of 18 billion dollars, dropping to 108 billion (in 2004 dollars) in comparison to the committed 126 billion for the year. Africa is likely to be especially affected, receiving an estimated 11 billion dollars instead of the 25 billion commitment from Gleneagles, greatly due to European donors who will be unable to meet their targets (OECD, 2010).

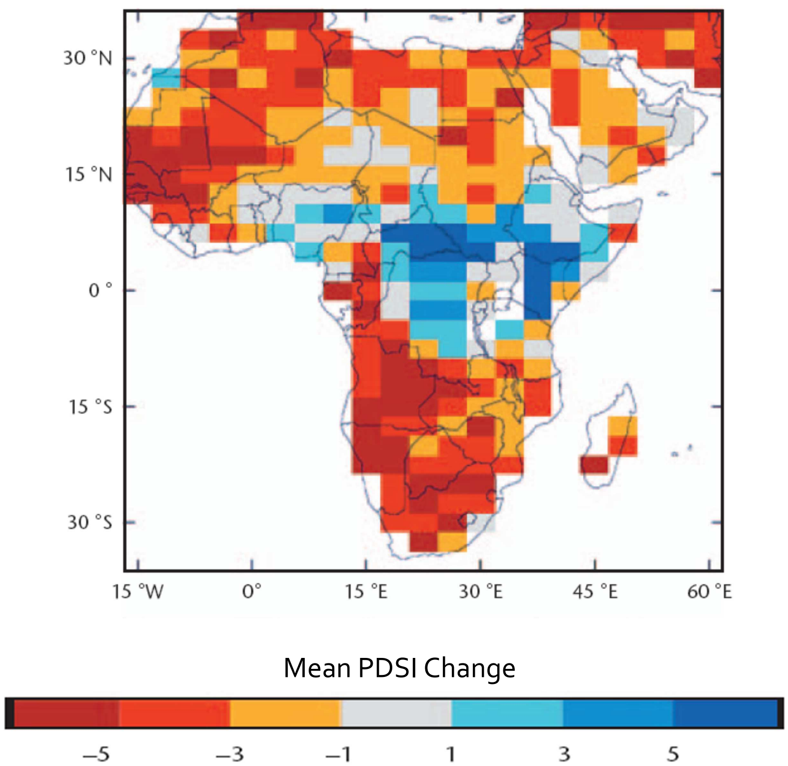
Although many African governments are increasingly relying on domestic revenues for their development finance, a sizeable number of countries in the region continue to rely on official forms of external financing. The medium-term prospects are not too bright. Access to international bank financing from developed countries will remain limited as the banks these economies continue to deleverage. External debt financing cost continues to be high in emerging and developing countries. In this sense, Africa may face important financing challenges – both public and private **–** over the next few years. South-South cooperation and investment, however, may contribute to breach the gap of financing funds in the region.

Climate change

A third challenge for Sub-Saharan Africa in the long-term refers to that of climate change. The local climate effects of global warming –increasing temperatures and changes in rainfall **–** have an impact on the frequency and intensity of natural disasters; affect crop yields; and increase water stress –including floods, draughts, overflowing rivers, lack of access to safe water; among others. The effect of these shocks on human development outcomes are multidimensional and include increasing food insecurity, population displacement and social strife, deterioration of health outcomes and reduced livelihood due to increased disease burdens, infrastructure damage, as well as the opportunity cost of public resources used to tackle climate emergencies.

Although the region's carbon emissions are marginal, accounting for only a minimal share of global emissions, climatic change will be more severe in Africa than in other parts of the world. Evidence suggests that the region is warming faster than the world average and that this will likely persist (Hume et al. 2001). Furthermore, the proportion of people working in the agricultural sector (close to 60 percent of employment), the importance of agriculture for economies (over 50 percent of GDP for some countries), and the reliance on rain-fed crops further compounds the exposure to weather variation (Collier, Conway and Venables, 2008).

Figure 4- Climate change exacerbating existing vulnerabilities across Africa



Source: UK Met Office (2006)

Climate variability will impact sub-regions differently; although it appears that most will be affected negatively. Rainfall is likely to increase in Eastern Africa, while Northern and Southern Africa will probably become hotter and drier (Collier, Conway and Venables, 2008). Climate change will likely exacerbate existing vulnerabilities across Africa. Figure 4 displays the increase in drought proneness from the present day up to the 2090s, with negative values (red/orange) indicating the area that is likely to become more prone to droughts (UK Met Office, 2006). The sea-level rise forecasted towards the end of the current century will impact coastal areas of the continent in which large populations live, with an adaptation cost starting at 5 to 10 percent of GDP. Arid and semi-arid land in Africa will increase by an estimated 5 to 8 percent by 2080 (IPCC, 2007).

The impact on human development is both serious and fast-approaching. The Intergovernmental Panel on Climate Change (IPCC) estimates that by 2020 between 75 and 250 million people in Africa will be exposed to increased water stress due to climate change. Yields from rain-fed agriculture could decrease by up to 50 percent in the continent by the same year, compromising access to food, and aggravating food insecurity and malnutrition (IPCC, 2007). An impact on health may also be expected, particularly via disease carrying insects, affected by temperature, rainfall and humidity. Projections indicate that climate changes will affect the potential distribution of malaria in the poor and vulnerable regions of the world, placing areas of Africa at risk (van Lieshout et al. 2004).

Table 1- Impact of Baseline Global Warming by the 2080s on World Agriculture

Preferred estimates with and without the effect of carbon fertilization

	Country	w/o carbon fertilization	with carbon fertilization
1	Sudan	-56	-50
2	Senegal	-52	-45
3	Iraq	-41	-32
4	Zambia	-40	-31
5	Cuba	-39	-30
6	Morocco	-39	-30
7	Myanmar	-39	-30
8	India	-38	-29
9	Zimbabwe	-38	-29
10	Algeria	-36	-26
11	Mali	-36	-26
12	Mexico	-35	-26
13	Niger	-34	-24
14	South Africa	-33	-23
15	Venezuela	-32	-22
16	Ethiopia	-31	-21
17	Malawi	-31	-21
18	Peru	-31	-20
19	Pakistan	-30	-20
20	Ecuador	-29	-18

Source: Cline (2007)

Although most of the effects of climate change are adverse, the region is currently in an insuperable position to implement adaptation measures and mitigate the impact. Mechanisms like substitution and diversification between crops, technical progress in farming, innovative agricultural insurance mechanisms and efforts to reduce deforestation are yet to be fully exploited in the region, in addition to filling out the massive infrastructure gap. The public sector can also play a key role providing information, research, and incentives for the private sector to encourage adaptation (Collier, Conway and Venables, 2008).

A possible positive effect of climate change refers to carbon fertilization which may actually improve productivity if crops are switched to responsive ones. Cline (2007) analyses the impact of global warming by the 2080s on yields of the four major grains and oilseeds, including the mitigating effect of carbon fertilization. Results suggest that with business as usual, the reduction in agricultural production with climate change by the 2080s is lower when including the carbon fertilization, than when this is omitted (i.e. in Sudan agricultural production would be reduced by 56 percent with climate change without including the effect of carbon fertilization, and by 50 percent when it is included (Table 1).

The issue of adaptation also needs to be addressed more broadly in the context of development policy. International organizations and developed nations are in the position to lend support to address the issue, investing in adaptation, the prevention of deforestation and funding for renewable energy in Africa. Furthermore, progress on multilateral trade negotiations could focus more on bio-fuel subsidies and export controls on food-grains, as well as the review of policies on grain storage and buffer stocks of basic food commodities that would help guarantee food security (African Progress Panel, 2009).

6. Seizing the moment: towards inclusive, resilient and sustainable development

Imbedded in each of the three challenges outlined above are opportunities for transformational development. African countries and the international community, including UNDP can pursue a purposeful policy agenda that tackles these challenges and seizes those opportunities. This policy agenda will have some of the following key elements.

To address the first challenge, making the economic growth process more effective in reducing poverty, requires that the growth becomes more inclusive and steady. There are two important ingredients to achieving this goal. One relates to the importance of agricultural growth to unleash more inclusive growth. In many developing countries, including China and Vietnam, massive reductions in poverty came along with increases in agricultural productivity. We have seen this in Africa, too, in countries such as Ghana and Uganda, countries that have met the MDG target of reducing poverty by half, largely due to rapid agricultural growth. Science and technology investments, in agriculture but also in health and other sectors, are absolutely critical to this task. In agriculture, there is an absolute need to enhance the use of fertilizer, seeds, irrigation, and in some cases mechanization to expand area under cultivation. For UNDP there is a critical role in terms of assisting countries in forging the linkages between food security and human development in their national development plans and advancing the commercialization of agriculture.

Another central aspect of the inclusive growth challenges relates to enabling African economies to reap the 'demographic dividend' that arise when the share of the working-age population grows in relation to the rest of the population. Often the youthful nature of African economies is viewed as a risk and a threat, but it can also be a significant source of economic vitality. One study shows how a rapid increase in the working-age population relative to the rest of the population explains up to 40% of the East Asian 'miracle' of rapid economic growth between 1965 and 1990 (Bloom and Williamson, 1998). Obviously, the greater supply of labor must be productively employed and any additional savings can effectively be turned into domestic and productive investment. A changing dependency ratio also affects public expenditures, since children and the elderly typically are net beneficiaries (as recipients of public education or health care, for instance) rather than net contributors of taxes (as those of working age tend to be). Developing credible and effective programmes for increasing employment and improving the economic empowerment of women and youth should be a priority for UNDP. Such programmes would need to address country-specific challenges, such as reducing the costs of employing low-skilled youth, promoting entrepreneurship among women and access to credit, providing better security for those already employed, investing in areas of education demanded by the private sector including vocational training, and stimulate economic growth in sectors that has the potential to absorb low-skilled labour.

The second part of the challenge is to make growth steadier, or at least to ensure that societies and economies are more resilient to shocks that will inevitably occur. Development at its heart is really about increasing resilience. It is about ensuring that a natural or human-made disaster does not destroy livelihoods and launches populations in cycles of self-perpetuating poverty. One critical tool to increase resilience is social protection. Mechanisms for social protection extend beyond cash transfer programmes to include a broad range of public actions to reduce vulnerability but too often social protection this is seen as a residual expenditure category, once other more productive activities have been taken care of. UNDP should be challenging this perception. Enabling people to preserve assets and human capital during shocks is more than a measure that protects the weak and the vulnerable. It is an investment in future growth and prosperity. The implication is also that at country level social protection should not be the purview of line ministries only, but should move to the center of the development agenda. UNDP's traditional work with ministries of finance and planning on national development planning and poverty reduction strategies makes the organization particularly well-placed to facilitate that it happens. Furthermore, UNDP will need to undertake analytical and programmatic work linking governance and crisis prevention work to resilience, and frame the importance of empowerment and political inclusion as a key ingredient for resilient societies.

The third challenge, responding to threats to sustainability, can be an opportunity, too. This depends in part on African countries, but the role of the international community is absolutely essential. An overarching objective for UNDP support should be to forge linkages in the poverty-environment nexus and ensure that sustainability is at the center of the development planning process rather than treated as a sectoral concern. African countries may be able to chart a low-carbon developmental path, but this will be conditional on having access to the right kind of technologies and appropriate financing. That is why it is so important for Africa that the outcome of the on-going negotiations on climate change delivers the financing that will be required for Africa to adapt to, and develop in a way that is consistent with mitigating, climate change. UNDP is centrally placed at country-level to assist countries to adapt to climate change, and prepare them to meet the challenge and seize the opportunities that are coming along with climate financing and the establishment of sustainable climate-resilient strategies. UNDP should also support countries in developing low-emission development strategies, reducing energy poverty in a way that is consistent with climate change mitigation and draws on the potential of the continent for renewable energy.

Ensuring sustainability of the development process should be seen in the context of the need for many countries to break away from the current over-reliance on extraction of natural resources, which leaves them prone to boom and bust cycles. Natural resources need not be a curse but the risks need to be managed. UNDP should be ready to respond to the increasing number of countries in Africa that are, or are about to begin, extracting resource wealth and to move beyond assistance with the macro-economic management issues to focusing on how to invest the wealth in investing in human development and expanding the productive potential of the economy.

As countries seek to mobilize resources for development and to address these challenges UNDP will have to position itself to changes in the external environment. We are witnessing is a realignment of the old development paradigm that was based on a simplistic duality between North and South. Aid will remain important, but will be increasingly seen as mere leverage for the mobilization of additional external and domestic resources. Beyond aid, opportunities for investment, trade, technology are coming increasingly from the global South. Developing countries are growing much more rapidly that rich countries, and face much less fiscal constraints. That is why it is so important for Africa to be well positioned to marshal the opportunities for South-South engagement to further its own development. This is an area in which we at UNDP are heavily investing. But this realignment goes beyond the opportunities for economic relationships with the global South. It is leading to a fundamental rethinking of the process of policy formulation in Africa.

We at UNDP have always emphasized the importance of ownership of policies, and the need for countries to have policy space to chart their own developmental path. Wholesale policy prescriptions are always ineffective. This was true of the now widely discredited Washington consensus, and is now true of looking at a specific successful country and trying to copy the latest success that is in fashion. Paying attention to good practices and learning from other country experiences is critical, but even more so is to be cognizant that local and national conditions determine the specific content of policies and institutions. Even when we know that certain outcomes matter – for example, that land security is important for increasing agricultural productivity – there are several ways that can lead to this outcome. China and Vietnam chose their own, distinct, ways of doing it. African countries need to find their own means of getting to the same outcome.

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