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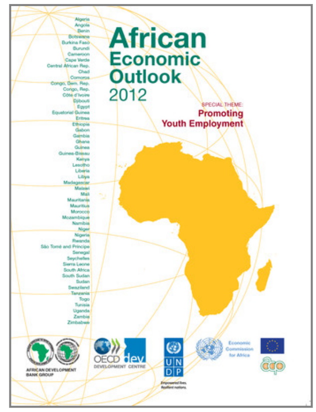
African Economic Outlook 2012: Promoting Youth Employment

Summary in English



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- This 11th edition of the African Economic Outlook reviews recent economic, social and political developments and the short-term likely evolutions of 53 African countries.
- This year's edition will for the first time cover Eritrea and South Sudan. The focus of the 2012 AEO is the promotion of youth employment in Africa, presenting a comprehensive review of both challenges and opportunities Africa faces in providing its young population with sufficient and decent jobs.

Macroeconomic prospects

After an initial rebound from the 2009 world economic crisis, Africa's economy was undermined last year by the Arab uprisings. The continent's growth fell back from 5% in 2010 to 3.4% in 2011.

With the recovery of North African economies and sustained improvement in other regions, growth across the continent is expected to accelerate to 4.5% in 2012 and 4.8% in 2013. Short-term problems for the world economy remain as Europe confronts its debt crisis. Commodity prices — crucial for Africa — have declined from their peak due to weaker demand and increased supply, and some could fall further. But prices are expected to remain at levels favourable for African exporters.

Rising food and fuel prices caused Africa's median inflation rate to increase from 5.8% in 2010 to 7.9% in 2011. This rate is expected to gradually ease in 2012 and 2013. Some countries tightened monetary policies in 2011 to contain inflation. Others worried more about weak growth and refrained from raising interest rates.

Future monetary policy will be dictated by whether there is a bigger worry about inflation or the risk of a new global downturn.

Restoring sound public finances remains a priority in countries where fiscal deficits are relatively high, especially those who rely on oil imports. In resource-rich countries, fiscal prudence can be achieved through medium-term planning based on conservative assumptions about future commodity prices and by putting additional cash into sovereign wealth funds to prepare for falling resource prices.

If Europe's debt crisis worsens, it could affect Africa through lower earnings from exports of goods, services and tourism. There could also be reduced official development assistance, foreign direct investment and of remittances from migrant workers. In addition, the debt crisis could have a contagious effect on African banks.

The fallout on trade appears to be the biggest risk. The overall effect on Africa would depend on the depth and duration of the crisis in Europe and how much it touches the rest of the global economy.

Within Africa, much attention will be given to Tunisia, Egypt and Libya. After their uprisings, the new governments must establish political stability and improve economic and social conditions. There are also worries about the new state of South Sudan and its relations with Sudan. Several other African countries face social discontent and regional tensions. Drought and floods have also affected agricultural production and food security for many countries, especially in the Sahel region. African policy makers and the international community must be aware of these global and domestic risks.

Overall, the 2012 African Economic Outlook presents an optimistic scenario for the continent. Africa's impressive growth for more than a decade and its resilience to the deep global recession support such optimism.

External financial flows and tax receipts in Africa

External resources flowing to Africa peaked in 2011 following a decade of sound macroeconomic policies and sustained average annual growth of over 5%. The strong recovery of foreign investment, with the exception of Northern African countries, spurred external flows. The appetite of Asian and Latin American emerging economies for natural resources triggered a boom of international commodity prices, which underpinned resourceseeking investment in Africa.

Yet, this strong growth and surge in FDI did not translate in greater economic opportunities for the entire population, nor did it create enough employment to meet demand. Africa needs to attract more productivity-enhancing FDI to diversify its economy, develop its private sector and benefit from technology transfers and spill-over effects. The design and implementation of effective tax policies should enable States to maximise the impact of different types of external flows by providing higher quality public services and pursuing adequate economic policies.

Trade policies and regional integration

Because Africa's export portfolio remains predominantly based on raw material, its export earnings are contingent on commodity price fluctuations. This exacerbates the continent's susceptibility to external shocks and bolsters the need for export diversification. Trade in services, mainly travel and tourism, continued to rise, underscoring the continent's strong potential in this sphere.

African countries need to diversify their trading partners within and outside the continent. Pursuing deeper regional integration will improve the low levels of both intra- African and internal trade. Regional integration should help tackle infrastructure and energy gaps. Africa needs to articulate, long-term, national and regional strategies to frame its increasing engagement with southern partners into a mutually reinforcing affiliation. Stronger South-South cooperation should lead to market and investment diversification, especially considering the current economic situation in the United States and European.

Human development: Capital flight and poverty

Sub-Saharan Africa had the lowest aggregate level of human development in 2011, albeit posting the second fastest annual increase over the period 2000-11. Improved policies will not suffice to sustain high rates of growth of human development. It will have to be complemented by a combination of ODA, remittances, FDI and tax revenue to provide the required financial resources to bridge the gap in human capital. Accelerating investments in social and economic infrastructure also requires to reverse capital flight: the strain it puts on human development in Africa is estimated at about $700 billion between 1970 and 2008. Since the actors involved in capital flight are both within and outside Africa, international cooperation is crucial.

Economic and political governance

The "Arab Spring" in 2011 caused Islamic-inspired political parties in Morocco, Tunisia and Egypt to be elected into parliament. Following decades of repressive regimes these countries will have to broker a new social contract that satisfies all strata of society in order to enable their economies to get back on their feet swiftly and appease the high expectations generated by the revolutions.

Similarly, in other African countries citizens increasingly demanded more civil rights and better social policies. This reflects the trend of African citizens increasingly adopting peaceful ways to voice their legitimate concerns. This change in nature of the protests indicate a maturing political process in most African countries with governments increasingly allowing their citizens to express themselves in a more peaceful way.

Special Theme: Promoting youth employment

Africa has the world's youngest population and it is growing rapidly. Hundreds of millions of young Africans will be leaving school over the next decades, at every level, and looking for jobs. The challenges and obstacles unemployed youth and the working poor face are diverse and vary between countries. Youth employment is largely a problem of quality in low-income countries and one of quantity in middle-income countries. Youth in vulnerable employment and working poverty are the large majority in poor countries. In upper middle-income countries more youth are unemployed, discouraged or inactive. In all country groups more young people are discouraged than unemployed, suggesting that the youth employment challenge has been underestimated.

Some conclusions are evident. The public sector will not be able to absorb the tide of young job seekers because there is little prospect of an expansion in this area. The private formal sector is growing but from too small of a base. Existing firms in this sector, the primary source of jobs paying a living wage, must be supported to grow further and become more competitive. Most importantly, attention must be concentrated on the informal and rural sectors because these will overwhelmingly be the source of new employment. Governments must focus on removing obstacles to the many small informal firms, helping them to grow and create decent jobs.

In a large number of countries a common problem is that schools and training centres are not providing young people with the skills that employers are looking for. However, while education systems need to be better linked to labour market needs, both country experts and youth see the lack of demand for labour as the main barrier to young people in African labour markets.

Governments must improve their response. There are many government programmes that have been or are currently being implemented, but the track record on sustainable results is poor. Among the big shortcomings of youth employment interventions is a general lack of knowledge on what works well and what does not, something closely linked to the extreme paucity of employment data available for Africa. A second obstacle is a frequent lack of co-ordination between government agencies leading to scattered, sometimes even competing, efforts that are not integrated into an effective strategy.

Despite the challenging short-term outlook, the long-term perspective is good, if African governments effectively tackle the hurdles young people face. Improvements in education, the emergence of new technologies and rapid urbanisation provide opportunities for sector development and job creation. Finally, the informal and rural sectors, long seen as problems, are turning out to contain entrepreneurial talent that can change employment prospects for youth if adequately enabled by government policies.

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