The African Economic Outlook 2008

Measuring the Pulse of Africa

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FA6ID
1 Macroeconomic Outlook: Challenges and Opportunities

2 Skills Development: Investing in African Youth
Real GDP growth expected to exceed 5% for the sixth consecutive year in 2008, and reach 5.9%.

- 2007: 25 countries over 5%
- 2008: 31 countries over 5%
- 2007: 13 countries between 3-5%
- 2008: 16 countries between 3-5%

Growth in 2009 will remain sustained at 5.9%.

Source: OECD Development Centre / African Development Bank, 2008
Commodities

The commodity boom: a key driver for Africa

Global commodity prices 2001-2009

Source: OECD Development Centre / World Bank, 2008
China / India

A new driver for African growth

Source: OECD Development Centre / UN Comtrade, 2008
## Drivers

### Improved macroeconomic framework

<table>
<thead>
<tr>
<th>Fiscal Balance % GDP</th>
<th>Current account % GDP</th>
<th>Inflation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Average 2000-04</td>
<td>Average 2005-09**</td>
</tr>
<tr>
<td>Central</td>
<td>1.6</td>
<td>8.6</td>
</tr>
<tr>
<td>East</td>
<td>-2.2</td>
<td>-3.2</td>
</tr>
<tr>
<td>North</td>
<td>-1.2</td>
<td>6</td>
</tr>
<tr>
<td>South</td>
<td>-2.5</td>
<td>1.6</td>
</tr>
<tr>
<td>West</td>
<td>-0.5</td>
<td>4.5</td>
</tr>
<tr>
<td>AFRICA</td>
<td>-1.5</td>
<td>3.4</td>
</tr>
</tbody>
</table>

*Source: OECD Development Centre / African Development Bank, 2008*

* Excluding Zimbabwe

** Estimations for 2007 and predictions for 2008/09
Drivers

Record investment in 2007: a new driver?

**Public and Private Investment**

% of GDP

- Ghana
- Madagascar
- Senegal
- Tanzania
- Zambia

Source: OECD Development Centre / UNCTAD, 2008

**Equity flows to Africa**

Month-end aggregate holdings

- Total Africa
- South Africa

Source: OECD Development Centre / EPFR, 2008
Oil exporters and importers: divergent paths?

Real GDP Growth

- Growth rates for oil importer and oil exporter countries diverged significantly in 2007 and 2008

- However, this difference is set to narrow in 2009, due to:
  - Slower growth of oil production in Angola
  - Growth recovery in Kenya and South Africa

Source: OECD Development Centre / African Development Bank, 2008

Net Oil exporters: Algeria, Angola, Cameroon, Chad, Congo, Côte d’Ivoire, Congo DRC, Egypt, Equatorial Guinea, Gabon, Libya, Nigeria, Sudan
**Oil - X**

**Sustained growth in oil-producing countries**

**Outstanding achievers:**
- **Angola:** 11.8% average growth 2000-07
- **Algeria:** 4% average growth 2000-07

**Assets:**
- Sustained and prolonged growth
- Improving macro management
- Rising investment in non-oil sectors

**Liabilities:**
- Poor diversification
- Structural declining productivity of old oil fields
- Poor governance

**Oil exporting countries GDP growth (§) 2008**

Source: AfDB/OECD Development Centre, 2008

*: African Economic Outlook forecasts
Best performers, average growth 2000-07:

Tanzania: 6.7 %
Ghana: 5.2 %
Tunisia: 4.9 %

Assets:
• Sustained and prolonged growth
• Prudent macroeconomic policies
• Good Diversification
• Decreasing poverty

Poor quality growth:

• Poverty stagnating
• Vulnerability to climatic and price shocks

Source: AfDB/OECD Development Centre, 2008

*: African Economic Outlook estimate
Food Prices

Significant food price inflation over past year

- Rising grain prices: an international and local trend
- Sub-Saharan Africa is a net cereal importer
- But vulnerability varies among countries
- Need for long term concerted solutions

African Cereal Production (million tonnes)

<table>
<thead>
<tr>
<th>Region</th>
<th>2006(e)</th>
<th>2007(e)</th>
<th>Change 2006-2007 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Africa</td>
<td>144.1</td>
<td>135.6</td>
<td>-5.9</td>
</tr>
<tr>
<td>North Africa</td>
<td>36</td>
<td>28.9</td>
<td>-19.8</td>
</tr>
<tr>
<td>Western Africa</td>
<td>49.1</td>
<td>47.4</td>
<td>-3.5</td>
</tr>
<tr>
<td>Central Africa</td>
<td>3.6</td>
<td>3.5</td>
<td>-2.7</td>
</tr>
<tr>
<td>Eastern Africa</td>
<td>33.9</td>
<td>33.9</td>
<td>0</td>
</tr>
<tr>
<td>Southern Africa</td>
<td>21.5</td>
<td>21.9</td>
<td>2.1</td>
</tr>
</tbody>
</table>

Source: OECD Development Centre / FAO, 2008
Is long term decline in political instability continuing?

Political Troubles and Hardening of the Regime

Hardening of the regime: weighted sum of events

Political troubles: weighted sum of events


Hardening of the regime indicator

Political troubles indicator

Qualitative data obtained from Marchés Tropicaux et Méditerranéens. Data is used to construct two indicators referring to:

Political instability: occurrence of strikes, demonstrations, violence and coup d’état.

Hardening of the political regime: incarcerations of opponents, measures threatening democracy such as dissolution of political parties, violence perpetrated by the police and the banning of demonstrations or public debates.

Outlook

Oil exporter & importers: different challenges ahead?

**Oil and Mineral exporters**

*Challenges:*
- Capitalise on windfall gains
- Maximise spillover to rest of the economy
- Avoid Dutch Disease

**Oil importers**

*Challenges:*
- Contain fiscal deficit
- Finance widening trade deficit
- Streamline spending to prioritise poverty reduction

Inflation is a challenge for the entire continent

*Source: OECD Development Centre, African Economic Outlook, 2008*

*Oil Importers exclude Zimbabwe*
Diversification

Common challenges: diversify to raise exports

• Between 2002 and 2006 29 African countries have further specialised.
• The 10 less diversified countries are all oil exporters.
• The 5 most diversified are Morocco, Tunisia, South Africa, Tanzania and Senegal.

In 2007, only 12 out of 35 AEO countries increased export volume by 5 per cent or more.

Diversification should be fostered to sustain growth and fight against rising import costs.

Source: OECD Development Centre, UN Comtrade, 2008.
The installed capacity in SSA is largely insufficient to respond to high growth rates and increasing demand.

25 countries are currently experiencing severe energy shortages.

The crisis has been worsened by South Africa shortages, Kenya political crises, droughts and high oil prices.

Source: Briceno-Garmendia (2006); Eberhard and others (2008).
African economies safe from U.S downturn?

Due to a low share of external trade with the U.S, Africa is less vulnerable to effects of U.S subprime woes.

**African Exports by Destination - 2006**

- **Algeria**
- **Egypt**
- **South Africa**
- **Nigeria**
- **Angola**
- **Morocco**

**Source:** OECD Development Centre / UN Comtrade, 2008.
(data on Nigeria corresponds to last available year, 2003)

**Note:** The “Others” category includes Latin America, Middle East, East Asia and South Asia.
Aid

Foreign aid as a catalyst for development

Source: OECD Development Centre / African Development Banks, 2008
MDGs

Slow progress, despite growth

Progress on Millennium Development Goals 2007

Eradicate extreme poverty and hunger

Achieve universal primary education

Promote gender equality and empower women

Reduce child mortality

Improve maternal health

Combat diseases

Ensure environmental sustainability Target

Goal 1

Goal 2

Goal 3

Goal 4

Goal 5

Goal 6

Goal 7

Satisfactory

Not satisfactory

Source: OECD Development Centre / African Development Bank, 2008
1  Macroeconomic Outlook: Challenges and Opportunities

2  Skills Development: Investing in African Youth
Key questions

- Which role for TVSD in Africa today?
- What is the status of skills development? Which providers and what access?
- Are skills gaps being adequately addressed? What are the constraints?
- and what are the lessons learnt from recent reforms?
**Definition**

Technical and vocational skills development

Acquisition of knowledge, practical competences & knowhow

- Public or private TVET schools
- Workplace training in enterprises
- Informal Apprenticeship

Degree of formalization of labour market

Formal | Informal
Sustained economic growth ...but:

- World’s lowest productivity (25% of world average, 1/12th of the average of industrialized countries, slow progress) partly due to limited technical skills
- Increasing youth unemployment (20% on average)
- Large informal sector (on average, more than 80% of total employment)

Notable improvement in primary education, ...but:

- Big pressure on secondary schools and TVET systems
- High drop out rates
Achieving the MDGs

**MDG 1:** Eradicate Extreme Poverty and Hunger

**MDG 2:** Expand Primary Education

**MDG 3:** Improve Gender Equality in Educ.

**MDG 4:** Lower Mortality Rates

**MDG 5:** Enhance Reproductive Health

**MDG 6:** Combat HIV/AIDS, Malaria, etc.

**MDG 7:** Environmental Sustainability

**MDG 8:** Develop Decent Work strategies for youth

**Technical and Vocational Skills Development**

- GINI ↓
- SMEs development
- Better jobs for parents
- Elimination of child labour
- Empowering Rural Women
- For community health workers
- Info & counselling
- Water & soil mgmt

Role of TVSD:

- GINI ↓
- SMEs development
- Better jobs for parents
- Elimination of child labour
- Empowering Rural Women
- For community health workers
- Info & counselling
- Water & soil mgmt
Enrolment in Secondary Technical and Vocational Training in formal systems – International Comparison

Percent, average 2002-2006

The percentage of total secondary students enrolled in technical and vocational programmes in 2005

African countries can be grouped in three categories:

**Group I:** Proportion of TVET enrolment > 10%.

**Group II:** Proportion of TVET enrolment between 5% and 9%.

**Group III:** Proportion of TVET enrolment <5%.

**Others:** Data not available

Source: OECD Developemnt Centre / UNESCO, Global Education Digest, 2007
Challenges

- The training system in Africa is largely **underfinanced** (only 2 to 6% of national edu. budget).

- **Donors’ support** to training has been erratic & insufficient to upgrade the quality and access to training.

- Many enterprises **undertrain** their staff.

- Funding is fragmented: Countries must make **better use of existing funds**

- **Access** remains more problematic for the poor and vulnerable: the State has to design support mechanisms for them.

Needs

- **Greater diversification** of funding sources for TVSD,

- Development of **private training markets**, 

- Increased **competition** between public and private TVSD providers,

- Encourage more and higher quality **enterprise training**.
Constraints on TVSD’s impact & expansion

TVSD

Missing links
- National development policy
- Industry skills needs
- Post-secondary and tertiary institutions
- Firm-based and informal training

Weak links

Lack of a coherent strategic approach
<table>
<thead>
<tr>
<th>Lessons learnt</th>
<th>Successful reforms: what are the lessons learnt?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Adopting an integrated vision and clear lines of authorities</td>
</tr>
<tr>
<td>2.</td>
<td>Improving Forecasting and Planning for Skills Needs</td>
</tr>
<tr>
<td>3.</td>
<td>Improving the quality of TVSD</td>
</tr>
<tr>
<td>4.</td>
<td>Addressing the informal sector’s skill needs (and those of vulnerable groups)</td>
</tr>
<tr>
<td>5.</td>
<td>Setting up accompanying measures</td>
</tr>
<tr>
<td>6.</td>
<td>Foster Partnership with All stakeholders</td>
</tr>
<tr>
<td>7.</td>
<td>Involving Local Communities and Strengthening Local Management of TVSD</td>
</tr>
</tbody>
</table>
To sum up...

1. Coherent vision and governance to TVSD

2. Make TVSD bankable: Strategies, action plan and identification of objectives & resources needed

3. Increase awareness about benefits of TVSD among firms and parents

4. Foster evaluation and monitoring mechanisms

To be fully effective, TVSD strategies must be integrated into comprehensive employment policies and focus on sectors experiencing employment growth and skill shortages
Thank you!

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For more information:

www.oecd.org/dev/aeo