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The Macroeconomic and Social Investment Outlook for Children in Eastern and Southern Africa

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The Macroeconomic and Social Investment Outlook for Children in Eastern and Southern Africa

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EXECUTIVE SUMMARY

Child well-being is inextricably linked to the performance of the macroeconomy and social sector investments. Although not always explicit, there are very clear and powerful channels that need to be understood, monitored and linked to decision-making processes, including economic growth, labour markets, price levels, the fiscal balance and government spending patterns. As the young and fast-growing population in Eastern and Southern Africa explodes from 540 million today to more than a billion in less than 30 years, the stakes for children have never been higher. And this is the main objective of the report: to review recent and projected macroeconomic and social sector investment trends to identify potential threats and opportunities for children so that they prosper during good times and are protected during bad times.

The macroeconomy is not working well for most children in the region. Widespread poverty is the starting point. More than 40 per cent of the population lives in extreme poverty (defined as per capita income of less than US\$1.90/day in purchasing power parity, 2011 international US\$). Although this is already high, the figure jumps to four out of every five people when applying a more realistic poverty line (e.g. US\$5.50/day), indicating that most families cannot adequately provide for themselves or their children. And while there has been undeniable progress toward improving children's outcomes in recent decades, many basic indicators have simply not kept pace with population growth. The numbers are staggering: around a million children under the age of five die from preventable causes every year, the majority during the first month of life; more than 27 million children under the age of five are stunted; 36 million school-age children are not in school; and close to 300 million persons – most of whom are children – only have access to surface water and other unimproved sources.

Social sector service delivery systems continue to act as a main barrier to faster progress in Eastern and Southern Africa. The severe shortage of healthcare personnel means that around seven million births occur in dangerous conditions every year. Where children are healthy and well-nourished enough to go to school, they often share classrooms with 50 or more other pupils. And for the 5 per cent or so of students that complete secondary school without unreasonable delay, an even smaller percentage are equipped with the level of competencies demanded for jobs in the formal sector. Moreover, barely one in ten persons is supported by a social safety net programme. In such a context, it is unsurprising that around two in every three children in the region suffer from multi-dimensional poverty.

Will macroeconomic forces and social sector investments catalyse sustainable change for children – or not? It is hard to be optimistic, but there are many factors that could influence the outlook. Let's start with the downside.

First, economic growth is not nearly fast enough to propel incomes and poverty alleviation on a meaningful scale. Once factoring in expected price and demographic changes, real per capita GDP growth in Eastern and Southern Africa is projected to be around 1.3 per cent in 2019 and 2020, which means that it would take the region around 55 years to double its income. However, even this is a far cry for the seven the countries that are expected to experience negative growth on a real per capita basis during 2019-20. Economies must also overcome the continuous drag that rampant income inequality inflicts on growth. Given the direct contributions to household income and children's outcomes, the current economic growth trajectory does not bode well for most children in the region.

Second, labour markets are not providing quality jobs needed by parents and young workers to improve their lives and the lives of children. Across the region, around three out of four jobs are in the informal sector where pay is generally insufficient to help workers and their families escape poverty. At the same time, Eastern and Southern Africa boasts one of the highest unemployment rates in the world, which exceeds 20 per cent in many southern African countries and leaves far too many families without income. The situation is worse for young workers. Six million 15-24 year olds will be unable to find a job in 2019, and most of them have already been inflicted by irreversible “wage scars.” At the same time, young workers must continue to compete against 12 million new labour market entrants each year.

Third, rising prices are negatively influencing real economic growth, government investment and household welfare. Eastern and Southern Africa currently suffers some of the highest inflation rates in the world, with several countries facing dangerous levels of volatility, including Angola, South Sudan, Zambia and Zimbabwe. In addition to hampering the real output of many economies, rising prices minimize the impact of government budgets, including social transfer values and hence direct support to children. At the household level, inflation erodes disposable income, while food inflation, which runs substantially higher than general inflation across the region, affects the nutritional intake of children, whose well-being is further endangered by other coping mechanisms.

Fourth, small revenue bases, continuous budget deficits, high debt and the changing official development assistance landscape limit spending on children’s services. In most Eastern and Southern African countries, budgets are constrained by the small size of formal economies, which makes it impossible to adequately finance services for children. As nearly every government is forecast to run a budget deficit in 2019, borrowing continues to swell, with debt repayment increasingly crowding out available funding for social sectors and debt sustainability concerns reverberating across the region. Official development assistance remains an important social sector financing source for most governments, but flows are heavily concentrated in a sub-set of countries, and eligibility will become increasingly restricted as several countries reach middle income status in the near future.

Fifth, the current levels, design and performance of social sector budgets prevent systems from delivering the services demanded by children and their families. Few governments in the region are meeting their financial commitments to core social sectors, either in budget priority or in investment levels. And even where social sectors are afforded a large share of the budget, the low revenue base makes it impossible to achieve minimum spending levels. Social sector budget structures are also concerning, as they commonly favour tertiary services while neglecting the primary services that are direly needed and gravely underfunded. Low budget credibility rates, especially for capital (or development) items, act as yet another barrier to reaching children.

And now to the upside.

Economic growth could outperform expectations... There are several potential catalysts for this. These range from expediting the extraction of unexploited natural resource deposits (mainly in Eastern Africa) and higher global commodity prices (to the benefit of resource-intensive economies) to faster regional economic integration through the African Continental Free Trade Area, an uptick in global demand for products and services from the region, a sudden increase in productivity and/or a surge in foreign direct investment flows. Enhancing income redistribution efforts through better taxation and social protection measures could also lift the incomes of vulnerable households and help engender faster and more sustainable growth trajectories.

Labour markets could rapidly expand and create formal sector opportunities for young and adult workers... Any of the potential economic growth catalysts would likely improve job market prospects. At the same time, new opportunities could be created if service sector jobs more closely accompany the rapidly-growing service sectors that are now driving many economies in the region. Efforts to scale up social protection measures

could also better protect workers and their families facing unexpected job loss and other shocks.

Price levels could permanently stabilize... Overall, the region is already headed down a pathway toward lower inflation. The near-term outlook for global commodity prices should help limit the forces of cost-push inflation, while the adoption of prudent monetary and fiscal policies could usher in a new era of price stability. Adjusting social transfers to price indices and evaluating social sector budget allocations in real terms could also improve the impact of spending on programmes that benefit vulnerable households and children.

New fiscal space opportunities could lead to substantial increases in social sector budgets... The introduction of new progressive taxation measures and rapid improvements in tax administrative capacity could help unlock domestic revenue potential in most countries. Some governments could attract more grants and concessional loans if they can convince donors that additional grants and concessional loans will be used as intended and deliver strong value for money. Prudent debt management and careful risk mitigation could help other governments take better advantage of new financiers in the region, including China, to fund social infrastructure. All governments also show significant potential to increase the budget priority afforded to social services, which could be readily achieved by shifting allocations away from non-priority sectors, such as defence. And lastly, rapid improvements in the design, credibility and execution of social services budgets could bolster actual investment levels and the impacts on children's lives.

The current challenges facing children in the region are astounding in terms of sheer numbers, but there is positive momentum to build from. For example, incidence of extreme poverty, child mortality and stunting have fallen significantly since 2000, while the rates of school enrollment and access to basic drinking water services are markedly up.

Whether the region can capitalize on the existing momentum depends, first and foremost, on promoting macroeconomic strength and predictability. This requires sustained economic growth, well-functioning job markets, price stability, and strong domestic resource mobilization and debt management capacity. While these outlooks are currently lacklustre and marred with uncertainty, sound policies and favorable external conditions could help unlock the upside.

Achieving meaningful and lasting improvements in child well-being also requires boosting spending on social services. The ongoing population boom has vast potential to transform the region – for good or ill – and the outcome will be largely dictated by the investment choices of governments today. If budgets strategically prioritize child well-being, current and forthcoming generations will be healthier, smarter, safer and, ultimately, empowered to sustain economic growth and transform living standards and opportunities for themselves and their families. The alternative path could prove cataclysmic. If government investments fail to adequately prepare their fast-growing labour forces, poverty, inequality, crime, violence, social and political instability, out-migration and so on are likely to spiral out of control, squandering hope and turning the clock back on progress for children, their countries and the region.

List of tables and figures

- Figure 1.01. Transmission channels of select macroeconomic variables to households and children**
- Figure 1.02. The impact of select macroeconomic variables on child well-being**
- Figure 2.01. Child and adult population projections in ESAR, 1950-2100 (in millions and as % of total by location)**
- Figure 2.02. Population projections in ESAR countries, 2019, 2050 and 2100 (in millions)**
- Figure 2.03. Number of children aged 0-11 months in ESAR, 1950-2100 (in millions)**
- Figure 2.04. Dependency ratio in ESAR, 1950-2100 (population weighted regional average, as %)**
- Figure 2.05. GDP per capita and income classification in ESAR countries, 2019 (in per capita US\$)**
- Figure 2.06. Monetary poverty headcount ratios according to different thresholds in ESAR countries, 2016 or latest available (as % of the population)**
- Figure 2.07. Neonatal and under-five mortality trends in ESAR countries, 2017 (per 1,000 live births and as # of deaths among children 0-27 days and 28 days to 4 years old)**
- Figure 2.08. Trends in births unattended by skilled health professionals in ESAR, 2000-16 (in # and as % of total births, population weighted regional average)**
- Figure 2.09. Population attended by healthcare professionals in ESAR countries, 2016 or latest available (in average number of persons served by a doctor and nurse/midwife)**
- Figure 2.10. Prevalence of stunting (height for age) in ESAR countries, 2016 or latest available (as % and # of children under 5 affected)**
- Figure 2.11. Prevalence of HIV in high-burden ESAR countries, 2017 (as % and number of 0-14 and 15-49 year olds)**
- Figure 2.12. Children living with HIV receiving ART in high-burden ESAR countries, 2017 (as % and # of affected children 0-14)**
- Figure 2.13. Out-of-school children, adolescents and youth of primary, lower secondary and upper secondary school age in ESAR countries, 2017 or latest available (in thousands and as % of total school age population)**

- Figure 2.14. Pupil-teacher ratios by level of education in ESAR countries, 2017 or latest available**
- Figure 2.15. Completion rates by level of education in ESAR countries, 2017 or latest available (as % of a cohort of children aged 3-5 years above the intended age for the last grade of each level of education who have completed that grade)**
- Figure 2.16. SEACMEQ III scores in ESAR countries (mean score achieved by pupils taking the exam)**
- Figure 2.17. Open defecation trends in ESAR by area, 2000-15 (in # and % of persons practising – population weighted regional average)**
- Figure 2.18. Trends in access to an improved water source in ESAR by area, 2000-15 (in # of persons without access and % of population with access – population weighted regional average)**
- Figure 2.19. Trends in access to an improved sanitation facility in ESAR by area, 2000-15 (in # of persons without access and % of population with access – population weighted regional average)**
- Figure 2.20. Social protection and labour market coverage and poverty rates in ESAR countries, 2014 or latest available (as % of the population covered and nationally defined as poor)**
- Figure 2.21. Coverage of at least one social safety net programme in ESAR countries, latest available (as a % of total population)**
- Figure 2.22. Proportion of children covered by some type of social assistance benefit in ESAR countries, latest available three-year average (as a % of children under 14)**
- Box 2.1. Human development trends in ESAR**
- Figure 2.23. Human Development Index values in ESAR, 2017**
- Figure 2.24. Multi-dimensional and monetary child poverty rates in ESAR countries, 2018 or latest available (as % of the 0-17 population)**
- Figure 2.25. Fragility indicators in ESAR countries, 2018**
- Figure 3.01. Country contributions to GDP in ESAR, 2019 projections (as % of regional GDP)**
- Figure 3.02. Sector contribution to GDP in ESAR countries, 2017 (as % of GDP)**

- Figure 3.03.** Real GDP growth in ESAR countries, 2017-18 and 2019-20 period averages (as %)
- Figure 3.04.** Real GDP per capita growth in ESAR countries, 2017-18 and 2019-20 period averages (as %)
- Figure 3.05.** Number of years required to double per capita incomes in 13 ESAR countries (based on projected real GDP per capita growth rate over the 2019-20 period)
- Figure 3.06.** Gini coefficients in ESAR countries, 2015 or latest available
- Figure 3.07.** Income distribution in ESAR countries, 2016 or latest available (income earned by the wealthiest and poorest population deciles as % of total income – and the ratio)
- Figure 3.08.** Gini coefficients before and after taxes and transfers in ESAR countries, 2016 or latest available
- Figure 4.01.** Employment by sector in ESAR countries, 2019 (as % of total employment)
- Figure 4.02.** Employment inside and outside the formal sector in ESAR countries, 2018 or latest available (as % of total employment)
- Figure 4.03.** Average unemployment rates in select regions, 2010-20 (as % of the labour force)
- Figure 4.04.** Unemployment rates in ESAR countries, 2019 (as % of labour force)
- Figure 4.05.** Labour force participation rates and gender differences in ESAR countries, 2019 (as % of total)
- Figure 4.06.** Working poverty rates in ESAR countries, 2019 (as % of employed living below PPP, current international US\$1.90/day)
- Figure 4.07.** Youth unemployment trends in ESAR, 2010-20 (in number of and as % of the 15-24 labour force)
- Figure 4.08.** Youth and adult working poverty rates in ESAR countries, 2019 (as % of employed 15-24 and 25-64 year olds living below the global poverty line, and total number of 15-24 year olds)
- Figure 4.09.** New workers and the labour force size in ESAR, 1950-2100 (in millions of 15 and 16-24 year olds and 15-24 as % of working age population)
- Table 4.01.** Youth bulge peaks in ESAR countries, estimated year

- Figure 5.01.** Inflation trends in ESAR, 2001-20 (annual percentage change of consumer price indices, regional average)
- Figure 5.02.** Countries with the highest inflation rates in the world, 2019 projections (annual percentage change of consumer price indices)
- Figure 5.03.** Inflation trends in ESAR countries, 2013-21 3-year period averages (annual percentage change of consumer price indices)
- Figure 5.04.** Food inflation trends in ESAR, 2004-18 (annual percentage change of food price indices, regional average)
- Figure 5.05.** Food inflation trends in select ESAR countries, 2011-18 (annual percentage change of food price indices)
- Figure 5.06.** Food inflation trends in ESAR countries, 2018 (annual percentage change of food price indices)
- Figure 5.07.** Global commodity price trends, 2010-20 (annual percentage change of commodity price indices in US\$ terms)
- Figure 5.08.** Changes in the real value of cash transfers in nine programmes in ESAR after 5, 10 and 12 years (where available) (as % of original value)
- Figure 5.09.** The real value of cash transfers in 9 social programmes in ESAR, year 1 to year 20 (where available) (year 1 = 100, which is the first year for which data are available for each programme)
- Figure 6.01.** General government total expenditure in ESAR countries, 2019 (as % of GDP)
- Figure 6.02.** General government total expenditure per capita in ESAR countries, 2019 (in current US\$)
- Figure 6.03.** General government revenue in ESAR countries, 2019 (as % of GDP)
- Figure 6.04.** Tax and other government revenue in ESAR countries, 2016 or latest available (as % of GDP and % of total revenue)
- Figure 6.05.** Tax and other government revenue trends in select ESAR countries, 2005 and 2015 or latest available (as % of GDP and % of total revenue)
- Figure 6.06.** General government revenue and borrowing in ESAR countries, 2019 (as % of GDP and % of total expenditure)

- Figure 6.07. General government gross debt trends in ESAR, 2010-21 (as % of GDP, regional averages)**
- Figure 6.08. General gross government debt trends in ESAR countries, 2011-12 period averages and 2019 (as % of GDP)**
- Figure 6.09. Risk of debt distress in select ESAR countries, latest available**
- Figure 6.10. Concessional debt trends in ESAR, 2000-17 (as % of total external debt, regional average)**
- Figure 6.11. Interest payment-to-revenue ratio trends in ESAR, 2010-17 (regional average)**
- Table 6.01. Sovereign credit ratings in ESAR countries (in local currency, long term), April 2019**
- Figure 6.12. Chinese loans to governments in ESAR, 2000-17 (in billions of current US\$)**
- Figure 6.13. Net ODA and official aid trends in ESAR, 2000-19 (in billions of constant 2015 US\$, regional total)**
- Figure 6.14. Distribution of net ODA and official aid received in ESAR countries, 2016 (as % of total)**
- Figure 6.15. Ratio of ODA to total general government expenditure in ESAR countries, 2007-08 and 2016-17 period averages**
- Figure 6.16. Poverty rates and ODA per capita, 2016 or latest available (as % of population living below US\$1.90/day in PPP, 2011 international US\$)**
- Table 6.02. Categories of ODA eligibility**
- Figure 7.01. Government expenditure on health in ESAR countries, 2016 or latest available (as % of total expenditure)**
- Figure 7.02. Health expenditure per capita in ESAR countries and minimum investment requirements, 2015 (in current US\$)**
- Figure 7.03. Total general government revenue per capita in ESAR countries and minimum health investment requirements under different spending scenarios, 2019 projections (in current US\$)**
- Figure 7.04. Per capita health expenditure trends in ESAR countries between 2005 and 2015 (change in current US\$ and as %)**
- Figure 7.05. Health expenditure on primary healthcare services in select ESAR countries, latest available (as % of total government health expenditure)**

- Figure 7.06. Health budget credibility rates in ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)**
- Figure 7.07. Government expenditure on education in ESAR countries as % of total expenditure, 2007 and 2017 (or latest available)**
- Figure 7.08. Government expenditure on education in ESAR countries as % of GDP, 2007 and 2017 (or latest available)**
- Figure 7.09. Government expenditure by level of education in select ESAR countries, 2017 or latest available (as % of total government expenditure on education)**
- Figure 7.10. Ratio of government investments in tertiary* and pre-primary education services in select ESAR countries, 2017 or latest available (as %)**
- Figure 7.11. Economic classification of government expenditure on education in select ESAR countries, 2017 or latest available (as % of total government expenditure on education)**
- Figure 7.12. Education budget credibility rates in ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)**
- Figure 7.13. Budget allocations to water and sanitation in select ESAR countries 2015-17 period averages (as % of total approved allocations)**
- Figure 7.14. Budget allocations to water and sanitation in select ESAR countries, 2015-17 period averages (as % of GDP)**
- Figure 7.15. Per capita budget allocations to water and sanitation in select ESAR countries, 2015-17 period averages (in constant US\$)**
- Figure 7.16. Economic classification of government expenditure on water and sanitation in select ESAR countries, 2017 (as % of total government expenditure on water and sanitation)**
- Figure 7.17. Water and sanitation budget credibility rates in select ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)**
- Figure 7.18. Budget allocations to social protection in select ESAR countries, 2015-17 period averages (as % of total approved allocations)**
- Figure 7.19. Budget allocations to social protection in select ESAR countries and income group average investment levels, 2015-17 period averages (as % of GDP)**

- Figure 7.20.** Per capita budgetary allocations to social protection in select ESAR countries, 2015-17 period averages (in constant US\$)
- Figure 7.21.** Social protection budget credibility rates in select ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)
- Figure 7.22.** Social sector expenditure* in select ESAR countries, 2015 (as % of total expenditure)
- Figure 7.23.** Composition of social sector expenditure* in select ESAR countries, 2015 (as % of total social sector expenditure)
- Figure 7.24.** Social sector expenditure* in select ESAR countries, 2015 (as % of GDP)
- Figure 7.25.** Per capita social sector expenditure* in select ESAR countries, 2015 (in PPP, current international US\$)
- Figure 7.26.** Economic classification of social sector expenditure* in ESAR, 2017 or latest available (as % of total social sector expenditure, regional averages)
- Figure 7.27.** Social sector budget credibility rates in ESAR, 2017 or latest available (actual expenditure as % of approved allocation, three-year period regional averages)
- Figure 7.28.** Government expenditure on military and health in ESAR countries, 2017 (or latest available) (as % of total expenditure)
- Figure 7.29.** Government expenditure on military and education in ESAR countries, 2017 (or latest available) (as % of total expenditure)
- Figure 7.30.** Per capita impact of reallocating military budgets to the education and health sectors in ESAR countries, 2015 (or latest available) (increase in current US\$ and as %)

ACRONYMS

AIDS	acquired immunodeficiency syndrome
ART	antiretroviral therapy
ASPIRE	Atlas of Social Protection: Indicators of Resilience and Equity
CPI	consumer price index
DAC	Development Assistance Committee
DFID	Department for International Development
DSA	debt sustainability assessment
ECD	early childhood development
ESAR	Eastern and Southern Africa region
ESARO	Eastern and Southern Africa Regional Office
FAO	Food and Agriculture Organization
FAOSTAT	Food and Agriculture Organization Corporate Statistical Database
GDP	gross domestic product
GNI	gross national income
HDI	Human Development Index
HIV	human immunodeficiency virus
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDS	International Development Statistics
ILO	International Labour Organization
ILOSTAT	International Labour Organization statistics database
IMF	International Monetary Fund
LIC	low income country
LMIC	lower-middle income country
MDG	Millennium Development Goal
MIC	middle income country

MODA	Multiple Overlapping Deprivation Analysis
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OPHI	Oxford Poverty and Human Development Initiative
PEFA	Public Expenditure and Financial Assessment
PER	Public Expenditure Review
PPP	purchasing power parity
SEACMEQ	Southern and Eastern Africa Consortium for Monitoring Educational Quality
SACU	Southern African Customs Union
SDG	Sustainable Development Goal
UMIC	upper-middle income country
UNAIDS	United Nations Joint Programme on HIV/AIDS
UN DESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
US\$	United States dollar
WASH	water, sanitation and hygiene
WHO	World Health Organization

TABLE OF CONTENTS

CHAPTER 1. INTRODUCTION	19
CHAPTER 2. THE DEMOGRAPHIC, ECONOMIC AND SOCIAL CONTEXT	23
Population	23
Income and poverty	27
Social development	28
Child health and nutrition	28
HIV/AIDS	32
Education	34
WASH	36
Social assistance	38
Multi-dimensional child poverty	41
Fragility	42
Takeaways	43
CHAPTER 3. THE ECONOMIC OUTLOOK AND CHILDREN	45
The size of the economy	45
The structure of the economy	46
Economic growth trends	47
Income inequality	50
Takeaways	53
CHAPTER 4. THE EMPLOYMENT OUTLOOK AND CHILDREN	56
Employment opportunities	56
Unemployment	58
Labour force participation	58
Working poverty	60
Youth in the labour market	61
New workers and the youth bulge	63
Takeaways	64
CHAPTER 5. THE INFLATION OUTLOOK AND CHILDREN	67
Causes of inflation	67
Impacts of inflation	69
The positive	69
The negative	69
Winners and losers	70

General price trends	71
Food price trends	73
Commodity price trends	75
Inflation and social transfers	75
Takeaways	77
CHAPTER 6. THE FISCAL BALANCE OUTLOOK AND CHILDREN	81
Expenditure	81
Revenue	83
Borrowing	84
Debt and future borrowing capacity	85
Donor funding	92
Takeaways	96
CHAPTER 7. THE SOCIAL SECTOR INVESTMENT OUTLOOK AND CHILDREN	99
Health spending	99
Education spending	104
Water and sanitation spending	108
Social protection spending	112
Total social sector spending	115
Shifting budget priorities and the impact on social sector spending	120
Takeaways	123
CHAPTER 8. CONCLUSION	125
The downside	126
The upside	127
Final takeaway	128

CHAPTER 1.

INTRODUCTION

Macroeconomics tries to understand the major forces that move an economy. This social science analyses the trends, relationships and interactions among a variety of economic and financial variables. These range from output (the goods and services produced), employment (the size and quality of the labour force and availability of jobs), price indices (the changing costs of different items), and interest and exchange rates (the cost of borrowing, saving and trading) to consumption, investment and savings (how income is used), imports and exports (what is traded across borders), and the fiscal balance (how much the government earns, borrows and spends), among many others.

Although not always obvious, the macroeconomy has a very real impact on the everyday lives of children. At the individual level, the three most direct channels are through jobs, prices and the government budget.

On the jobs front, there is no greater predictor of child well-being than household income. In practice, parents who have good jobs can provide much more for their children than parents who are unemployed or working in the informal sector with low pay and no protections or benefits. At the same time, an expanding labour market provides opportunities for graduates and young workers to gain much-needed experience as well as to provide for their families. Thus, when the job market is strong, children stand to benefit, and vice versa.

In terms of prices, stability and predictability make it easier for families and governments to plan and provide. However, when the costs of meeting basic needs such as food, water, transport and medicine continuously rise, households can afford less with their incomes and any available savings. The same logic applies to government budgets. When prices go up, the impacts of services diminish, as it becomes costlier to maintain the same level and quality.

Lastly, a significant portion of government spending supports children both directly and indirectly. This includes providing them with primary health and education services, ensuring that they have enough food to eat and access to clean drinking water and safe places to go to the toilet, as well as supporting their families with cash and other social safety net benefits to supplement income or help transitions through difficult times. Children also benefit indirectly from other government spending programmes, such as public housing, infrastructure (transportation networks, electrical grids and so on) and agriculture (availability of food and family income). While such benefits increase during good times, they are often the first to be cut during bad times, especially essential social services. This was one of the key findings of UNICEF's landmark work, *Adjustment with a Human Face*¹ which tracked the impacts of macroeconomic crises in developing regions during the 1980s.

Economic growth, in turn, affects everything. Healthy or fast-growing economies create new jobs, require prudent monetary and fiscal policies that minimize price volatility, and generate more government revenue. In contrast, slow growth or recessionary periods pressure labour markets, often become breeding grounds for rampant inflation

¹ Cornia, G., Jolly, R., and Stewart, F. (1987). *Adjustment with a Human Face: Protecting the Vulnerable and Promoting Growth*. Oxford: Clarendon Press.

and reduce government revenue. As illustrated in Figure 1.01, these macroeconomic variables directly affect households and ultimately children through income, living costs and the availability of social services. Figure 1.02 then depicts the implications of the performance of the same set of macroeconomic variables on child well-being, both positive and negative.

In a context of pervasive poverty and young and fast-growing populations, macroeconomic volatility can have life and death consequences for children. This is the current state of the Eastern and Southern Africa region (ESAR). The latest estimates indicate that two out of every three children in the region experience multi-dimensional poverty, on average.²

² Based on the latest child poverty reports produced by UNICEF in ESAR; additional details are provided in Chapter 2.

Figure 1.01. Transmission channels of select macroeconomic variables to households and children

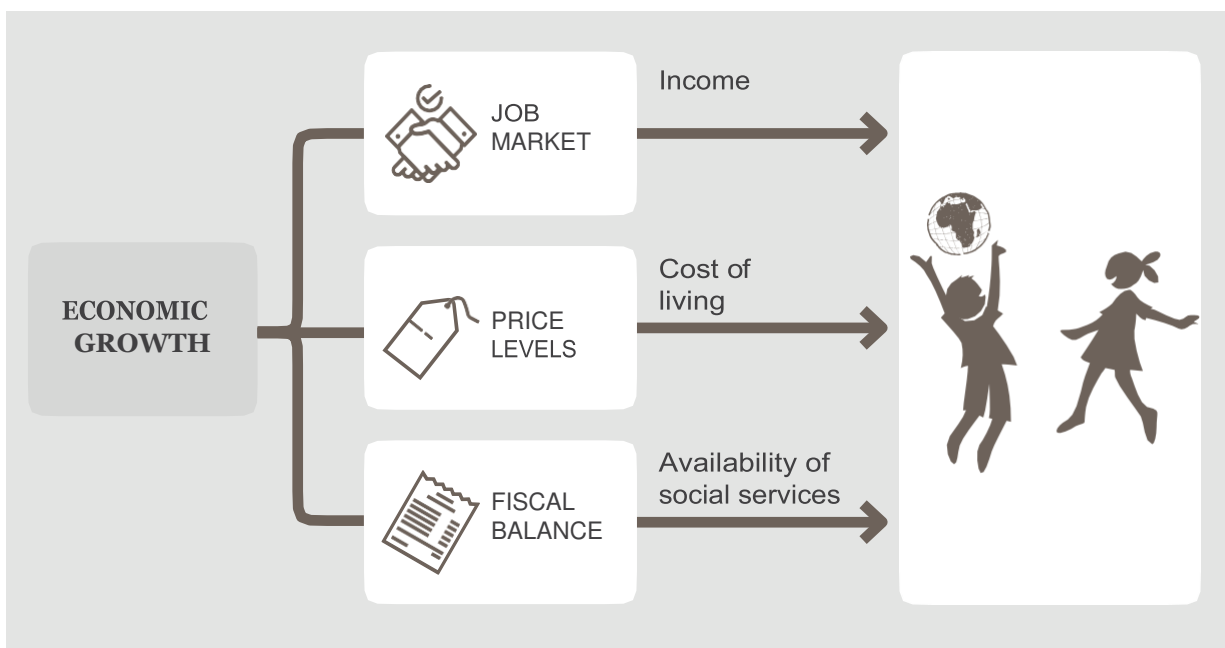
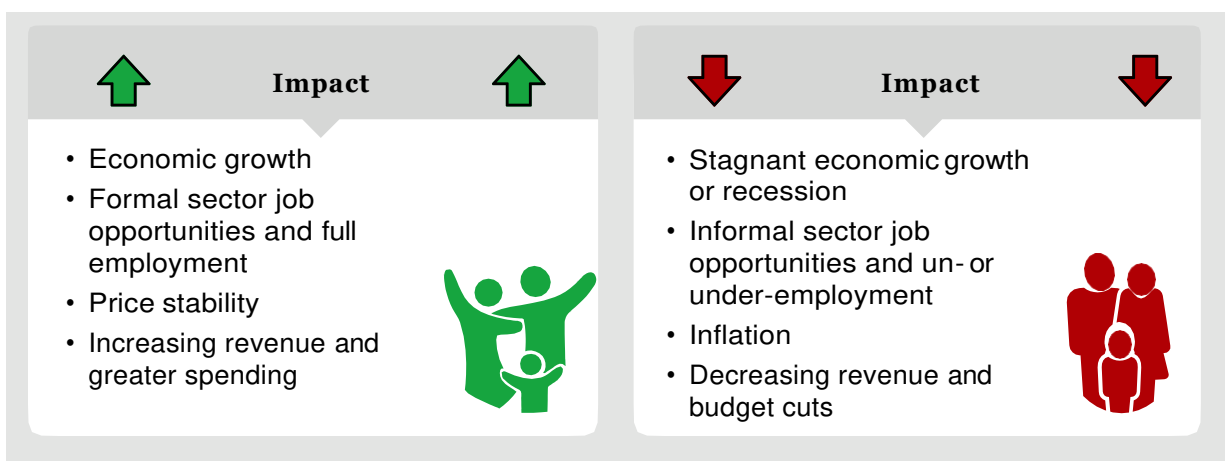


Figure 1.02. The impact of select macroeconomic variables on child well-being



This means that most children do not have access to basic things like primary healthcare services, clean drinking water or safe housing conditions, while they may be further affected by malnutrition, emotional and physical abuse, or having to work to contribute to household income. The compounding effects exacerbate their realities. At the same time, around half of the 540 million inhabitants are under the age of 18, with the total population expected to reach one billion persons in less than 30 years.³

In short, the stakes for children in ESAR have never been higher. And this is the main objective of the report: to review recent and projected macroeconomic and social sector investment trends to identify potential threats and opportunities for children so that they prosper during good times and are protected during bad times.

The structure of the report is as follows. Chapter 2, “The Demographic, Economic and Social Context,” sets the stage by providing an overview of the ongoing population dynamics as well as the current state of poverty, social development and fragility across the region. Each of the subsequent chapters then explores the recent performance and forecasted trends of a specific macroeconomic variable. Most of the content of each chapter is devoted to understanding and dissecting the broader issue; this is then followed by shorter summaries of the main trends along with the implications and risks for children and their families. The macroeconomic topics covered are:

- Economic growth (Chapter 3)
- Employment (Chapter 4)
- Inflation (Chapter 5)
- The fiscal balance (government expenditure, income and debt) (Chapter 6)

Given the critical importance of how the national budget is transformed into goods and services that benefit children, Chapter 7 unpacks social sector investment trends. Here, the report takes a close look at the budget priority given to health, education, water and sanitation, and social protection, the overall level of investment in these areas, and the design and performance of their budgets. To conclude, Chapter 8 summarizes the main findings.

This report is also complemented by a summary note. In addition to recapping the key highlights of the full report, the companion document presents suggested actions for UNICEF country offices to protect and promote child well-being in response to different macroeconomic and social sector investment situations. Readers can either peruse the entire menu of actions or go directly to a topic of interest. It is hoped that this resource can contribute to more timely and effective programming across all of UNICEF’s work areas.

Three caveats need to be mentioned. First, this report does not review the complete set of macroeconomic variables (savings rates, interest rates, asset prices, international trade, etc.) but rather focuses on those that have the most direct impact on child well-being. Second, the analyses are based on international data sources, which may differ from official government figures. This was intentional to allow for cross-country comparisons and regional aggregations, which would not otherwise be possible. In exceptional cases where global databases do not provide key information, such as on the composition and performance of social sector budgets, the report draws on information from recent public finance analyses at country level. And third, the sample is restricted to the 21 countries that form ESAR⁴ and excludes those in Central, Western and Northern Africa.

³ Based on United Nations Department of Economic and Social Affairs (UN DESA) World Population Prospects: 2017 Revision (medium variant estimates).

⁴ These are: Angola, Botswana, Burundi, Comoros, Eritrea, Eswatini, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mozambique, Namibia, Rwanda, Somalia, South Africa, South Sudan, Uganda, the United Republic of Tanzania, Zambia and Zimbabwe.

CHAPTER 2.

THE DEMOGRAPHIC, ECONOMIC AND SOCIAL CONTEXT

This chapter examines the demographic, economic and social context of ESAR to offer a general picture of the state of child well-being. It starts by describing the ongoing population boom, which poses immense challenges and opportunities for both current and future generations. It then turns to income and poverty trends to highlight key disparities across the region as well as the difficulties that many households face in effectively providing for children. The chapter next reviews the recent performance of basic social sector indicators and coverage rates – including for health; human immunodeficiency virus (HIV) / acquired immunodeficiency syndrome (AIDS); education; water, sanitation and hygiene (WASH); and social assistance – to better gauge the primary challenges facing children and their families. This is followed by a snapshot of the latest multi-dimensional child poverty situation. The chapter then discusses the state of fragility, which often impedes government efforts to prioritize children’s needs, before concluding with a summary of key trends and the implications for children.

2.1 Population

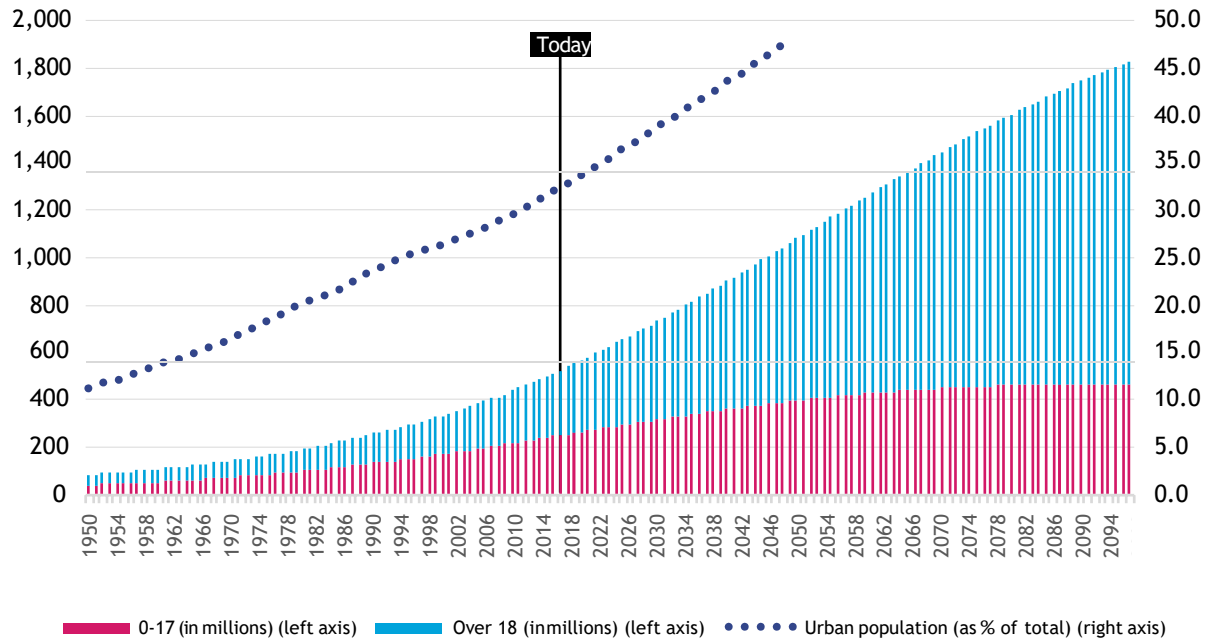
ESAR is experiencing unprecedented population growth: its population will nearly double in less than 30 years, with particularly heavy pressures in urban areas. It is projected that the total population of the region is more than 540 million in 2019 and that it will surpass the one billion threshold around 2047 (Figure 2.01). In 2019, nearly 260 million residents of the region are under the age of 18, amounting to just under half the total population: this figure will approach 400 million by 2050. Location is another important dimension of the demographic forces that are shaping the region. While just under one in three persons in ESAR reside in urban areas today, the proportion will reach around one in two by 2050 (see also Figure 2.01 – dark blue dotted line). Moreover, while the region accounts for only 7 per cent of the global population in 2019,⁵ close to one in five persons will reside in ESAR by the turn of the century, increasing both its geo-political and economic standing in the world. As *The Economist* noted in a special briefing in March 2019, this change is already underway in the “new scramble for Africa,” with more than 320 new embassies or consulates opened across the continent between 2010 and 2016.⁶

Several countries are likely to experience jaw-dropping population surges. For example, between 2019 and 2100, populations are expected to increase by factors of five or more in Angola, Somalia, the United Republic of Tanzania and Zambia (Figure 2.02). With its population currently growing at 3.1 per cent per year, the United Republic of Tanzania is set to become the largest in the region, with its 60 million population today projected to exceed 300 million just before 2100. South Africa, in contrast, currently boasts the third largest population in ESAR, but its low population growth rate (1.2 per cent) means that it will likely only be the tenth most populous country in the region by 2100.

⁵ Author’s calculations based on UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

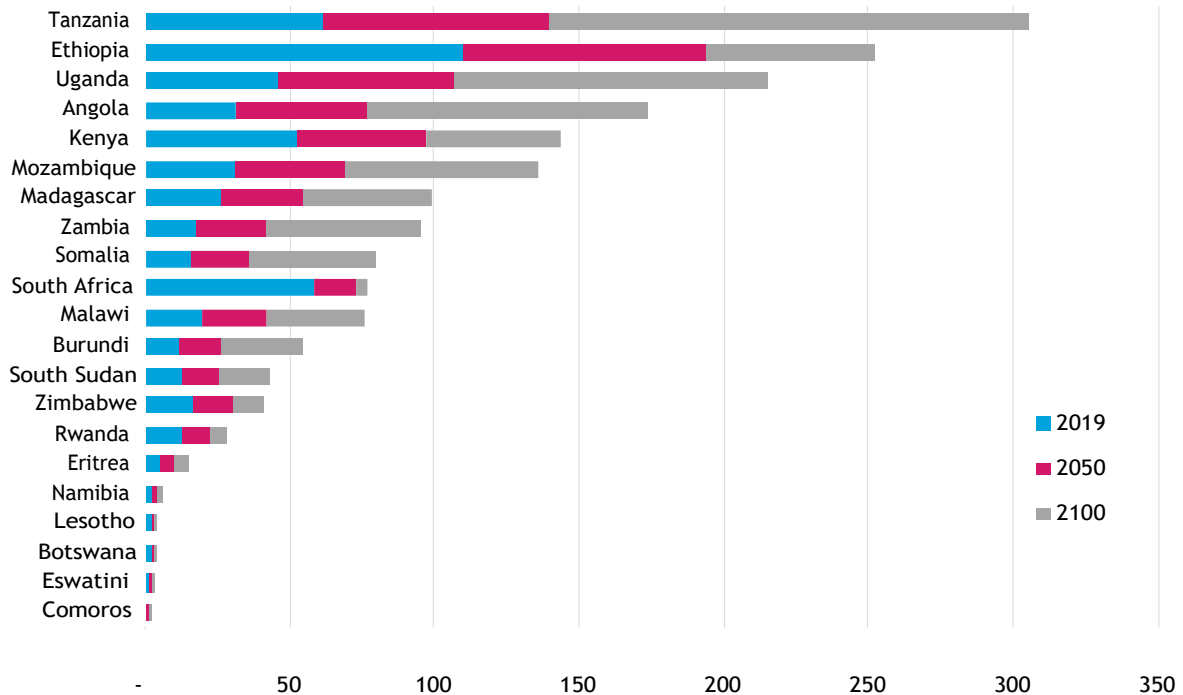
⁶ *The Economist* (2019). A Sub-Saharan Seduction: Africa is Attracting Ever More Interest from Powers Elsewhere - They are Following Where China Led. 9 March edition.

Figure 2.01. Child and adult population projections in ESAR, 1950-2100 (in millions and as % of total by location)



Source: Author's calculations based on UN DESA World Population Prospects: 2017 Revision and UN DESA World Urbanization Prospects: 2014 Revision (medium variant estimates for both).
 Note: Rural and urban projections are only available through 2050.

Figure 2.02. Population projections in ESAR countries, 2019, 2050 and 2100 (in millions)



Source: UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

The obvious impact of fast-growing populations is many more children and adolescents. It is projected that 655 million babies will be born in ESAR between 2019 and 2050, amounting to more than 20 million new lives each year or close to 50,000 births a day (Figure 2.03). Subsequent life cycle age groups will also grow significantly. Over the same period, around 17 million children in the region will enter adolescence every year, with a total of more than 500 million new adolescents over the next thirty years.⁷

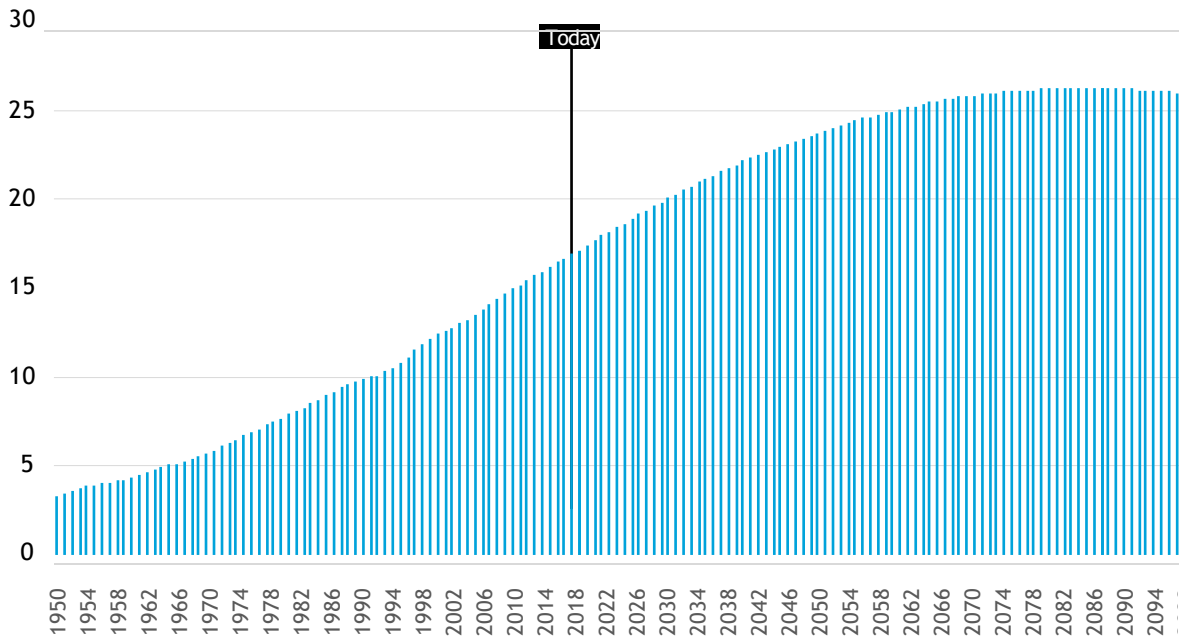
The current population structure further confirms that the region is in the middle of a demographic transition. As fertility rates continue to fall and life expectancy rises, countries – and the region as a whole – are presented with a one-time opportunity to benefit from the “demographic dividend,” whereby the size of the economically-active population increases relative to the size of the population that is not working (or dependent). Mathematically, this phenomenon is captured by the dependency ratio, which measures the relationship between workers (aged 15-64) and non-workers (those persons under 15 and over 65) in the population. In the 1980s, for instance, approximately 95 persons “depended” or relied on the income of every 100 working-aged persons in the population (Figure 2.04). However, since peaking around 1987, this relationship has steadily reversed as the number of workers in the population increases faster than the numbers of young and old persons. In 2000, there were around 90 dependents for every 100 working-aged bodies in ESAR; the figure is estimated at around 79 in 2019 and forecast to fall below 60 by 2048. From that point, the overall balance between workers and non-workers in the population is expected to roughly remain in equilibrium before reversing in the 2070s, when the income from fewer and fewer workers will need to support more and more dependent persons.

It is important to recognize that the demographic dividend is only the theoretical potential that countries can achieve. Exploiting the potential benefits largely depends on achieving three broad policy objectives.⁸ The first is to increase the size of the working-age population by improving child health, strengthening female education and gender equity, addressing social norms on fertility, reducing child marriage and expanding family planning programmes. The second is to *maximize economic output* by improving education and human capital, attracting foreign direct investments, strengthening the business environment and international trade, and encouraging female employment outside the home. And the third is to *increase domestic savings and investment* by promoting life expectancy and expanding financial access. Virtually all the “hows” are inextricably linked to government investments – how much and how well they spend on different priority programmes to foster the demographic dividend, which is the focus of Chapter 7.

⁷ Author’s calculations based on UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

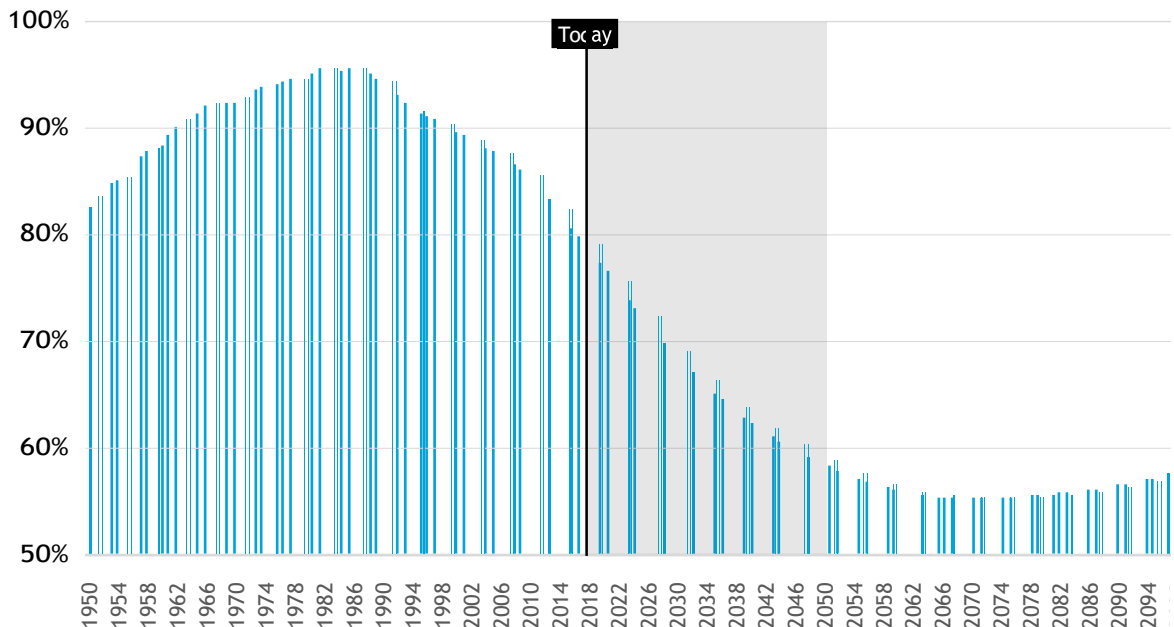
⁸ Canning, D., Raja, S. and Yazbeck, A. (2015). *Africa’s Demographic Transition: Dividend or Disaster?* Washington, DC: World Bank.

Figure 2.03. Number of children aged 0-11 months in ESAR, 1950-2100 (in millions)



Source: UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

Figure 2.04. Dependency ratio in ESAR, 1950-2100 (population weighted regional average, as %)



Source: Author's calculations based on UN DESA World Population Prospects: 2017 Revision (medium variant estimates).
 Note: The dependency ratio is calculated by adding the child population (14 and under) and elderly population (65 and over) and dividing the total by the working age population (15-64).

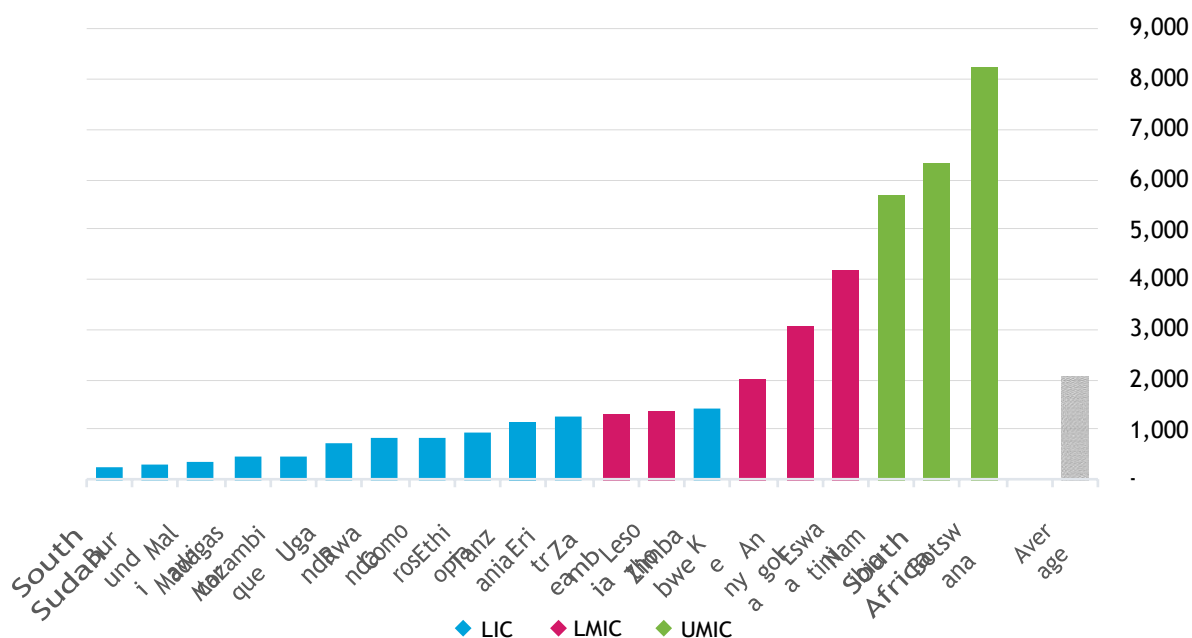
2.2 Income and poverty

ESAR predominantly consists of low income countries (LICs). Under the World Bank's income classification system,⁹ 12 of the 21 countries in the region are LICs, with per capita gross national income (GNI) of US\$995 or less based on data available in 2017. Of the remaining countries, five are lower-middle income countries (LMICs) and three are upper-middle income countries (UMICs) – Botswana, Namibia and South Africa (Figure 2.05). Over the past five years, two countries have been re-classified: Angola fell from an UMIC to a LMIC in 2017, while Kenya graduated from a LIC to a LMIC in 2015. South Sudan is another interesting case, as the country vacillated between LIC and LMIC status following independence in 2011 but has remained a LIC since 2016 mainly due to the protracted conflict. As an average, per capita income in the region is projected to be around US\$2,000 in 2019, which ranges from less than US\$250 in South Sudan to more than US\$8,250 in Botswana (see also Figure 2.05).

The low levels of incomes observed in most ESAR countries lead to very high rates of extreme poverty irrespective of definitions. Based on the latest available estimates for each country, 43 per cent of ESAR's population lives in extreme monetary poverty, on average, which is below the international poverty line of US\$1.90/day (in PPP, 2011 international US\$) (Figure 2.06). Poverty rates range from 13 per cent in Namibia to 78 per cent in Madagascar. If applying a higher determinant of monetary poverty, 65 per cent of the population lives on less than US\$3.20/day (in PPP, 2011 international US\$), on average, with more than 80 per cent below a threshold at US\$5.50/day. In contrast,

⁹ World Bank (2019). World Bank Country and Lending Groups: Fiscal Year 2018-19. Note: The World Bank's method for classifying countries is based on converting the latest available GNI estimates to per capita current US\$ using the Atlas Method, which applies a three-year moving average to adjust for exchange rate and price volatility. Updated income thresholds and country categories are released on 1 July every year. As a result, the current country classifications are not perfectly aligned to the IMF's GDP per capita estimates for 2019 as presented in Figure 2.05 (e.g. the case of Zimbabwe).

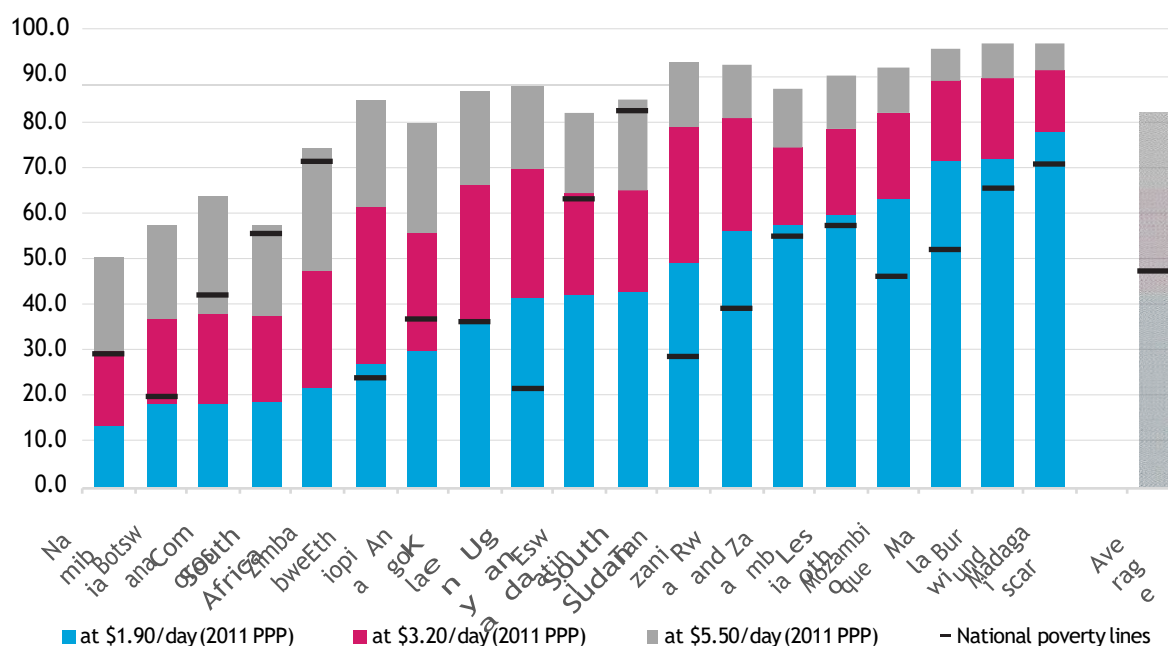
Figure 2.05. GDP per capita and income classification in ESAR countries, 2019 (in per capita US\$)



Source: IMF World Economic Outlook Database (April 2019).

Notes: See footnote 9 for description of why the IMF projections and the World Bank official income classifications do not always correspond; data unavailable for Somalia.

Figure 2.06. Monetary poverty headcount ratios according to different thresholds in ESAR countries, 2016 or latest available (as % of the population)



Sources: World Bank Global Poverty Working Group for data on national poverty lines and World Bank Development Research Group for data on international poverty lines.
 Note: Data unavailable for Eritrea and Somalia.

if using official national poverty lines approximately 47 per cent of ESAR's population is considered income poor, on average. Interestingly, when comparing national lines to the standard US\$1.90/day international line, 11 out of 19 countries see their poverty rates fall by more than 10 per cent. On the other side, national poverty lines are more than 20 per cent higher than the international line in Comoros and Eswatini, nearly 40 per cent higher in South Africa and South Sudan, and 50 per cent higher in Zimbabwe.

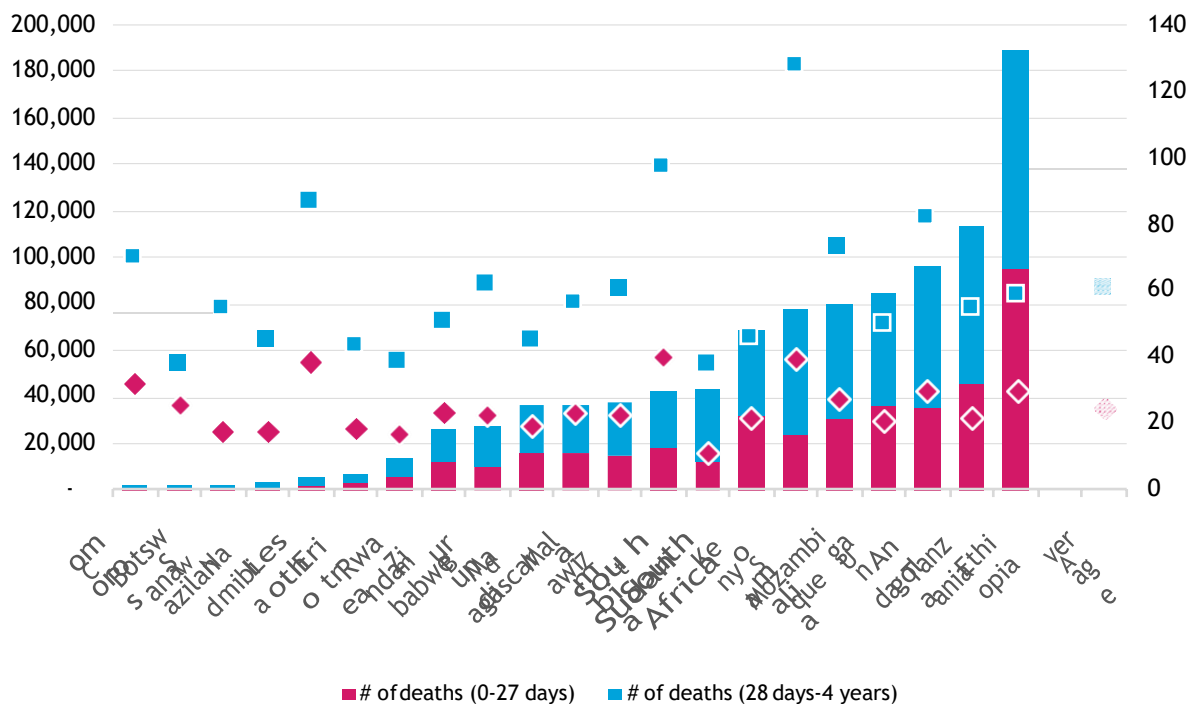
2.3 Social development

2.3.1. Child health and nutrition

The region has made impressive strides in improving the health outcomes of children in recent decades. The under-five mortality rate, which is one of the most basic health indicators, marked significant progress in the region between 2000 and 2017, falling from an average of 134 deaths per 1,000 live births to 60 per 1,000 – or a 55 per cent improvement (Figure 2.07). In Angola, Malawi, Rwanda and Zambia, the number of under-five deaths plummeted by 105 or more per every 1,000 live births, among the fastest progress in the world over that period. Although not as strong, the neonatal mortality rate also advanced, from 36 deaths per 1,000 live births to 24, on average – or a 33 per cent enhancement – with Angola, Ethiopia and Rwanda ranking among the best performers globally (see also Figure 2.07).

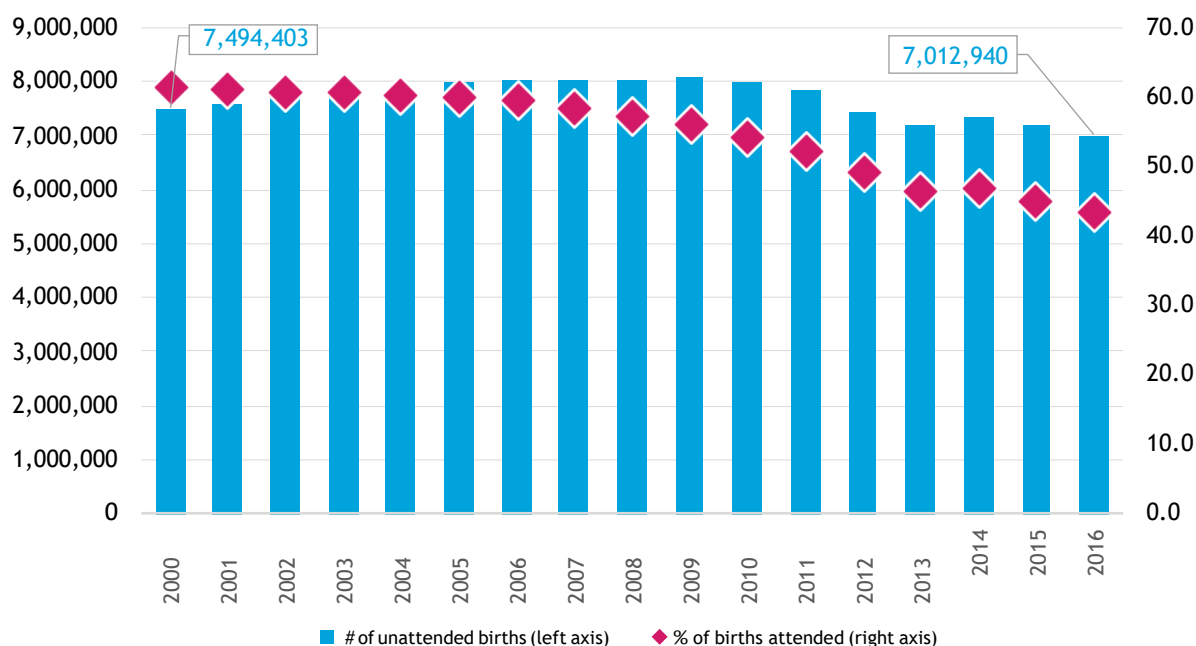
However, the burden of newborn deaths has stagnated, while the number of preventable deaths remains high. A key trend is that the reduction in under-five mortality rates has been accompanied by an increase in the proportion of newborn deaths. While 27 per cent of under-five deaths occurred in the first 27 days of life in 2000, on average, this climbed

Figure 2.07. Neonatal and under-five mortality trends in ESAR countries, 2017 (per 1,000 live births and as # of deaths among children 0-27 days and 28 days to 4 years old)



Source: United Nations Inter-agency Group for Child Mortality Estimation (median bounds) (September 2018 update).

Figure 2.08. Trends in births unattended by skilled health professionals in ESAR, 2000-16 (in # and as % of total births, population weighted regional average)



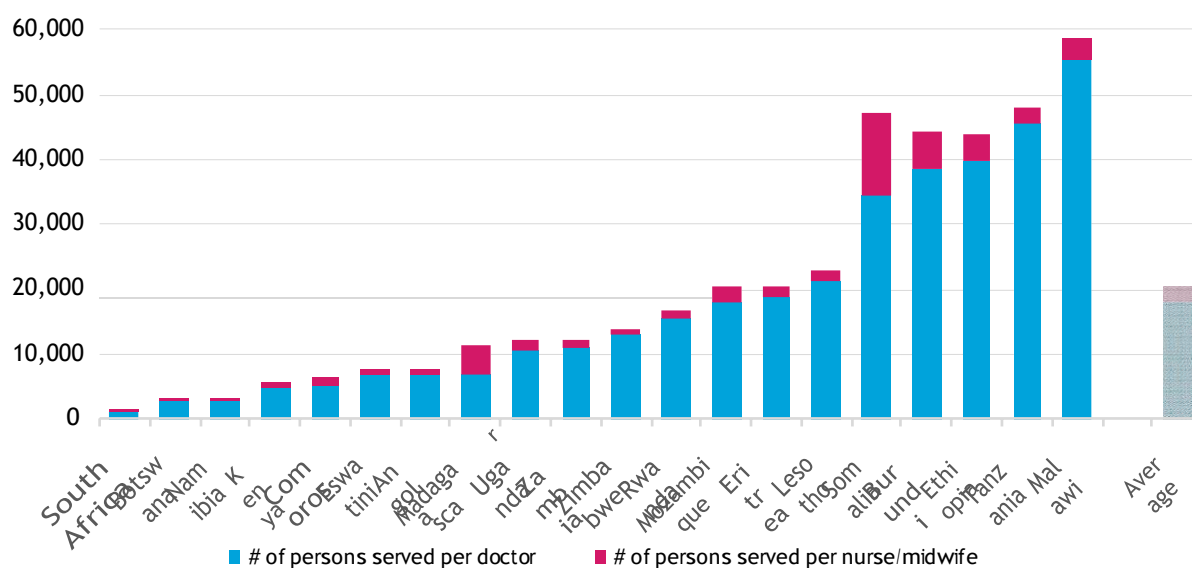
Source: Author's calculations based on UNICEF's State of the World's Children, Childinfo and Demographic and Health Surveys for data on birth attendance, and UN DESA World Population Prospects: 2017 Revision (medium variant estimates) for data on annual births. Note: Interpolation and nearest neighbour imputation methods used to fill missing values.

to more than 40 per cent as of 2017, which is likely driven by the increasing number of births. At the same time, the latest estimates show that there are nearly 1 million under-five deaths occurring in the region every year. Large child populations in several countries is a key factor. For example, despite outperforming the regional average, the under-five mortality rate of 59 per 1,000 live births in Ethiopia equated to around 190,000 under-five deaths in 2017, or nearly 20 per cent of the regional total. Similarly, Uganda's rate of 54 per 1,000 live births translated into nearly 115,000 child deaths. Even in South Africa, which has the lowest under-five mortality rate in ESAR (37 per 1,000 live births), some 43,000 child deaths were projected in 2017. Elsewhere, the region continues to deal with some of the highest mortality rates in the world, including in Angola (81 under-five deaths per 1,000 live births), Lesotho (86), South Sudan (96) and Somalia (127).

One key health challenge facing many children in the region is that they arrive in dangerous conditions. Looking at changes over time, the total number of deliveries that took place without the support of a skilled professional in ESAR remained virtually unchanged between 2000 and 2015, at around 7 million (Figure 2.08). According to the latest estimates from 2016, more than 40 per cent of all deliveries in the region occurred outside health facilities and without the support of trained health professionals, exposing very large numbers of both mothers and newborns to life-threatening risks.

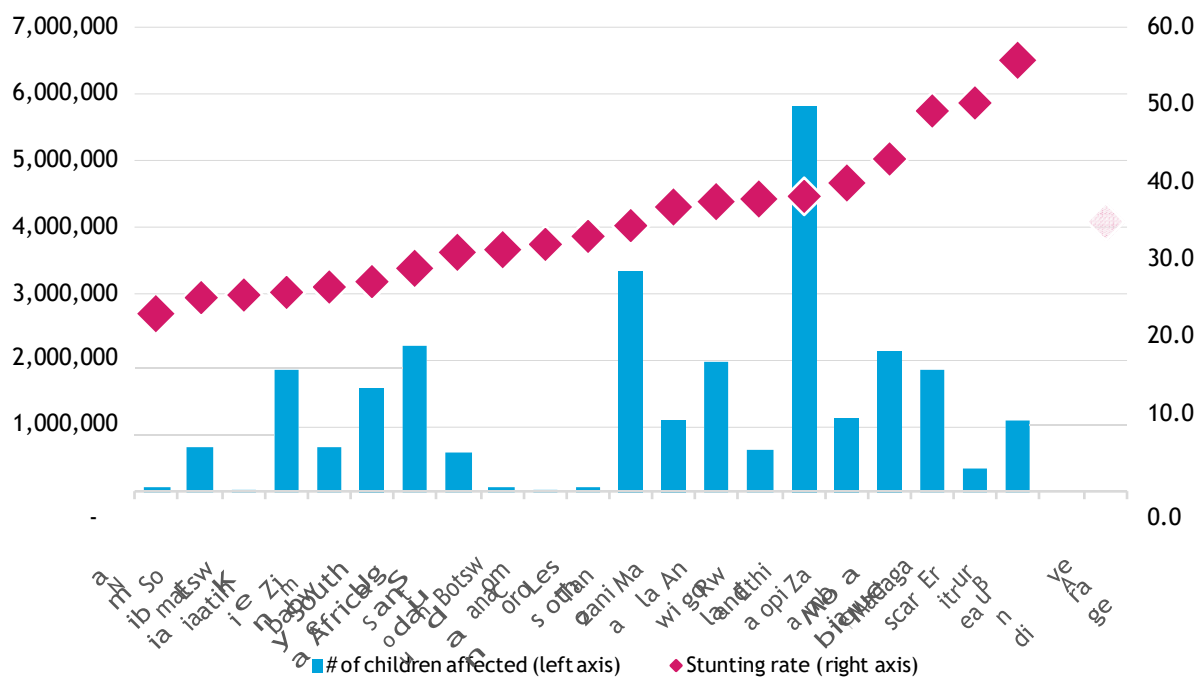
The limited progress on birth attendance is largely a symptom of the broader human resource shortages affecting most healthcare systems in the region. Available data on healthcare professionals indicate that there is approximately one doctor available for every 20,000 persons and one nurse or midwife for every 2,350 persons as regional averages (Figure 2.09). The UMICs in the region – Botswana, Namibia and South Africa – have significantly higher health workforce densities, with a physician available for every 2,500 persons and a nurse or midwife for every 300 persons, on average. However, on the other side, Burundi, Ethiopia and the United Republic of Tanzania have a meagre 0.024 physicians per 1,000 population, on average, equating to one doctor for more than 40,000 persons; in Malawi, this figure soars beyond 55,000 persons.

Figure 2.09. Population attended by healthcare professionals in ESAR countries, 2016 or latest available (in average number of persons served by a doctor and nurse/midwife)



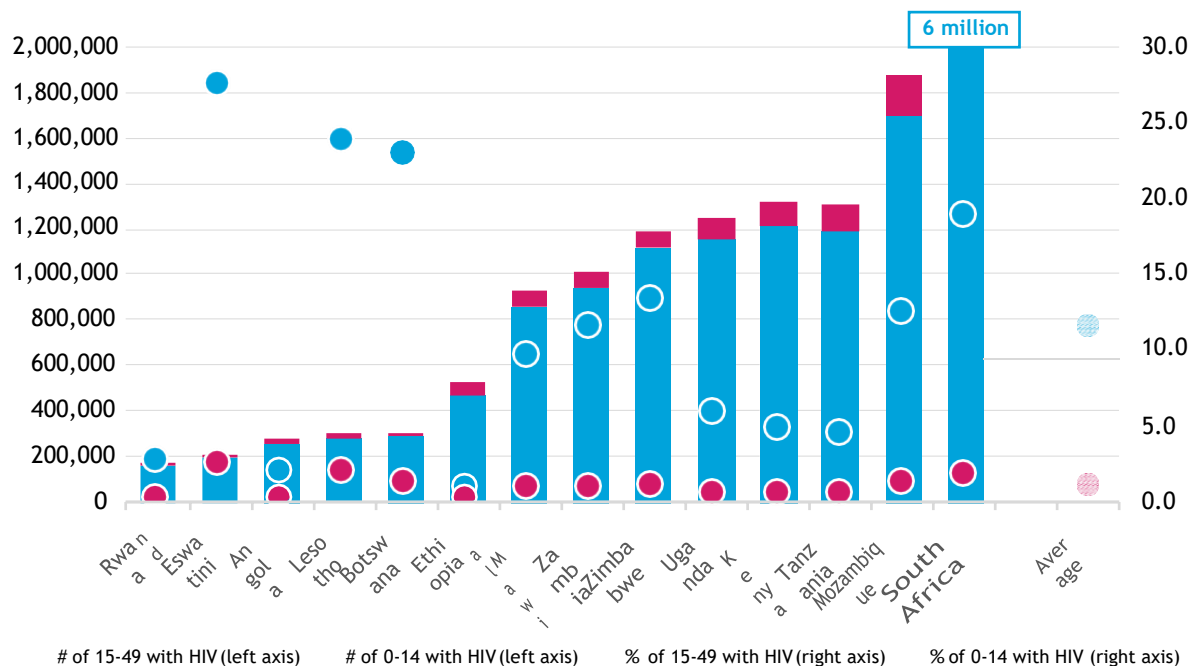
Source: Author's calculations based on World Health Organization (WHO) Global Health Workforce Statistics (December 2018 update).
 Note: Data unavailable for South Sudan.

Figure 2.10. Prevalence of stunting (height for age) in ESAR countries, 2016 or latest available (as % and # of children under 5 affected)



Source: UNICEF, WHO and World Bank Joint Child Malnutrition Estimates (2018 edition).

Figure 2.11. Prevalence of HIV in high-burden ESAR countries, 2017 (as % and number of 0-14 and 15-49 year olds)



Source: Author's calculations based on UNAIDS modelled estimates (2018) and UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

Note: Burundi, Comoros, Eritrea, Madagascar, Somalia and South Sudan are not presented since they are not among UNAIDS' fast-track strategy to end the AIDS epidemic by 2030.

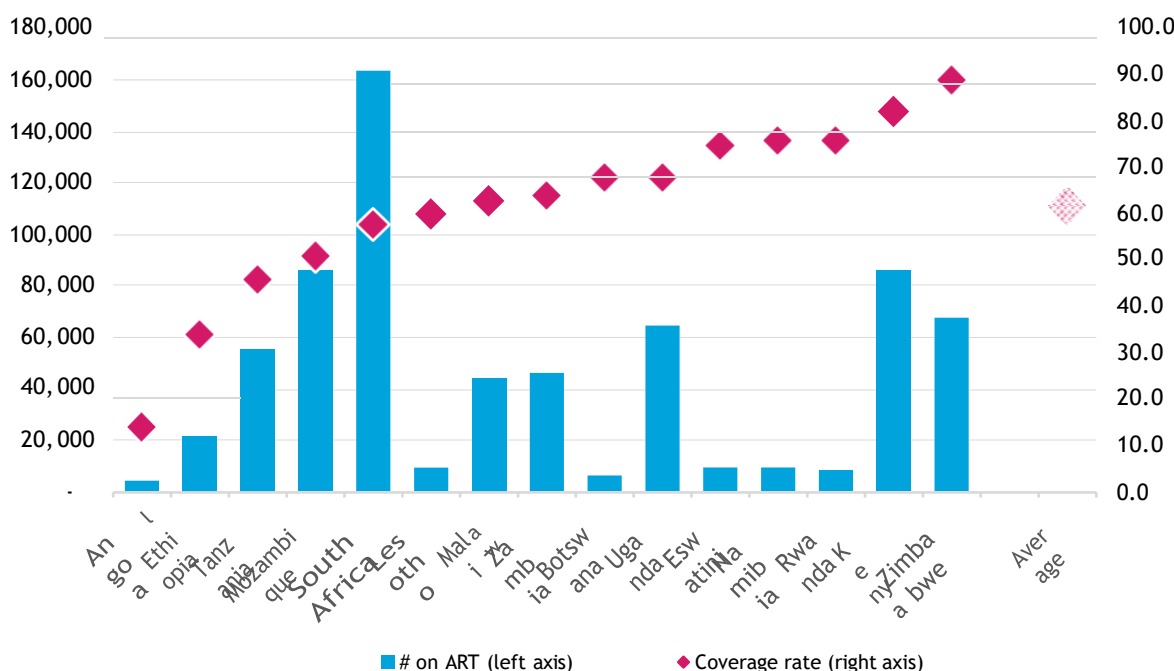
The high prevalence of stunting also highlights serious challenges in addressing child nutrition in ESAR. A review of the latest estimates indicates that 35 per cent of all children under five were stunted, on average (Figure 2.10). As a regional total, this equates to more than 27 million children. Stunting affected 40 per cent or more of children under five in Mozambique and Zambia, and more than half of children in Burundi and Eritrea.

2.3.2. HIV/AIDS

The HIV epidemic continues to adversely affect health outcomes, especially in southern Africa. In 2017, the average incidence of HIV among those aged 15 to 49 in high-burden countries in ESAR was estimated at 11.5 per cent, while just over 1 per cent of children aged 0-14 were affected (Figure 2.11). In aggregate terms, 15.8 million adults and 1.1 million children in high burden countries were living with HIV. Southern Africa remains particularly hard hit, with prevalence rates among the 15-49 population around 12 per cent in Mozambique, Namibia, Zambia and Zimbabwe, close to 20 per cent in South Africa, 23 per cent in Botswana and Lesotho, and more than 27 per cent in Eswatini. South Africa hosts the largest number of persons living with HIV, including nearly 300,000 0-14 year olds and 6 million 15-49 year olds. With around 170,000 0-14 year olds living with HIV, Mozambique also has a large number of affected children, with Kenya, Uganda and the United Republic of Tanzania not far behind (110,000, on average).

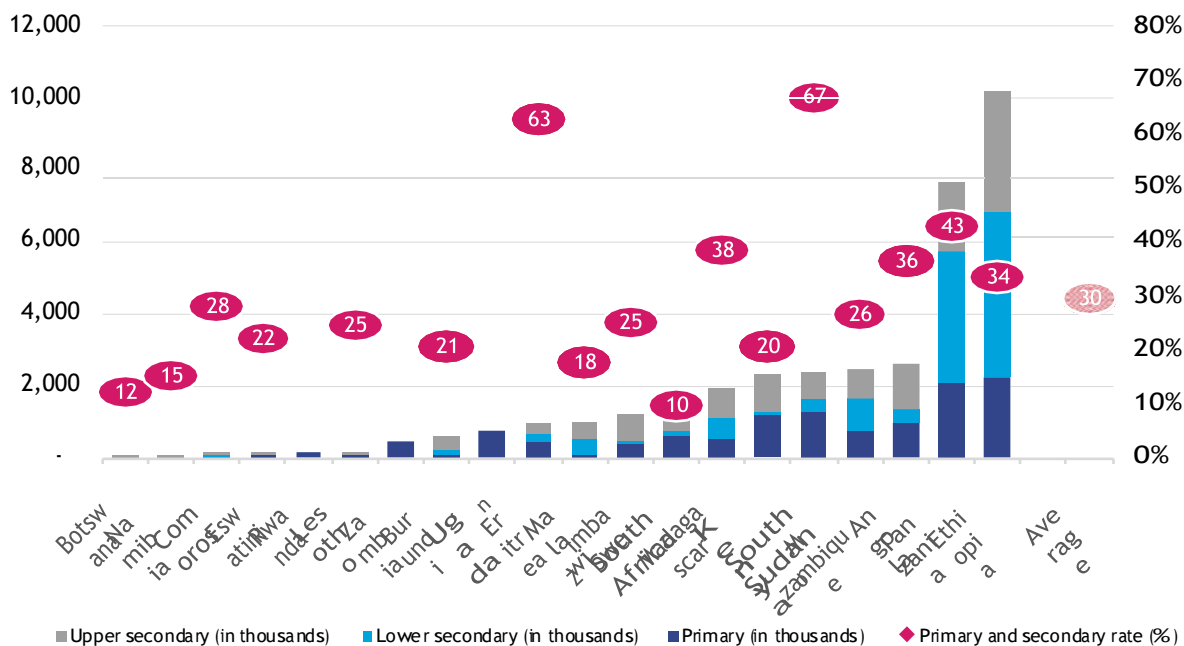
Despite the high numbers of children living with HIV, close to half remain without access to life-saving antiretroviral therapy (ART). The latest figures indicate that around 60 per cent of children living with HIV in high-burden countries were receiving ART

Figure 2.12. Children living with HIV receiving ART in high-burden ESAR countries, 2017 (as % and # of affected children 0-14)



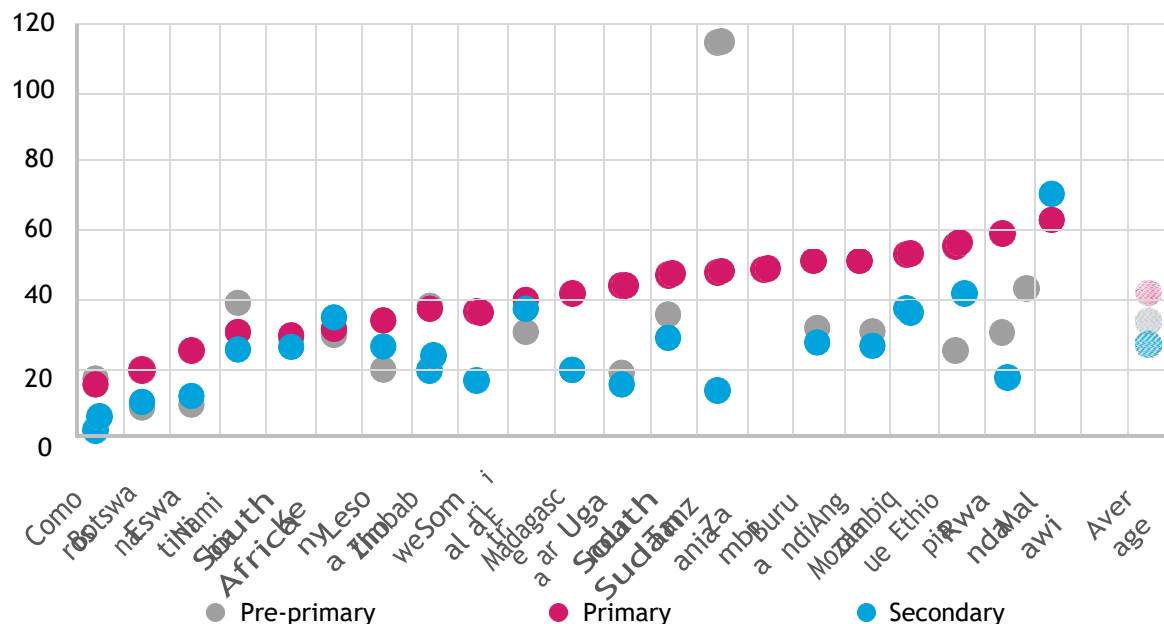
Source: Global AIDS Response Progress Report (2018) and UNAIDS modelled estimates (2018).
 Note: Burundi, Comoros, Eritrea, Madagascar, Somalia and South Sudan are not presented since they are not among UNAIDS' fast-track strategy to end the AIDS epidemic by 2030.

Figure 2.13. Out-of-school children, adolescents and youth of primary, lower secondary and upper secondary school age in ESAR countries, 2017 or latest available (in thousands and as % of total school age population)



Source: Global AIDS Response Progress Report (2018) and UNAIDS modelled estimates (2018).
 Note: Burundi, Comoros, Eritrea, Madagascar, Somalia and South Sudan are not presented since they are not among UNAIDS' fast-track strategy to end the AIDS epidemic by 2030.

Figure 2.14. Pupil-teacher ratios by level of education in ESAR countries, 2017 or latest available



Source: UNESCO Institute of Statistics.
 Note: Data unavailable for one or more levels in Mozambique, Somalia and Zambia.

(Figure 2.12). Coverage rates ranged from less than 15 per cent in Angola to nearly 90 per cent in Zimbabwe. South Africa has the largest number of persons living with HIV in the world, but also the biggest treatment programme, which accounts for around 20 per cent of ART coverage globally. Despite the strong efforts, the 58 per cent coverage rate for children 0-14 still means that almost 120,000 were without access in 2017.

2.3.3. Education

The region has made strong progress towards getting children into school, but much remains to be done. The latest available country estimates indicate that more than 36 million children, adolescents and youth of school age were recently not attending school in ESAR, which is somewhere around one in three in total (Figure 2.13). This includes approximately 12.1 million primary school age children, along with 11.6 and 13.5 million lower and upper secondary school age adolescents and youth respectively. The largest concentrations were in Ethiopia and the United Republic of Tanzania, at 7.5 and 10.1 million respectively, while Angola, Kenya, Madagascar, Mozambique and South Sudan each recently had between 2 and 2.6 million out-of-school children, adolescents and youth. In terms of incidence across all levels of education, this fluctuates from less than 20 per cent of the school-age population in Botswana, Malawi, Namibia and South Africa to more than 60 per cent in Eritrea and South Sudan.

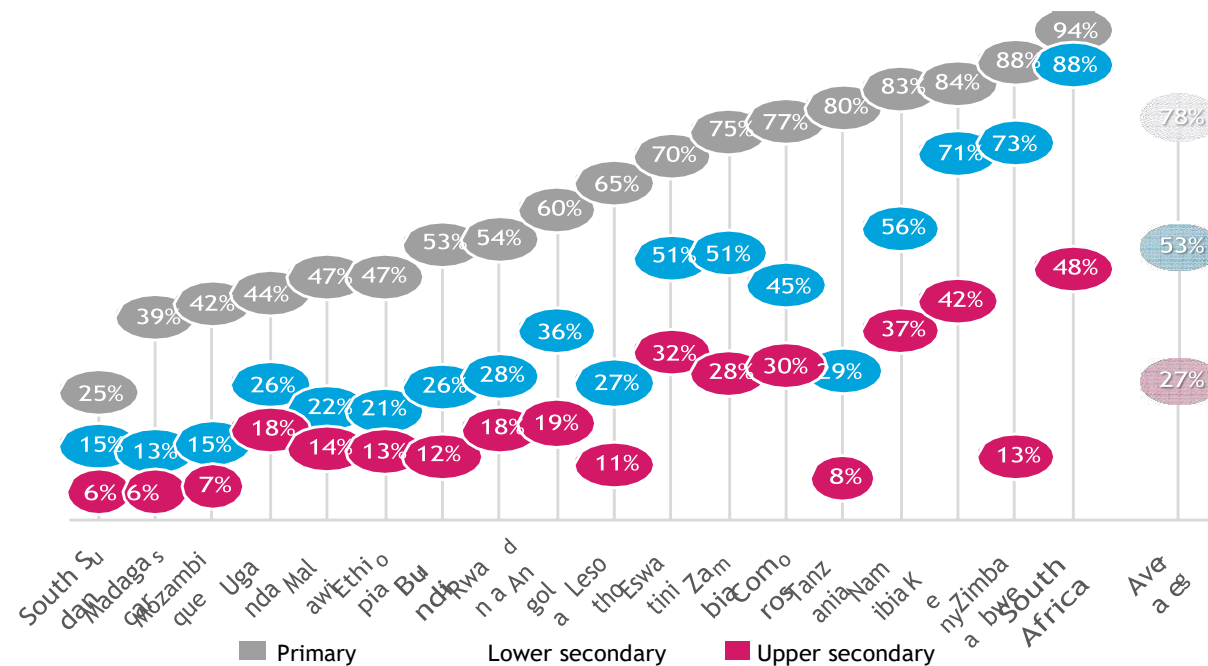
Of the children that are in school in ESAR, many are learning in overcrowded classrooms. On average, there are around 33 students for every teacher at pre-primary level, 41 at primary level and 27 at secondary level (Figure 2.14). There is, of course, significant variation across countries and levels of education. For instance, the pupil-teacher ratio in pre-primary education ranges from 12:1 in Botswana to 114:1 in the United Republic of Tanzania or, in primary education, from 19:1 in Comoros to 62:1 in Malawi.

The challenge of providing quality learning opportunities for all children is further heightened by low completion rates, which become progressively worse at higher levels of education. The latest estimates for the region show that approximately 60 per cent of children enter and finish primary school without excessive delays, which falls to around 40 per cent at lower secondary level and 20 per cent at upper secondary level (Figure 2.15). Low completion rates can indicate a variety of challenges, from late entry to high drop-out and repetition rates, but in most countries they are a symptom of inadequate learning environments. To illustrate the overall impact of the broader knowledge deficit, applying the regional average completion rates would imply that for every 100 students that enter primary school, just 5 would graduate from secondary school in a timely manner.¹⁰

Completing a grade level does not mean that students have acquired the right level of competencies, which is another challenge facing education systems in the region. The Southern and Eastern Africa Consortium for Monitoring Educational Quality (SEACMEQ) periodically tests the reading and mathematics ability of Grade 6 students in its member countries (includes 12 in ESAR plus Zanzibar) to show how each country performs in children's learning outcomes and enable cross-country comparison. The country scores are presented as the mean scores achieved by pupils taking the exam and evaluated against the SEACMEQ standardized mean of 500. While the latest round (SEACMEQ IV Project) was implemented in 2012-14, the results were not available at the time of publication. Turning to the SEACMEQ III Project, which was finalized in 2011, at least seven ESAR countries performed well below the standard score in both

¹⁰ This is a very crude estimate. Of the 100 students that enter primary school, 63 would finish in a timely manner and move on to lower secondary school. Of those students, 38 per cent (or approximately 24) would continue to upper secondary level. And of those students, 20 per cent (or about 5) would graduate from secondary school in a timely manner.

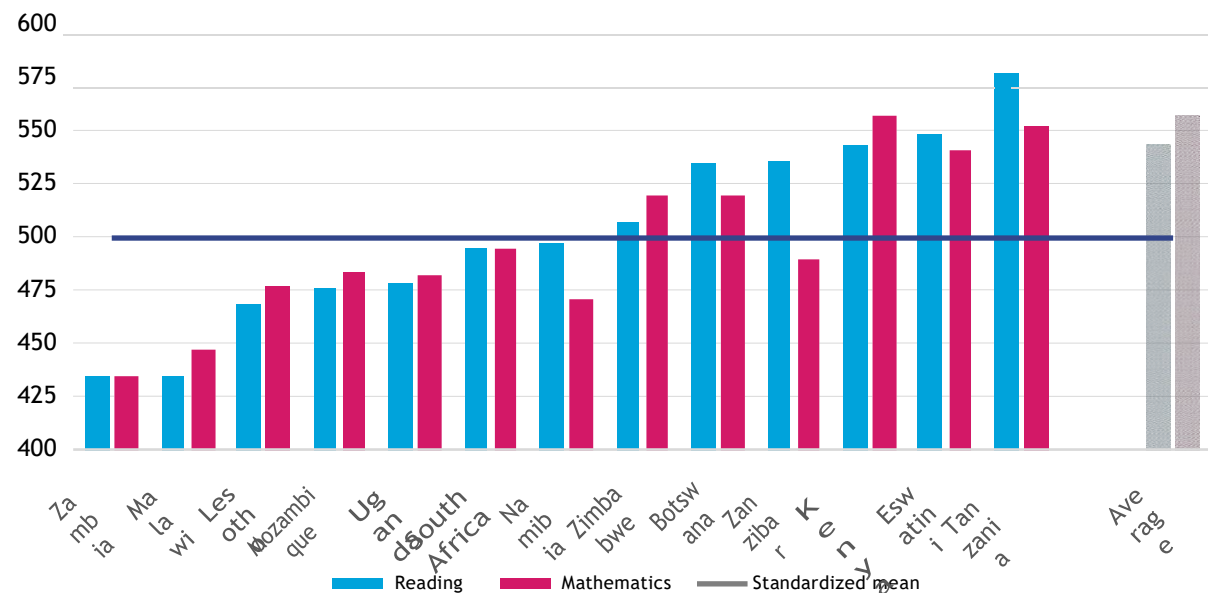
Figure 2.15. Completion rates by level of education in ESAR countries, 2017 or latest available (as % of a cohort of children aged 3-5 years above the intended age for the last grade of each level of education who have completed that grade)



Source: UNESCO Institute of Statistics.

Note: Data unavailable for Botswana, Eritrea and Somalia.

Figure 2.16. SEACMEQ III scores in ESAR countries (mean score achieved by pupils taking the exam)



Source: SEACMEQ III (available at: <http://www.sacmeq.org/ReadingMathScores>).

Note: SEACMEQ does not include Angola, Burundi, Comoros, Eritrea, Ethiopia, Madagascar, Rwanda, Somalia and South Sudan.

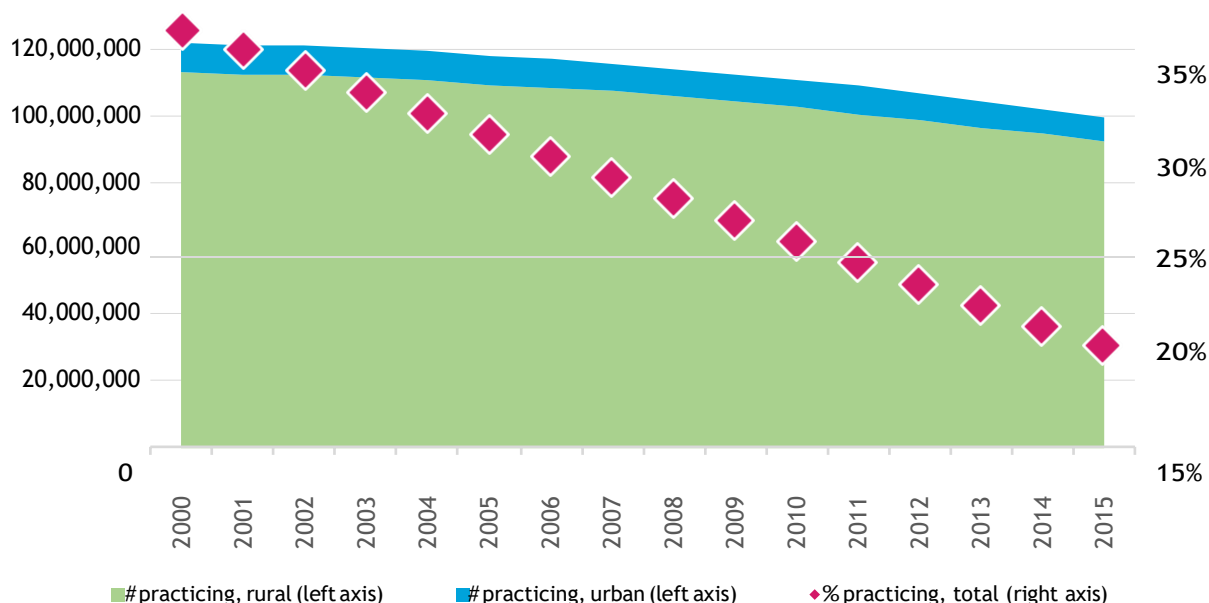
subject matters, indicating that most Grade 6 students in those countries have acquired functional literacy and numeracy knowledge well below the regional average (Figure 2.16). In addition to the large variance in the region, the scores within countries show very uneven performance across geographic regions and income groups, validating the universality of the learning crisis.¹¹

2.3.4. WASH

WASH indicators have improved over time in ESAR but have not kept pace with population growth. With regard to open defecation, the percentage of persons practising fell from 38 to 20 per cent between 2000 and 2015 across the entire ESAR population, yet 100 million persons recently continued such practices, which occurred almost exclusively in rural areas (Figure 2.17). In terms of access to improved water sources, there was an increase of eight percentage points (from 34 to 42 per cent) between 2000 and 2015; however, an astounding 284 million persons continued to only have access to surface water and other unimproved sources according to the latest estimates (Figure 2.18). The sanitation situation is equally concerning. While the percentage of persons in ESAR with access to an improved sanitation facility steadily declined from 75 per cent in 2000 to 68 per cent in 2015, the number of persons without access almost doubled (from 89 million to 164 million) over the same period (Figure 2.19).

¹¹ Spaul, N. (2011). Primary School Performance in Botswana, Mozambique, Namibia and South Africa. SACMEQ III Working Paper.

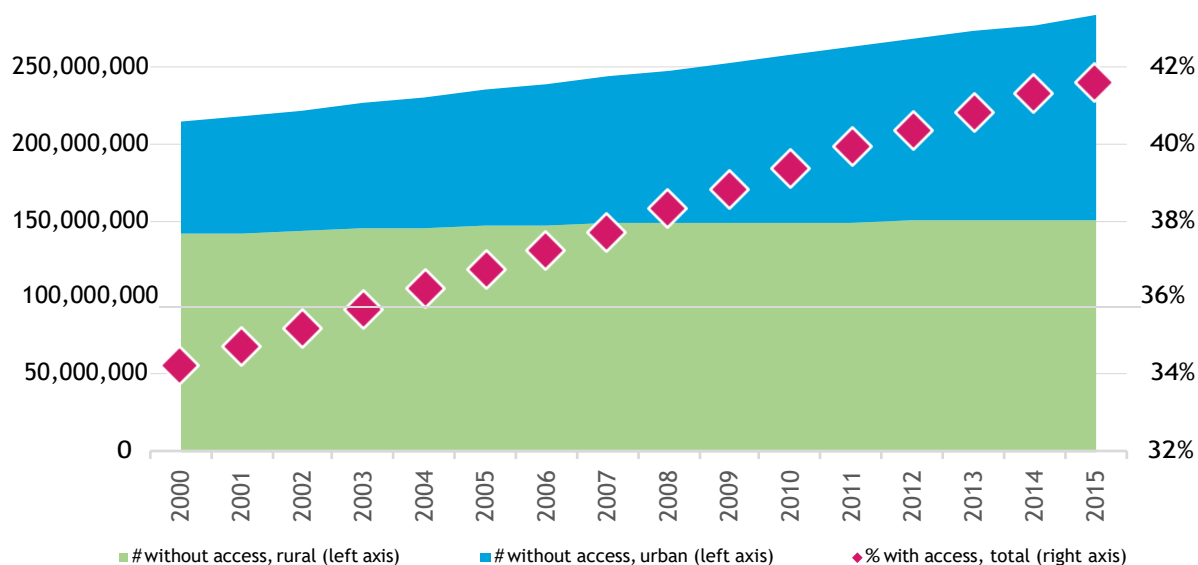
Figure 2.17. Open defecation trends in ESAR by area, 2000-15
(in # and % of persons practising – population weighted regional average)



Source: Author's calculations based on WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (2017) and UN DESA World Urbanization Prospects: 2014 Revision (medium variant estimates).

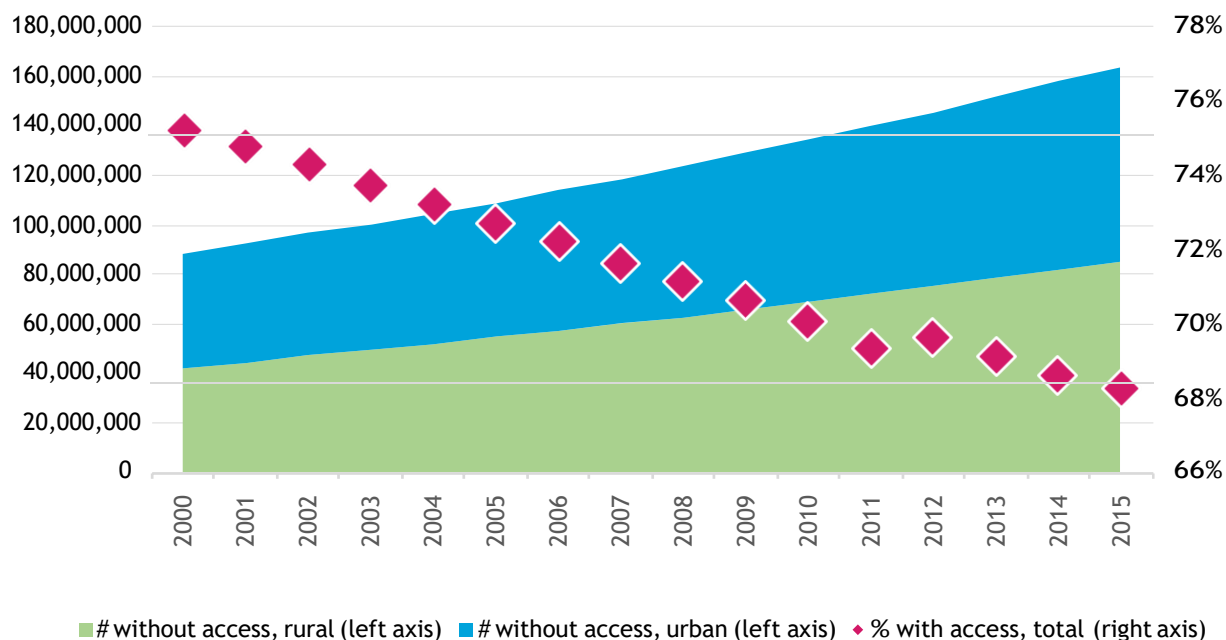
Note: Missing values for Eritrea, Somalia and South Sudan were projected using least squares regression method.

Figure 2.18. Trends in access to an improved water source in ESAR by area, 2000-15 (in # of persons without access and % of population with access – population weighted regional average)



Source: Author's calculations based on WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (2017) and UN DESA World Urbanization Prospects: 2014 Revision (medium variant estimates).
 Note: Missing values for Eritrea, Somalia and South Sudan were projected using least squares regression method.

Figure 2.19. Trends in access to an improved sanitation facility in ESAR by area, 2000-15 (in # of persons without access and % of population with access – population weighted regional average)



Source: Author's calculations based on WHO/UNICEF Joint Monitoring Programme for Water Supply and Sanitation (2017) and UN DESA World Urbanization Prospects: 2014 Revision (medium variant estimates).
 Note: Missing values for Eritrea, Somalia and South Sudan were projected using least squares regression method.

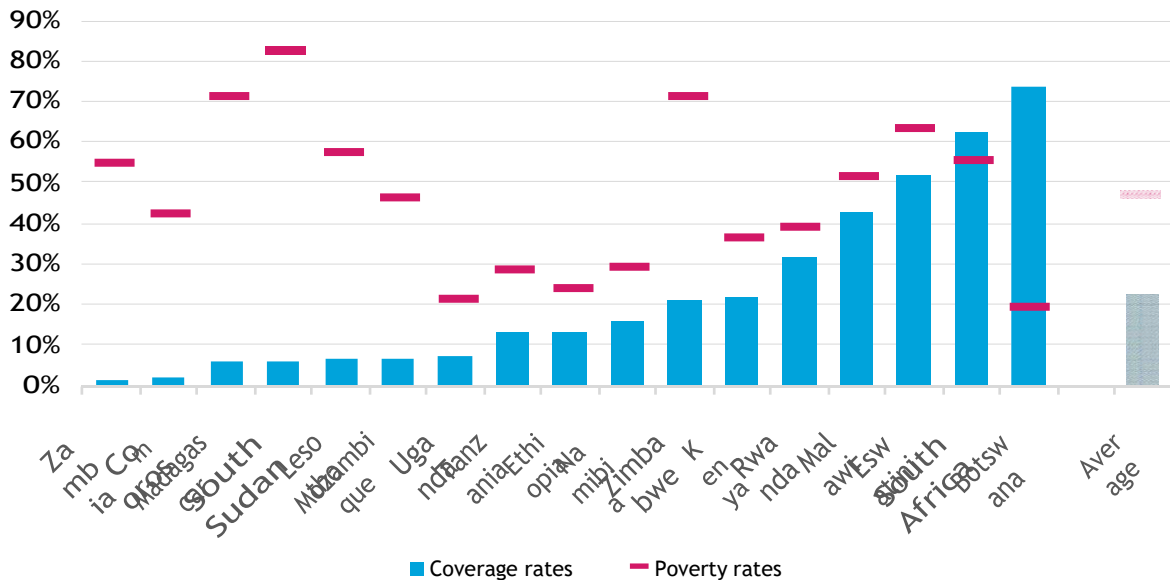
2.3.5. Social assistance

Coverage of government-led social assistance programmes has increased considerably in recent years across the region, but systems still provide limited support for the most vulnerable populations, including children. Based on the latest available estimates, social protection and labour market programmes covered less than a quarter of the populations in ESAR countries, on average (Figure 2.20). Even in a scenario of perfect poverty targeting and assuming no overlap of beneficiaries between programmes, around half of poor persons received no support at all, on average (23 per cent coverage rates compared to 46 per cent poverty rates). Some of the higher income countries, like Botswana, Eswatini and South Africa, have managed to achieve higher coverage rates, arriving close to or exceeding the percentage of poor according to national definitions, again assuming programme beneficiaries were universally poor. However, it should be noted that some social assistance programmes do not specifically target the poor, but have broader objectives, such as universal old-age pensions or meals or scholarships for all students.

Patchy social assistance coverage also threatens to stall progress towards eradicating poverty. Based on analysis presented in a World Bank review of safety nets in Africa, only around 14 per cent of the populations in ESAR countries have been supported by at least one social assistance programme in recent years, on average (Figure 2.21). Coverage rates across countries are uneven, ranging from 4 per cent or less in Angola, Comoros, Eswatini, Madagascar, Somalia, Uganda and Zimbabwe to around 40 per cent in Botswana and Namibia and above 60 per cent in South Africa.

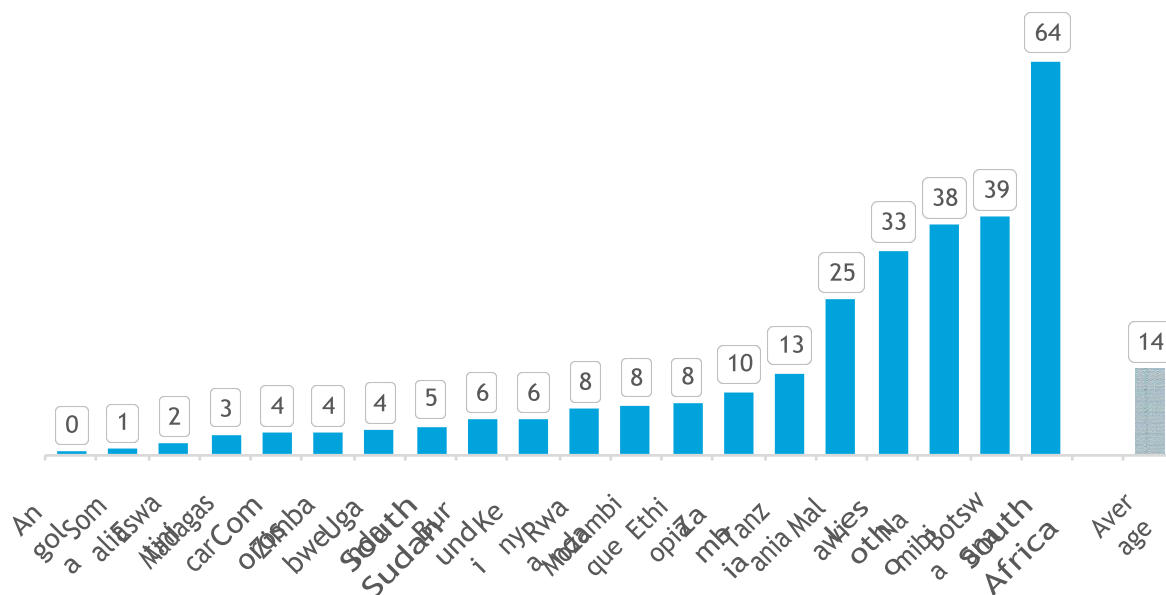
Nonetheless, children are more likely to benefit from social assistance than the population at large. Most social assistance programmes in the region are directly or indirectly targeted

Figure 2.20. Social protection and labour market coverage and poverty rates in ESAR countries, 2014 or latest available (as % of the population covered and nationally defined as poor)



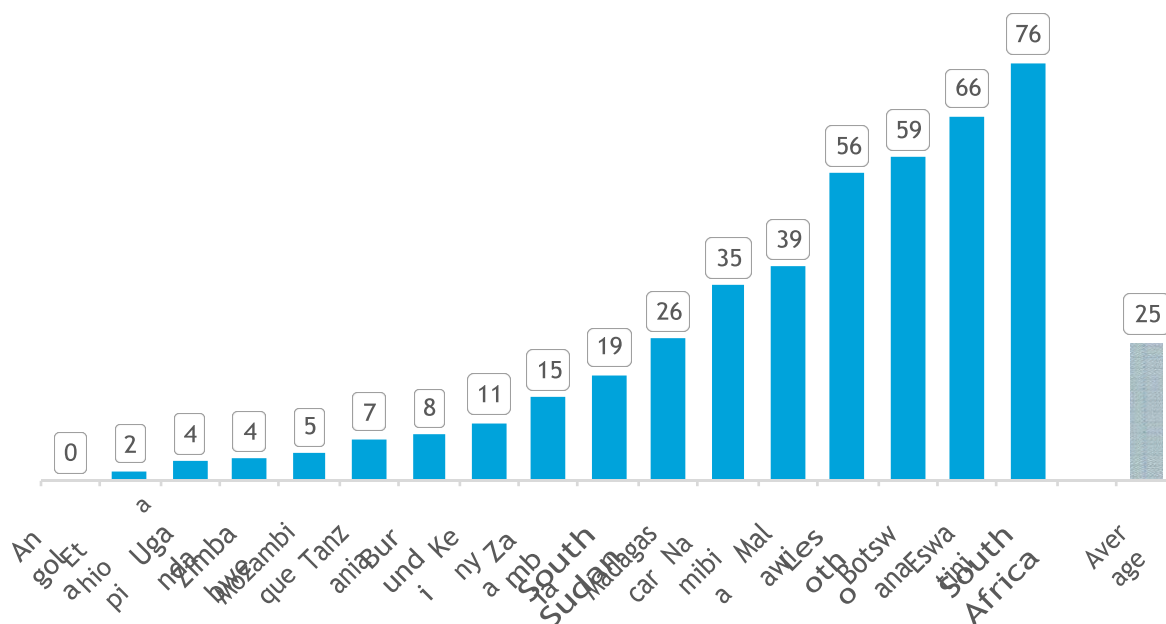
Sources: World Bank. The Atlas of Social Protection: Indicators of Resilience and Equity (ASPIRE) for data on social protection and labour market programmes and World Bank, Global Poverty Working Group for Poverty for data on headcount ratios at national poverty lines. Note: Data unavailable for Angola, Burundi, Eritrea and Somalia.

Figure 2.21. Coverage of at least one social safety net programme in ESAR countries, latest available (as a % of total population)



Source: Beegle, K., et al. (2018). Realizing the Full Potential of Social Safety Nets in Africa. World Bank, pp. 320-323. Notes: Data unavailable for Eritrea; the overall coverage rate is approximated by summing up the number of direct and indirect beneficiaries of cash transfers, food-based transfers and public works programmes only - beneficiaries from other programmes are excluded to avoid overestimation (see appendices B.2 and B.3 in the above report for complete details on the methodology).

Figure 2.22. Proportion of children covered by some type of social assistance benefit in ESAR countries, latest available three-year average (as a % of children under 14)

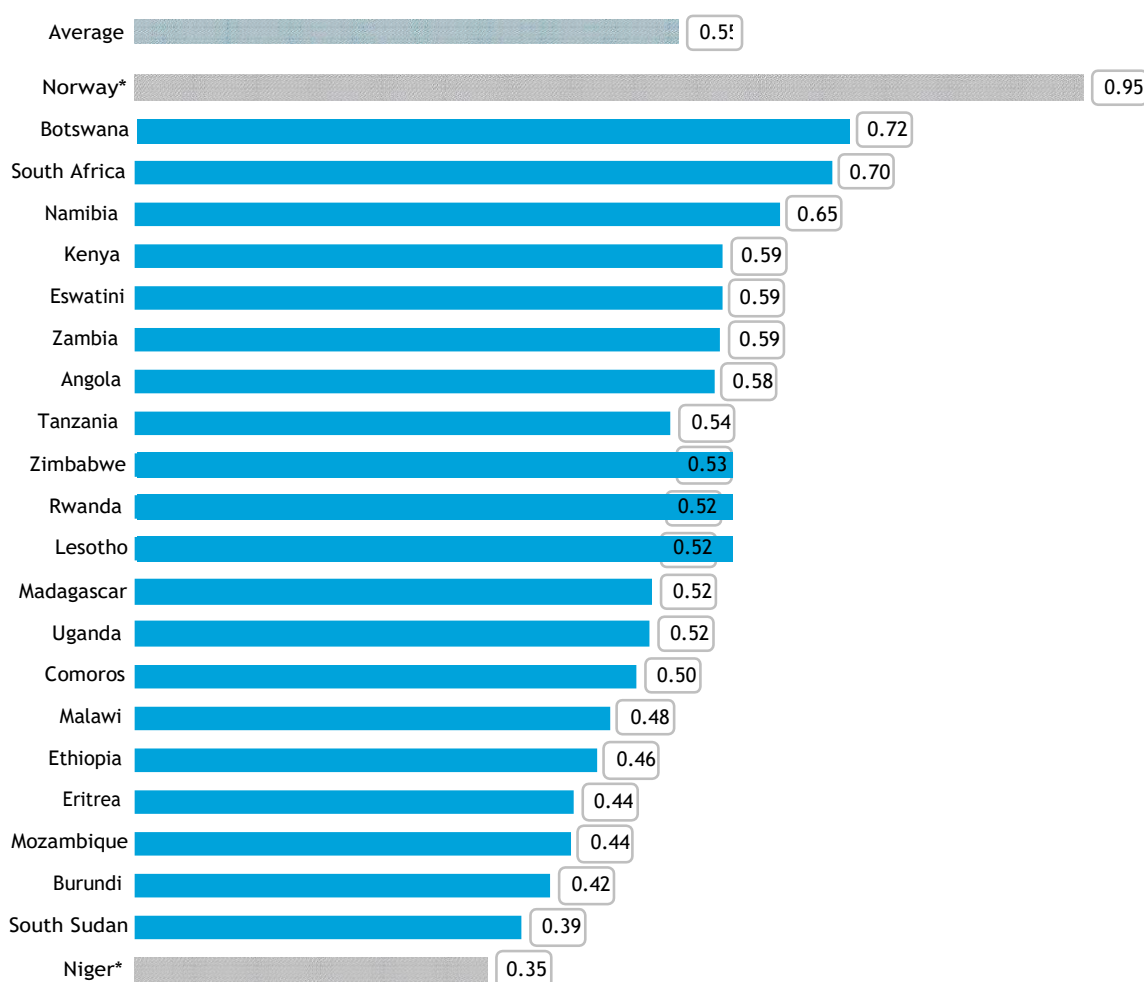


Source: Beegle, K. et al. (2018). Realizing the Full Potential of Social Safety Nets in Africa. Washington, DC: World Bank, pp. 320-323. Note: Data unavailable for Comoros, Eritrea, Rwanda and Somalia; see appendices B.2 and B.3 in the above report for complete details on the methodology.

Box 2.1. Human development trends in ESAR

Levels of human development vary widely across the region but are very low compared to global averages. The Human Development Index (HDI) gives a good overview of countries' progress on economic and social issues. The index is a summary measure of average achievement in three core dimensions of human development: (i) a long and healthy life (based on life expectancy); (ii) being knowledgeable (based on years of schooling for adults over 25 and expected years of schooling for children entering school age); and (iii) having a decent standard of living (based on GNI per capita). On average, ESAR countries scored 0.55 in the latest HDI, significantly below the global average of 0.70. In terms of outliers, Botswana and South Africa rank the highest (0.72 and 0.70, respectively) while South Sudan and Burundi have the lowest scores (0.39 and 0.42 respectively) (Figure 2.23). However, of the 189 countries measured globally in 2017, Botswana ranks 101 and South Sudan 187. In addition to highlighting the extreme variance within ESAR, this also shows that even the best performing countries require significant improvements to catch up with global human development leaders.

Figure 2.23. Human Development Index values in ESAR, 2017



Source: UNDP Human Development Index (available at: <http://hdr.undp.org>).

Note: Data unavailable for Somalia.

* Denotes countries with the highest and lowest HDI values in the world.

to children because they often support households with children.¹² Again looking at the latest analysis from the World Bank, coverage of children aged 0-14 in ESAR is estimated at 25 per cent, on average, which is more than ten percentage points higher than the rate for the overall population (Figure 2.22). Most countries in southern Africa demonstrate very high coverage rates at close to or above 60 per cent, while less than 5 per cent of children recently received support in Angola, Ethiopia, Mozambique, Uganda and Zimbabwe.

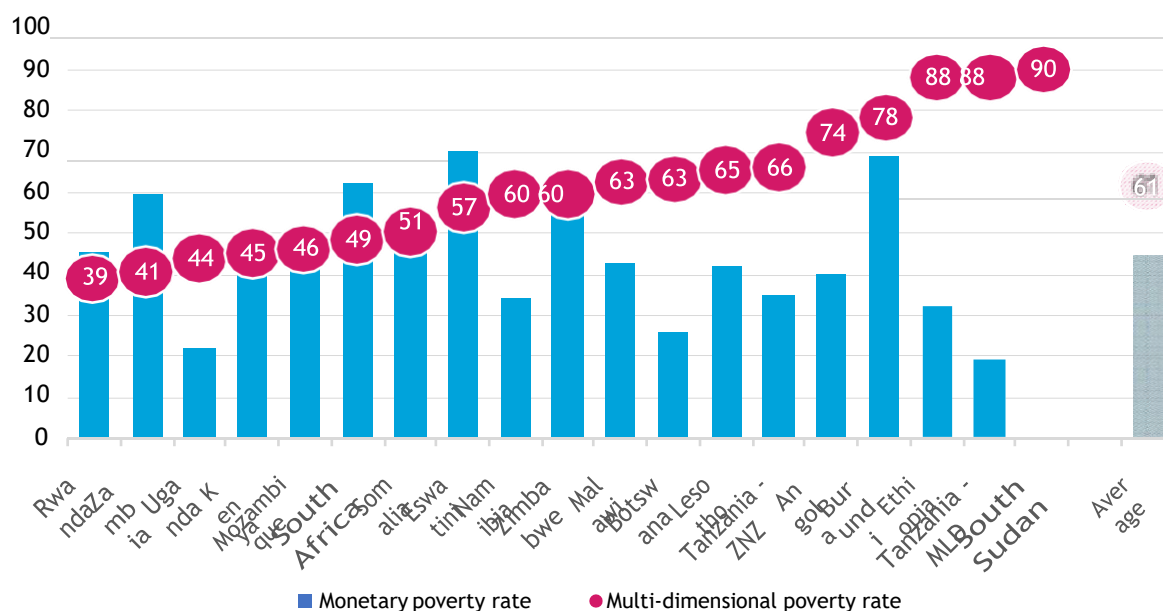
2.4 Multi-dimensional child poverty

The limited access to basic social services as just described means that most children in ESAR suffer from the compounding effects of multi-dimensional poverty. Multiple Overlapping Deprivation Analysis (MODA) is a methodology developed and applied by UNICEF to measure the number of deprivations experienced by an individual child based on her or his access to health, education, water, sanitation and other necessary services and conditions. A review of the latest reports indicates that an average of 61 per cent of children in ESAR suffer from multi-dimensional poverty (Figure 2.24 – red circles). The rate ranges from 39 per cent in Rwanda to 90 per cent in South Sudan. In terms of aggregate numbers, a back-of-the-envelope estimate places the number of children under 18 in the region that suffer from multiple deprivations somewhere between 155 and 165 million children in 2019.¹³ It is also important to note that Ethiopia and the United Republic of Tanzania, the two most populous countries in the region, are among those with the highest rates of multi-dimensional child poverty.

¹² Beegle, K., et al. (2018). Realizing the Full Potential of Social Safety Nets in Africa. Washington, DC: World Bank. Chapter 1.

¹³ This crude estimate is arrived at by multiplying the most recent multi-dimensional child poverty rate for each country by its projected under-18 population in 2019 based on UN DESA World Population Prospects: 2017 Revision (medium variant).

Figure 2.24. Multi-dimensional and monetary child poverty rates in ESAR countries, 2018 or latest available (as % of the 0-17 population)



Sources: Latest child poverty reports for all countries (available at: <https://www.unicef.org/esa/reports/child-poverty-analysis>, except for South Sudan, which is based on the global multi-dimensional poverty index produced by Oxford Poverty and Human Development Initiative.

Rates of non-monetary poverty among children are almost always higher than monetary poverty and have distinct implications. Based on the available sample, non-monetary poverty is about 16 per cent higher, on average, in ESAR (see also Figure 24 – blue bars).¹⁴ Importantly, child deprivations are not always closely related to the existence of monetary poverty. This means that multi-dimensional analytical approaches, such as MODA, can uncover critical aspects of child poverty that may not be captured in regular government poverty monitoring, and can provide critical inputs to plans and budgets, especially on cross-sectoral issues.

2.5 Fragility

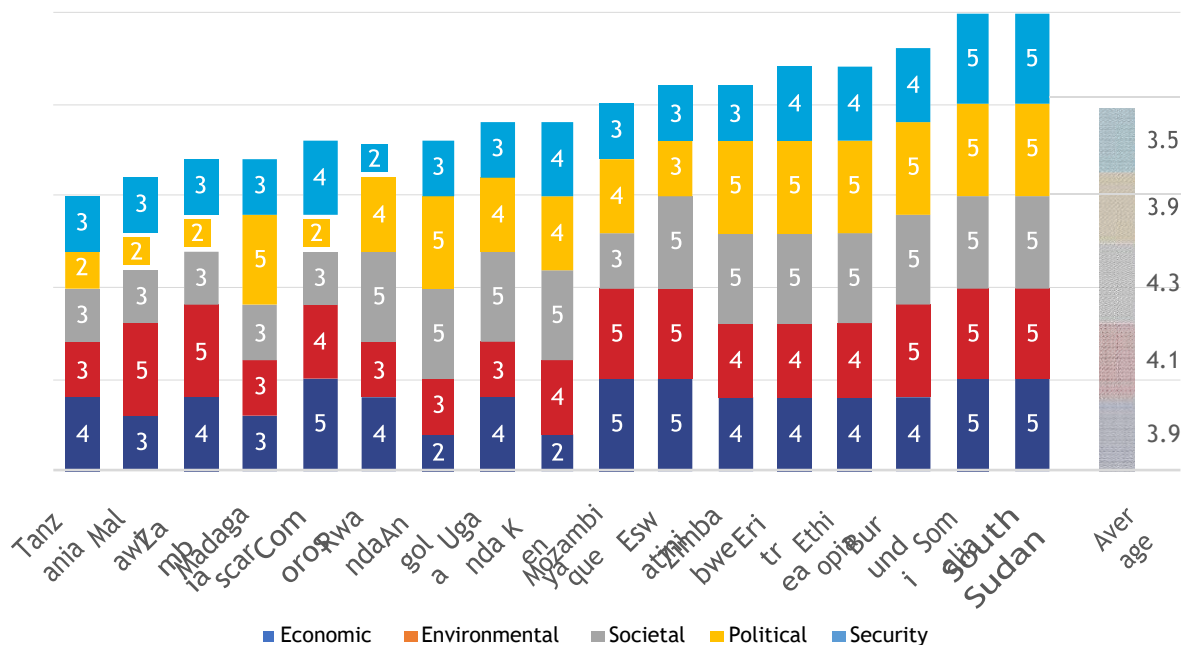
A third of countries in ESAR are in fragile situations, with most others facing high risks. In its latest list in July 2018, the World Bank rated Burundi, Comoros, Eritrea, Mozambique, Somalia, South Sudan and Zimbabwe as countries in fragile situations.¹⁵ However, this classification only considers two very basic factors: the country's policy and institutional framework¹⁶ and the presence of a peace-building mission. To better understand the main risks, the Fragility Framework developed by the Organisation for Economic Co-operation and Development (OECD) assesses a country's potential exposure to negative outcomes

¹⁴ By definition, multi-dimensional child poverty rates should always be higher than monetary child poverty rates. However, in the absence of a universal cutoff value (e.g. any child suffering from two or more deprivations should be considered multi-dimensionally poor), many governments in ESAR selected a higher number of deprivations (e.g. 3 or 4) to determine which children are considered multi-dimensionally poor, which lowers the official rate and pushes it below monetary poverty rates in some places.

¹⁵ World Bank (2018). Harmonized List of Fragile Situation Fiscal Year 2019.

¹⁶ This is determined by a country's score on the Country Policy and Institutional Assessment (CPIA), which the World Bank conducts every year to evaluate the conduciveness of a country's policy and institutional framework to poverty reduction, sustainable growth and effective use of development assistance.

Figure 2.25. Fragility indicators in ESAR countries, 2018



Source: OECD (2018). States of Fragility 2018.

Notes: Data unavailable for Botswana, Namibia and South Africa; a value of 5 represents maximum fragility.

associated with violence, breakdown of institutions, displacement, humanitarian crises or other emergencies, in addition to its capacity to mitigate, absorb and manage the various risks. Applying this framework to ESAR reveals that most countries are heavily exposed to all five risk dimensions, including political, societal, economic, environmental and security (Figure 2.25). While Burundi, Eritrea, Ethiopia, Somalia and South Sudan are among the most fragile countries in the world, the OECD views the risks in Botswana, Namibia and South Africa as being so low that their status is not even monitored.

2.6 Takeaways

Key trends

- Dramatic population growth presents daunting challenges (such as maintaining current coverage rates of social services) as well as transformational opportunities (including the potential for fast and prolonged economic growth due to declining dependency rates). To highlight the potential benefits, the IMF estimates that a one percentage point decline in the dependency ratio translates to a 0.5 per cent increase in real per capita GDP growth.¹⁷
- More than 40 per cent of the population is affected by extreme poverty according to the US\$1.90/day international line (in PPP, 2011 international US\$), which jumps to more than 80 per cent if using the US\$5.50/day line.
- Although there has been important progress toward improving the lives of children, many basic indicators have not performed well in absolute terms, largely due to population growth.
- Approximately two in every three children – or around 160 million of the 260 million under-18 population in the region – suffer from multi-dimensional poverty.
- Most countries are facing high levels of political, societal, economic, environmental and security fragility.

Implications for children

- High poverty rates across ESAR mean that most families cannot adequately provide for their children. And even where families live above the poverty line, children's basic needs often go unmet, underscoring the critical role of social services for ensuring child well-being.
- However, a snapshot of the latest social development indicators confirms that essential social services are performing poorly for children in the region.
- Children in ESAR will remain under threat as long as governments are unable to address basic social service delivery bottlenecks, including human resources (e.g. the severe shortages of qualified personnel) and supplies (e.g. the unavailability or stockout of vaccines, nutritional supplements, learning materials and medicines, especially anti-diarrheal, anti-malarial, antiretroviral therapy and deworming).
- Despite the undisputed and extensive positive benefits on health, education and nutrition outcomes, as well as poverty reduction,¹⁸ children in the region continue to be failed by the limited scope and piecemeal approach of social protection systems, which have not been prioritized by most governments.

¹⁷ IMF (2014). *Africa Rising: Harnessing the Demographic Dividend*. Washington, DC.

¹⁸ Davis, B. *et al.* (2016). *From Evidence to Action: The Story of Cash Transfers and Impact Evaluation in Sub-Saharan Africa*. London: FAO, UNICEF and Oxford University Press.

CHAPTER 3.

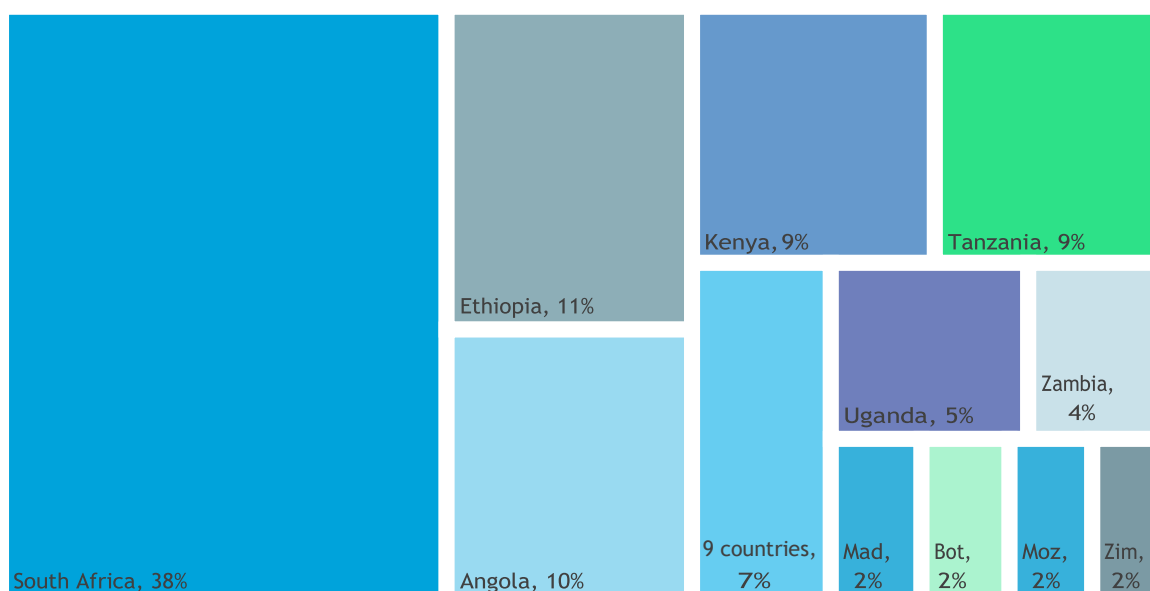
THE ECONOMIC OUTLOOK AND CHILDREN

This chapter describes the current and forecast economic context of ESAR to better understand how growth trends affect children and services available to them. After discussing the size and structure of the various economies in the region, it presents the near-term economic growth outlook, looking at both overall rates and how they change once factoring in price and demographic changes. The chapter next reviews income inequality trends, focusing on Gini coefficients, income distribution and the impact of policies to improve existing disparities. It concludes by summarizing the main economic trends in the region, along with the implications for children.

3.1 The size of the economy

ESAR contains economies of a wide variety of sizes but is dominated by South Africa. In 2019, the region's total GDP is projected to be around US\$2.1 trillion (in PPP, current international US\$) if accounting for price differences across countries or US\$894 billion if measuring prices based on expected foreign exchange rates. South Africa accounts for nearly 40 per cent of total regional output and is roughly the same size as 18 of the other 20 economies combined (i.e. all of them except Angola and Ethiopia) (Figure 3.01). After South Africa comes a group of medium-sized economies – Angola, Ethiopia, Kenya and the United Republic of Tanzania – which each contribute approximately 10 per cent

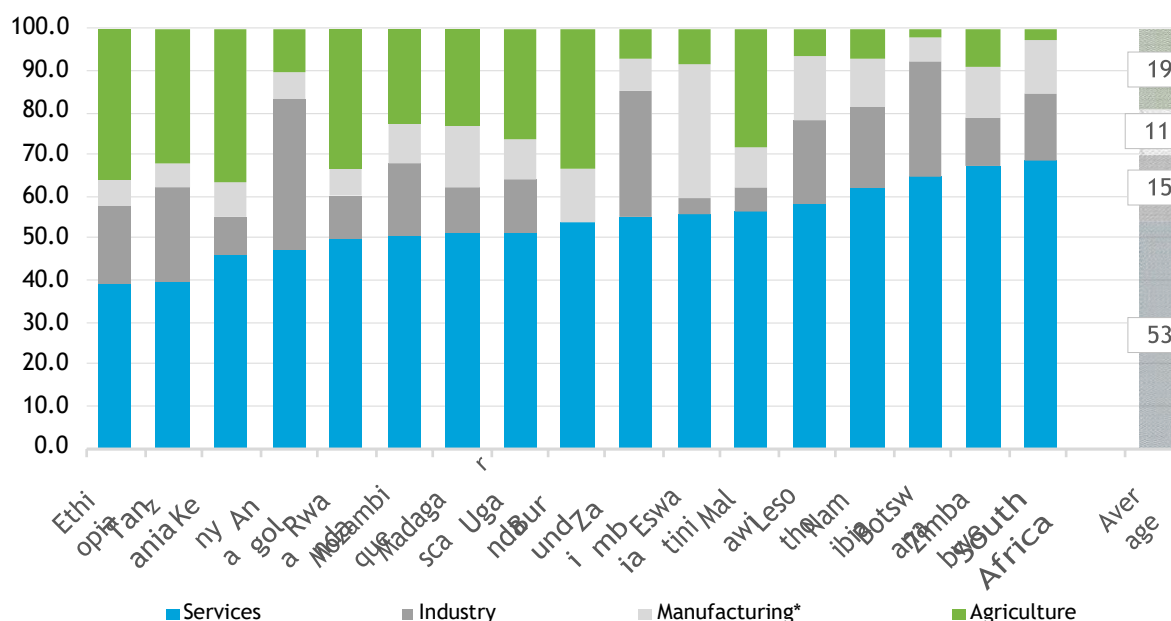
Figure 3.01. Country contributions to GDP in ESAR, 2019 projections (as % of regional GDP)



Source: IMF World Economic Outlook Database (April 2019).

Notes: Each of the countries included in the group “9 countries” has a projected GDP of US\$30 billion or less in 2019 (in PPP, current international US\$), which ranges from US\$1.5 billion in Comoros to US\$30 billion in Rwanda; data unavailable for Somalia.

Figure 3.02 Sector contribution to GDP in ESAR countries, 2017 (as % of GDP)



Source: World Bank, Consolidated National Accounts.

Notes: Does not include data for Comoros, Eritrea, Somalia and South Sudan.

* Manufacturing is a sub-group of industry but separated here for analytical purposes.

of total regional output. The other 15 economies account for the remaining 20 per cent of regional GDP, ranging from the small island nation of Comoros to Uganda (US\$1.5 billion and US\$105 billion, respectively, in PPP, current international US\$).

3.2 The structure of the economy

The service sector is the largest contributor to GDP in ESAR. In 2017, services—e.g. hotels and restaurants, transportation, government, financial, and professional and personal services (education, health care, real estate and so on)—accounted for more than half of regional output (Figure 3.02). With its developed banking and retail sectors, South Africa boasts the largest service sector, at nearly 70 per cent, with other economies in southern Africa close behind, including Botswana, Namibia and Zimbabwe. In contrast, services contributed less than half of GDP in Angola, Ethiopia, Kenya, Rwanda and the United Republic of Tanzania.

Industry is the second most important component of economic activity in the region.

In 2017 around 27 per cent of GDP, on average, consisted of activities related to construction, electricity, gas, manufacturing, mining and water. Ethiopia experienced an impressive expansion of its industrial sector, which grew from less than 10 per cent of GDP in 2012 to more than 23 per cent in 2017. At 20 per cent or less of GDP, industrial activities are relatively insignificant in seven countries (Burundi, Comoros, Kenya, Malawi and Rwanda, Uganda and Zimbabwe). When separating manufacturing from industry for analytical purposes, just over 10 per cent of economies in ESAR are engaged in transforming materials or substances into new products, like apparel, chemicals, electronics, food and drinks, furniture, metals, petroleum, plastic, textiles and so on. This is far below the average levels observed in the group of developing

countries in East Asia that have relied on manufacturing to catapult and sustain economic growth in recent years (24 per cent, on average).¹⁹

Accounting for around a fifth of output, agriculture is the smallest sector in ESAR, although it remains critical to some economies.²⁰ In terms of total output, agriculture remains very insignificant in most southern Africa countries. For instance, in Eswatini, Lesotho, Namibia, Zambia and Zimbabwe, the average contribution of agriculture to the economy was 7-9 per cent in 2017 but barely over 2 per cent in Botswana and South Africa. In stark contrast, the agricultural sector makes up a third or more of economic output in Burundi, Ethiopia, Kenya, Rwanda and the United Republic of Tanzania.

3.3 Economic growth trends

Economic growth for the region remains positive in nominal terms but is much less impressive after adjusting for rising prices. When looking at nominal growth, the region is expected to grow by an average of 11.9 per cent over the 2019-20 period, which is close to 7 per cent slower than during the 2017-18 period (18.5 per cent).²¹ However, once adjusting for changing prices, ESAR economies are projected to grow by 3.6 per cent in real terms, on average, a slight uptick over the 2017-18 average pace of 3.1 per cent (Figure 3.03). There is, however, a significant difference when distinguishing between resource- and non-resource-intensive economies (see Box 3.1), with the former projected to grow 1.6 percentage points more slowly in real terms over 2019-20 (2.7 per cent versus 4.2 per cent). The fall in global commodity prices in recent years, including for energy, agriculture and metals (see Section 5.5), have acted a drag on those economies that heavily depend on natural resources as a main driver of growth.²²

At the country level, economic growth outlooks cover all extremes. On the downside, Zimbabwe is predicted to be in recession due to the ongoing political and economic crisis (the projected real decline is 5.9 per cent in 2019, although this is expected to turn positive in 2020); recession is similarly forecast in Eswatini. Angola, Burundi, Lesotho, Namibia, South Africa are also projected to grow sluggishly – at less than 1.7 per cent in real terms in 2019-20. In contrast, with real GDP growth projected between 7 and 8 per cent in 2019-20, Ethiopia, Rwanda and South Sudan are amongst the fastest expanding

¹⁹ This reflects the average value added of manufacturing as percentage of GDP in 2017 among China, Indonesia, Malaysia, Myanmar, the Philippines and Thailand, based on the World Bank Consolidated National Accounts.

²⁰ Agriculture is the smallest sector in economic terms, but the largest in terms of employment, as covered in Chapter 4.

²¹ Author's calculations based on the IMF's World Economic Outlook Database (April 2019).

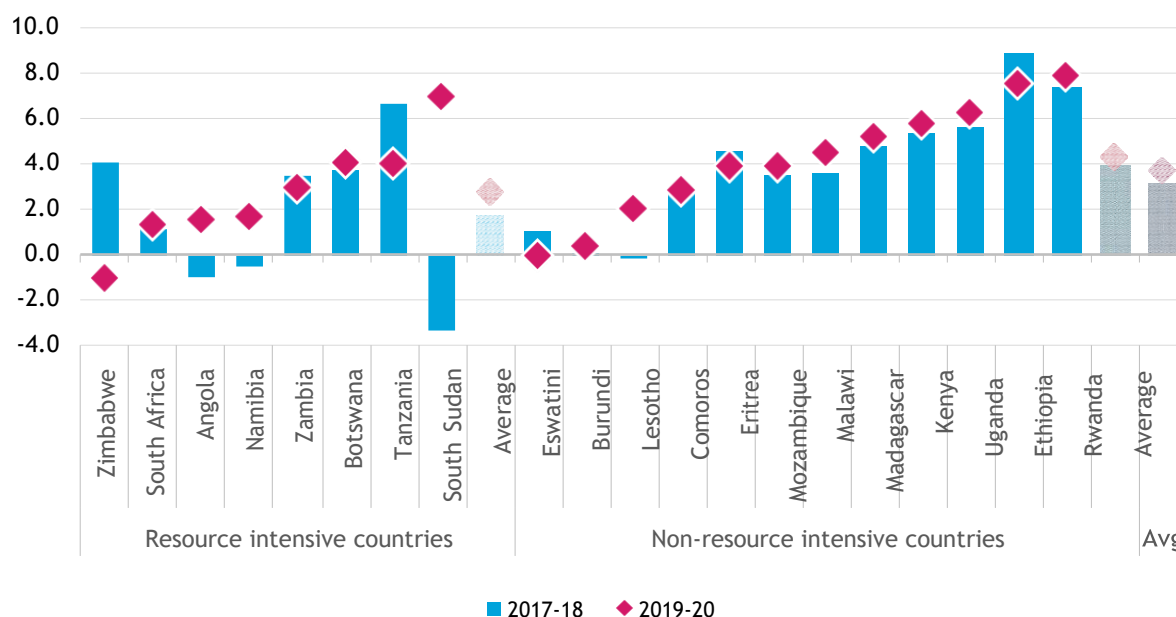
²² IMF (2019). *Sub-Saharan Africa Regional Economic Outlook: Recovery and Elevated Uncertainty*. Washington, DC.

Box 3.1. Resource-intensive and non-resource-intensive economies

Resource-intensive economies are defined as those with either net oil exports accounting for at least 30 per cent of exports (Angola and South Sudan) or non-renewable natural resources accounting for at least 25 per cent of total exports (Botswana, Namibia, South Africa, the United Republic of Tanzania, Zambia and Zimbabwe). While resource-intensive countries have the potential to use the additional income from the resources to promote development, these countries are also vulnerable to volatile global resource prices, which can expose them to macroeconomic shocks.

Source: IMF (2017). *Regional Economic Outlook: Sub-Saharan Africa - Fiscal Adjustment and Economic Diversification*. Washington, DC, p.77.

Figure 3.03. Real GDP growth in ESAR countries, 2017-18 and 2019-20 period averages (as %)



Source: Author's calculations based on the IMF's World Economic Outlook Database (April 2019).

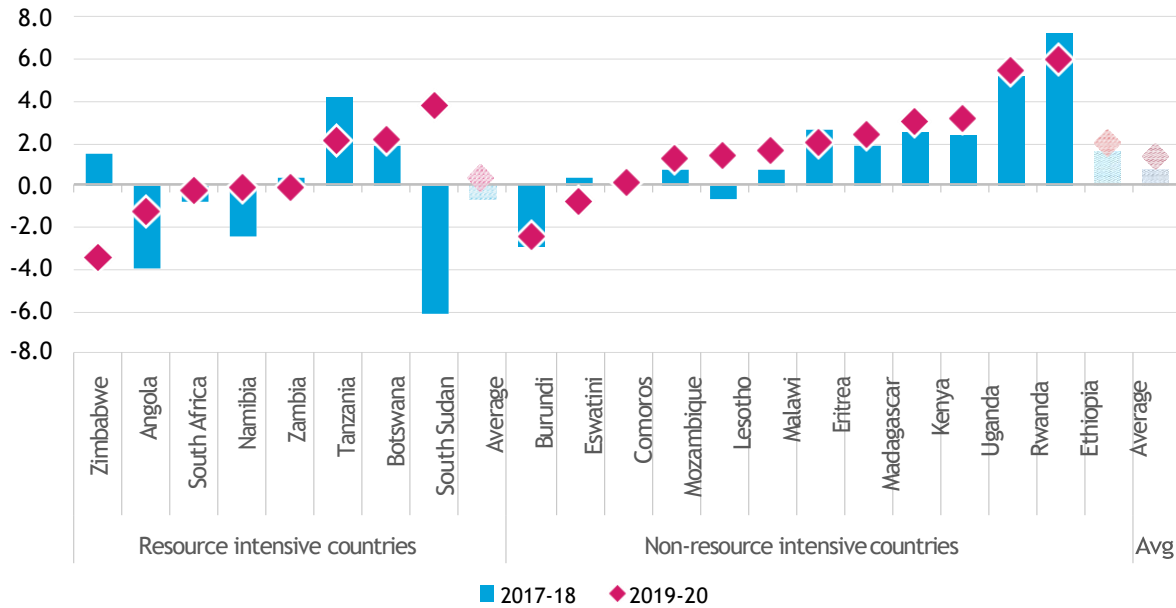
economies in the world. South Sudan, in particular, is projected to make one of the biggest economic turnarounds, with growth jumping from -3.3 per cent in 2017-18 to 7 per cent in 2019-20. Kenya, Madagascar and Uganda are also expected to experience robust growth over the near term (between 5 and 6 per cent).

Unfortunately, economic growth is not keeping pace with population growth across the region. Once accounting for the ongoing demographic changes (discussed in Chapter 2), the regional growth outlook falls from 3.6 to 1.3 per cent over the 2019-20 period, on average. Eight countries are expected to experience negative or no growth in real per capita terms during 2019-20, including Angola, Burundi, Comoros, Eswatini, Namibia, South Africa, Zambia and Zimbabwe (Figure 3.04). The outlooks for Ethiopia and Rwanda (close to 6 per cent real per capita annual growth in 2019-20) and South Sudan (4 per cent) remain strong, although population growth is predicted to clip around 2.5 percentage points when compared to the real estimate. The difference between resource- and non- resource-intensive economies also remains strong (0.3 versus 1.9 per cent, respectively, on average).

Current economic forecasts also suggest that income growth will not make a major dent on poverty for most countries in the near future. The rule of 72 is a formula commonly used in finance and economics to approximate how long it will take for the value of something to double based on a fixed growth rate (e.g. an investment or income). Applying this to the real GDP per capita growth rate projections for the 2019-20 period paints a dire picture. If the regional growth rate of 1.3 per cent were maintained indefinitely, it would take around 55 years for incomes to double, on average.

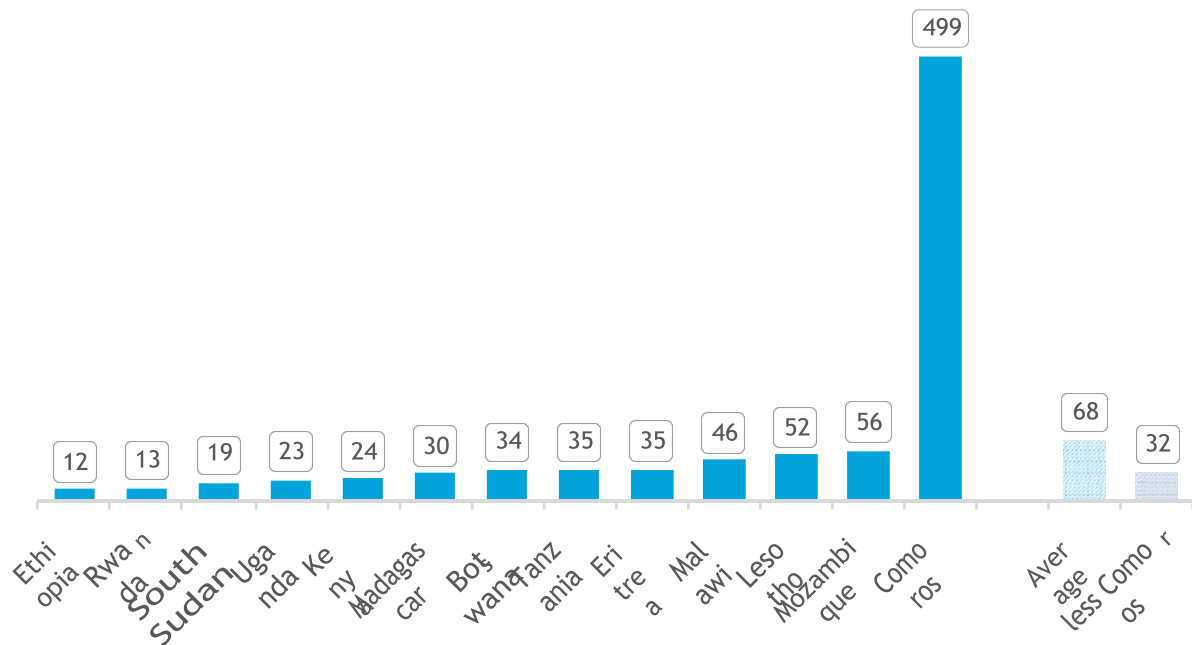
However, potential progress on poverty alleviation becomes much more alarming at the country level. To start with, seven ESAR countries are projected to have negative

Figure 3.04. Real GDP per capita growth in ESAR countries, 2017-18 and 2019-20 period averages (as %)



Source: Author's calculations based on the IMF's World Economic Outlook Database (April 2019).

Figure 3.05. Number of years required to double per capita incomes in 13 ESAR countries (based on projected real GDP per capita growth rate over the 2019-20 period)



Source: Author's calculations based on the IMF's World Economic Outlook Database (April 2019).

Note: Data for Angola, Burundi, Eswatini, Namibia, South Africa, Zambia and Zimbabwe are not presented because real GDP per capita growth is projected to be negative during 2019-20.

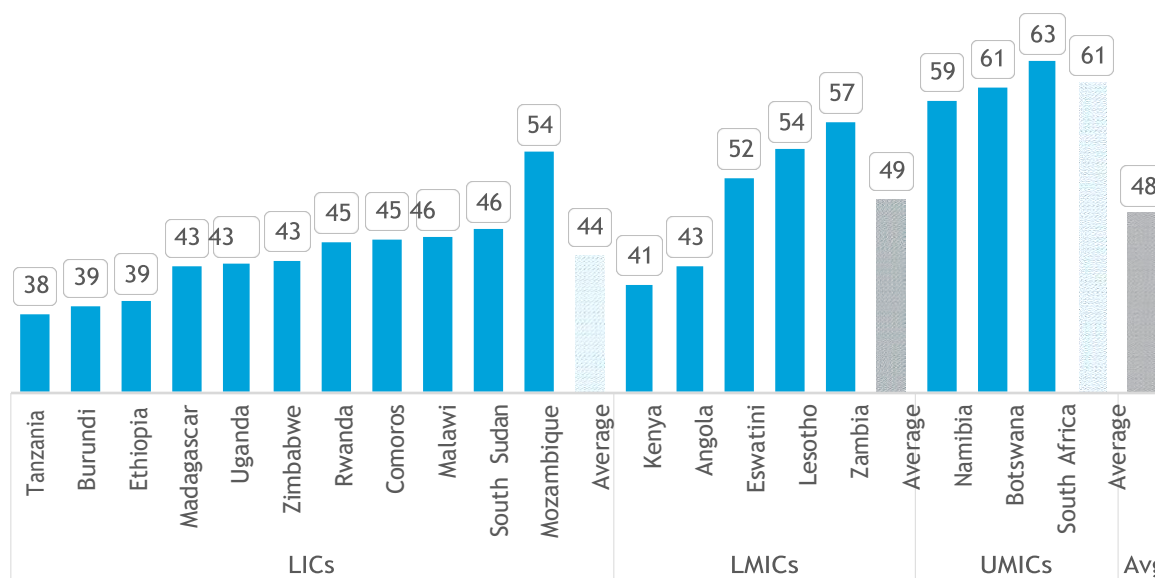
GDP growth rates over the 2019-20 period in real per capita terms, which means that the rule of 72 cannot be used. This implies that income levels will decline over the near term with poverty likely rising – and potentially significantly in places like Burundi and Zimbabwe. In Comoros, if the 0.14 per cent real GDP per capita growth forecast was maintained indefinitely, it would take roughly 500 years for incomes to double across the island nation (Figure 3.05). The prospects are slightly more optimistic in Lesotho and Mozambique: their expected real per capita growth rates of 1.4 and 1.3 per cent respectively suggest that incomes would double in just over 50 years – in line with the regional average rate. There are, however, several outliers. If the nearly 6 per cent real per capita growth rates in Ethiopia and Rwanda were sustained, average incomes in the countries would double in about a dozen years – somewhere around 2030.

3.4 Income inequality

ESAR houses many of the most inequitable societies on the planet. While rising GDP per capita is often viewed as a measure of increasing opportunities and improved lives, the level of income inequality influences the impact that growth has on poverty reduction. Based on Gini coefficients, which assess the distribution of income among individuals or households within a country,²³ Botswana, Namibia, South Africa and Zambia boast the highest income inequality rates in the world (Figure 3.06). Of the 158 countries with recorded Gini coefficients since the year 2000, seven of the highest Gini coefficients are from ESAR – in addition to the four countries mentioned above,

²³ A Gini coefficient value of 1 (or .01) means that everybody in the population has the exact same income (perfect equality), while a value of 100 (or 1.0) means that one person earns all income (perfect inequality).

Figure 3.06. Gini coefficients in ESAR countries, 2015 or latest available



Source: World Bank, Development Research Group, PovcalNet.
 Note: Data unavailable for Eritrea and Somalia.

this includes Eswatini, Lesotho and Mozambique. Several countries do perform relatively better, including Burundi, Ethiopia and the United Republic of Tanzania, all of which recently had Gini coefficients under 40.

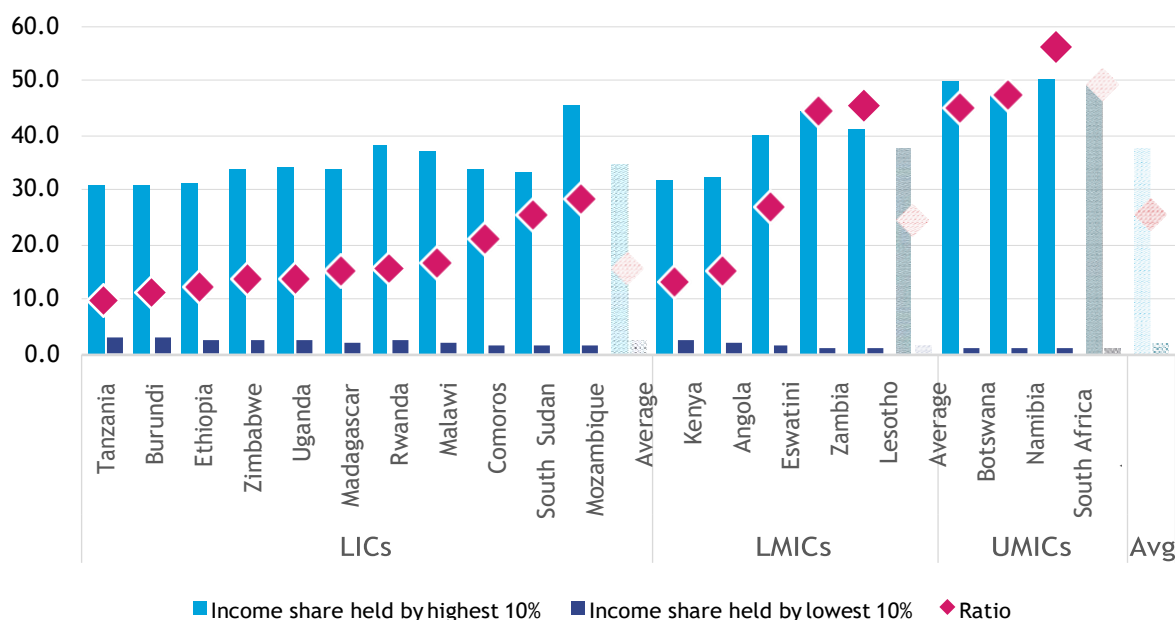
One of the more pressing concerns is that higher levels of income are associated with higher levels of income inequality. While LICs in ESAR recently had an average Gini coefficient value of 44, this rises to 49 for LMICs, on average, and surges to 61 for the three UMICs, on average (see also Figure 3.06). This indicates that despite achieving LMIC or UMIC status, huge numbers of people continue to live in monetary poverty.

The distribution of income within ESAR countries further reveals the intensity of inequality. South Africa is the most egregious example. There, the top ten per cent of the population earns 56 times more income than the bottom ten per cent, which amounts to more than half of the entire income of the country (Figure 3.07). Botswana, Lesotho, Namibia and Zambia are not far beyond, with the wealthiest decile earning around 44 times more than the poorest decile. For the region as a whole, the average ratio is around 25. Yet the differences across income levels remain poignant, with the ratio of income controlled by the richest and poorest deciles going from 15 in LICs and 24 in LMICs, on average, and skyrocketing to 49 among the three UMICs, on average.

The prevailing income disparities across the region are the result of multiple, interconnected factors. One of the principal drivers is a two-tier division of income: a group of highly paid government and multinational employees versus poorly paid workers in the informal sector.²⁴ But there are other factors as well. For instance, rural-urban

²⁴ Odusola, A. et al. (2017). *Income Inequality Trends in Sub-Saharan Africa: Divergence, Determinants, and Consequences*. New York City: UNDP.

Figure 3.07. Income distribution in ESAR countries, 2016 or latest available (income earned by the wealthiest and poorest population deciles as % of total income – and the ratio)



Source: World Bank, Development Research Group, PovcalNet.
Note: Data unavailable for Eritrea and Somalia.

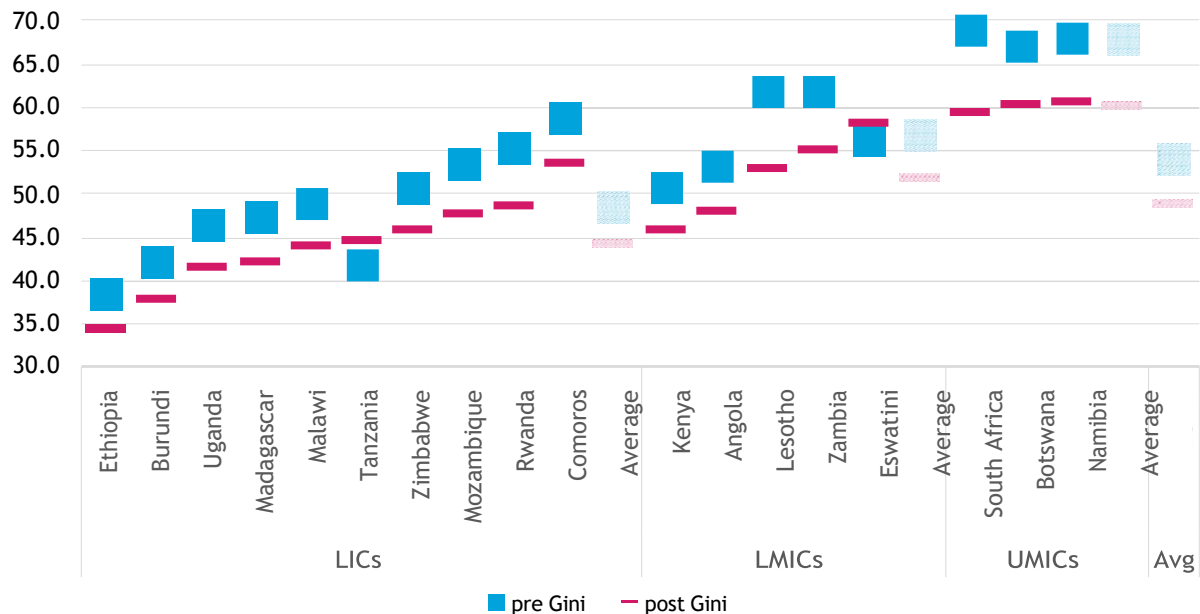
inequalities are so profound in some ESAR countries that economic growth has increased inequality and done little to alleviate rural poverty. A World Bank study of the United Republic of Tanzania²⁵ found that, despite being one of the fastest growing economies in the world between 2001 and 2007, incidence of poverty remained constant at 33 per cent before declining only moderately to 28 per cent in 2012. Another key driver is the lack of access to basic services. Quality education is among the services known to break intergenerational inequality and allow individuals to contribute to and benefit from economic growth.²⁶ However, as described in Chapter 2, this remains an overwhelming challenge for most ESAR countries.

Available evidence suggests that government policies can help reduce income inequality in the region. One approach to measuring the redistributive impact of policies is to compare Gini coefficients before and after taxes and transfers – in other words, to assess the distribution of net income across the population once accounting for “lost” income (tax payments to the government) and “unearned” income (cash and other in-kind benefits received from the government) by different individuals. A review of the latest estimates in ESAR countries indicates that redistributive policies led Gini coefficients to fall by 5.1, on average, amounting to a nearly 10 percentage point improvement (Figure 3.08). The impacts were most impressive in UMICs, where Gini coefficients dropped by 8 (or a 12 per cent improvement), on average, nearly twice the pace observed in LICs and LMICs.

²⁵ Hassine, N., and Zeufack, A. (2015). *Inequality of Outcomes and Inequality of Opportunity in Tanzania*. Washington, DC: World Bank.

²⁶ Odusola, A. et al. (2017).

Figure 3.08. Gini coefficients before and after taxes and transfers in ESAR countries, 2016 or latest available



Source: Solt, F. (2016). *The Standardized World Income Inequality Database*, *Social Science Quarterly* 97(5):1267-1281. Version 7.1, August 2018.

Nonetheless, the impacts of redistributive policies vary widely across countries. South Africa emerges as the country with the biggest progress, as its Gini coefficient falls from 69 to 59 once factoring in the effects of taxes and transfers on income. In contrast, government policies in Eswatini and the United Republic of Tanzania have exacerbated income inequality. This likely reflects a broader challenge facing most governments in the region, namely implementing progressive tax regimes. As discussed in Chapter 6, the limited amount of revenue that most governments extract from their economies impedes their redistributive capacity. At the same time, in economies characterized by high rates of informal employment and low exports, government revenue remains heavily dependent on value added and sales taxes, which are paid equally by all persons but consume a much larger share of income among poorer households, thus negatively affecting levels of inequality.²⁷

3.5 Takeaways

Key trends

- South Africa is the dominant economy in ESAR, but other economies with some of the fastest growth rates in the world, especially in eastern Africa, will become increasingly influential.
- The services sector is already the largest contributor to GDP in the region and will drive future growth in most economies.
- Once factoring in price and demographic changes, the economic growth outlooks look much less impressive and are nowhere near fast enough to significantly boost incomes and poverty alleviation over medium-term horizons.
- Income inequality across the region is appalling, although government policies are helping to at least partially improve the distribution of income in some countries.

Implications for children

- Economic growth directly affects child well-being by inter alia: (i) preventing deaths (a cross-country study of 59 developing countries found that a one per cent fall in GDP is associated with an increase in infant mortality rates of between 0.31 and 0.79 per cent²⁸); (ii) improving education outcomes (this includes higher primary and secondary school enrolment rates,²⁹ lower repetition and dropout rates as well as better test scores³⁰); (iii) enhancing health (among the many documented benefits include longer lives³¹ and lower levels of HIV³²); and (iv) reducing poverty (cross-country estimates show that a 10 per cent increase in national income reduces poverty between 20 and 30 per cent³³).
- Income inequality undermines the potential for economic growth to improve children's lives; one study suggests that a 1 per cent increase in per capita income lowers poverty by 4.3 per cent in countries with very low levels of inequality or as little as 0.6 per cent in high inequality settings.³⁴
- Based on experiences in other regions, the ongoing economic structural ~~change~~ from agriculture to service activities could have a positive effect on employment opportunities, child labour and poverty reduction.³⁵

²⁷ Gaspar, V. and Abebe, A. (2017). Taxes, Debt and Development: A One-Percent Rule to Raise Revenues in Africa.

²⁸ Baird, S., Friedman, J., and Schady, N. (2007). Aggregate Income Shocks and Infant Mortality in the Developing World. World Bank Policy Research Working Paper 4346.

²⁹ Department for International Development (2005). From Commitment to Action: Human Development and Growth.

³⁰ Lee, J. and Barro, R. (2001). Schooling Quality in a Cross-Section of Countries. *Economica*, vol. 68, no. 271, 465-488.

³¹ Barro, R., and Sala-i-Martin, X. (1995). *Economic Growth*. New York City: McGraw-Hill.

³² UNDP (2004). *Human Development Report 2004*. New York City.

³³ Adams, R. (2002). Economic Growth, Inequality and Poverty: Findings from a New Data Set. World Bank Policy Research Working Paper 2972; Ravallion, M. and Chen, S. (1997). What Can New Survey Data Tell Us about Recent Changes in Distribution and Poverty? *World Bank Economic Review*, vol. 11, no. 2.

³⁴ Ravallion, M. (2007). *Inequality is Bad for the Poor, Chapter 2*. In *Inequality and Poverty Re-examined*, Jenkins, S., and Micklewright, J. Oxford: Oxford University Press.

³⁵ Alam, A. et al. (2008). *Unleashing Prosperity: Productivity Growth in Eastern Europe and the Former Soviet Union*. Washington, DC: World Bank; and Rodrik, D. (2017) *Growth Without Industrialization? Project Syndicate*, 10 October.

CHAPTER 4.

THE EMPLOYMENT OUTLOOK AND CHILDREN

This chapter examines the health of labour markets in the region and how recent trends are likely to be affecting workers, their families and children. It starts by providing an overview of the main sectors that create job opportunities for parents and young workers, as well as the recent evolution of unemployment rates. To address some of the shortcomings of traditional indicators and offer a more holistic picture of the current jobs situation, it then reviews labour force participation rates across the region. Given the persistent challenges of creating well-paid jobs in the formal sector, the chapter next discusses recent working poverty trends. It then turns to young workers, looking at the availability of decent job opportunities along with the demographic forces that will continue to shape their labour market prospects – and the prospects of overall economic prosperity – in both the near and distant future. The chapter concludes by summarizing key employment trends along with their implications for working families, young workers and children.

4.1 Employment opportunities

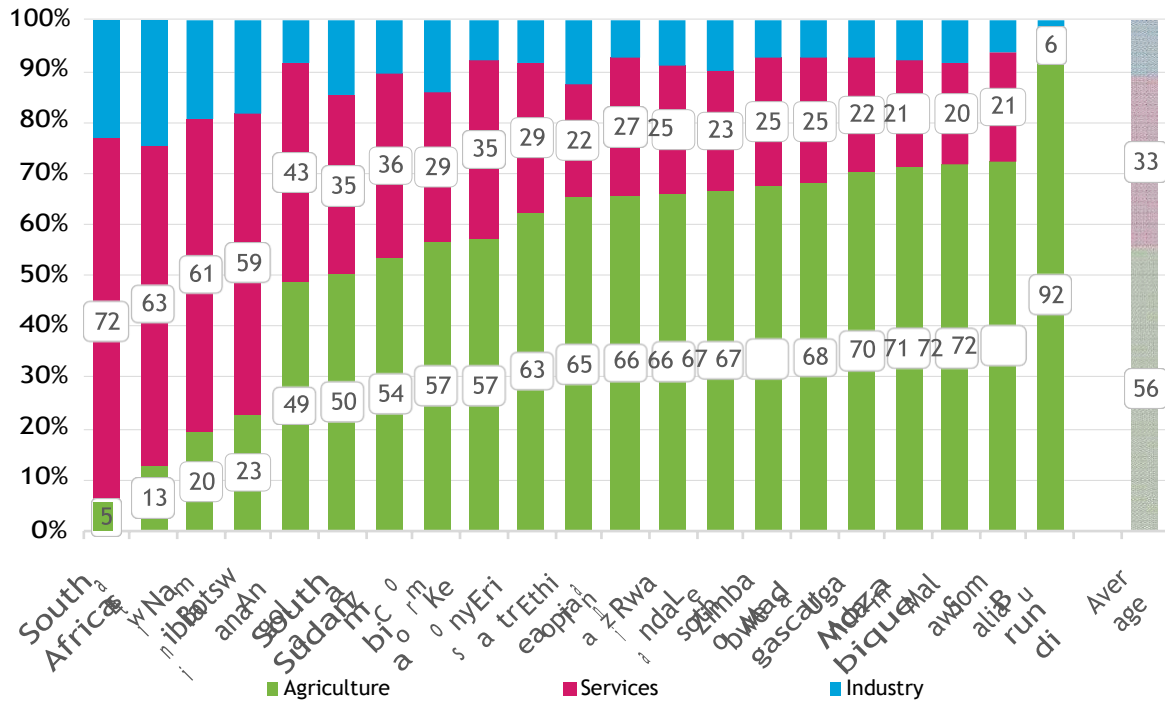
The agricultural sector is the most important employer in ESAR, and especially in LICs.

Based on 2019 projections, agriculture accounts for nearly 60 per cent of all jobs in the region on average, with at least half of the working population in 16 of the 21 countries earning livelihoods from crop cultivation, livestock production, fishing, forestry and hunting activities (Figure 4.01). Agriculture provides more than 70 per cent of employment opportunities in Malawi, Mozambique, Somalia and Uganda, and more than 90 per cent in Burundi. In some contexts, however, especially UMICs, agriculture plays a much less prominent role, less than one-quarter of jobs in Botswana and Namibia, 13 per cent in Eswatini and just 5 per cent in South Africa.

As described in Chapter 3, the services sector accounts for more than half of regional output, on average, but just one in three jobs. Nonetheless, service-related activities, especially entertainment, tourism, transport and government, are an important source of employment in most countries. In the group of southern Africa countries, the services sector is main employer. It accounts for more than 70 per cent of jobs in South Africa and 60 per cent or more in Botswana, Eswatini and Namibia. Compared to the agricultural and services sectors, industry, including manufacturing, is the least significant employer, providing only around one in ten jobs in the region.

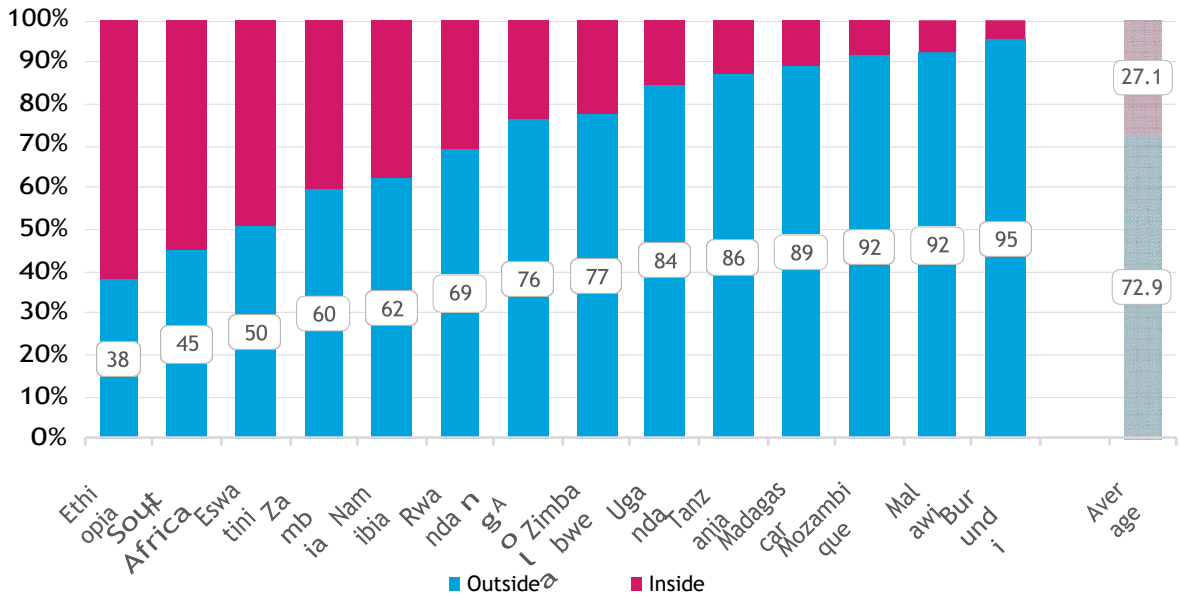
Given the high dependence on the agriculture sector, most jobs in the region are in the informal sector. Workers in the informal economy could be persons that produce goods that are exclusively consumed by households (e.g. subsistence farming), contributing family members (including formal sector businesses if the family member does not have a contract), paid domestic staff, or employees of formal or informal sector enterprises that are not subject to labour laws, income taxation, or social protection and other benefits. The 14 ESAR countries that have recent data show that around three out of every four workers are employed outside the formal sector, on average (Figure 4.02). In Burundi, Madagascar, Malawi and Mozambique, the latest estimates show that 90 per cent or more of jobs are located in the informal sector. And even in South Africa, which has both the largest economy and the most advanced services sector, nearly 50 per cent of jobs are informal.

Figure 4.01. Employment by sector in ESAR countries, 2019 (as % of total employment)



Source: ILOSTAT (modelled estimates as of November 2018).

Figure 4.02. Employment inside and outside the formal sector in ESAR countries, 2018 or latest available (as % of total employment)



Source: ILOSTAT.
Note: Limited data availability.

4.2 Unemployment

The unemployment rate is the most well-known labour market indicator. It tries to measure the ability of the economy to create jobs and specifically looks at those persons who are available and actively seeking to work during a specific period (e.g. a day, week, month) but remain without a job. Employment could be paid through a wage or salary, or it could be self-employment. Importantly for ESAR, unemployment rates capture job seekers in both the formal and informal sectors of the economy. This highlights one of the main limitations of the unemployment rate as a general labour market indicator: it says nothing about the quality of available jobs. It also excludes abled-bodied persons who want to work but have stopped looking due to limited opportunities (i.e. search fatigue or hopelessness), low labour mobility, discrimination or other structural or social barriers.³⁶ It is therefore important to bear these limitations in mind when interpreting data and also to consider alternative indicators, like labour force participation rates, which are discussed shortly.

As a region, ESAR has one of the highest unemployment rates in the world. According to the ILO, the unemployment rate is forecast to be 9.5 per cent in 2019, which is substantially higher than both the global average (5 per cent) and the average for Sub-Saharan Africa (5.9 per cent) (Figure 4.03). Of the regions presented, only North Africa and South America have higher unemployment rates. While regions like North America, Europe and Central Asia and even North Africa have experienced declining unemployment rates in recent years, the rate has been constant in ESAR since 2014.

High unemployment is particularly pervasive in countries in southern Africa. For the region, seven countries are projected to have unemployment rates in double figures in 2019 (Figure 4.04). Even more alarming is that five MICs, all located in southern Africa, are expected to have unemployment rates close to or higher than 20 per cent. These include Botswana, Eswatini, Lesotho, Namibia and South Africa, the latter which is not far from 30 per cent. Several fragile states are additionally facing severe job-creation challenges, with unemployment rates in Somalia and South Sudan hovering around 13.5 per cent, on average.

Some countries have very low unemployment rates but face other labour market challenges. For example, unemployment rates in Burundi, Ethiopia, Madagascar, Rwanda, Uganda and the United Republic of Tanzania are projected to be less than 2 per cent in 2019. However, rather than signalling a well-functioning labour market, these trends mainly reflect the reality that, in the absence of savings and social safety nets, people need to work to survive irrespective of working conditions or remuneration.³⁷ As a result, the very low unemployment rates observed in some of the poorest countries in ESAR indicate that workers have no alternative but to engage in informal, short-term or part-time employment rather than being unemployed while searching for better options.³⁸

4.3 Labour force participation

As mentioned above, unemployment rates exclude persons who are not actively seeking employment, which mask important job market challenges. Given the limitations of this indicator, a more comprehensive employment picture can be obtained by looking at the labour force participation rate. This measures the proportion of the working-age population that is either currently employed or searching for work.

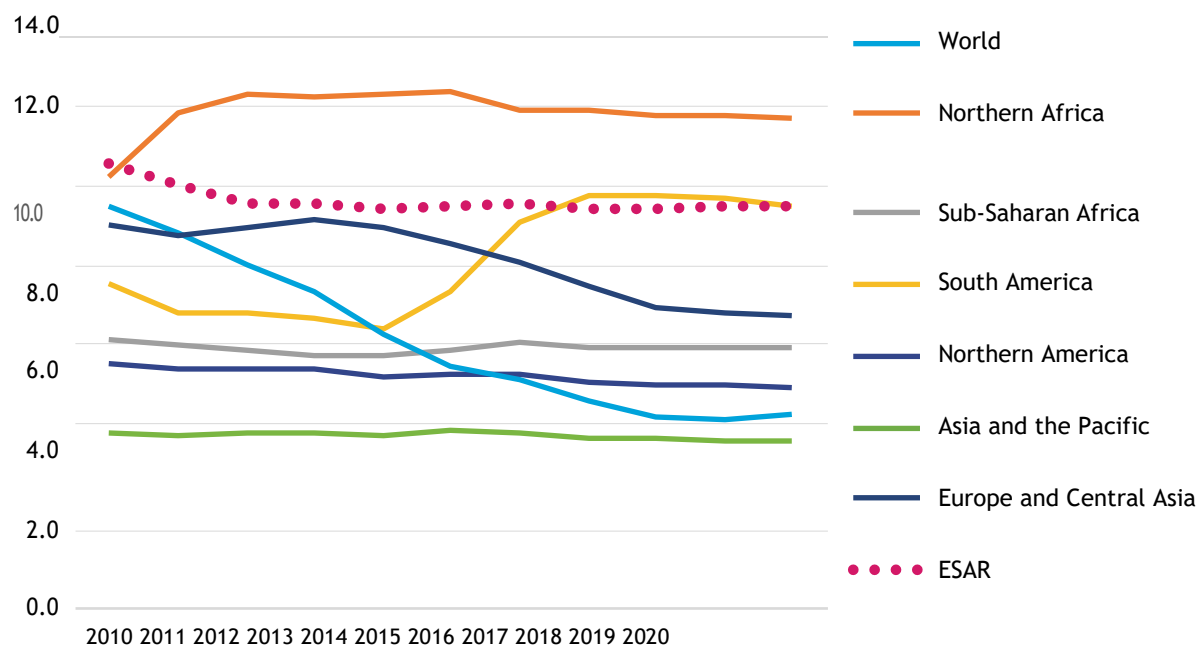
When looking at labour force participation rates, nearly three in four working age persons

³⁶ International Labour Organization (ILO) (2016). Unemployment Rate.

³⁷ ILO (2017). Unemployment Protection: A Good Practices Guide and Training Package. Geneva.

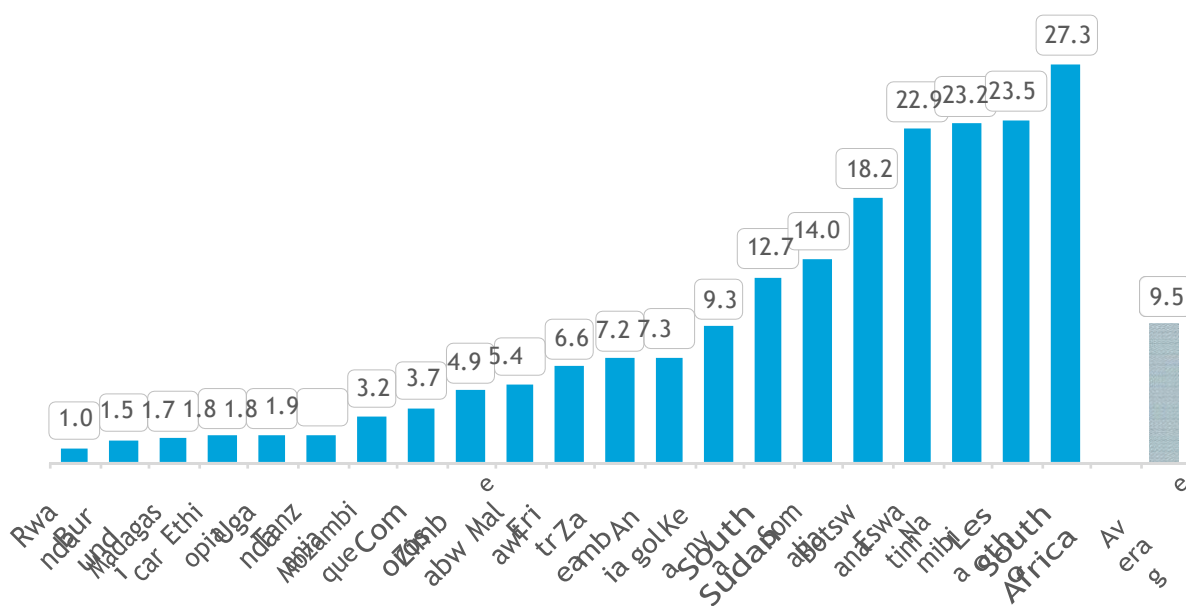
³⁸ Stuart, E., Samman, E. and Hunt, A. (2018). Informal is the New Normal: Improving the Lives of Workers at Risk of Being Left Behind. ODI working paper No. 530.

Figure 4.03. Average unemployment rates in select regions, 2010-20 (as % of the labour force)



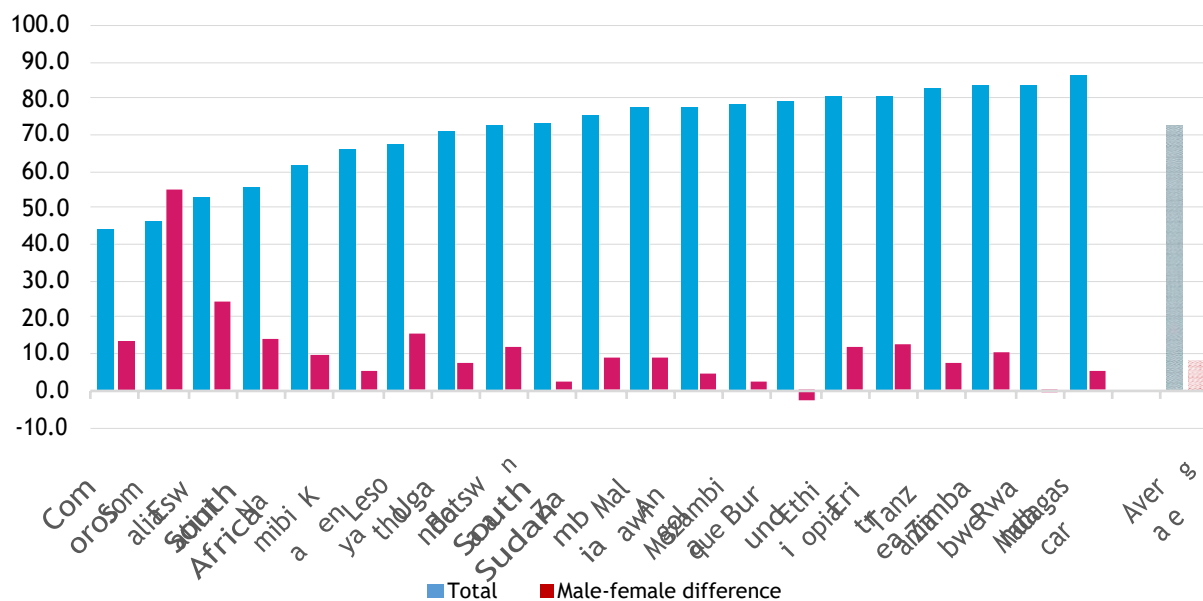
Source: ILOSTAT (modelled estimates as of November 2018).

Figure 4.04. Unemployment rates in ESAR countries, 2019 (as % of labour force)



Source: ILOSTAT (modelled estimates as of November 2018).

Figure 4.05. Labour force participation rates and gender differences in ESAR countries, 2019 (as % of total)



Source: ILOSTAT (modelled estimates as of July 2018).

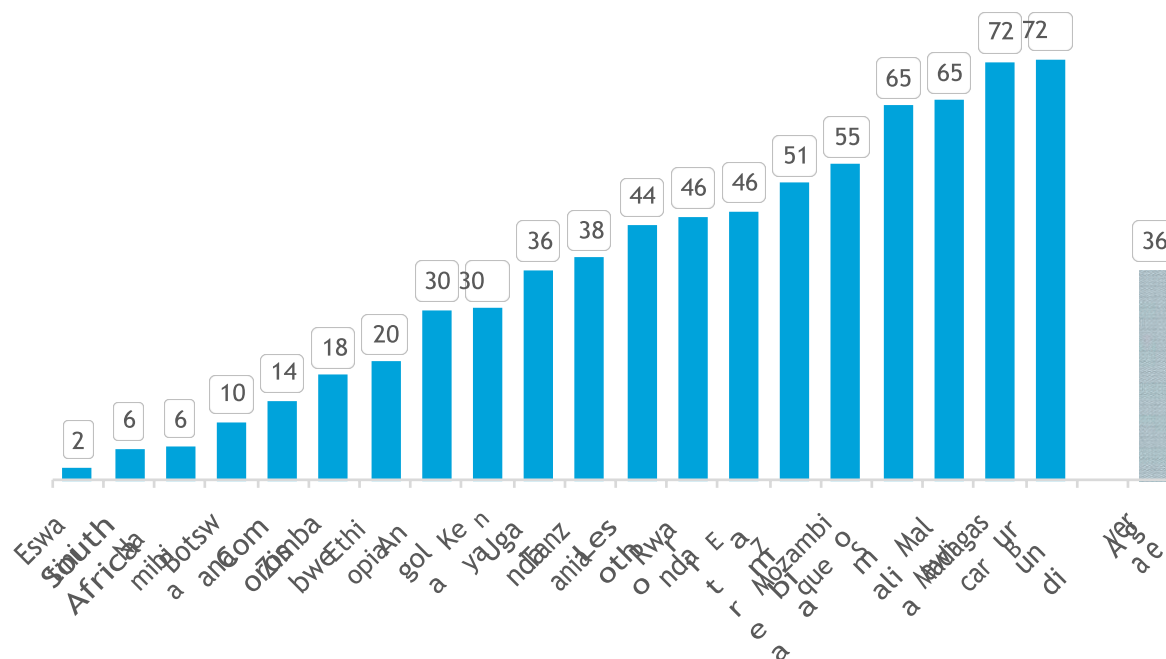
in ESAR are active in the labour market. Based on the latest projections, roughly 73 per cent of 15-64 year olds are expected to have jobs or be looking for work in 2019, on average (Figure 4.05). Labour force participation rates are much lower in southern African countries and in fragile contexts, for example around 55 per cent in Eswatini and South Africa and 45 per cent in Comoros and Somalia. In contrast, most LICs in the region have strong participation rates at 80 per cent or more, including Eritrea, Ethiopia, Madagascar, Rwanda, the United Republic of Tanzania and Zimbabwe. Gender differences are also notable, which indicate that women face greater barriers to accessing jobs. For the region, labour force participation rates are projected to be around 8 per cent higher for males than for females, on average, with the difference close to or above 10 per cent in more than half of the region; the gap reaches as high as 25 per cent in Eswatini and 55 per cent in Somalia.

4.4 Working poverty

The overall low quality and poor pay of available jobs entrenches large numbers of workers - and their families - in poverty. According to the ILO's projections for 2019, the average working poverty rate in ESAR countries is 36 per cent (Figure 4.06). This means that the income earned by more than one out of every three jobs, on average, is insufficient to breach the global extreme poverty line. When looking across countries, the working poverty rates in most MICs in southern Africa are at or below 10 per cent. However, they exceed 50 per cent in Mozambique and Zambia, are around 65 per cent in Malawi and Somalia, and extend beyond 70 per cent in Burundi and Madagascar.

It is important to contextualize the magnitude of working poverty in the region alongside the very weak social assistance systems in most countries. As discussed earlier in Section 2.3.5, less than a quarter of workers and their families are supported by programmes

Figure 4.06. Working poverty rates in ESAR countries, 2019
(as % of employed living below PPP, current international US\$1.90/day)



Source: ILOSTAT (ILO estimates and projections).
Note: Data unavailable for South Sudan.

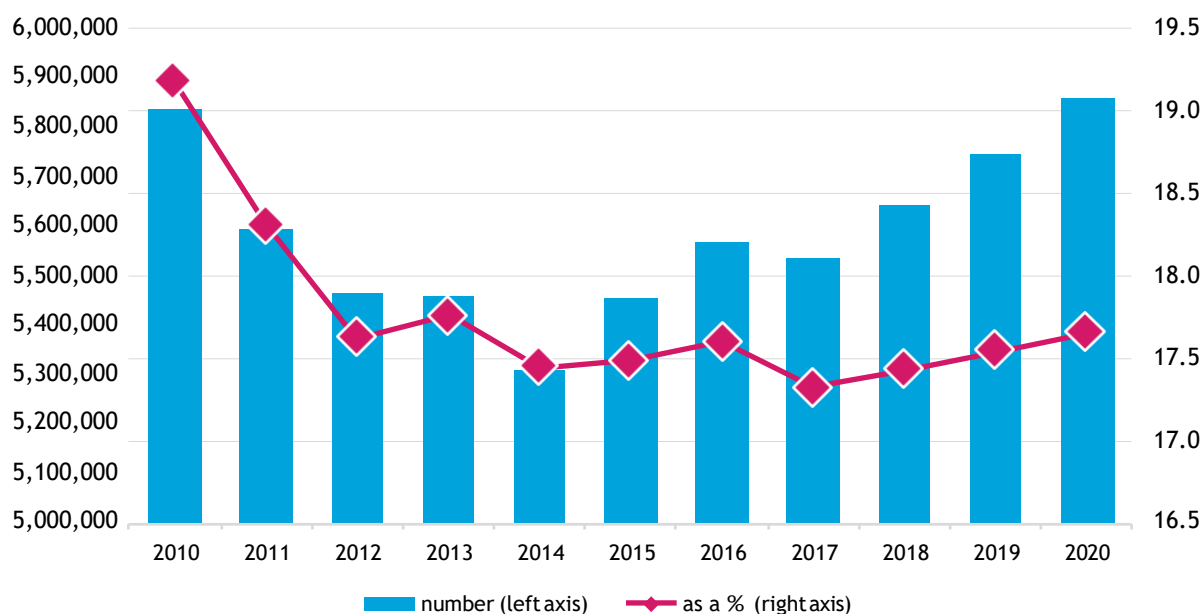
to help them transition through difficult circumstances, including job loss, prolonged unemployment, injury and sickness. In other words, the absence of comprehensive social assistance exacerbates poverty among working and non-working populations.

4.5 Youth in the labour market

Young workers face even more daunting challenges than adults in the region. The unemployment rate for new labour market entrants (aged 15-24) that are actively searching but unable to find work is projected to be nearly 18 per cent in 2019, on average, affecting some 5.8 million young workers (Figure 4.07). This means that unemployment rates for youth are almost double those of adults. ESAR also performs considerably worse than the projected youth unemployment rates in 2019 for the world (11.9 per cent) and for Sub-Saharan Africa (9.8 per cent). Youth unemployment improved between 2010, when the rate was greater than 19 per cent, and 2017, when it was close to 17 per cent. However, the positive movement has since reversed and is expected to continue to steadily rise at least until 2020, with both the overall rate and the numbers of affected youth on the uptick.

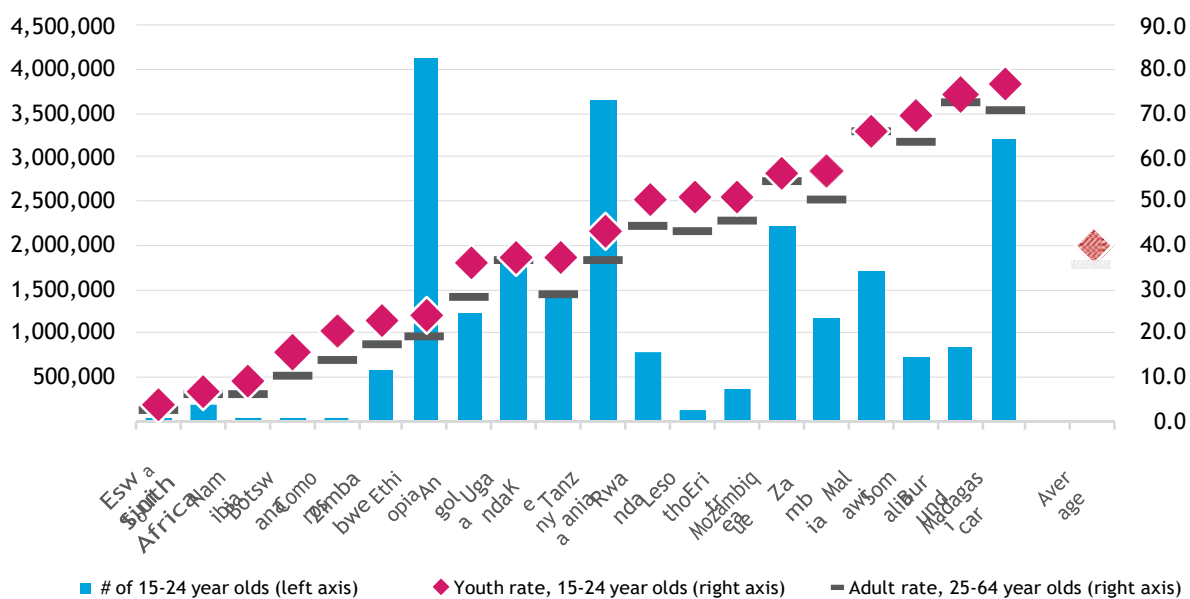
Working poverty is also more prevalent among young workers and reaches distressing levels in many places. The average working poverty rate among youth in the region is projected to be 40 per cent in 2019, five percentage points higher than the rate for adults (35 per cent) (Figure 4.08). However, this gap is much higher in countries such as Angola, Kenya and Lesotho, where it nears 10 per cent. This implies that, compared to adult workers, a larger share of young workers earns low wages and are thus facing greater difficulties to escape poverty. In nine countries, more than one in two young workers has a job that earns an amount less than the global poverty line of US\$1.90/day (in PPP, 2011 international US\$). In Burundi, Madagascar, Malawi and Somalia, at least two out of

Figure 4.07. Youth unemployment trends in ESAR, 2010-20 (in number of and as % of the 15-24 labour force)



Source: ILOSTAT (modelled estimates as of November 2018).

Figure 4.08. Youth and adult working poverty rates in ESAR countries, 2019 (as % of employed 15-24 and 25-64 year olds living below the global poverty line, and total number of 15-24 year olds)



Source: ILOSTAT (ILO estimates and projections).
Note: Data unavailable for South Sudan.

every three young workers have jobs that do not enable them to escape poverty. As with adults, working poverty among youth is relatively lower in countries in southern Africa. In aggregate numbers, poverty is expected to impact the lives of 24.3 million young workers across the region, with the largest numbers in Mozambique (2.2 million), Madagascar (3.2 million), the United Republic of Tanzania (3.7 million) and Ethiopia (4.1 million).

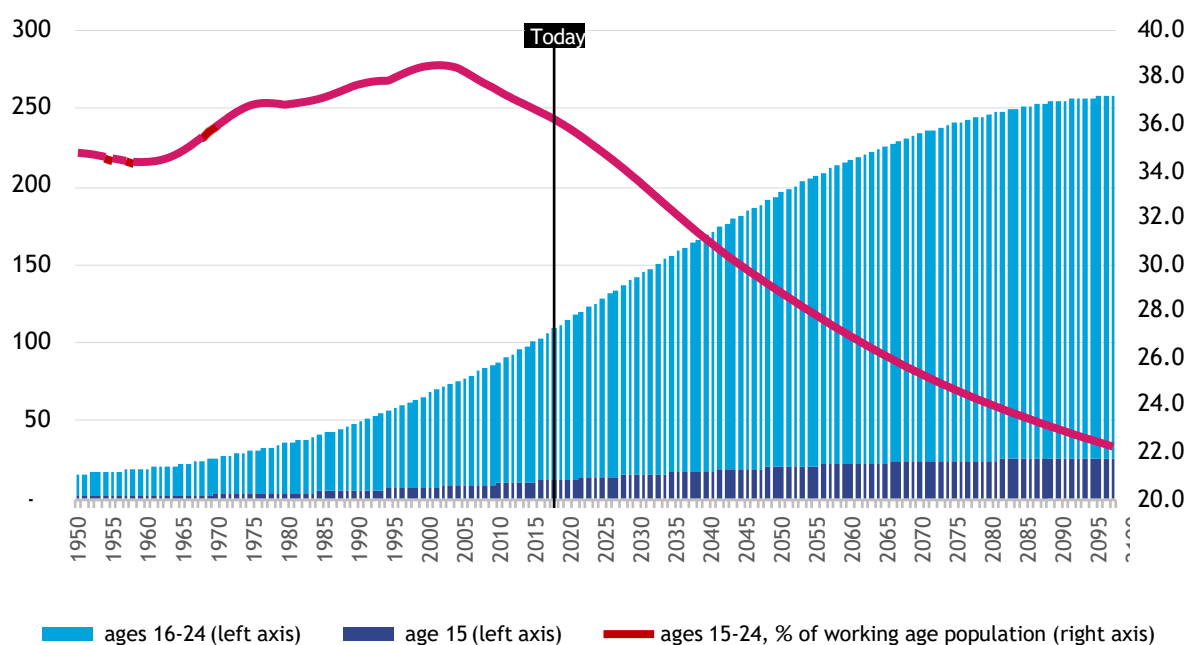
4.6 New workers and the youth bulge

The number of new entrants into the labour force is increasing dramatically in the coming decades. Using the international definition of working age,³⁹ 11.7 million persons in ESAR are expected to turn 15 years old during 2019 (Figure 4.09). Projections indicate that this will grow to around 15 million per year in 2030, 20 million in 2050 and surpass 25 million at some point in the 2080s. The size of the youth labour force (15-24 year olds) is growing equally fast. It currently stands around 109 million and will mushroom to around 200 million in 2050, equating to a 75 per cent expansion in just three decades.

Of greater concern is that the region has already reached its youth bulge peak. The youth bulge is a demographic phenomenon whereby the proportion of young persons (15-24) in the working age population (15-64) steadily rises. As the ratio grows larger, the potential output of an economy also rises as more and more young people reach working age. Reaching close to 40 per cent in 2003, the regional ratio has steadily fallen since (see also Figure 4.09). It currently stands around 36 per cent and is projected to reach 29 per cent in

³⁹ For statistical purposes and to enable international comparability, the working-age population is defined as persons aged 15 and older.

Figure 4.09. New workers and the labour force size in ESAR, 1950-2100 (in millions of 15 and 16-24 year olds and 15-24 as % of working age population)



Source: UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

Table 4.01. Youth bulge peaks in ESAR countries, estimated year

Country	Year	15-24 as % of working age population
Zambia	2000	21.0
Botswana	2002	23.1
South Africa	2003	20.8
Kenya	2004	22.0
Eritrea	2005	23.7
Rwanda	2005	23.4
Zimbabwe	2005	23.8
Comoros	2006	20.9
Lesotho	2006	22.6
Burundi	2007	22.0
Eswatini	2010	24.3
Namibia	2012	21.8
South Sudan	2016	20.4
Ethiopia	2018	21.8
Madagascar	2018	20.6
Malawi	2025	21.0
Mozambique	2025	20.6
Uganda	2025	20.9
Angola	2029	20.5
Tanzania	2030	20.3
Somalia	2040	20.3

Source: Author's calculations based on UN DESA World Population Prospects: 2017 Revision (medium variant estimates).

2050. This means that, although the number of new young workers continues to increase, their relative contribution to total economic output is diminishing.

At the country level, current youth bulge positions suggest that the demographic dividend window has already closed in some places and is quickly closing elsewhere. As of 2019, 15 of 21 ESAR countries had already experienced their youth bulge peaks (Table 4.01). Botswana, South Africa and Zambia were the first countries to cross the threshold in the early 2000s, with Ethiopia and Madagascar most recently doing so in 2018. Three countries are projected to have an increasing share of young workers until 2025 (Malawi, Mozambique and Uganda), while Angola and the United Republic of Tanzania should peak somewhere around 2030 and Somalia in 2040.

4.7 Takeaways

Key trends

- The agricultural sector remains the main source of employment opportunities, accounting for more than half of available jobs in 16 of the 21 countries.
- At nearly 10 per cent, the region boasts one of the highest unemployment rates in the world, with most countries in southern Africa currently dealing with rates beyond 20 per cent, with associated prospects of increasing social unrest.
- It is projected that close to six million young workers will not be able to find jobs in 2019 indicating that the region is in the midst of a youth jobs crisis. The continuous flow of new entrants into the labour market further suggests that the youth jobs crisis could be at a tipping point.

- Moreover, unemployment rates for youth are almost twice as high as those for adults and projected to progressively worsen over the near term.
- Even where jobs are available, wages are not helping young or adult workers to move out of poverty, which affects more than one out of every three workers in the region and 50 per cent or more of workers in six countries (Burundi, Madagascar, Malawi, Mozambique, Somalia and Zambia).
- The demographic dividend window is closing in most countries, raising the urgency for governments to invest in programmes that can catalyse the benefits.

Implications for children

- There is no greater predictor of children's health, education and well-being than reliable household income,⁴⁰ but the overall poor quality and low pay of available jobs in most ESAR economies do not provide the opportunity for millions of workers – and their children – to escape poverty.
- Ensuring that the economy provides quality jobs that include protections is critical for children's education:
 - Returns to education (wages) have been shown in numerous studies to be closely tied to enrolment rates and the average number of years of schooling.⁴¹
 - Where parents and children see no benefit from education, students are more likely to drop out;⁴² this is a major risk in those countries with high unemployment and/or working poverty rates.
- If children grow up suffering from health, nutrition or psycho-social problems or inadequate education, they will not help catalyse the positive benefits of the demographic dividend when they reach working age.⁴³
- As young workers continue to accumulate "wage scars,"⁴⁴ which describe the likelihood of being jobless and/or earning lower wages later in life due to prolonged bouts of unemployment, the jobs crisis is putting a generation of new labour market entrants at severe risk.

⁴⁰ Morrissey, T., Hutchison, L. and Winsler, A. (2014). Family Income, School Attendance and Academic Achievement in Elementary School. *Developmental Psychology*, vol. 50, no. 3, 741-753.

⁴¹ Nguyen, T. (2008). *Information, Role Models, and Perceived Returns to Education: Experimental Evidence from Madagascar*. Cambridge: Massachusetts Institute of Technology.

⁴² ILO (2012). *Africa's Response to the Youth Employment Crisis*. Geneva.

⁴³ United Nations Population Fund (UNFPA) (2016). *Foundations for the Future: Building Quality Human Capital for Economic Transformation and Sustainable Development in the Context of the Istanbul Programme of Action*. New York City.

⁴⁴ Ortiz, I. and Cummins, M. (2012). *When the Global Crisis and Youth Bulge Collide: Double the Jobs Trouble for Youth*. UNICEF Social and Economic Policy Working Paper.

CHAPTER 5.

THE INFLATION OUTLOOK AND CHILDREN

This chapter reviews recent and projected inflation rates in ESAR and how these affect children. Inflation can be defined as a sustained rise in the general level of prices or, in other words, when the prices of multiple goods and services in an economy, like beverages, clothes, entertainment, fuel, food, housing and transportation, rise simultaneously. The initial aim of the chapter is to discuss the different ways that inflation can take hold of an economy along with the impacts, including the good, the bad, and the winners and losers. Following the introduction, the chapter analyses recent inflation trends in ESAR, first looking at overall price levels and then zooming in on food prices, which have a direct impact on the nutritional intake of children. The chapter next turns to global commodity prices to see how recent forecasts bode for price stability in the region. It then assesses how inflation has affected social transfer programmes over time, and how this could also have dire consequences for children and their families. The chapter concludes by summarizing the key trends along with the implications for children.

5.1 Causes of inflation⁴⁵

Economists identify two general causes of inflation: demand-pull and cost-push. These categorize the source of increasing pressures on price levels, which can stem from both demand-side and supply-side factors. The two types can – and often do – occur simultaneously, which create even more dramatic effects on prices. These concepts, along with illustrative examples, are introduced below.

Demand-pull inflation occurs when too much money chases too few goods and/or the economy operates at full employment or grows faster than its long-term rate. Some common examples are presented below.

- **Expansionary fiscal policy:** This is when governments lower taxes and/or increase spending, typically to stimulate economic growth. By lowering taxes, the amount of discretionary income available to business and consumers increases. While businesses may spend this on things like capital investment, new employees or salary increases, consumers may purchase more non-essential items than normal. Both forces can drive prices up. Similarly, by increasing government spending, overall demand for goods and services in the economy increases, which can also cause prices to tick upwards.
- **Expansionary monetary policy:** This is when a central bank lowers the benchmark interest rate by increasing the supply of money circulating in the economy. The net effect is that the value of money is reduced vis-à-vis the price of goods. If the supply of goods does not adjust upwards to meet the new demand for spending, then there will be upward pressure on prices.
- **Fiscal deficits:** Although the end effect is expansionary monetary policy – as just described – the cause can be political rather than prudent economic management. When facing a fiscal deficit, a government has four options: It can (i) cut spending, (ii) increase taxes, (iii) borrow and/or (iv) print new money to purchase government securities (IOUs). In a situation where firing civil servants or increasing taxes is

⁴⁵ The discussion on causes and impacts of inflation draws from the following resources: Hall, R. (ed.) (1983) *Inflation: Causes and Effects*. Chicago and London: The University of Chicago Press; Donovan, P. (2015). *The Truth about Inflation*. New York City: Routledge; and Ha, J., Ayhan Kose, M. and F. Ohnsorge (eds.) (2019). *Inflation in Emerging and Developing Economies Evolution, Drivers, and Policies*. Washington, DC: World Bank.

undesirable, and markets are no longer willing to lend, a government may find itself at the mercy of the lender of last resort (the central bank). The exchange rate regime will dictate the timing but, ultimately, the printing of new money to finance a deficit will result in inflation. This was the main source of the most egregious bouts of inflation in ESAR in recent years, which include Zimbabwe – the annual inflation rate of which was estimated at around 500 billion (yes billion!) per cent in 2008⁴⁶ – and South Sudan – where annual inflation peaked above 400 per cent in 2016.⁴⁷

- **Growing consumer confidence:** When unemployment is low and wages are stable, consumers tend to become more confident and, hence, more inclined to spend money. This confidence drives up prices as manufacturers and providers charge more for goods and services that are in high demand, like housing.
- **Inflationary expectations:** If inflation is already prevailing in an economy, the expectation of further inflation can become an overriding concern in the consciousness of consumers and businesses. When such expectations start to influence economic decisions, inflation can persist even long after the initial cause has dissipated. This certainly played a role in past and current inflation episodes in South Sudan and Zimbabwe.

Cost-push inflation, on the other hand, occurs when the costs of production go up, such as for labour and raw materials, or conversely, when the level of supply falls. If demand remains the same, either trend will increase the price of final goods and services that are affected. Some common examples are provided below.

- **Rising commodity prices:** When the prices of basic commodities used in production processes, like oil and steel, go up, virtually all businesses see some rise in their costs. In turn, these are typically passed on to consumers through higher prices. For example, all ESAR economies were heavily impacted by the rise in global commodity prices during the food, fuel and financial shocks (the so-called triple 'F' crisis) in 2008-09.⁴⁸
- **Extreme natural events:** Adverse weather conditions (e.g. droughts, floods, freezing weather) and natural disasters (e.g. hurricanes, earthquakes, tsunamis) can disrupt supply chains and reduce agricultural output. When fewer items are available in an economy, prices naturally rise. The prolonged rains and dry spells that battered many ESAR countries in 2015-16 attest to the region's vulnerability to recurring weather phenomena like El Niño and La Niña.
- **Tax policies:** When a government decides to apply taxes on specific products, like alcohol, cigarettes or petroleum, or increase value added or sales tax rates, prices go up. For instance, the 140 per cent hike on fuel taxes in Zimbabwe in January 2019 propelled inflation and instigated a series of mass protests and violence.⁴⁹
- **Monopolies:** When one or more companies control an industry, cost-push inflation can result if they reduce production to meet profit goals. This was the cause of one of the most notorious inflationary periods in history, when the Organization of Petroleum Exporting Countries restricted oil output in 1973, leading to a quadrupling of oil prices on global markets.

Higher real wages and currency devaluation are two other common examples that drive

⁴⁶ IMF (2009). Public Information Notice: IMF Executive Board Concludes 2009 Article IV Consultation with Zimbabwe.

⁴⁷ World Bank (2017). South Sudan Economic Update: Taming the Tides of High Inflation - Policy Options for South Sudan. Washington, DC.

⁴⁸ Ortiz, I. and Cummins, M. (eds.) (2012). A Recovery for All: Rethinking Socio-Economic Policies for Children and Poor Households. New York City: UNICEF.

⁴⁹ Bearak, M. (2019). Zimbabwe's President Raised Fuel Prices Above \$12 a Gallon and then Jetted Off to Russia - Deadly Chaos Ensued. Washington Post, 15 January.

both demand-pull and cost-push inflation. On the wage front, when workers have enough leverage to force through remuneration increases (e.g. through collective bargaining), companies commonly pass the rising production costs on to consumers, which generates cost-push inflation. At the same time, demand-pull inflation is also created as higher wages cause both incomes and spending to increase. Currency devaluation, by contrast, takes place when a country moves from a fixed to a floating exchange rate regime or if the central bank purchases foreign currency which increases the supply of local currency. In either case, domestic goods and services become cheaper to foreign buyers, increasing aggregate demand, while the cost of importing foreign goods and services also increases (also known as imported inflation).

5.2 Impacts of inflation

Inflation has a wide variety of impacts, some good but mostly bad. To provide a holistic perspective of changing prices, this section first looks at two potential benefits of inflation, which could be achieved over a short-term period. This is followed by a discussion of the many downsides to rising prices, which are especially relevant when considering a longer-term horizon and the impact on the vulnerable households. The section then concludes by describing the winners and losers from inflation.

5.2.1. The positive

- **Higher economic growth:** A predictable response to declining purchasing power is to buy or invest today rather than waiting for tomorrow, as cash is losing its value. At least in the short term, the boost to spending and investment can lead to economic growth. By the same token, inflation's negative correlation with unemployment (see below) implies a tendency to put more people to work, which could also have a positive impact on growth over the near term.
- **Lower unemployment:** There is some evidence of an inverse relationship between unemployment and inflation, which is known as the Phillips curve. This can occur since wages tend to change slowly in response to structural economic shifts, like rising prices. However, this benefit does not hold during prolonged periods, which usually results in stagflation (simultaneous high levels of inflation and unemployment).

5.2.2. The negative

- **Erosion of purchasing power:** Inflation means that a person's money – both cash in hand and savings in the bank – can buy fewer and fewer things over time.
- **Less effective government programmes:** Inflation reduces the real value of tax revenue and hence limits the government's ability to maintain the same quantity and quality of goods and services. This can be especially relevant to social protection programmes that involve cash, subsidies or in-kind goods like food. Even in low inflation contexts, the impact of social protection benefits can be significantly reduced over time unless they are indexed (adjusted) to changing price levels.
- **Higher income inequality:** A host of studies examine the effects of inflation on the distribution of income within countries. In inflationary contexts, income inequality tends to decrease at first and then reverse, with the worst outcomes observed in countries that do not have well-developed financial sectors, which is the case in nearly all of ESAR.⁵⁰

⁵⁰ Siami-Namini, S. and Hudson, D. (2019). Inflation and Income Inequality in Developed and Developing Countries. *Journal of Economic Studies*; and Ghossoub, E. and Reed, R. (2017). Financial Development, Income Inequality and the Redistributive Effects of Monetary Policy. *Journal of Development Economics*, vol. 126, pp. 167-189.

- **More inflation... and empty shelves:** When confronted by fast-rising prices, the urge to spend and invest tends to generate additional inflation. As people and businesses start spending faster and faster, the economy finds itself awash in cash that nobody wants. When hyperinflation sets in (i.e. when the monthly inflation rate exceeds 50 per cent⁵¹), a common response is for businesses and households to use their money to store up on basic supplies, like food, which leaves supermarkets and other stores barren.
- **Higher borrowing costs:** A normal central bank reaction to rising prices is to reduce the money supply, which increases interest rates. This, in turn, makes borrowing more expensive for households, businesses and the government.
- **Lower growth and employment:** As mentioned under the positives, economists have struggled to explain stagflation (high inflation, high unemployment and slow economic growth). Such a situation was once fancied impossible as it contradicted the inverse relationship between unemployment and inflation described by the Phillips curve. However, stagflation became a reality for many economies following the 1973 oil embargo and continues to be a threat to ESAR countries, especially commodity exporters.⁵²
- **Weaker currency value:** Under a flexible exchange rate regime, high inflation will cause the local currency to lose value vis-à-vis foreign currencies. Import-dependent economies, which characterize ESAR, will thus be forced to spend a larger amount of domestic currency to pay for many goods and services, which can impact the availability of basic things like food and medicine.
- **“Menu” costs:** Rising prices also have tangible business costs, especially for those who would need to periodically update their prices. Common examples include printing new restaurant menus and updating prices in vending machines and print catalogues.

5.2.3. Winners and losers

At the end of the day, when price levels go up some people gain and some people lose. This depends on the nature of inflation as well as whether the inflation was expected or unexpected. A brief summary of how inflation affects different categories of persons is provided below.

- **Creditors and debtors:** When debts like mortgages, commercial business loans, and government bonds (non-inflation-indexed) are fixed, borrowers gain and lenders lose because the repayment in real terms (today's money) is worth less than the amount borrowed.
- **Savers:** Inflation destroys the purchasing power of money that sits in a savings account, unspent.
- **Salary and wage earners:** Anyone earning a fixed income is damaged by inflation as their income stream purchases fewer things.
- **Beneficiaries of government programmes:** Persons and households who receive monetary benefits from the government (e.g. cash transfers and pensions) stand to lose if the amounts are not indexed to changing price levels, which is the case for most ESAR countries. At the same time, persons who rely on public services (e.g. health, education and transportation) will be adversely affected as rising prices limit the government's delivery capacity (e.g. budgets can purchase fewer medical supplies or fuel).

⁵¹ Defined in Cagan, P. (1956). The Monetary Dynamics of Hyperinflation. In Studies in the Quantity Theory of Money, Friedman, M., Chicago: University of Chicago Press.

⁵² Papadavid, P. (2017). Why 'Stagflation' Matters for Africa's Economic Transformation. ODI briefing paper.

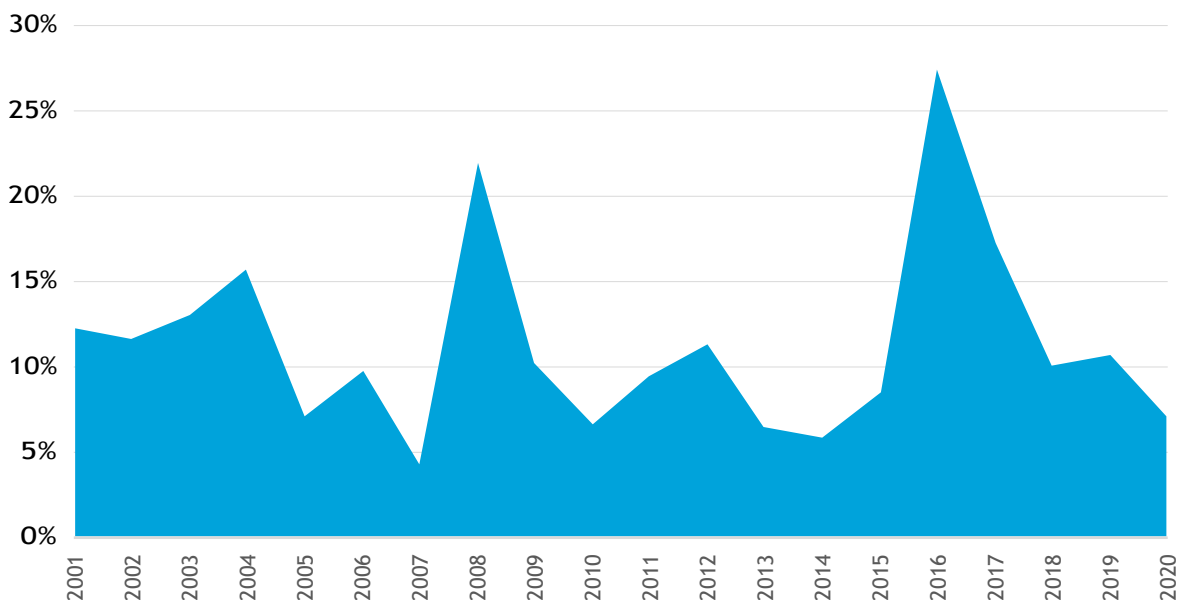
5.3 General price trends

ESAR has been characterized by heavy inflation volatility for nearly two decades. The most common way to measure inflation is through the consumer price index (CPI), which tracks the price level of a weighted basket of goods and services in the economy. When looking back at CPI trends since 2001, the first major uptick appears in 2008 when the effects of the triple “F” crisis took hold in the region. Between 2007 and 2008, the average inflation rate in the region leaped from 4 to 22 per cent (Figure 5.01). General price levels quickly receded and eventually bottomed out at an average of around 6 per cent in 2014. However, from that point prices again quickly escalated, reaching close to 30 per cent, on average, in 2016. Since then, inflation eased to 17 per cent in 2017, on average, and further fell to 10 per cent in 2018, where it is projected to hover in 2019. Starting in 2020, initial projections indicate that inflation may hover in the 6-7 per cent range going forward.

Beyond general price instability, ESAR is home to some of the highest inflation rates in the world. When looking at CPI projections for all countries in 2019, 7 of the top 23 are from ESAR (Figure 5.02 – the countries highlighted in red). With prices expected to increase by more than 70 per cent, Zimbabwe will likely experience the fastest price rises in the world in 2019, trailing only Venezuela’s 10,000,000 per cent projection. Other ESAR countries that feature at the top of the global list include South Sudan (24 per cent) and Angola (17 per cent), with Eritrea, Ethiopia, Malawi and Zambia at around 10 per cent.

The high inflation rates are largely due to economic mismanagement. Over the 2016-18 period, the average annual inflation rate for ESAR was close to 20 per cent, although this falls to around 8 per cent if excluding South Sudan (Figure 5.03). The causes can be largely attributed to poor fiscal management and monetary controls. While good fiscal management reduces or delays expenditure during periods of rising prices, good

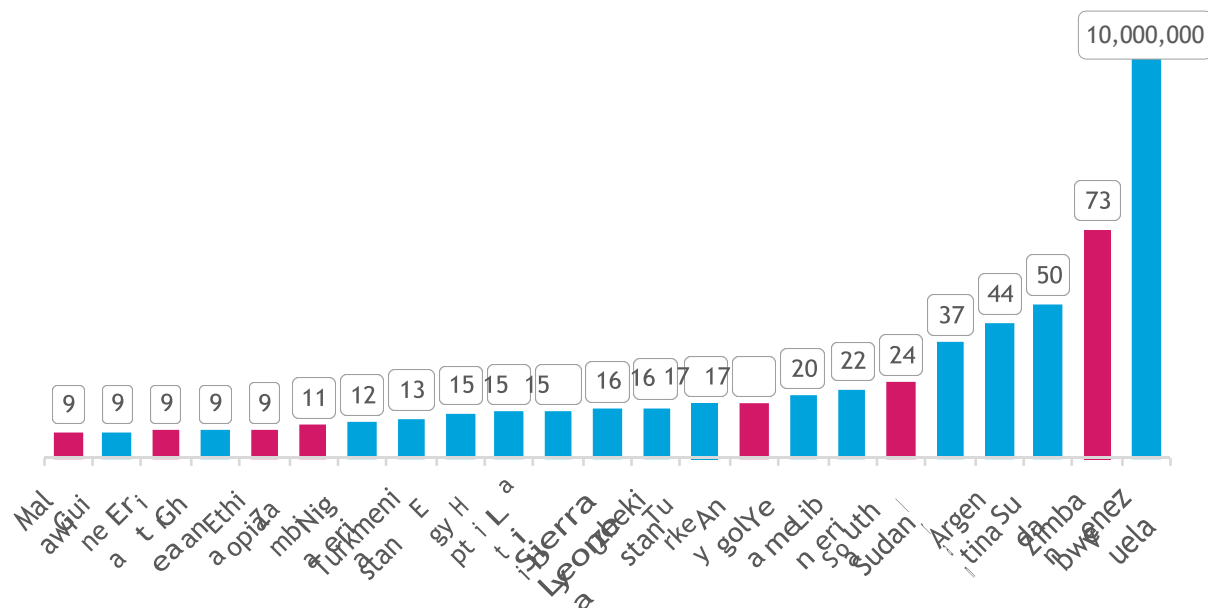
**Figure 5.01. Inflation trends in ESAR, 2001-20
(annual percentage change of consumer price indices, regional average)**



Source: Author’s calculations based on IMF World Economic Outlook Database (April 2019).

Notes: Data unavailable for Somalia; based on average annual consumer price index values (not end of period).

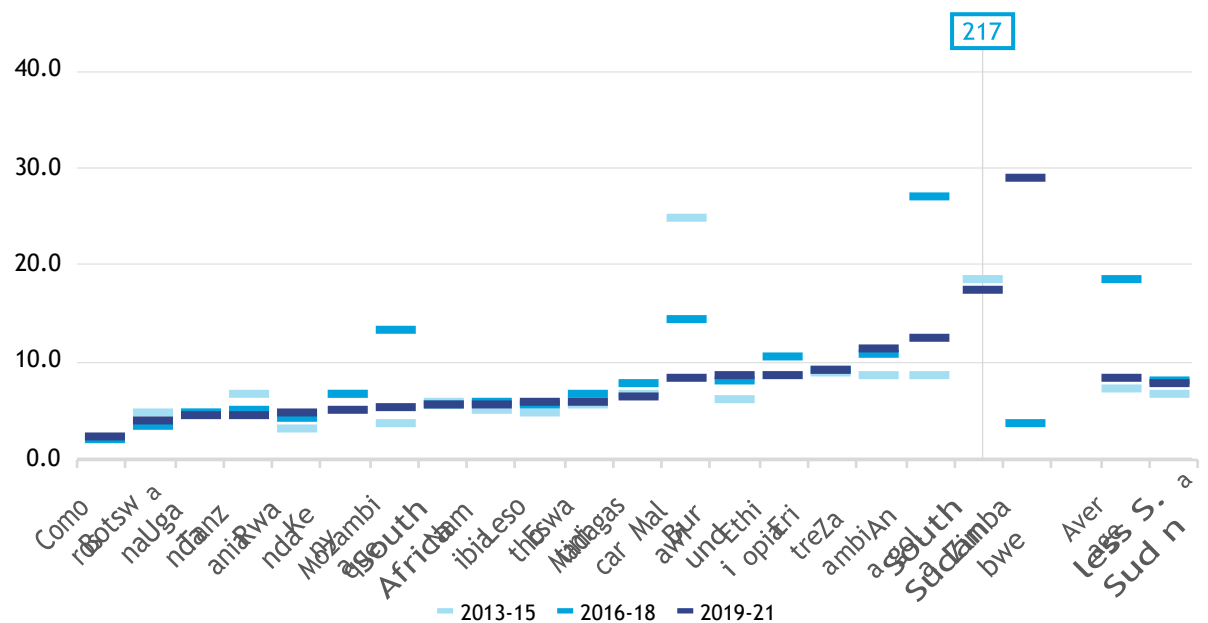
Figure 5.02. Countries with the highest inflation rates in the world, 2019 projections (annual percentage change of consumer price indices)



Sources: IMF World Economic Outlook Database (April 2019).

Notes: Red indicates ESAR countries; based on average annual consumer price index values (not end of period).

Figure 5.03. Inflation trends in ESAR countries, 2013-21 3-year period averages (annual percentage change of consumer price indices)



Sources: IMF World Economic Outlook Database (April 2019).

Notes: Data unavailable for Somalia; based on average annual consumer price index values (not end of period).

monetary control adjusts the supply of money – and hence interest rates and exchange rates – to contain inflation. This, however, has not characterized economic policies in many ESAR countries.⁵³

Nonetheless, the near-term inflation outlook for the region leaves room for optimism.

Projections for the next three years (2019-21) indicate a moderate reduction to 8 per cent, on average (see also Figure 5.03). The IMF attributes this regional trend to falling food and oil prices, which are discussed below.⁵⁴ South Sudan is expected to experience the largest price decline, with inflation falling from nearly 220 per cent over the 2016-18 period, on average, to less than 20 per cent over the 2019-21 period. Angola, Malawi and Mozambique are also projected to undergo strong price stabilization, with inflation dropping by around 10 per cent, on average, when comparing the same periods. Overall, 12 of 20 countries are forecast to experience lower inflation in 2019-21 than in 2016-18. The major outlier is Zimbabwe, where inflation is forecast to average around 30 per cent in 2019-21, which marks a dramatic increase after averaging 3 per cent during 2016-18. The other exceptions include Botswana, Burundi, Comoros, Eritrea, Lesotho, Rwanda and Zambia, where price levels are likely to undergo very minor upticks – less than 1 per cent over the two periods.

Several countries do, however, have dangerous inflation outlooks. Beyond Zimbabwe, as already discussed, there are price change concerns in Zambia (annual average inflation rate of 11 per cent over the 2019-21 period), Angola (12 per cent) and South Sudan (17 per cent). With projections in the 8-9 per cent range, Burundi, Eritrea, Ethiopia and Malawi could also quickly experience rapid price escalation in the event of economic mismanagement or an unexpected shock.

5.4 Food price trends

As in general prices, ESAR is also characterized by significant food price movements.

Between 2006 and 2008, the triple “F” crisis drove food inflation from 8 per cent to 21 per cent, on average (Figure 5.04). Following a fall to 5 per cent in 2010, on average, food inflation edged back up and remained around 15 per cent in 2011-12 before returning to 5 per cent in 2013-14. From that point, however, regional average food prices soared to 33 per cent in 2016, before receding to 20 per cent in 2017 and further dropping to 5 per cent in 2018.

Food price inflation has been especially high in recent years. If looking at the past three-year period (2016-18), in 24 cases annual food prices grew in double figures. Moreover, six countries have seen annual food inflation of between 20 and 30 per cent since 2012 (Figure 5.05). This includes Ethiopia and the United Republic of Tanzania in 2012, Malawi in 2015 and 2016, Mozambique and Zambia in 2016, and Angola and Burundi in 2017. Two countries have also experienced food price increases between 30 and 40 per cent: Ethiopia in 2011 and Angola in 2016. Finally, in South Sudan food prices nearly quadrupled in 2016 and doubled in 2017.

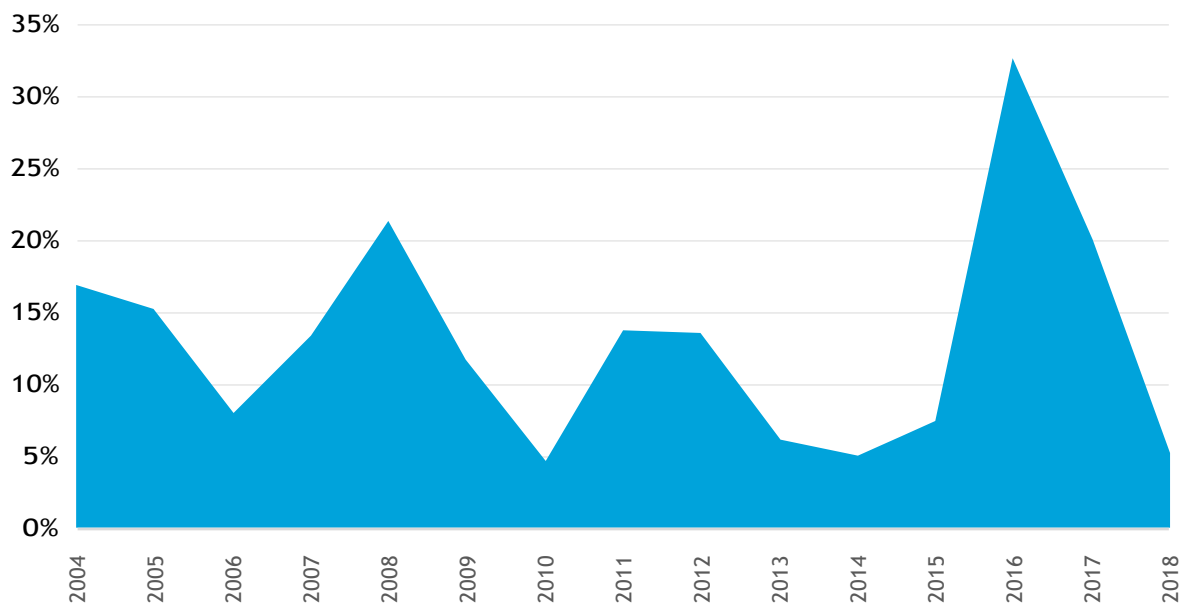
Fortunately, food price volatility has come under control in most countries in the region.

Average annual growth of food prices for the region amounted to a modest 5 per cent in 2018, falling to 3 per cent if South Sudan is excluded (Figure 5.06). However, food price inflation remained high (at 12-15 per cent) in some countries, including Angola, Ethiopia and Malawi. Nearly reaching 40 per cent, South Sudan also continued to experience high increases in food prices, although this marked a significant improvement from the 375 per cent annual change recorded just two years prior.

53 Leibfritz, W. (2015). Fiscal Policy in Africa. In *The Oxford Handbook of Africa and Economics: Volume 2: Policies and Practices*. Monga C. and Lin, J. Oxford: Oxford University Press.

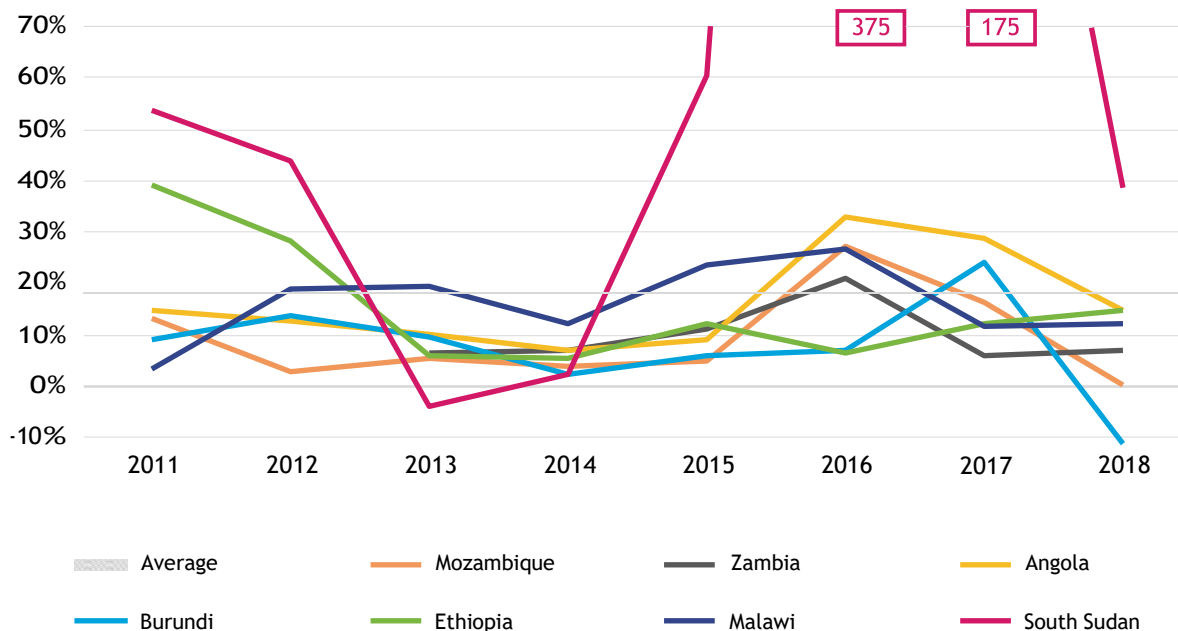
54 IMF (2018). *Regional Economic Outlook: Domestic Resource Mobilization and Private Investment*. Washington, DC.

Figure 5.04. Food inflation trends in ESAR, 2004-18
(annual percentage change of food price indices, regional average)



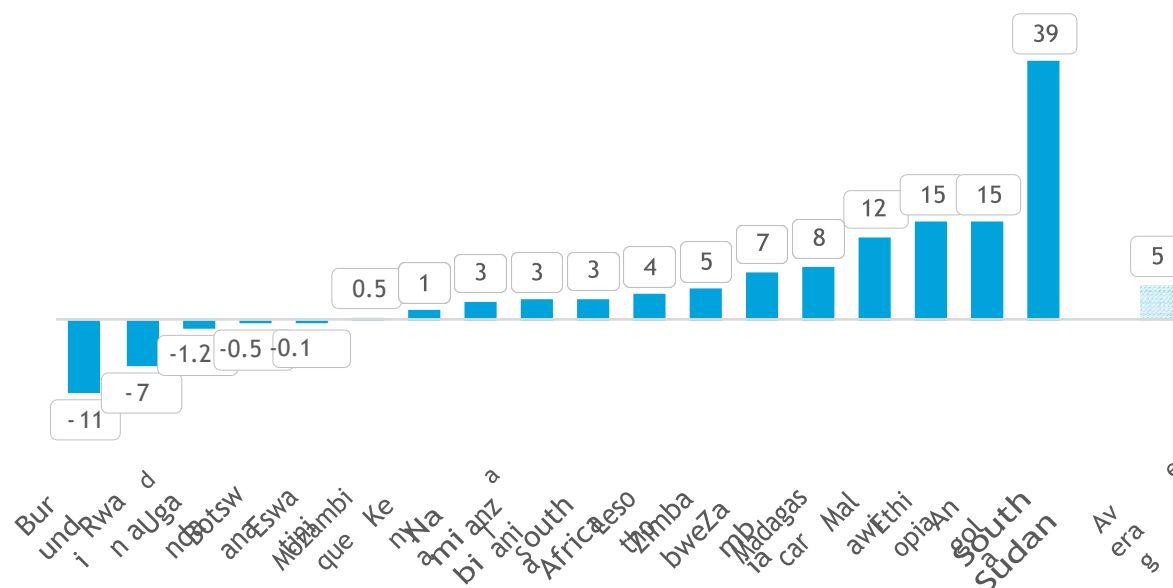
Source: Author's calculations based on FAOSTAT monthly food CPI database (February 2019 release).
Notes: Excludes data for Eritrea and Somalia, which are unavailable; based on average annual food price index values (not end of period); annual sample size varies from 8 to 17 countries.

Figure 5.05. Food inflation trends in select ESAR countries, 2011-18
(annual percentage change of food price indices)



Source: FAOSTAT monthly food CPI database (February 2019 release).
Note: Based on average annual food price index values (not end of period)

**Figure 5.06. Food inflation trends in ESAR countries, 2018
(annual percentage change of food price indices)**



Source: FAOSTAT monthly food CPI database (February 2019 release).

Notes: Data unavailable for Comoros, Eritrea and Somalia; based on average annual food price index values (not end of period).

5.5 Commodity price trends

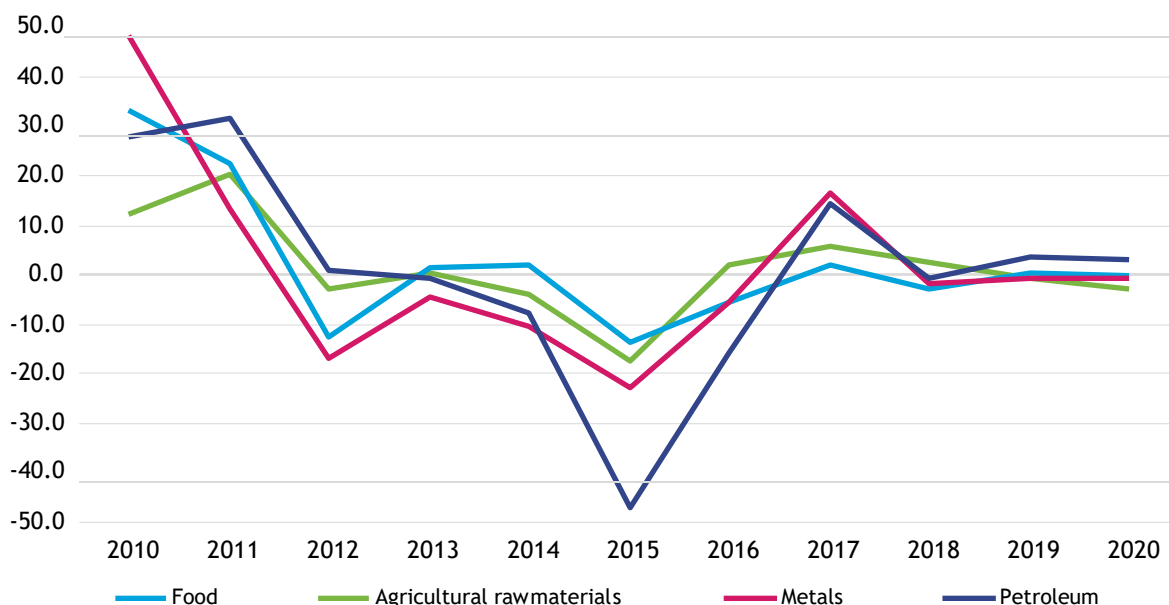
Barring any major unexpected supply shocks, the stable near-term outlook for global commodity prices should minimize cost-push inflation forces in ESAR. In the aftermath of the triple “F” crisis, the global prices of key commodities were jumping by as much as 50 per cent in real terms in 2010 and 2011 (Figure 5.07). Since then, however, price volatility has steadily waned. Despite a minor uptick in 2017, the global prices of key commodities, including food, agricultural raw materials, metals and petroleum, showed limited movement in 2018. Moreover, the latest projections suggest that this trend is likely to continue over the near term.

5.6 Inflation and social transfers

In ESAR, beneficiaries of cash transfer programmes have been heavily affected by inflation. As discussed earlier, if benefit sizes are not indexed to price changes, the impact of the income support can quickly diminish. One possible way to look at the inflationary impacts is to simply adjust the nominal value of a benefit by price changes and observe any differences over time. When doing this to nine social welfare programmes that provide cash to children and/or vulnerable families in ESAR, the inflationary effects become increasingly powerful over time (Figure 5.08). For example, the real value of benefits after the first five years (i.e. in year 6) fell by around 17 per cent in Botswana and Rwanda and by more than 20 per cent in Lesotho, Namibia and the United Republic of Tanzania.

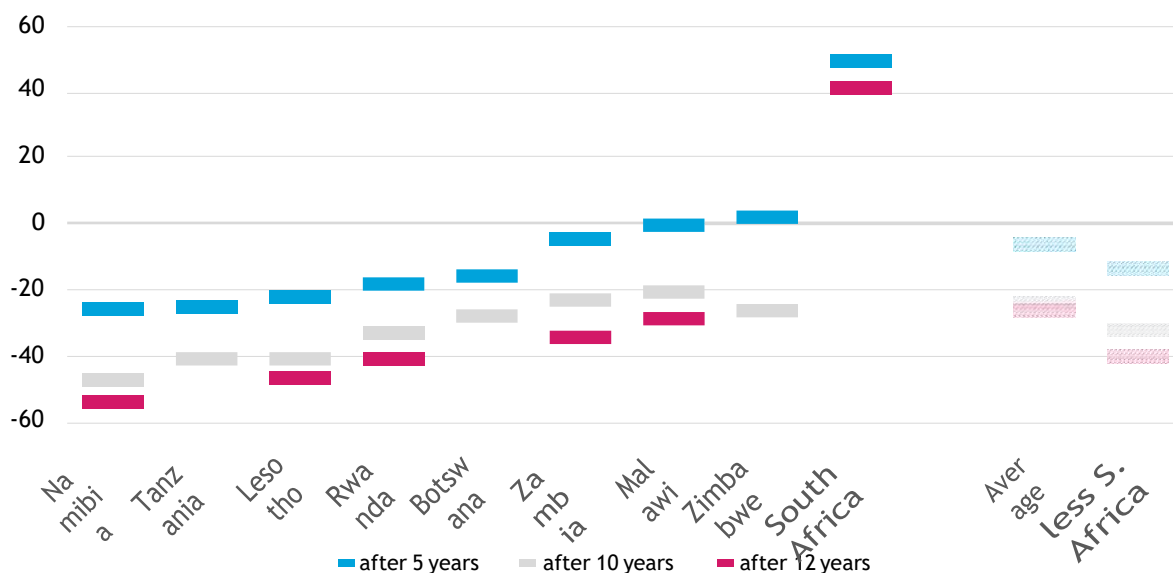
Importantly, the erosion of the value of social transfers amplifies over time. After ten years (i.e. in year 11), the real value of transfers in these nine programmes was about 25 per cent

Figure 5.07 Global commodity price trends, 2010-20
(annual percentage change of commodity price indices in US\$ terms)



Source: IMF Primary Commodity Price Forecasts.

Figure 5.08. Changes in the real value of cash transfers in nine programmes in ESAR after 5, 10 and 12 years (where available) (as % of original value)



Source: Author's calculations based on nominal benefit values collected by UNICEF country offices in 2018 from the following programmes - Botswana (National Orphan Care Programme, 2013-17), Lesotho (Child Grants Programme for households with 1-2 children, 2010-17), Malawi (Social Cash Transfer, 2010-17), Namibia (Vulnerable Child Grants, 2001-18), Rwanda (Vision 2020 Umurenge Programme, Direct Support, 2009-17), South Africa (Child Support Grant Program, 2001-2020), United Republic of Tanzania (Productive Social Safety Net, 2012-18), Zambia (Social Cash Transfer, 2010-17) and Zimbabwe (Harmonized Cash Transfer Programme, 2012-17) - and CPI data from IMF World Economic Outlook Database (April 2019).

less than the original value, on average, and as much as 32 per cent when omitting South Africa (the major outlier, discussed below). Although the sample size decreases, going an additional two years (i.e. in year 13) shows that the real decline further deepens to around 40 per cent of the original value, on average, also when removing South Africa. Here, the real value of transfers was around 30 per cent less than the original values in Malawi and Zambia, more than 40 per cent less in Lesotho and Rwanda, and more than 50 per cent less in Namibia.

Most governments in the region do not routinely adjust social transfers. In fact, the values have never been changed in five of the nine programmes examined,⁵⁵ while in Namibia, the values were increased just once after 17 years.⁵⁶ In contrast, Malawi, South Africa and Zambia have periodically enlarged the transfer amounts of their programmes.⁵⁷ Here, South Africa stands as the true exception, as it has systematically adjusted the Child Support Grant Program on an annual or biannual basis since it was first introduced in 1998. It is also noteworthy that Lesotho approved a change in the value in 2017, but this has not yet been implemented due to budget constraints.

However, where transfers are adjusted, there is evidence that beneficiaries have been safeguarded from inflationary impacts. When comparing the “adjusters” and “non-adjusters,” the difference is striking (Figure 5.09). After five years (i.e. in year 6), the adjusted values were worth 15 per cent more than the original values in real terms, on average, while the non-adjusted transfers were worth nearly 20 per cent less than their original value. Going further out in time, after ten years (i.e. in year 11) the real value of adjusted transfers was nearly identical to the original values, on average, with the non-adjusted transfers having lost around 40 per cent of the original value.

5.7 Takeaways

Key trends

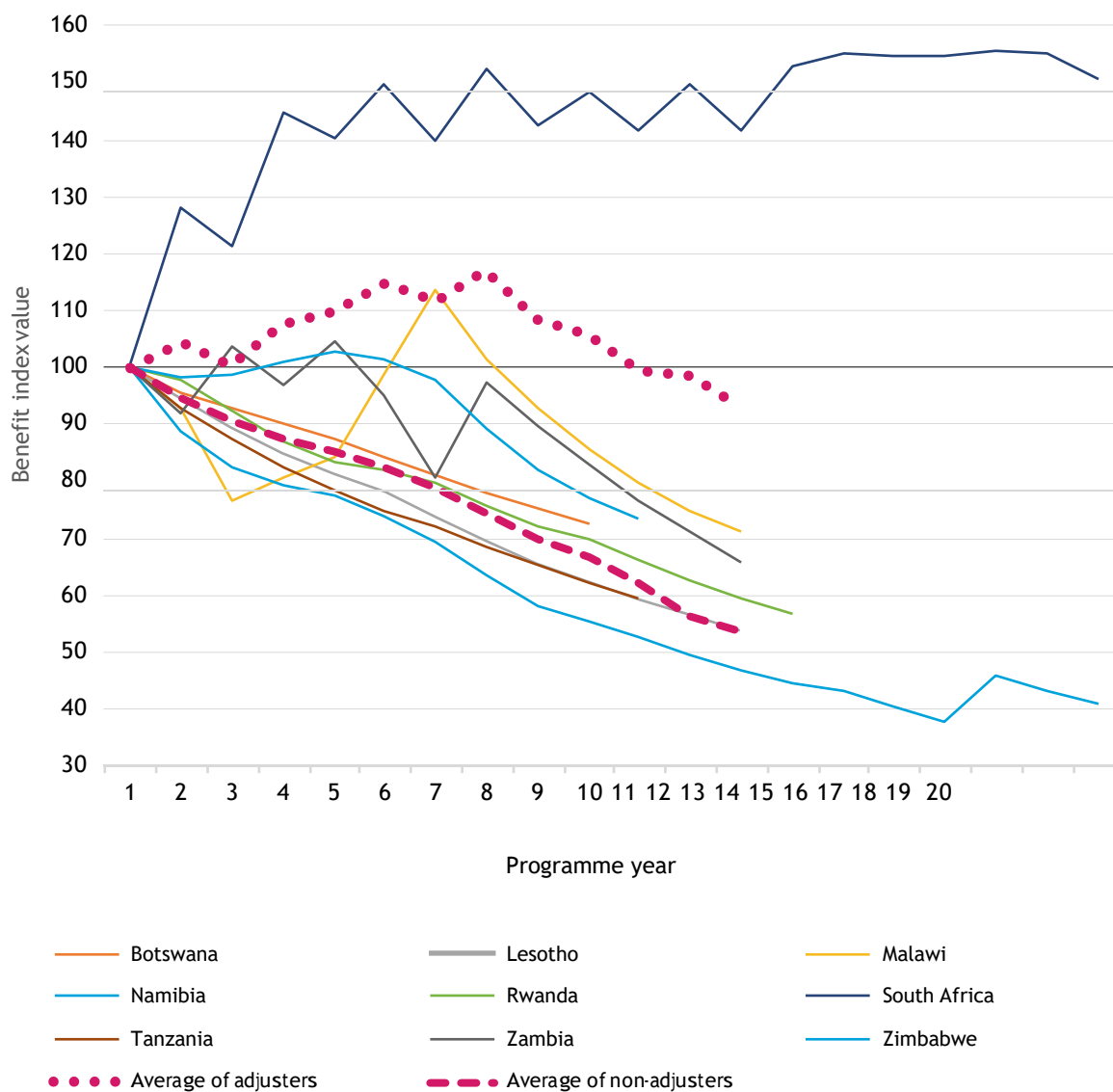
- ESAR economies have experienced both demand-pull and cost-push inflation, but have remained particularly vulnerable to fiscal deficits, global commodity price movements and extreme natural events.
- The region hosts some of the highest inflation rates in the world mainly due to economic mismanagement, but the outlook for most countries should be increasing price stability.
- Nonetheless, several countries are facing dangerous inflationary situations, including Angola, Burundi, South Sudan and Zimbabwe, while half a dozen others remain a poor decision or small shock away.
- Food inflation tends to be higher than overall inflation across the region.
- Since peaking in 2016, changes in food prices have fallen significantly, but remained high in Angola, Ethiopia, Malawi and South Sudan.

⁵⁵ The value of the National Orphan Care Programme in Botswana was maintained at Pula 780 from 2013-17; the Child Grants Programme (for households with 1-2 children) in Lesotho at Loti 1,440 from 2010-17; the Vision 2020 Umurenge Programme, Direct Support in Rwanda at Franc 252,000 from 2009-17; the Productive Social Safety Net in the United Republic of Tanzania at Shillings 120,000 from 2012-18; and the Harmonized Cash Transfer Programme in Zimbabwe at an average of US\$150 annually from 2012-17.

⁵⁶ The value of the Vulnerable Child Grants was Namibian dollar 2,400 from 2001 to 2017 and increased to Namibian dollar 3,000 in 2018.

⁵⁷ Malawi increased the value of the Social Cash Transfer four times in a 5-year period, going from Kwacha 12,000 in 2012 to 42,000 in 2016; South Africa has repeatedly increased the value of the Child Support Grant Programme, with benefits steadily rising from Rand 1,200 in 2001 to 5,160 in 2020, which has already been determined; and Zambia increased the value of its Social Cash Transfer three times in a 7-year period, going from Kwacha 300 in 2011 to 545 in 2017.

Figure 5.09. The real value of cash transfers in 9 social programmes in ESAR, year 1 to year 20 (where available) (year 1 = 100, which is the first year for which data are available for each programme)



Source: Author's calculations based on benefit values from nine social transfer programmes (see Figure 5.08 for details) and CPI data from IMF World Economic Outlook Database (April 2019).

Notes: Year 1 reflects the first year for which benefit values are available for each programme; Data points for the final 2-4 years for each programme are based on projections, which include maintaining the latest available nominal benefit value and then adjusting by the IMF's CPI forecasts.

- The near-term outlook for commodity prices should alleviate the potential for external forces to significantly affect domestic prices.
- Inflation has severely affected the impact of social transfers in many countries in the region, although several governments have successfully protected beneficiaries by periodically adjusting the values upward.

Implications for children

- The physical and cognitive health of unborn fetuses, infants and young children is acutely threatened by rising food prices, as children and pregnant and lactating women eat fewer meals, smaller quantities and less nutritious foods.⁵⁸
- Higher food prices also increase the cost of government-sponsored food assistance and subsidy programmes, which can further endanger the nutritional intake of vulnerable children.⁵⁹
- General rising price levels can hinder the delivery of government programmes that benefit children, including through losses in the real value of income transfers directed to families as well as reduced access and/or lower quality of health, education and other social services.⁶⁰
- High inflation environments erode the income of working families, which means that they are less able to afford nutritious meals, medical services and products, school and transportation fees, and other critical items that ensure child well-being.⁶¹
- Coping mechanisms in response to fast-rising prices may also force children into paid or unpaid work activities, leave them with less time to study or cause them to drop out of school altogether.⁶²

58 Ortiz, I., Chai, J. and Cummins, M. (2011). Escalating Food Prices: The Threat to Poor Households and Policies to Safeguard a Recovery for All. UNICEF Social and Economic Policy Working Paper; Woldemichael, A., Kidane, D. and Shimeles, A. (2017). A Tax on Children? The Effects of Food Price Inflation on Child Health. Working Paper Series No. 276, African Development Bank.

59 Scott-Villiers, P. et al. (2016). Precarious Lives: Food, Work and Care After the Global Food Crisis. Brighton: Institute of Development Studies; Scott-Villiers, P. and Kelbert, A. (editors) (2015). Life in a Time of Food Price Volatility. IDS Bulletin, vol. 46, issue 6; and Overseas Development Institute (2008). Understanding the Impact of Food Prices on Children. London: Plan United Kingdom.

60 Ibid.

61 Ibid.

62 Ibid.

CHAPTER 6.

THE FISCAL BALANCE OUTLOOK AND CHILDREN

This chapter assesses the fiscal balance in ESAR or, in other words, the relationship between government budgets, income streams and debt, and how these factors can affect investments in children's services. It starts by looking at the size of government expenditure to understand both the potential for government investment to impact children and how this varies across countries. It then examines recent revenue trends, including taxes, to better understand the income-generation capacity of governments and how this varies across the region. Recent borrowing trends and debt build-up are analysed next to offer a picture of debt sustainability and future borrowing capacity across the region, which is followed by a review of recent and projected official development assistance (ODA) flows. The chapter concludes by summarizing the key expenditure, revenue and debt trends in ESAR, along with the implications for children.

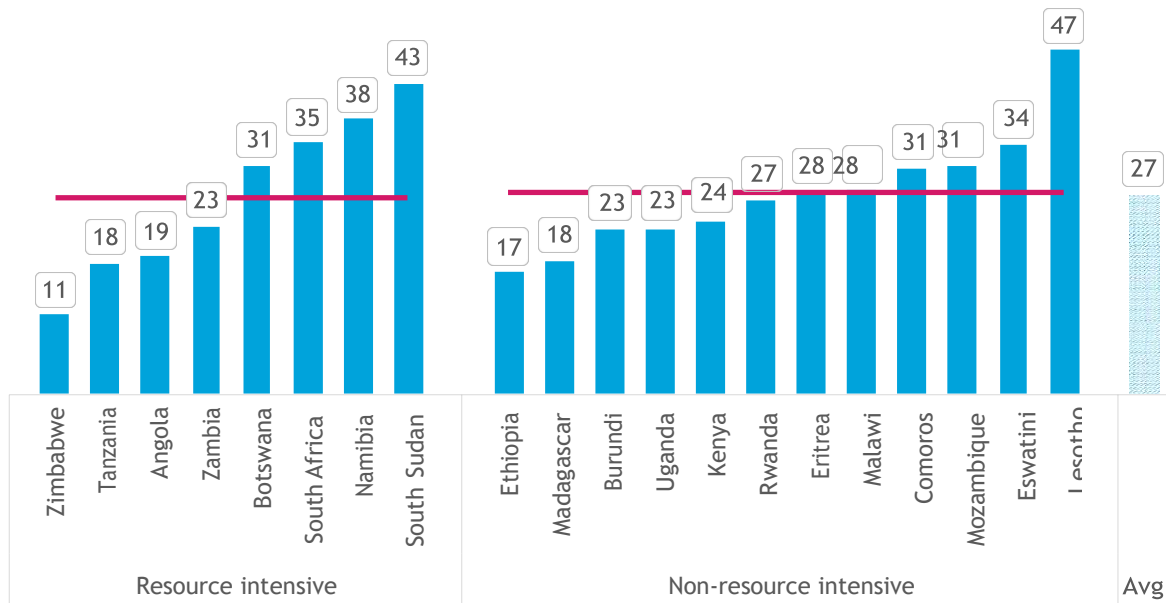
6.1 Expenditure

General government expenditure is the sum of all central, state and local government consumption, investment and transfers in a given year. To normalize the value and allow for comparison across countries, total expenditure is measured over a 12-month period and expressed as a percentage of GDP. One important distinction in ESAR is that governments use a variety of fiscal calendars. While ten countries follow the traditional calendar year (1 January to 31 December), five countries use a 1 April to 31 March schedule (Botswana, Eswatini, Lesotho, Namibia and South Africa) while another five countries follow 1 July to 30 June (Kenya, Malawi, South Sudan, Uganda and the United Republic of Tanzania); Ethiopia's fiscal year runs from 8 July to 7 July.

In ESAR, government budgets are expected to equal around 27 per cent of GDP in 2019, on average. At country level, forecasts range from 11 per cent in Zimbabwe to 47 per cent in Lesotho (Figure 6.01). Applying the analytical approach used in Chapter 2 to better understand GDP performance across countries, there is almost no difference between the average level of spending when comparing resource- and non-resource-intensive economies (27.2 versus 27.6 per cent of GDP respectively, on average). However, there is a wide range within both groups, from 20 per cent or less in Angola, Ethiopia, Madagascar, the United Republic of Tanzania and Zimbabwe to 34 per cent or more in Eswatini, Lesotho, Namibia, South Africa and South Sudan.

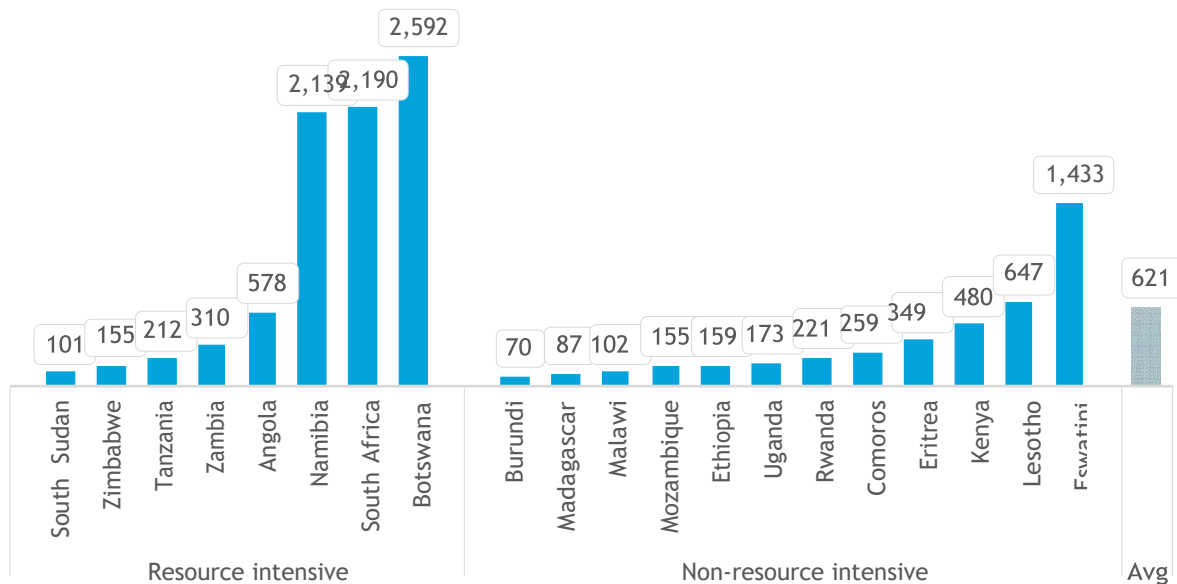
Assessing general government expenditure in per capita terms reveals significant differences across the region. Specifically, resource-intensive economies are projected to spend more than three times as much as non-resource-intensive economies in 2019 (US\$1,035 versus US\$345 per capita) (Figure 6.02). This is largely due to the massive gap in income levels between the groups. At nearly US\$2,600 per capita, Botswana has the highest expenditure per capita, close to 40 times greater than the lowest spender: Burundi at US\$70 per capita. Whereas Namibia and South Africa are also projected to have per capita expenditure higher than US\$2,100, expenditure in Madagascar, Malawi and South Sudan is expected to be US\$100 or less on a per capita basis. Other governments that have very low levels of investment potential include Ethiopia, Malawi, Mozambique, Uganda and Zimbabwe, which are projected to spend between US\$155 and US\$175 per person in 2019.

Figure 6.01. General government total expenditure in ESAR countries, 2019 (as % of GDP)



Source: IMF World Economic Outlook Database (April 2019).
 Note: Data unavailable for Somalia.

Figure 6.02. General government total expenditure per capita in ESAR countries, 2019 (in current US\$)



Source: IMF World Economic Outlook Database (April 2019).
 Note: Data unavailable for Somalia.

Government expenditure can be financed by a combination of domestic revenue, donor funding and borrowing. Domestic revenue generally makes up the largest share of income for governments but donor funding and borrowing also contribute to budgets in ESAR, especially in fragile countries. These topics are addressed in the following sections.

6.2 Revenue

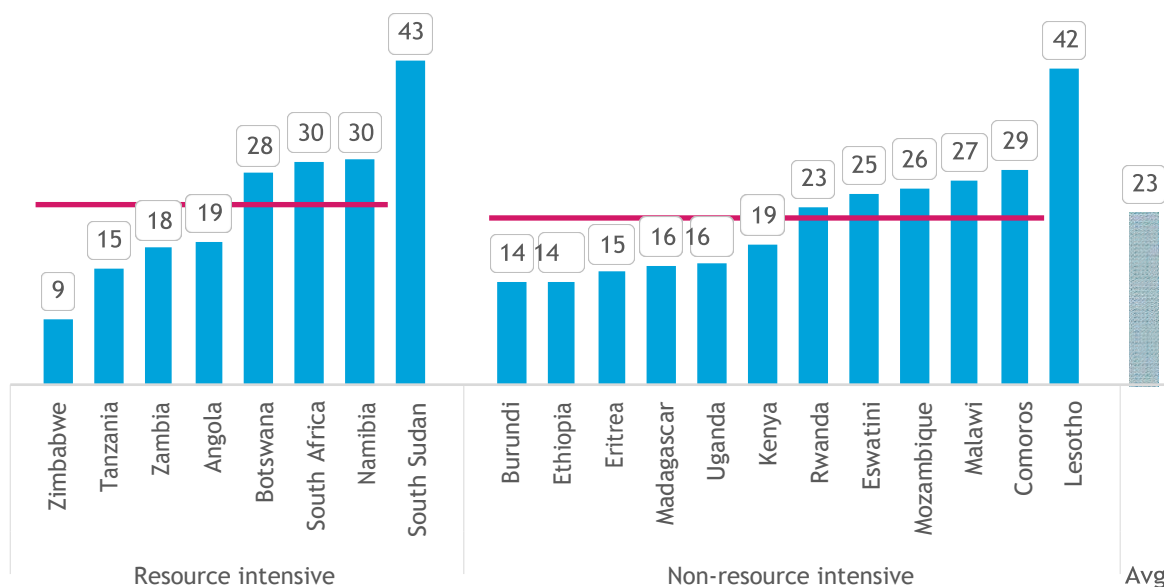
General government revenue in ESAR performs moderately well. When comparing all revenue streams, including taxes, non-tax revenue, social contributions and grants, the regional average is just a few percentage points behind the average for all emerging market countries (23 versus 26 per cent, on average).⁶³ Average revenue in ESAR also does significantly better than the group of Sub-Saharan countries (18.4 per cent, on average) but lags far behind advanced economies (36 per cent, on average).⁶⁴

At the country level, however, revenue performance is quite diverse. For instance, Lesotho and South Sudan are projected to have very high revenue-to-GDP ratios in 2019 (41.7 and 42.7 per cent respectively) (Figure 6.03). At around 28.5 per cent of GDP, Comoros is also doing well given its low per capita income, as are Malawi and Mozambique at around 27 per cent of GDP. In contrast, Eritrea (14.9 per cent), the United Republic of Tanzania (15.5 per cent), Madagascar (15.9 per cent) and Uganda (16.1 per cent) are characterized by relatively low revenue-to-GDP ratios, which force them to borrow heavily in order to finance their current levels of expenditure. Driven by political and economic instability, Zimbabwe emerges as the worst performer in the region, with general government revenue forecast

⁶³ Based on 2019 projections from the IMF World Economic Outlook Database (April 2019).

⁶⁴ Ibid.

Figure 6.03. General government revenue in ESAR countries, 2019 (as % of GDP)



Source: IMF World Economic Outlook Database (April 2019).

Note: Data unavailable for Somalia.

at 8.8 per cent of GDP in 2019. At less than 14 per cent of GDP, Burundi and Ethiopia round out the bottom, where conflict and instability have hampered revenue collection efforts.

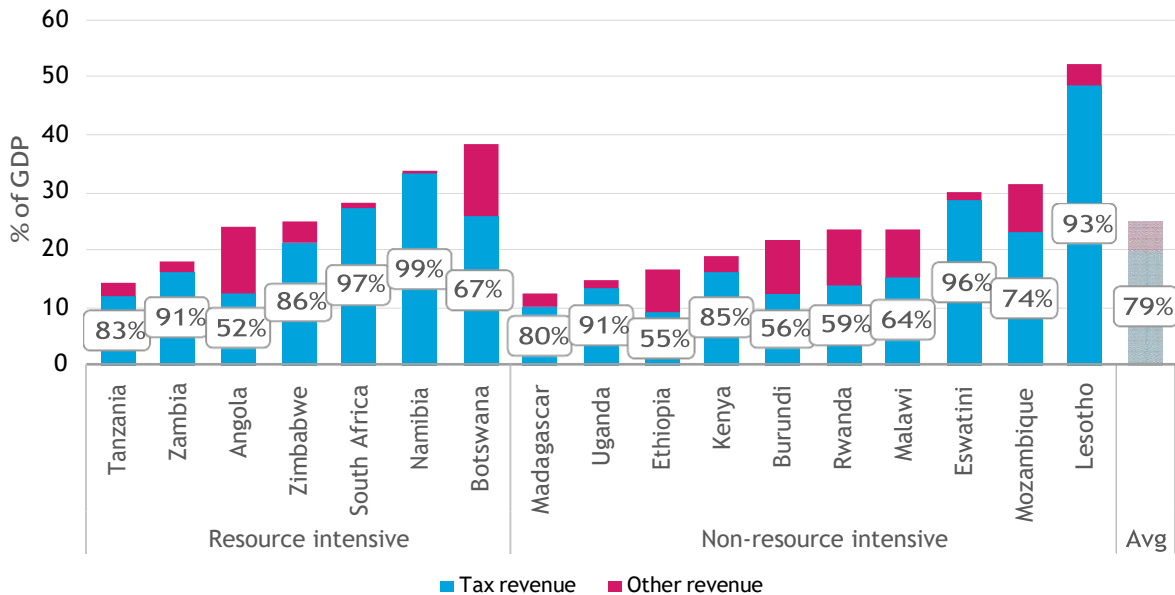
Taxes account for more than three-quarters of revenue in ESAR, but there is mixed evidence that tax collection capacity has improved over time. Looking at the latest data, taxes constituted 79 per cent of total revenue or about 20 per cent of GDP, on average (Figure 6.04). Country figures range from just over 50 per cent in Angola, Burundi and Ethiopia to close to 100 per cent in Eswatini, Namibia and South Africa. Although historical data on tax revenue is scarce for the region, seven countries do have estimates that enable comparison of trends between 2005 and 2015. Every country that belongs to the Southern African Customs Union (SACU), except Botswana, marked sizable improvements in tax revenue as a percentage of GDP, while the two non-SACU countries – Angola and Madagascar – both experienced steep declines in tax and overall revenue in terms of GDP (Figure 6.05). The IMF estimates that the region could increase tax collection by 3 to 5 per cent of GDP if governments strengthened governance measures, improved tax collection efficiencies and combatted corruption.⁶⁵

6.3 Borrowing

Where revenue and donor funding are insufficient to meet expenditure needs, governments require additional financing. Borrowing to finance projects that generate positive returns to the economy and increase future revenue flows is considered sustainable. Borrowing to finance increased expenditure to stabilize or stimulate the economy over the short term is also justifiable, if combined with debt repayments when the economy improves.

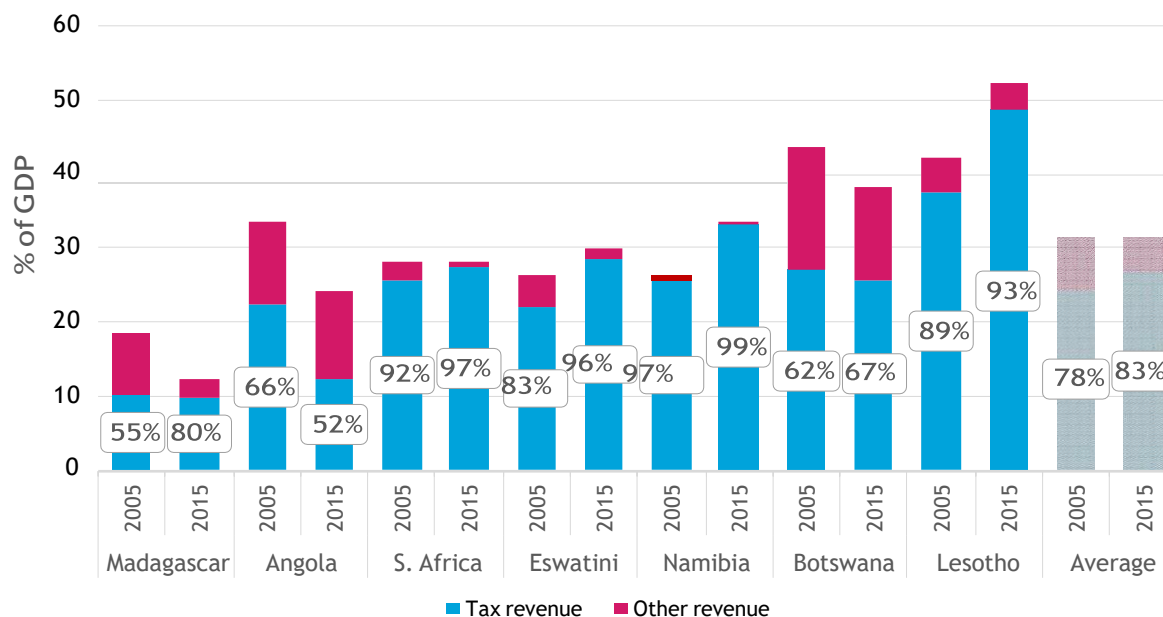
65 IMF (2018). Regional Economic Outlook: Domestic Resource Mobilization and Private Investment. Washington, DC.

Figure 6.04. Tax and other government revenue in ESAR countries, 2016 or latest available (as % of GDP and % of total revenue)



Source: Author's calculations based on IMF World Economic Outlook Database (April 2019) for data on total revenue and IMF, Government Finance Statistics Yearbook and data files, and World Bank estimates for data on tax revenue.
 Note: Data unavailable for Comoros, Eritrea, Somalia and South Sudan.

Figure 6.05. Tax and other government revenue trends in select ESAR countries, 2005 and 2015 or latest available (as % of GDP and % of total revenue)



Source: Author's calculations based on IMF World Economic Outlook Database (April 2019) for data on total revenue and IMF, Government Finance Statistics Yearbook and data files, and World Bank estimates for data on tax revenue.

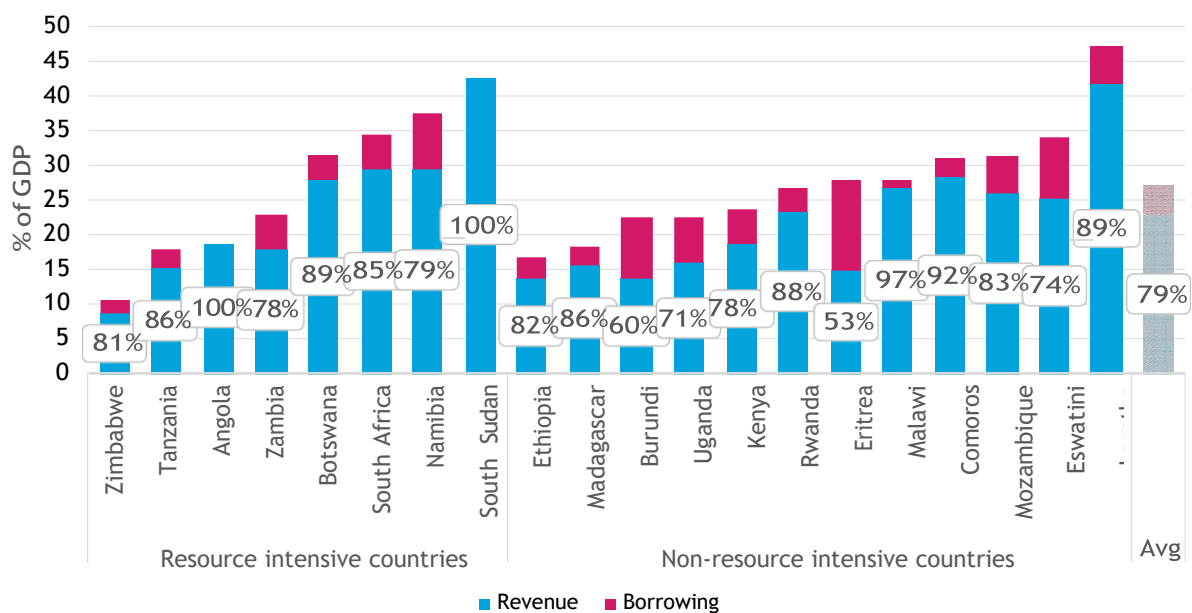
However, when government expenditure constantly exceeds revenue, debt can quickly accumulate and spiral out of control. This increases the vulnerability of the economy as well as the share of the budget directed to interest payments, which crowds out spending on other things, including programmes that benefit children.

ESAR governments rely heavily on borrowing to finance their budgets. In 2019, revenue is expected to account for around 80 per cent of total expenditure as a regional average, with the other 20 per cent from borrowing (Figure 6.06). There is a notable difference in resource-intensive economies, which are financing 13 per cent of their spending, on average, compared to 21 per cent in non-resource-intensive economies. Projections indicate that every government in the region will run a budget deficit in 2019 except Angola and South Sudan, which has been the norm since 2013 with very few exceptions. Beyond Angola and South Sudan, Comoros and Malawi are the only countries that are expected to finance less than 10 per cent of their budgets in 2019. In contrast, borrowing will cover 40 per cent of spending in Burundi and nearly 50 per cent in Eritrea.

6.4 Debt and future borrowing capacity

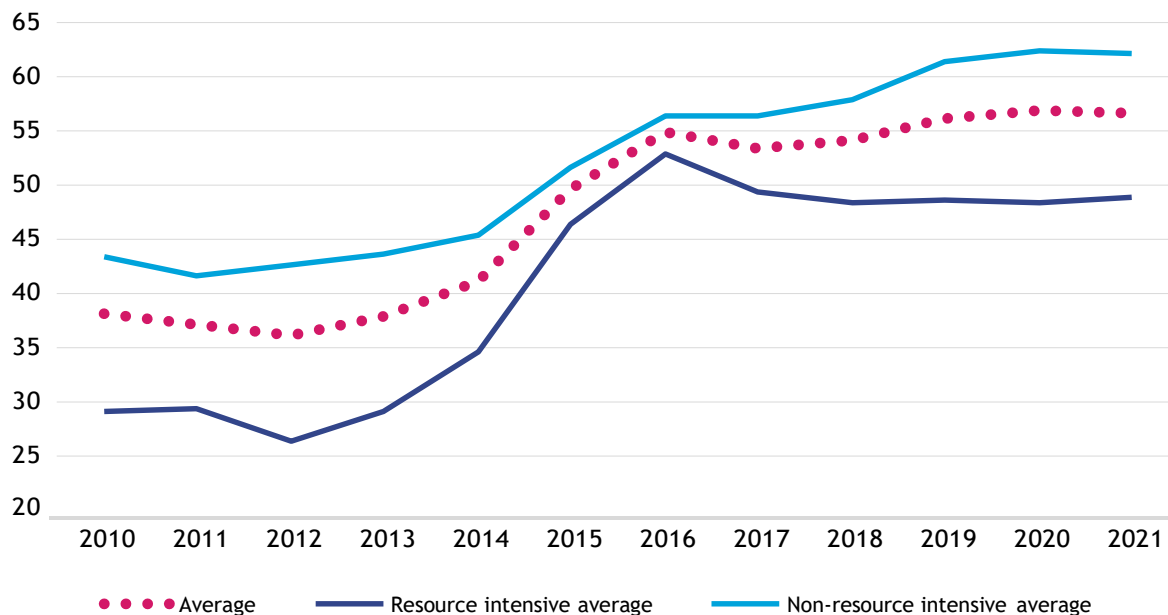
Continuous budget deficits have led to rapid debt accumulation in recent years. When looking at general government gross debt, which captures all liabilities that require payments to creditors in the future, the regional debt burden soared from an average of 36 per cent of GDP in 2012 to 55 per cent of GDP in 2016 (Figure 6.07). Debt build up was particularly aggressive in resource-intensive economies, which doubled between 2012 and 2016 compared to a 30 per cent rise in non-resource-intensive economies. Since 2016, the growth of new debt has slowed across the region and is forecast to average 56 per cent of GDP in 2019. However, there are two distinct patterns. In resource-intensive economies,

Figure 6.06. General government revenue and borrowing in ESAR countries, 2019 (as % of GDP and % of total expenditure)



Source: IMF World Economic Outlook Database (April 2019).
 Note: Data unavailable for Somalia.

Figure 6.07. General government gross debt trends in ESAR, 2010-21 (as % of GDP, regional averages)



Source: Author's calculations based on IMF World Economic Outlook Database (April 2019).
 Note: Excludes Somalia due to data unavailability.

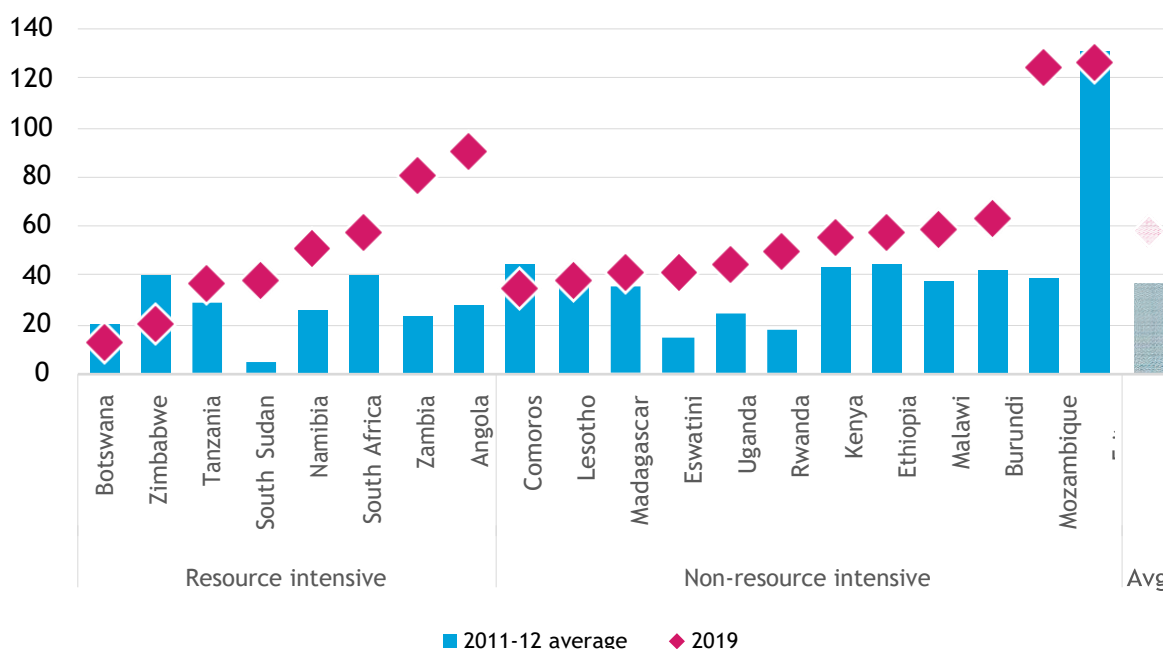
debt levels are projected at around 49 per cent of GDP in 2019, which should remain stable over the near term. In contrast, debt has continued to climb in non-resource-intensive economies. This is expected to be around 61 per cent of GDP in 2019 and to continue to increase over the near term albeit moderately.

The growth in debt has been extraordinary in a third of the region. Between 2011-12 and 2019, general gross government debt increased by more than 100 per cent in Namibia, by 180 per cent in Eswatini and Rwanda, by close to 250 per cent in Angola, Mozambique and Zambia, and a whopping 7.5-fold in South Sudan (Figure 6.08). Based on 2019 projections, Mozambique and Eritrea are among the countries in the world with the ten highest debt-to-GDP ratios (at 125 and 127 per cent of GDP respectively), while Botswana has the fourth lowest level (just under 13 per cent of GDP).

Unsurprisingly, debt distress is becoming commonplace. Of the 15 countries in the region that have recently had debt sustainability assessments (DSAs) carried out by the IMF, four were in debt distress: Eritrea, Mozambique, South Sudan and Zimbabwe (Figure 6.09). Burundi, Comoros, Ethiopia and Zambia were also considered at high risk of debt distress.

Another troubling trend is that growing debt has been accompanied by less favourable borrowing conditions. Across ESAR, the proportion of external debt that is issued on concessional terms fell from a high of 67 per cent in 2005 to 55 per cent in 2017, based on the average of countries with data (Figure 6.10). While the level of debt gives an indication of economic vulnerability, the composition of debt also matters. Other things being equal, a country can carry a higher level of concessional debt compared to debt issued on market terms, given the lower (or absent) interest rates, repayment grace periods and/or long

Figure 6.08. General gross government debt trends in ESAR countries, 2011-12 period averages and 2019 (as % of GDP)



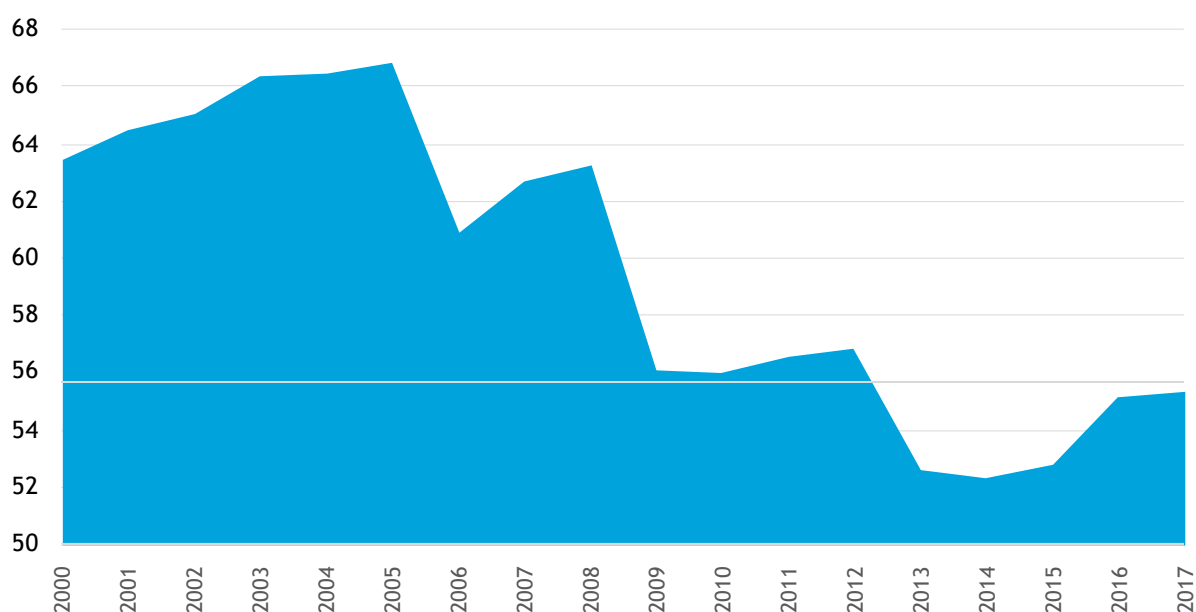
Sources: IMF World Economic Outlook Database (April 2019).
Note: Data unavailable for Somalia.

Figure 6.09. Risk of debt distress in select ESAR countries, latest available



Source: IMF (2018). List of LIC DSAs for PRGT-Eligible Countries: Summary Note Based on a Staff Review of the Latest DSAs as of 1 November 2018

Figure 6.10. Concessional debt trends in ESAR, 2000-17 (as % of total external debt, regional average)



Source: Author's calculations based on World Bank, International Debt Statistics (2018).
 Note: Excludes Namibia and South Sudan due to data unavailability.

maturity periods. As of 2017, South Africa had no concessional debt, while it amounted to more than 80 per cent of total external debt in Comoros and Malawi and more than 90 per cent in Eritrea.

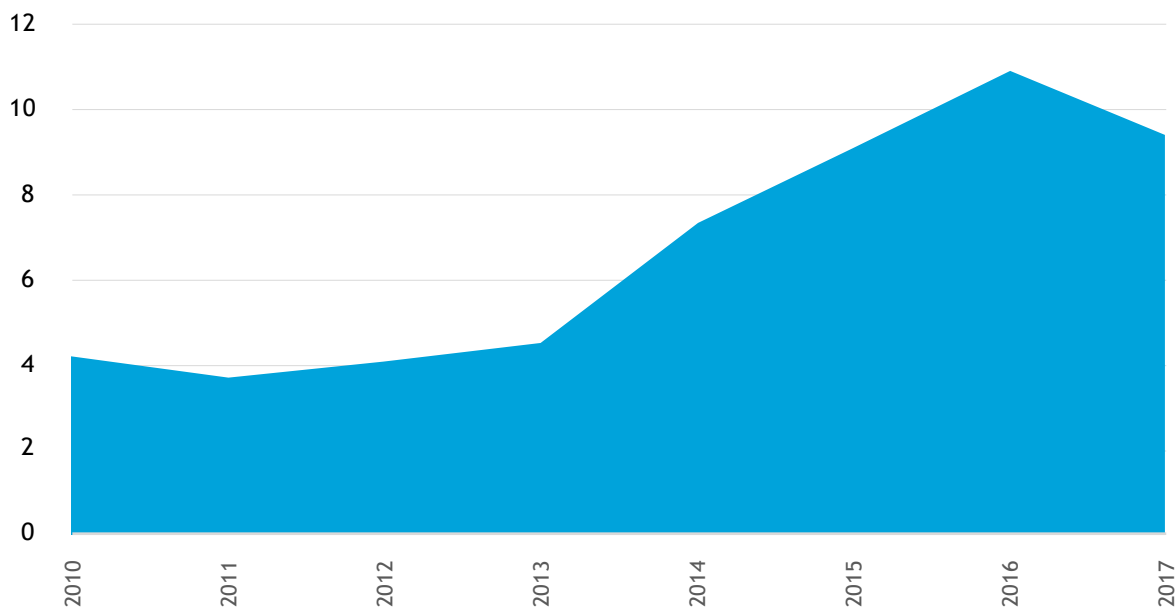
The currency composition of debt also affects economic vulnerability. According to the IMF, foreign-currency-denominated debt has increased in recent years and made up an average of 60 per cent of total public debt in Sub-Saharan Africa countries in 2017.⁶⁶ There is a high variation across countries, with foreign-currency-denominated debt making up approximately 10 per cent of total debt in South Africa and 100 per cent in Comoros and Zimbabwe. Although such debt generally comes with lower interest rates than debt issued in local currencies, it exposes borrowing countries to the risk of exchange rate volatility and hence sudden, large increases in repayments.

Ultimately, the rapid and costlier debt build up has caused interest payments to balloon in many places. When combining interest payments on all government debt, including bonds, loans and other debt instruments to both domestic and foreign creditors, and comparing to government revenue, the ratio increased from 3.7 to 9.4 per cent between 2011 and 2017, based on the average of available data (Figure 6.11). In Angola, the interest payment-to-revenue ratio jumped from 1.7 to 16.5 per cent over the same period, while in Zambia it increased from 7.6 to 26.9 per cent. Other significant increases took place in Malawi (from 8.4 to 18.5 per cent) and Mozambique (from 3.3 to 8.3 per cent). Of the 11 countries that have estimates available in 2016 or 2017, six are paying 10 per cent or more of their revenue toward debt repayment. And although data limitations preclude a more recent regional picture, the upward trend has very likely continued into the present.⁶⁷

⁶⁶ IMF (2018). Sub-Saharan Africa Regional Economic Outlook: Domestic Resource Mobilization and Private Investment. Washington, DC.

⁶⁷ Ibid.

Figure 6.11. Interest payment-to-revenue ratio trends in ESAR, 2010-17 (regional average)



Source: Author's calculations based on IMF, Government Finance Statistics Yearbook and data files (2018).

Note: There is limited data availability, with the sample size varying from 9 to 12 countries over the 2010-17 period.

As concessional debt opportunities wane, most countries will increasingly need to rely on traditional financing mechanisms to meet their spending needs. A country's ability to access funding from international financial markets is largely based on its sovereign credit rating. These are issued by credit rating agencies, which evaluate a government's capacity and willingness to meet financial commitments, both in local and foreign currency and for different time periods. When looking at the local currency, long-term ratings from Standard & Poor for the nine ESAR countries that are covered, Botswana is the only one considered creditworthy (Table 6.01). While South Africa is close to being creditworthy, all other countries are viewed as having high risks, with Angola, Mozambique and Zambia rounding out the bottom of the list. Most countries have stable outlooks, which implies that their ratings are unlikely to change in the medium term. However, Rwanda's outlook is positive, meaning that economic and/or business conditions could lead to a higher rating in the near future, while the outlooks in Angola and Zambia are negative, signalling potential downgrades are not off.

A core challenge is that commercial financing mechanisms will not be bountiful nor cheap. Countries with strong sovereign credit ratings gain access to more private capital at lower interest rates. However, given that more than half of ESAR countries do not even have a rating, and most of those that have ratings are below investment grade, international commercial options will not be sustainable in the near term. This means that most governments will depend on domestic bond markets to meet their financing requirements. However, local bond issues typically have high interest rates and short maturities, and few countries in the region have well-developed financial sectors that can readily fill a government's demand for cash.⁶⁸

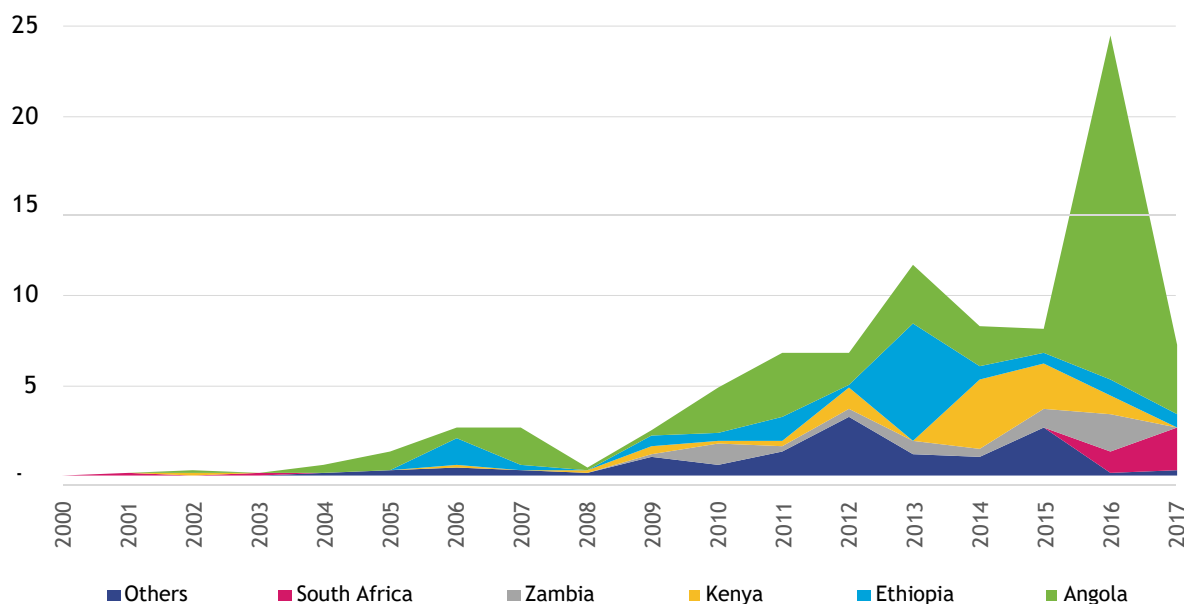
68 Yibin, M., Phelps, P. and Stotsky, J. (2013). Bond Markets in Africa. IMF Working Paper No. 13/12.

Table 6.01. Sovereign credit ratings in ESAR countries (in local currency, long term), April 2019

Country	Rating	Outlook
Botswana	A-	Stable
South Africa	BB+	Stable
Kenya	B+	Stable
Rwanda	B+	Positive
Ethiopia	B	Stable
Uganda	B	Stable
Mozambique	B-	Stable
Angola	B-	Negative
Zambia	B-	Negative

Source: Standard & Poors (2019). Sovereign Ratings List (April update).

Figure 6.12. Chinese loans to governments in ESAR, 2000-17 (in billions of current US\$)



Source: Author's calculations based on Johns Hopkins SAIS China-Africa Research Initiative (September 2018 version).

Nonetheless, one increasingly willing financier of ESAR government borrowing needs is China. Between 2010 and 2017, the Ministry of Commerce, policy banks (Export-Import Bank of China and China Development Bank), private and commercial banks, and state-owned enterprises lent around US\$80 billion to ESAR governments (Figure 6.12). This was a combination of commercial loans (market rates), various credit arrangements to facilitate the purchase of goods and services from Chinese suppliers or contractors, and also financing that qualifies as ODA, including zero-interest and concessional loans (usually at 2 per cent with a 5-year grace period 10-year repayment period).⁶⁹ In 2015-17, Angola accounted for close to 50 per cent of all new Chinese loans to the region, with other major recipients including Ethiopia (15 per cent), Kenya (12 per cent), Zambia (8 per cent) and South Africa (5 per cent).

Angola aside, ESAR borrowing from China has recently slowed but should pick up. Chinese lending to the region gained momentum after 2008, when new loans progressively increased, reaching close to US\$12 billion in 2013. Since then, total lending has declined, with the major exception of Angola, which borrowed US\$19 billion in 2016 and another US\$4 billion in 2017 to support various infrastructure projects. Nonetheless, at the Forum on China-Africa Cooperation held in Beijing in September 2018, Chinese President Xi Jinping pledged US\$60 billion in new development financing to sub-Saharan Africa over the 2019-21 period.⁷⁰ This indicates that somewhere around US\$10 billion of Chinese financing will be available each year to ESAR governments.

6.5 Donor funding

ODA flows to the region stagnated in recent years but appear to be rebounding. In 2017, the latest year of available data, total ODA to ESAR amounted to US\$24 billion (in constant 2015 US\$) (Figure 6.13).⁷¹ This marks a nearly 10 per cent increase from the amount received in 2016 and an 18 per cent increase on 2014 levels, when ODA ebbed around US\$20.5 billion. A simple projection approach indicates that ODA could be in the US\$26-27 billion range in 2019.

Nonetheless, ODA remains heavily concentrated in a sub-set of countries. Four countries, in particular, absorb nearly half of total aid in the region. These are Ethiopia (17 per cent), the United Republic of Tanzania (11 per cent), Kenya (10 per cent) and South Sudan (9 per cent) (Figure 6.14). Other major recipients include Mozambique, Somalia and Uganda, each of which accounts for 7-8 per cent of ODA in ESAR.

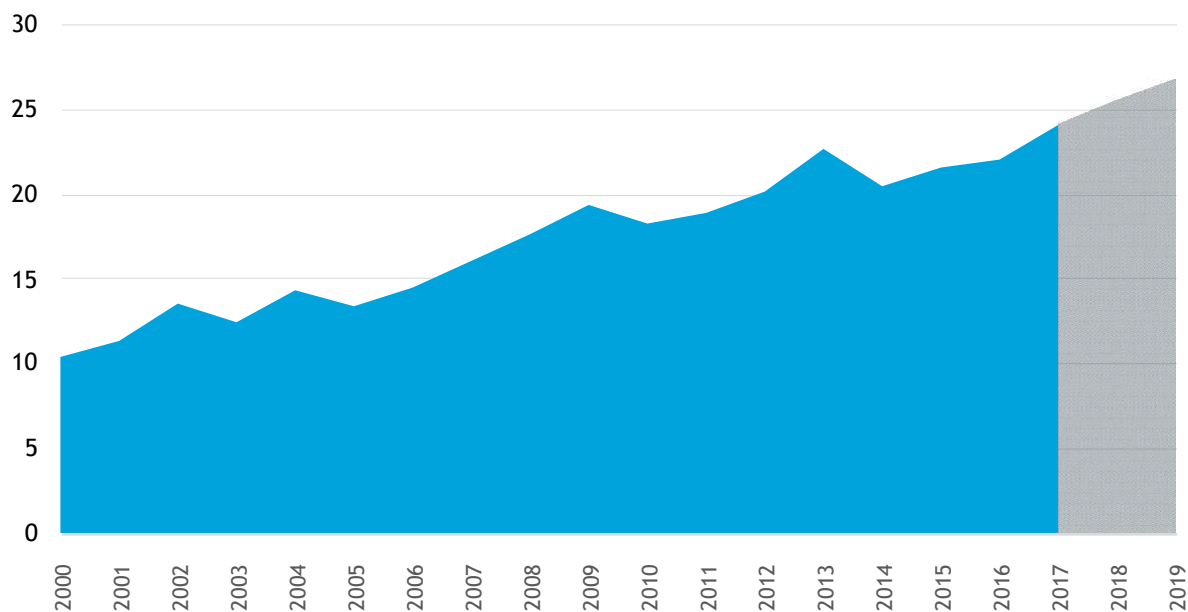
Donor funding remains a critical income source for many ESAR countries, but much less so than a decade ago. Taking the latest two-year period averages, ODA amounted to around 26 per cent of total general government expenditure in ESAR, on average (Figure 6.15 – red bars). Country-level figures vary from less than 2 per cent of expenditure in Angola, Botswana and South Africa to more than 50 per cent in Rwanda, around 75 per cent in Malawi, 85 per cent in Burundi, and more than 140 per cent in South Sudan. While dependence on foreign aid remains significant for some countries at present, ten years ago ODA amounted to nearly 50 per cent of government expenditure across the region (Figure 6.15 – blue bars); the lower figures today indicate the declining importance.

⁶⁹ Brautigam, D. and Hwang, J. (2016). China-Africa Loan Database Research Guidebook. Johns Hopkins SAIS China-Africa Research Initiative.

⁷⁰ Xinhuanet (2018). Beijing Declaration, Action Plan Agreed on at FOCAC Summit.

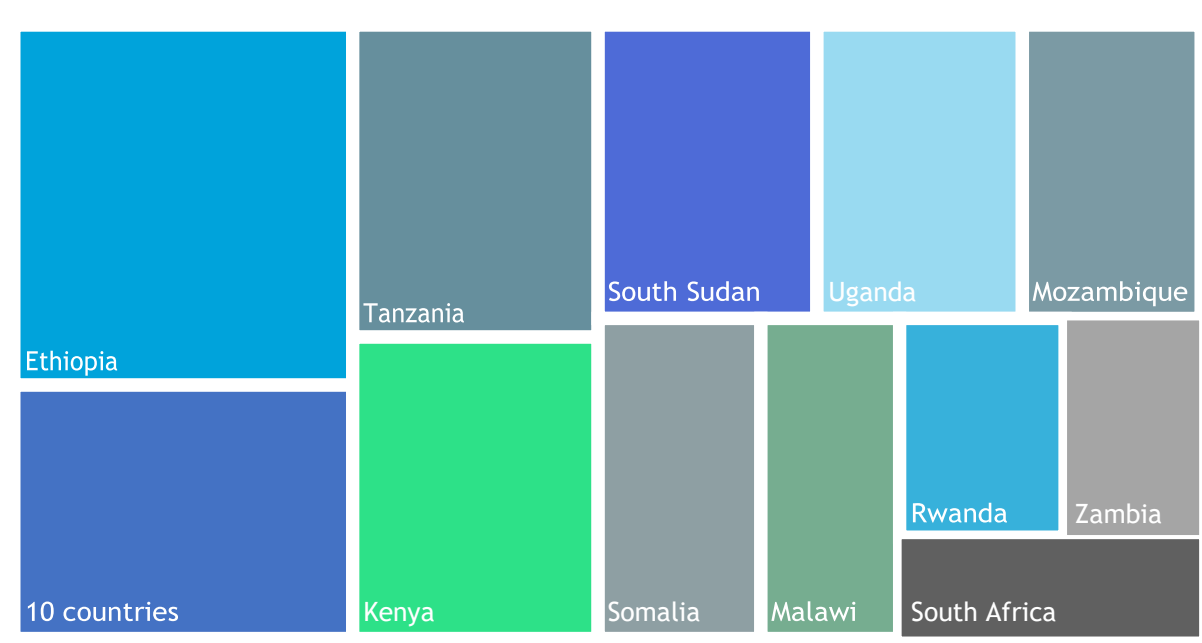
⁷¹ ODA figures published by the OECD account for government-to-government developmental and humanitarian aid in the form of grants and loans, excluding private and NGO aid flows.

**Figure 6.13. Net ODA and official aid trends in ESAR, 2000-19
(in billions of constant 2015 US\$, regional total)**



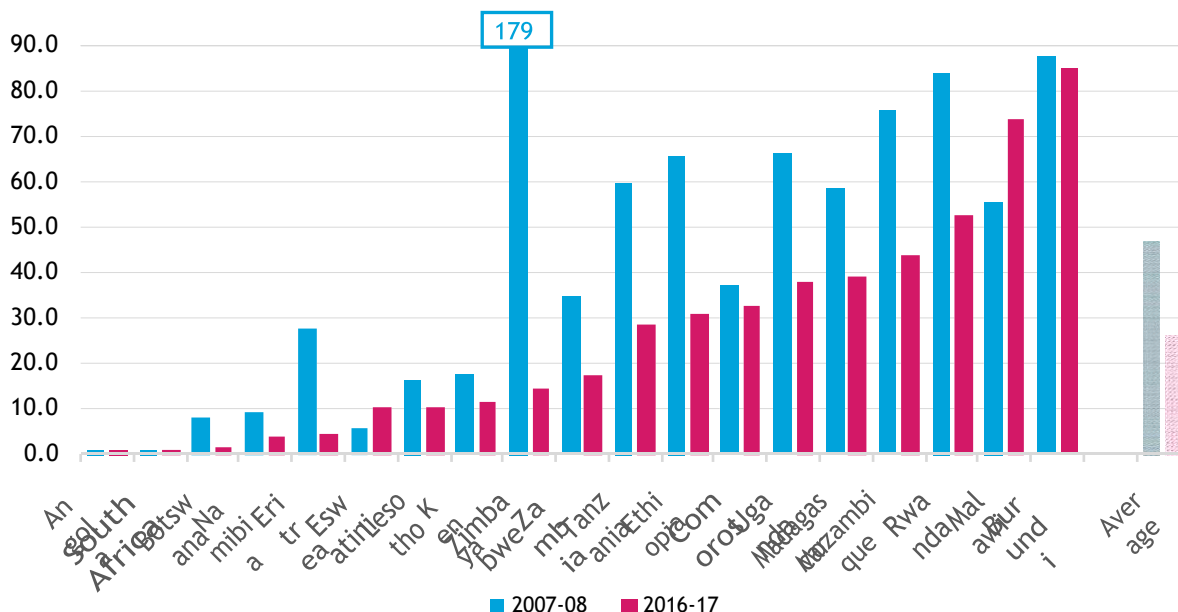
Source: Author's calculations based on OECD International Development Statistics (IDS) online database (December 2018 update).
Note: Projections start in 2018 based on least squares method using the latest 3-year period.

Figure 6.14. Distribution of net ODA and official aid received in ESAR countries, 2016 (as % of total)



Source: OECD International Development Statistics (IDS) online database (December 2018 update)

Figure 6.15. Ratio of ODA to total general government expenditure in ESAR countries, 2007-08 and 2016-17 period averages



Source: Author's calculations based on OECD International Development Statistics (IDS) online database (December 2018 update) for data on ODA and IMF World Economic Outlook Database (April 2019) for data on expenditure.

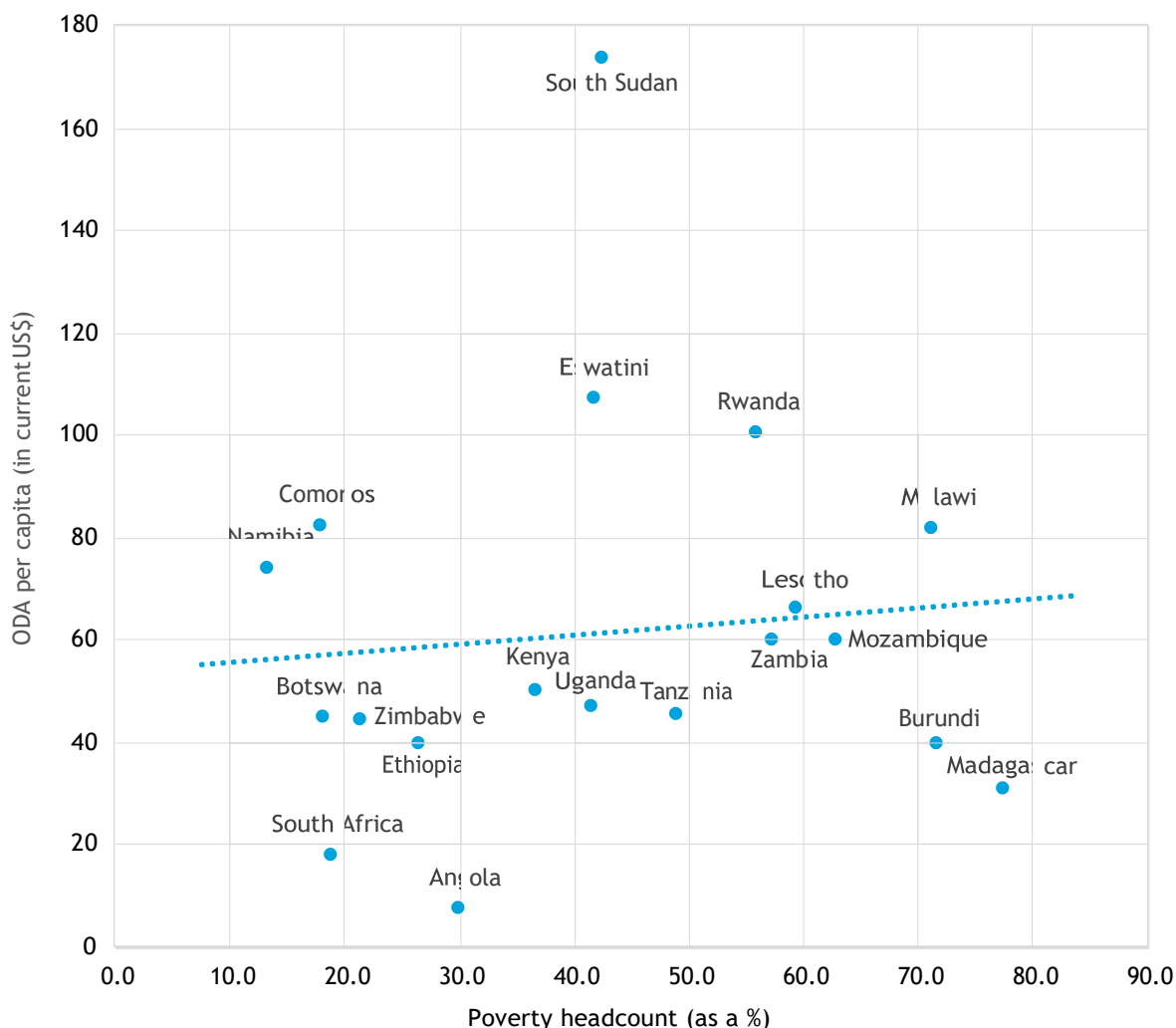
Notes: Data unavailable for Somalia; South Sudan is not presented since there is no historical data (the 2016-17 period average ratio is 142).

Yet aid is not always directed to the neediest countries. In practice, ODA allocations are strongly influenced by factors like colonial history and geopolitical affiliation, rather than actual development needs.⁷² A simple plotting of poverty rates alongside ODA per capita values corroborates this (Figure 6.16). For example, the poverty rate in Malawi is more than five times greater than in Namibia, yet both countries receive similar amounts of ODA on a per recipient basis. Or while Angola and Comoros have comparable levels of poverty, Comoros receives close to 11 times the amount of ODA once accounting for the size of the population. Similarly, while Eswatini and Uganda have nearly identical poverty rates, Eswatini benefits from 2.3 times more ODA on a per capita basis. Given that 15 of the 21 countries in ESAR are classified as least developed countries for DAC reporting through 2020 (Table 6.02), any efforts that better direct ODA on a needs basis would likely see a large increase in flows to the region.

Rising income levels are already altering the aid landscape in ESAR. A country's income classification affects its potential to benefit from ODA, both through grants and loans. The African Development Bank, the African Development Fund and the World Bank all base their lending practices on a country's income status. For example, as of 2019, 14 ESAR countries were eligible for International Development Association (IDA) grants and loans from the World Bank, but the number is expected to drop to just 7 by 2030 (Table 6.02). Gavi (the Global Vaccine Alliance) also employs a graduation policy to focus its resources on the poorest countries. In 2018, 16 of the 41 countries that were eligible to apply for new vaccine support were in ESAR (also in Table 6.02).

⁷² Utz, R. (2010). Will Countries that Receive Insufficient Aid Please Stand Up? CFP Working Paper Series, No. 7, World Bank.

Figure 6.16. Poverty rates and ODA per capita, 2016 or latest available (as % of population living below US\$1.90/day in PPP, 2011 international US\$)



Source: Author's calculations based on OECD International Development Statistics (IDS) online database (December 2018 update) for data on ODA, UN DESA World Population Prospects: 2017 Revision (medium variant) for population data and World Bank, Development Research Group, PovcalNet for data on poverty headcounts.

Note: Data unavailable for Eritrea and Somalia.

The global aid system is also changing, with new donors and private organizations increasing their presence in the region. In some ESAR countries, non-traditional donors have suddenly become the largest contributors. China's rising influence was discussed earlier, as for many ESAR governments it has become an important source of financing, some of which is classified as ODA. Although it is difficult to get precise estimates, China provided over US\$3 billion in concessional finance globally in 2016, a large portion of which can be assumed to have been directed to sub-Saharan Africa and ESAR countries.⁷³ Similar trends also apply to India, which provided close to US\$2 billion in ODA globally in 2016, the United Arab Emirates (nearly US\$5 billion in 2017) and Turkey (more than US\$8 billion in 2017),⁷⁴ the latter two are especially important sources of foreign aid for countries with large Muslim populations.

⁷³ OECD (2018). Development Co-operation Report 2018: Joining Forces to Leave No One Behind. Paris.

⁷⁴ Ibid.

Table 6.02. Categories of ODA eligibility

Country	ODA in 2018-20 ¹	IDA (from World Bank)		GAVI in 2018 ²	IBRD (World Bank)	
		in 2019 ³	in 2030 (projected) ⁴		Borrow in 2019	Borrow and grant in 2019
Angola	X				X	
Botswana					X	
Burundi	X	X	X	X		
Comoros	X	X		X		
Eritrea	X	X		X		
Eswatini					X	
Ethiopia	X	X	X	X		
Kenya				X		X
Lesotho	X	X		X		
Madagascar	X	X	X	X		
Malawi	X	X	X	X		
Mozambique	X	X		X		
Namibia					X	
Rwanda	X	X		X		
Somalia	X	X	X	X		
South Africa					X	
South Sudan	X	X		X		
Tanzania	X	X	X	X		
Uganda	X	X	X	X		
Zambia	X	X		X		
Zimbabwe				X		X

1. These countries are classified by the OECD-DAC as least developed countries for the 2018-20 period and hence eligible for ODA. Source: OECD-DAC (2018). DAC List of ODA Recipients: Effective for Reporting on 2018, 2019 and 2020 Flows.
2. Gavi The Vaccine Alliance (2018). Countries Eligible for Support.
3. World Bank (2019). World Bank Country and Lending Groups, Fiscal Year 2018-19.
4. Sedemund, J. (2014). An Outlook on ODA Graduation in the Post-2015 Era. Paris: OECD.
5. OECD (2018). Development Co-operation Report 2018: Joining Forces to Leave No One Behind. Paris.
6. Ibid.

6.6 Takeaways

Key trends

- The potential power of government expenditure is undermined by the small size of formal economies in many places, especially in Burundi, Madagascar, Malawi and South Sudan where expenditure per capita is at or below US\$100 per person.
- With universal budget deficits forecast in 2019, ESAR governments are struggling to manage deficits and debt.
- Recurring budget deficits underscore the urgency to modernize tax systems, enhance compliance and develop non-tax revenue streams.

- The region is on the brink of a debt crisis; four countries are already in debt distress (Eritrea, Mozambique, South Sudan and Zimbabwe), and many others are an unexpected shock away.
- After slumping during the 2014-16 period, ODA flows to ESAR rebounded in 2017 nonetheless, donor funding remains heavily concentrated in a sub-set of countries and could diminish significantly over the medium term as half of the current IDA-eligible countries graduate to MIC status.
- The emergence of new financiers and donors in the region, including China, could provide opportunities for some governments if they carefully mitigate potential risks (e.g. asset seizure).

Implications for children

- For most countries in ESAR, the government is the largest source of funding for essential services that children need to survive and thrive. This means that the only viable, long-term solution to address the current financing gaps is to maximize domestic resource mobilization, including through sustained economic growth and improved tax administration.
- At the same time, achieving meaningful progress for children in the immediate term will be impossible for most governments unless domestic investments are complemented by greater ODA flows.
- The rapid rise of debt service payments is placing children's services under duress in many places and threatening to reverse progress achieved. For example, higher debt repayments have caused delayed and deferred social protection payments affecting up to 300,000 poor households in Zambia,⁷⁵ while they have starved county governments in Kenya of funding that is essential to deliver basic child services, including primary health care and pre-primary education.⁷⁶

⁷⁵ Mwenge, F. (2018). Cost of Repaying High Government Debt is Hitting Ordinary Zambians as Social Sector Spending is Squeezed. *Zambian Institute for Policy Analysis and Research (ZIPAR)*, 30 August.

⁷⁶ Ibid.

CHAPTER 7.

THE SOCIAL SECTOR INVESTMENT OUTLOOK AND CHILDREN

Having discussed the fiscal balance, this chapter takes a deep dive into the expenditure component to gauge the extent to which social sectors are being supported and how their budgets are performing. Each section takes on a different social sector, starting with health, education, and water and sanitation, and finishing with social protection. Based on the available cross-country data, the chapter attempts to assess the budget priority of each sector and changes over time, the level of spending relative to the size of the economy and population, the composition of budgets, including by economic classification (recurrent and capital items⁷⁷) and different types of services, as well as budget credibility. Following the sector-by-sector analysis, the chapter presents – as best as possible – a bird’s eye view of social sector investment trends in the region. It also explores the potential effects of reallocating budgetary resources from other areas, like the military, into the social sectors. To conclude, the chapter summarizes the main social sector investment issues in the region along with the implications for children.

7.1 Health spending

Few governments in the region have lived up to their financial commitments to the health sector. With the signing of the Abuja Declaration in 2001, African governments unanimously agreed to allocate 15 per cent of their annual budgets to health.⁷⁸ Today, nearly two decades on, little progress has been achieved. The latest cross-country comparable data indicates that only 3 countries in ESAR are meeting the spending benchmark: Eswatini, Ethiopia and Malawi (Figure 7.01). Even more alarmingly, one-third of the region is devoting less than 10 per cent of its national budgets to the health sector, with Angola, Eritrea and South Sudan at 5 per cent or less. Meanwhile, the WHO estimates that between 20 per cent and 40 per cent of health resources are misspent.⁷⁹

Most governments are also failing to invest the minimum amount needed to provide basic, life-saving health services to their populations. Using the updated WHO estimate that a minimum of US\$86 per capita of spending is required to cover essential health services each year,⁸⁰ 14 of the 20 ESAR countries with data did not meet this target as of 2015 (Figure 7.02). At US\$14 per capita, Madagascar has the lowest investment level in the region, while Burundi, Eritrea, Ethiopia, Malawi and South Sudan all spent equal to or less than US\$30

⁷⁷ Recurrent expenditure supports ongoing operations and does not result in the creation or acquisition of fixed assets. This commonly includes wages, rentals, office requirements, interest payments on borrowed funds, and maintenance of fixed assets. Capital expenditure, in contrast, is for assets that last for more than one year. This includes things like equipment, land, buildings, legal expenses and other transfer costs associated with a property. Since the entire value of the asset is recorded in the year when it was purchased, capital spending can fluctuate significantly from year to year, especially when major infrastructure projects are supported. It is also important to note that recurrent expenditure sometimes includes capital expenditures (e.g. for equipment like computers, chalkboards or health diagnostic machines) and vice versa depending on how a transaction is defined and recorded by the government.

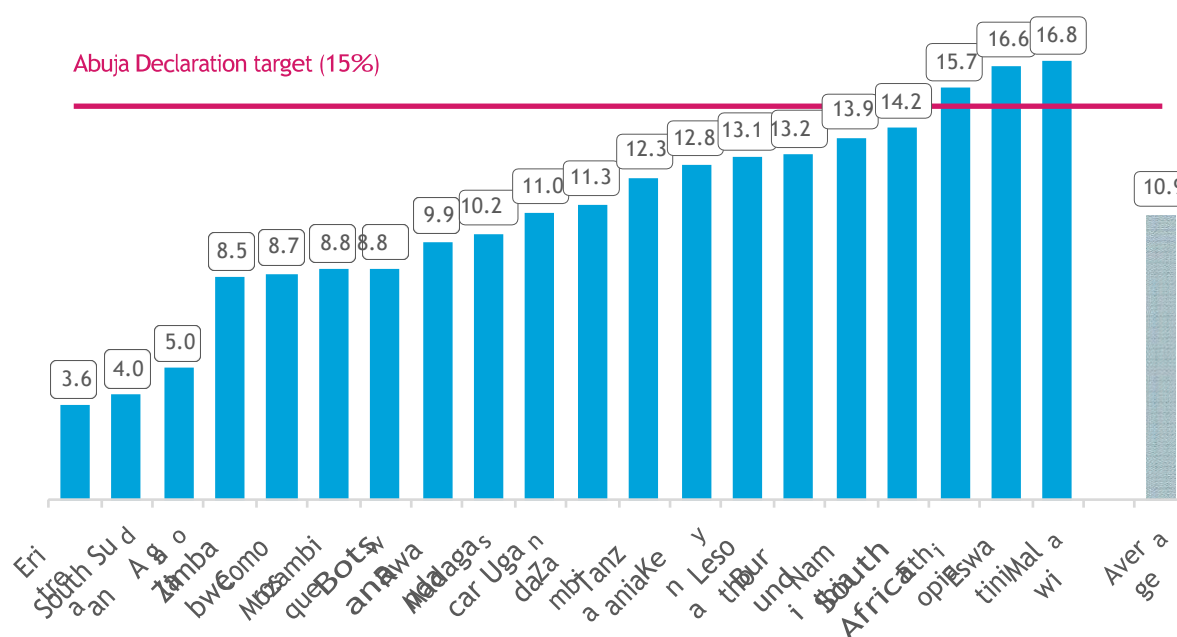
⁷⁸ WHO (2011). The Abuja Declaration: Ten Years On. Geneva.

⁷⁹ WHO (2014). Global Health Expenditure Atlas. Geneva.

⁸⁰ The World Health Report 2010 presented estimates of required health spending prepared by the High-Level Taskforce on Innovative International Financing for Health Systems, concluding that LICs would need to spend US\$60 per capita, on average, by 2015 in order to deliver a set of essential health interventions, but noting that the figure would for some countries be less than US\$40 per capita and for others more than US\$80 per capita. These estimates were then independently updated to 2012 US dollar terms (from 2005), which resulted in an average figure of \$86 per capita.

Source: Chatham House Centre on Global Health Security Working Group on Health Financing (2014). Shared Responsibilities for Health: A Coherent Global Framework for Health Financing. London; see also Jowett, M. et al. (2016). Spending Targets for Health: No Magic Number. Health Financing Working Paper No. 1, WHO.

Figure 7.01. Government expenditure on health in ESAR countries, 2016 or latest available (as % of total expenditure)



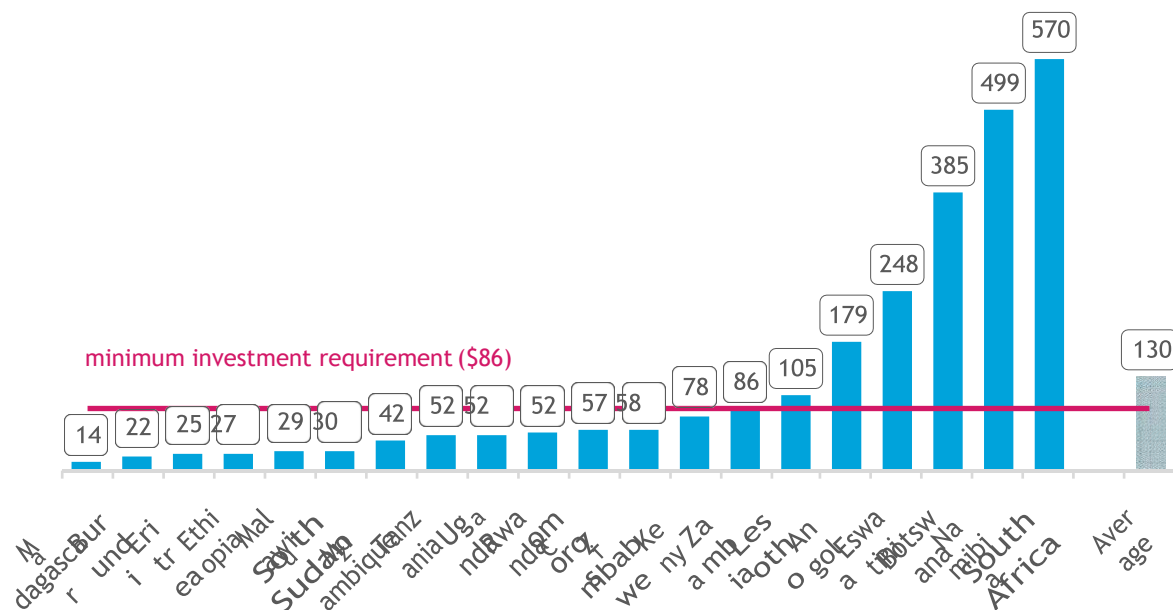
Source: WHO Global Health Expenditure Database.
 Note: Data unavailable for Somalia.

on health. In contrast, Botswana, Namibia and South Africa invested around US\$400, US\$500 and US\$600 per capita, respectively, on the health of their populations. Another key observation is that two of the three countries that are abiding by the Abuja Declaration budget priority target fail to meet the benchmark in terms of levels of investment (US\$86 per capita): these include Ethiopia and Malawi (US\$27 and US\$39 per capita respectively).

To further underscore the daunting financing constraints, several governments would be unable to provide essential health services even if they directed all their revenue to the sector. Based on total revenue and population projections in 2019, four countries would either fall below or barely meet the US\$86 per capita minimum health spending threshold – Burundi, Madagascar, Malawi and South Sudan – with Burundi only projected to have US\$42 per capita in revenue in 2019, not even half of the WHO requirement (Figure 7.03 – dark blue bars). Under a different yet equally unrealistic scenario, if all governments in the region were to spend 50 per cent of their revenue base on health services, eleven countries would be at or below the minimum per capita financial requirement (Figure 7.03 – blue bars). And if governments were to meet the Abuja Declaration target by investing 15 per cent of their projected revenue in the health sector, only 4 of the 20 governments would be able to invest enough to provide essential health services to their populations in 2019 (Botswana, Eswatini, Namibia and South Africa) (Figure 7.03 – light blue bars).

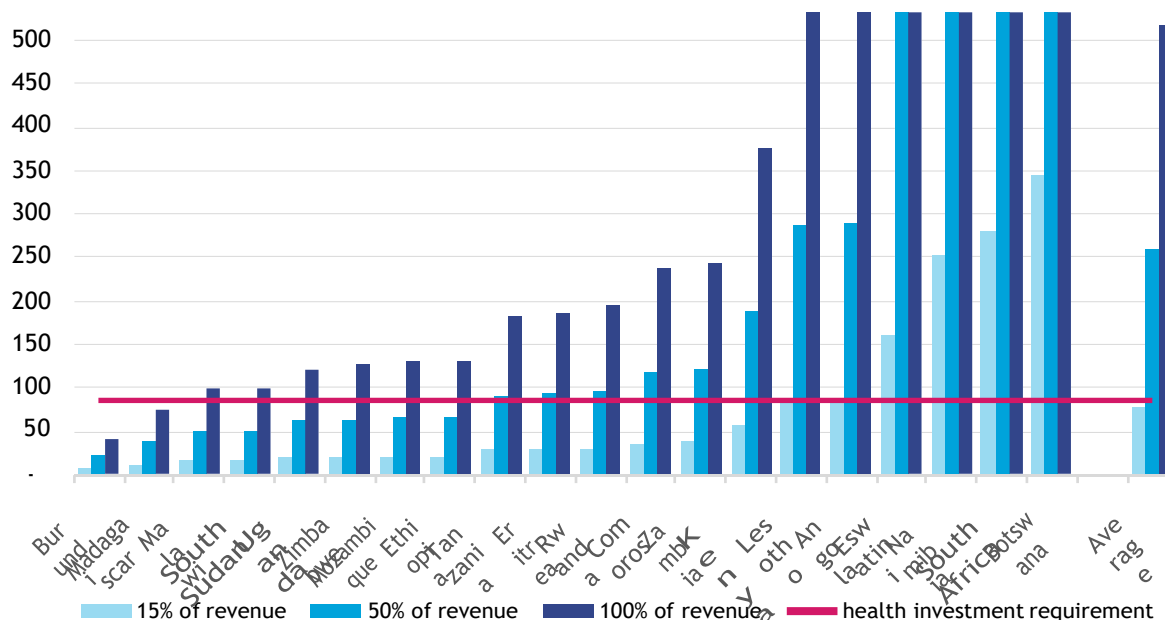
On a more positive front, there has been progress on increasing levels of investment in health. Looking at changes between 2005 and 2015, per capita health spending grew by US\$55, on average, which is a 122 per cent increase (Figure 7.04). Going from US\$7 to US\$27 per capita, Ethiopia nearly trebled its investment in health. In addition, Eritrea and Kenya more than doubled their health spending over the same period, while Angola and Rwanda were close behind. Madagascar is the only country that reversed progress, with per capita health expenditure slightly receding from around US\$13.90 in 2005 to US\$13.70 in 2015.

Figure 7.02. Health expenditure per capita in ESAR countries and minimum investment requirements, 2015 (in current US\$)



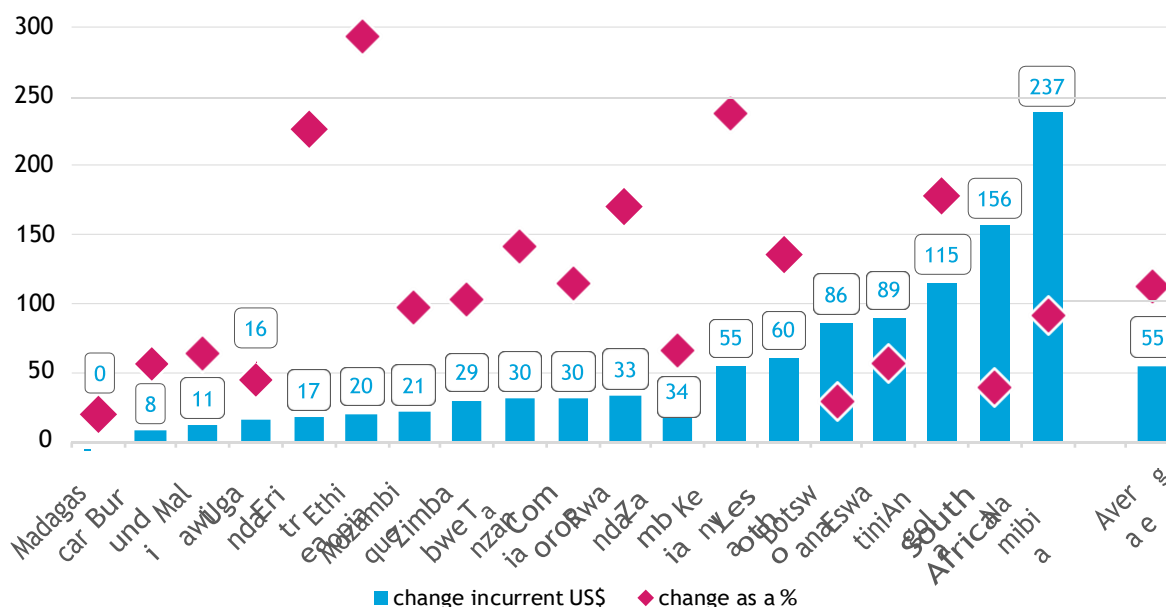
Source: Author's calculations based on WHO Global Health Expenditure Database for data on health expenditure and UN DESA World Population Prospects: 2017 Revision for population data.
 Note: Data unavailable for Somalia.

Figure 7.03. Total general government revenue per capita in ESAR countries and minimum health investment requirements under different spending scenarios, 2019 projections (in current US\$)



Source: IMF World Economic Outlook Database (April 2019).
 Notes: Data unavailable for Somalia; for presentation purposes, the total values of countries that have high levels of per capita revenue are not presented in the figure (e.g. for Lesotho, Angola, Eswatini, Namibia, South Africa and Botswana).

Figure 7.04. Per capita health expenditure trends in ESAR countries between 2005 and 2015 (change in current US\$ and as %)



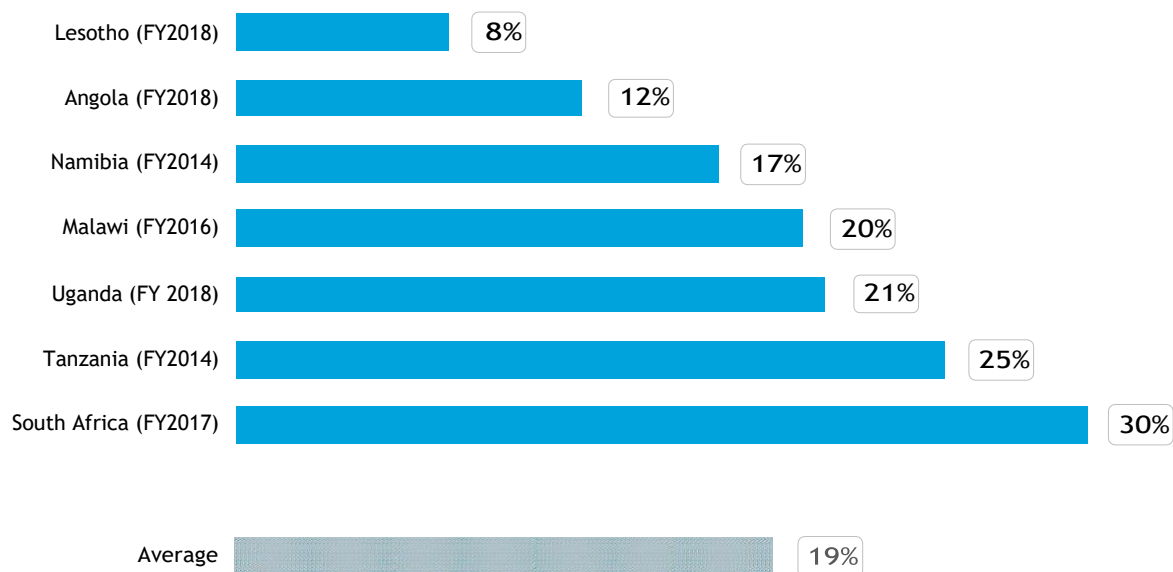
Source: Author's calculations based on WHO Global Health Expenditure Database for data on health expenditure and UN DESA World Population Prospects: 2017 Revision for population data.
 Note: Data unavailable for Somalia and South Sudan.

A closer look at the composition of health spending shows that primary services are not always a priority. Although there is limited cross-country information available, data from recent UNICEF budget briefs and other sources shows that, in seven countries, only an average of 20 per cent of health budgets were recently supporting primary services (Figure 7.05). This ranges from as low as 8 per cent in Lesotho to 30 per cent in South Africa. The available data suggest that many health budgets are favouring investments in tertiary services that tend to benefit better-off persons living close to or inside major cities, while neglecting basic services that the vast majority of persons relies on.

Beyond compositional issues, there are also challenges in executing health sector budgets, especially capital (or development) budgets. A review of recent public finance analyses in the region offers budget credibility data for 19 countries, which show the percentage of the health budget that is spent at the end of the fiscal year compared to the approved amount at the start of the year. When looking at the latest available three-year averages for each country, an average of 86 per cent of the approved health sector budget is spent (Figure 7.06). The countries that have data on recurrent spending show that this performs better than the overall average (an average of 95 per cent), while capital spending fares considerably worse, at an average of less than 70 per cent.

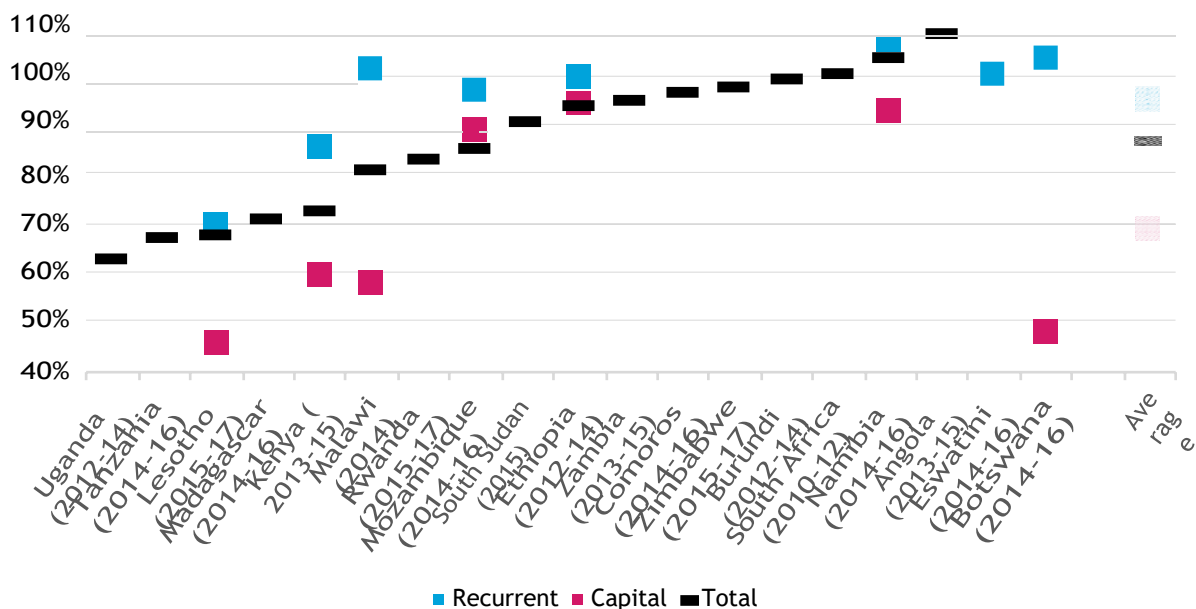
The differences in budget credibility across countries are also profound. For instance, the latest three-year average credibility rate for recurrent health budgets was at or above 100 per cent in Botswana, Eswatini, Ethiopia, Malawi and Namibia, compared to 69 per cent in Lesotho. For capital expenditure, credibility was close to or above 90 per cent in Ethiopia, Mozambique and Namibia compared to less than 60 per cent in Kenya and Malawi and below 50 per cent in Botswana and Lesotho.

Figure 7.05. Health expenditure on primary healthcare services in select ESAR countries, latest available (as % of total government health expenditure)



Sources: UNICEF health budget briefs for all countries except the United Republic of Tanzania, which is from the Primary Health Care Performance Initiative (2018).
 Note: Limited data availability.

Figure 7.06. Health budget credibility rates in ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)



Source: Author's calculations based on UNICEF budget briefs, Public Expenditure Reviews (PERs), Public Expenditure and Financial Assessments (PEFAs) and World Bank BOOST databases published since 2016.
 Note: Data unavailable for Eritrea and Somalia.

7.2 Education spending

Over the past two decades, ESAR governments have made big financial promises to the education sector. In 2000, all countries in the region signed Education for All: A Framework for Action in Sub-Saharan Africa – also known as the Dakar Framework. Here, they pledged to allocate at least 7 per cent of GDP to education by 2005 and 9 per cent by 2010.⁸¹ As the MDG period concluded, ESAR governments re-affirmed their commitment to finance education services by signing the Incheon Declaration and Framework for Action for the implementation of SDG 4 (on education). This called for signatories to allocate 6 per cent of GDP and/or 15-20 per cent of public expenditure to education.⁸²

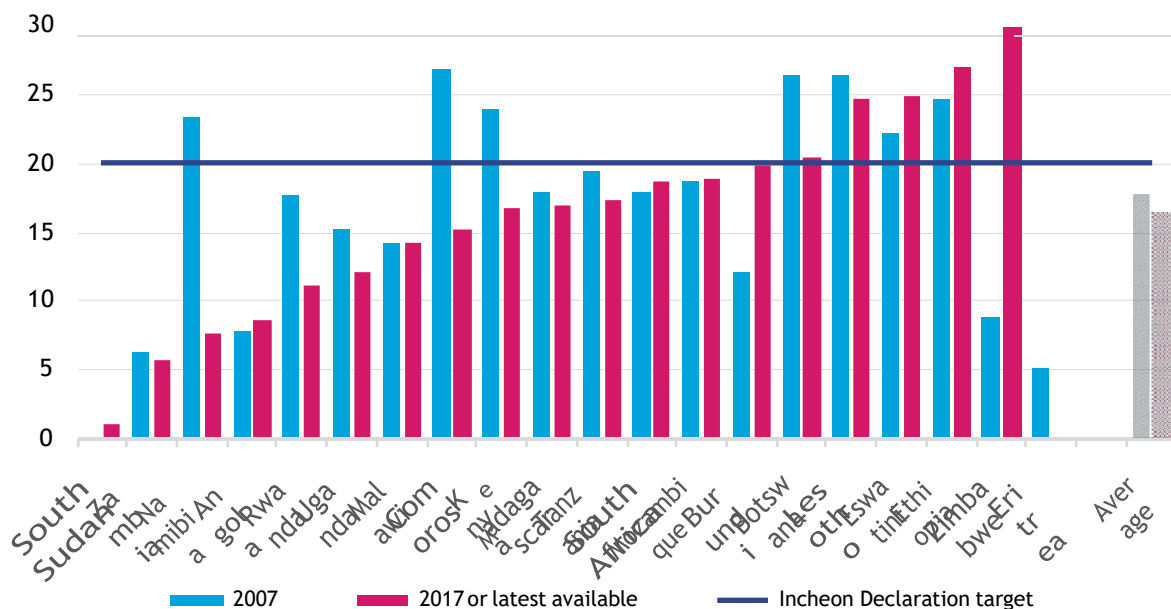
Despite the strong commitments, investment in education continues to fall short, starting with budget priority. Only five countries with recent comparable data had devoted 20 per cent or more of their budgets to education: Botswana, Eswatini, Ethiopia, Lesotho and Zimbabwe (Figure 7.07). Burundi and Mozambique were also within a percentage point or less. The more alarming trend is the declining priority given to the sector over time. Of the 18 countries with comparable data between 2007 and 2017, ten decreased the share of total expenditure going to education: this was by a sizable 5.6 percentage points, on average.

Underperformance continues when looking at the levels of investments in education. When reviewing performance against the GDP target, only six countries with comparable data had invested an amount equal to at least 6 per cent of their GDP in the education sector

81 UNESCO (2000). The Dakar Framework for Action: Education for All - Meeting our Collective Commitments. Paris.

82 UNESCO (2015). Incheon Declaration and SDG4 - Education 2030 Framework for Action. Paris.

Figure 7.07. Government expenditure on education in ESAR countries as % of total expenditure, 2007 and 2017 (or latest available)



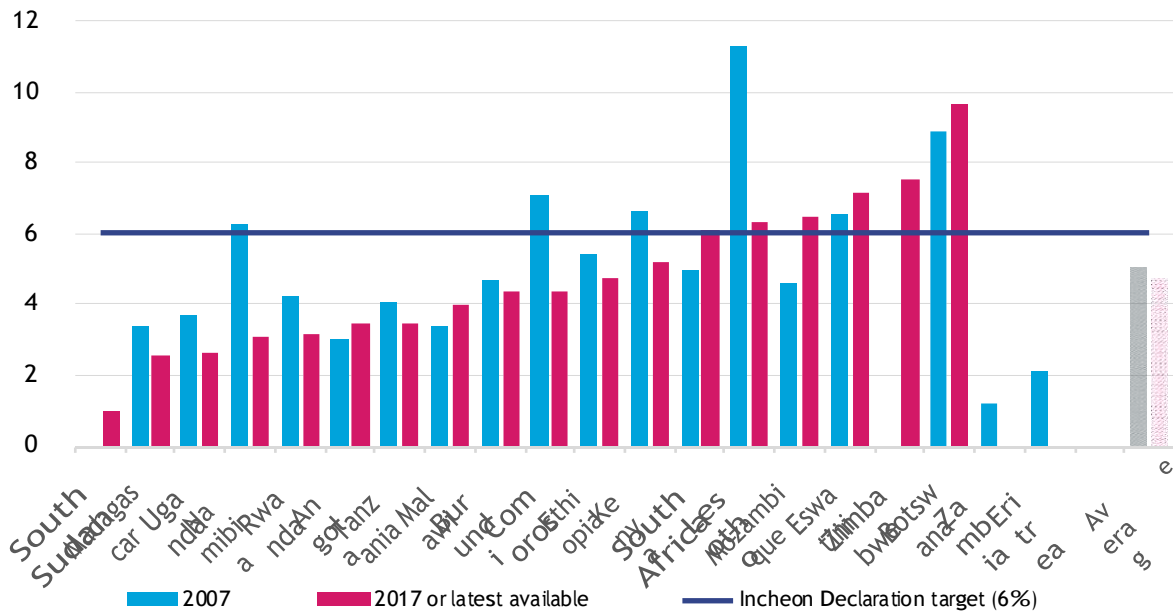
Source: UNESCO Institute for Statistics.
Note: Data unavailable for Somalia.

based on the latest estimates: Botswana, Eswatini, Lesotho, Mozambique, South Africa and Zimbabwe (Figure 7.08). As in budget priority, the trend over time is also troubling. Of the 16 countries with estimates between 2007 and 2017, ten decreased their education investments relative to the size of their economy, with the average contraction amounting to 1.7 per cent of GDP.

Beyond investment shortfalls, there are also concerns around optimizing the balance of education budgets across different education levels and spending items. A first lens is the investment focus by levels of the education system. Based on the 14 ESAR countries that have recent, comparable data, around half of education budgets are spent on primary education and about a quarter each on secondary and tertiary education services, on average (Figure 7.09). However, pre-primary education services, which are foundational to ensuring that investment in higher levels is not wasted through low learning outcomes and high repetition and dropout rates, remain underfunded. Based on the sample, an average of 2.1 per cent of education spending supports pre-primary education, with three countries investing nothing according to available data (Malawi, Mozambique and Uganda).

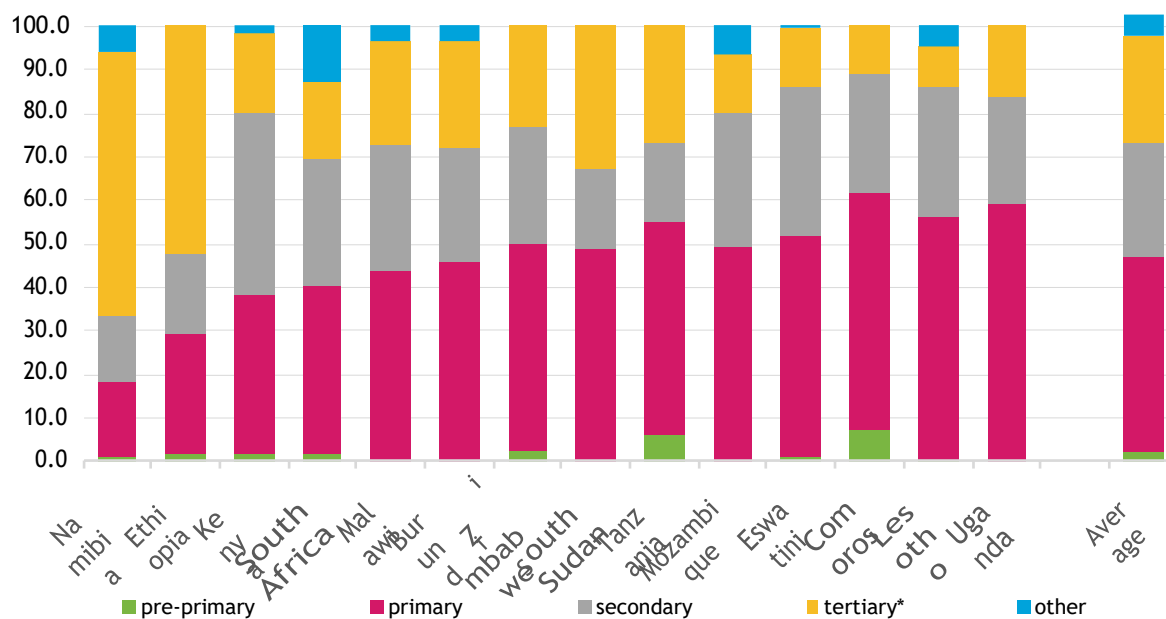
The spending imbalance can be further understood by comparing spending between tertiary and pre-primary services. In the 11 countries that have data, tertiary and post-secondary non-tertiary education services received 137 times more funding than pre-primary services, on average (Figure 7.10). The difference ranges from a as little as two- and four-fold in Comoros and Tanzania respectively to close to 500 times in South Sudan and 900 times in Burundi.

Figure 7.08. Government expenditure on education in ESAR countries as % of GDP, 2007 and 2017 (or latest available)



Source: UNESCO Institute for Statistics.
 Note: Data unavailable for Somalia.

Figure 7.09. Government expenditure by level of education in select ESAR countries, 2017 or latest available (as % of total government expenditure on education)

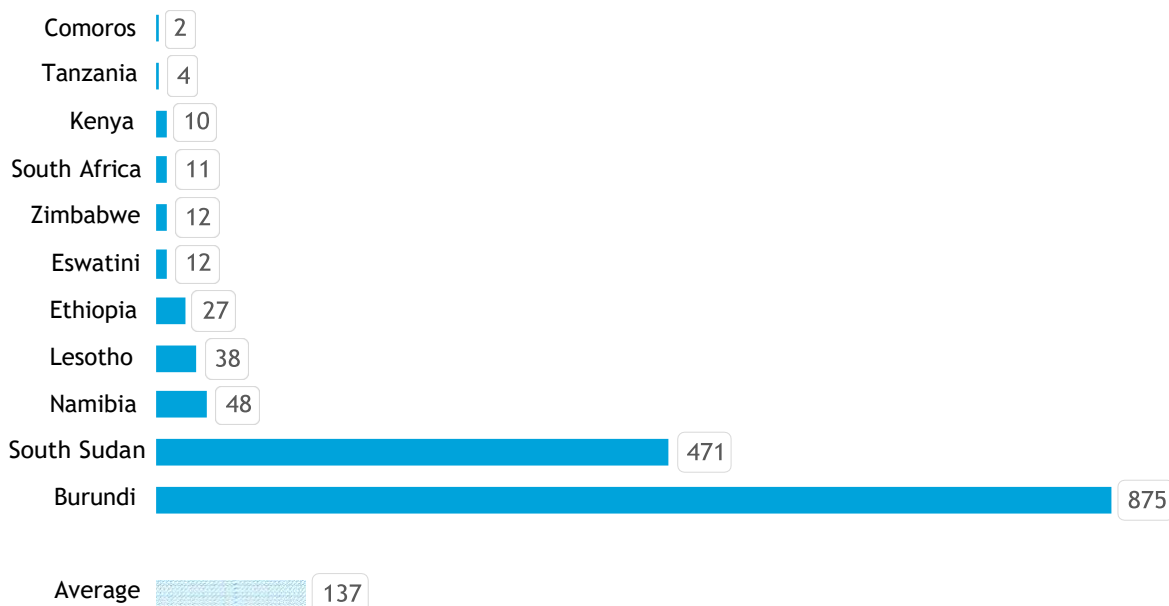


Source: UNESCO Institute for Statistics.

Note: Limited data availability.

* Includes both tertiary and post-secondary non-tertiary.

Figure 7.10. Ratio of government investments in tertiary* and pre-primary education services in select ESAR countries, 2017 or latest available (as %)



Source: Author's calculations based on UNESCO Institute for Statistics.

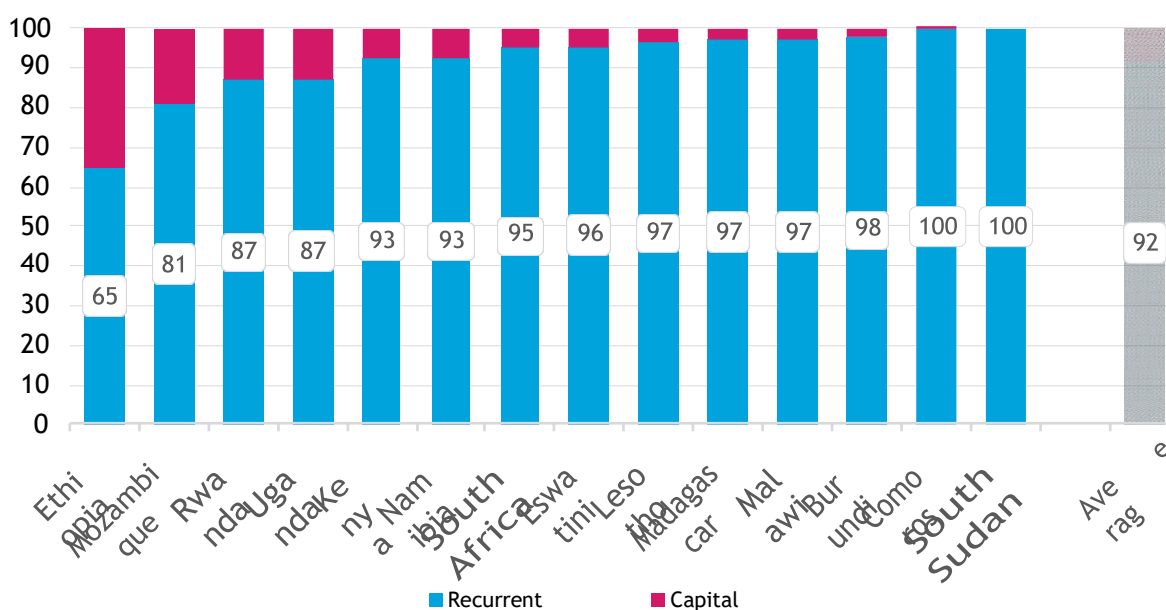
Note: Limited data availability.

* Includes both tertiary and post-secondary non-tertiary.

Additional spending imbalances are observed when looking at the economic classification of the education budget. In the 14 countries with recent, comparable information, around 92 per cent of education budgets support recurrent items – mainly salaries and wages – with the other 8 per cent going to capital (or development) items (Figure 7.11). In Comoros and South Sudan, the latest data indicate that investment expenditure was zero, while it was 3 per cent or less in Burundi, Madagascar and Malawi. This indicates that budgets are not prioritizing critical inputs that ensure all students have access to quality education services, including classrooms, chairs, desks, didactic materials and computers, which are supported by capital spending. As discussed in Chapter 2, this should be viewed as a serious concern given the current state of most education systems and the 16 million new students that must be absorbed each year (or 200 million new learners between 2019 and 2030).

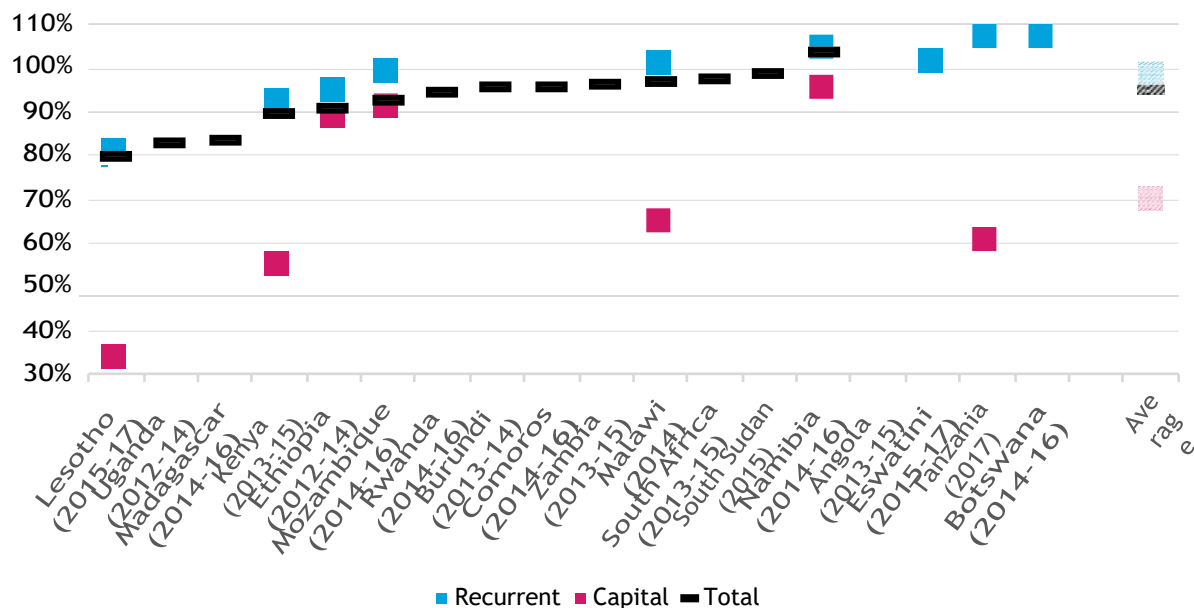
One area of optimism is that most governments in ESAR are executing their education budgets as planned. The latest available three-year period averages for 19 countries reveal that budget credibility rates in the education sector are strong, with an average of 95 per cent of approved budgets spent (Figure 7.12). For countries with data, this figure reaches an average of 99 per cent for recurrent budgets and 70 per cent for capital budgets. These trends are unsurprising. Nearly all recurrent spending goes to support the salaries of teachers and administrative staff, with most payments being automated. In contrast, capital budgets do present some implementation challenges. However, as just described, they represent a very small portion of total sector spending so do not have a major impact on overall budget credibility. Nonetheless, with recent capital budget credibility rates near or below 60 per cent, the figures for Kenya, Lesotho, Malawi and the United Republic of Tanzania are concerning.

Figure 7.11. Economic classification of government expenditure on education in select ESAR countries, 2017 or latest available (as % of total government expenditure on education)



Source: Author's calculations based on UNICEF budget briefs, PERs, PEFAs and World Bank BOOST databases published since 2016. Note: Data unavailable for Eritrea and Somalia.

Figure 7.12. Education budget credibility rates in ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)



Source: Author's calculations based on UNICEF budget briefs, PERs, PEFAs and World Bank BOOST databases published since 2016.
 Note: Data unavailable for Eritrea and Somalia.

7.3 Water and sanitation spending

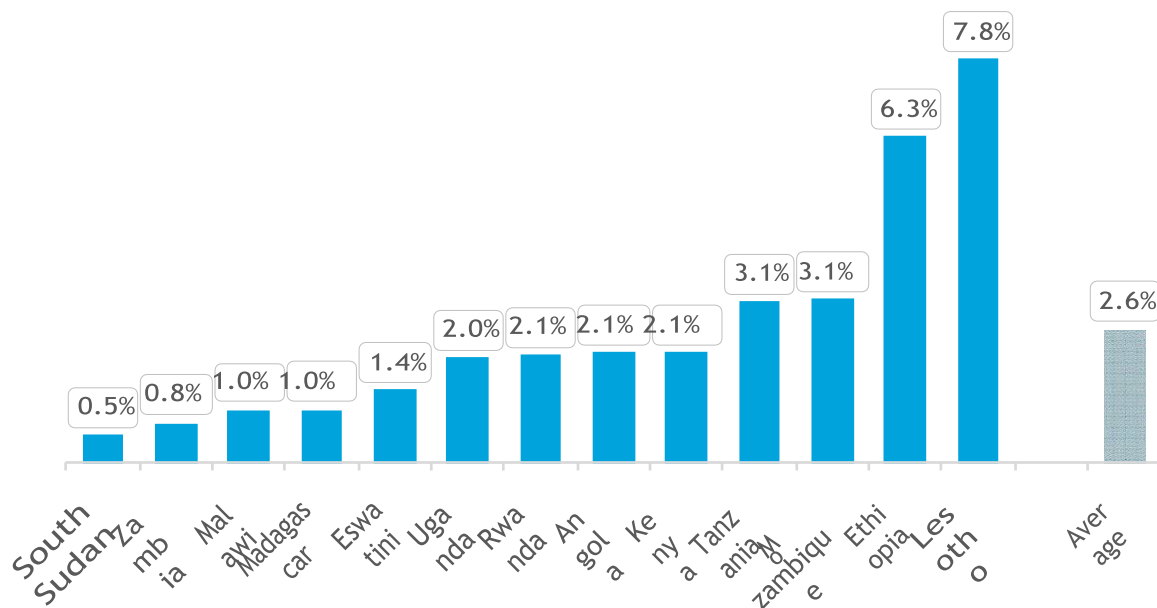
Before discussing spending trends for water and sanitation, it is important to understand the limitations of existing budget information. Government Spending Watch has made laborious efforts to collect and analyse spending data in 78 LICs and LMICs, which capture most sectors for fiscal years 2015-17.⁸³ When assessing reporting practices, they find that water and sanitation is the worst sector in terms of transparency and data availability, with only around half the countries providing some information. Even where data are available, many complications arise. For instance, core water and sanitation spending is usually spread across multiple ministries/departments/agencies (agriculture, education, energy, health, infrastructure/public works, water, etc.), while other important items are often hidden inside ministries/departments/agencies whose mandates extend far beyond these areas. Another important consideration is that data on actual water and sanitation expenditure is rarely available, so the following analysis is restricted to approved allocations (or planned spending).

Data limitations aside, the water and sanitation sector does not appear to be an investment priority in most countries in ESAR. Based on the methodology applied by Government Spending Watch to identify sector-specific budget information for 13 ESAR countries,⁸⁴ an average of 2.6 per cent of national budgets are allocated to the sector (Figure 7.13). This indicator varies from less than 1 per cent in South Sudan and Zambia to more than 6 per cent in Ethiopia and close to 8 per cent in Lesotho.

⁸³ For detailed information, see the Government Spending Watch website (www.governmentspendingwatch.org).

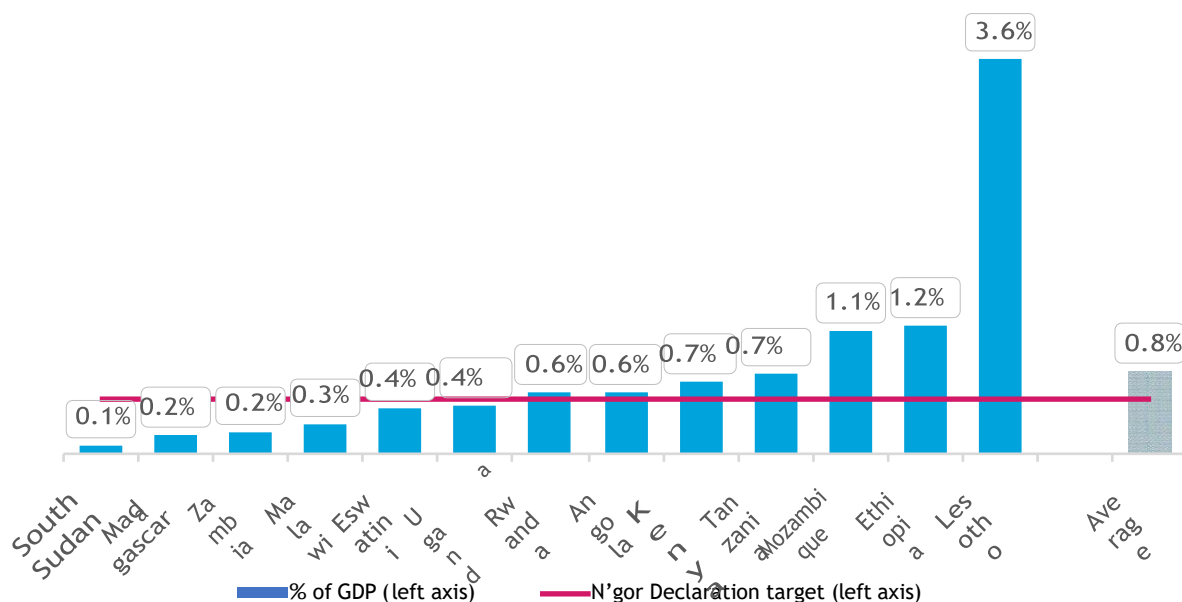
⁸⁴ According to Government Spending Watch, water and sanitation budget information collected generally captures provision of water supply (including regulatory bodies) along with waste water management. Irrigation expenditure tends to be classified as agriculture, but there may be cases in which it is not possible to separate this from water budgets. Water resource management, such as large dams and other infrastructure projects, is also excluded as the primary objective is usually producing energy rather than providing safe drinking water. Exact definitions are available at: www.governmentspendingwatch.org/definitions-and-sources.

Figure 7.13. Budget allocations to water and sanitation in select ESAR countries 2015-17 period averages (as % of total approved allocations)



Source: Government Spending Watch (2019).
Note: Limited data availability.

Figure 7.14. Budget allocations to water and sanitation in select ESAR countries, 2015-17 period averages (as % of GDP)



Source: Government Spending Watch (2019).
Note: Limited data availability.

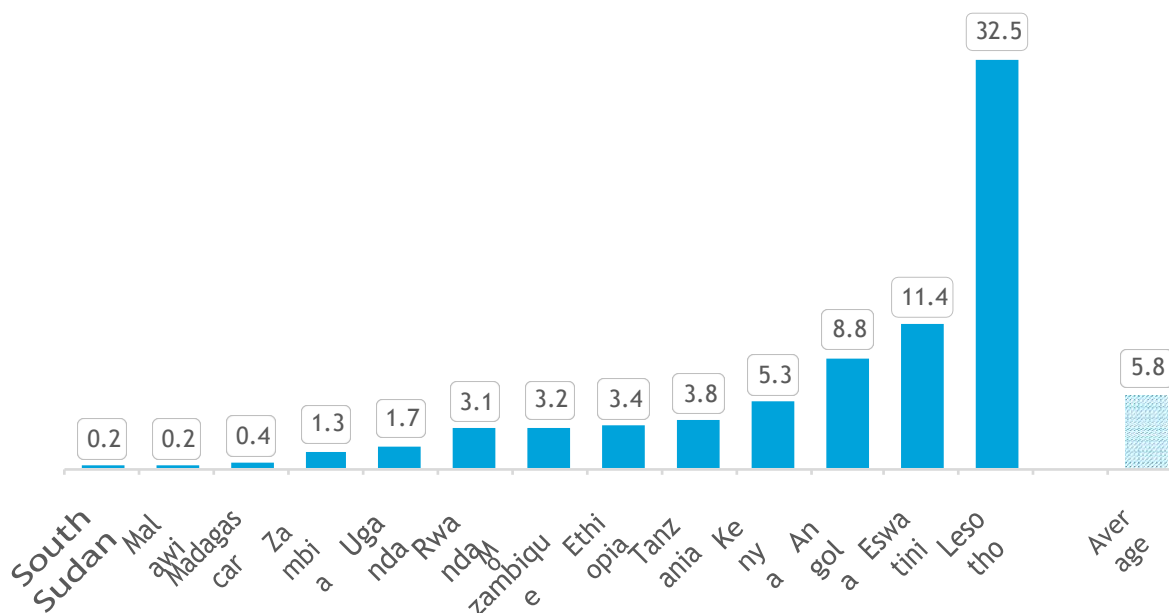
Levels of investments in water and sanitation also appear gravely inadequate in the region. Based on the latest three-year averages for 13 countries that have data, average total allocations to the sector amounted to 0.8 per cent of GDP (Figure 7.14). Madagascar, Malawi, South Sudan and Zambia allocated less than 0.3 per cent of GDP as an annual average, while Ethiopia and Mozambique allocated just over 1.1 per cent and Lesotho 3.6 per cent of GDP.

At the same time, few governments appear to be meeting the spending target for sanitation and hygiene. In 2015, all governments in Africa signed the N'gor Declaration, where they promised to consistently increase annual investments in sanitation and hygiene to reach a minimum of 0.5% GDP by 2020.⁸⁵ Tracking progress against this benchmark is very difficult as budget information on hygiene is available only in exceptional circumstances, while many governments also face difficulties reporting on sanitation. Nonetheless, making the very unrealistic assumption that spending on water is a good proxy for sanitation – recognizing that water almost always receives the lion's share of WASH sector allocations and hygiene the smallest – it is possible to offer a very broad picture of performance against the target. Even when including water together with sanitation rather than hygiene, only 7 of the 13 countries would meet the spending target (see also Figure 7.14).

Water and sanitation investment levels are even more dire when looking at per capita trends. On average, the 13 countries with data allocated an amount equivalent to less than US\$6 per person over the 2015-17 period (Figure 7.15). However, removing Lesotho, which is the best performer, the average falls to only around \$3.50 per person. Malawi and South Sudan allocated around US\$0.20 on a per capita basis over the 2015-17 period, on average, with Madagascar also particularly low at around US\$0.40 per person.

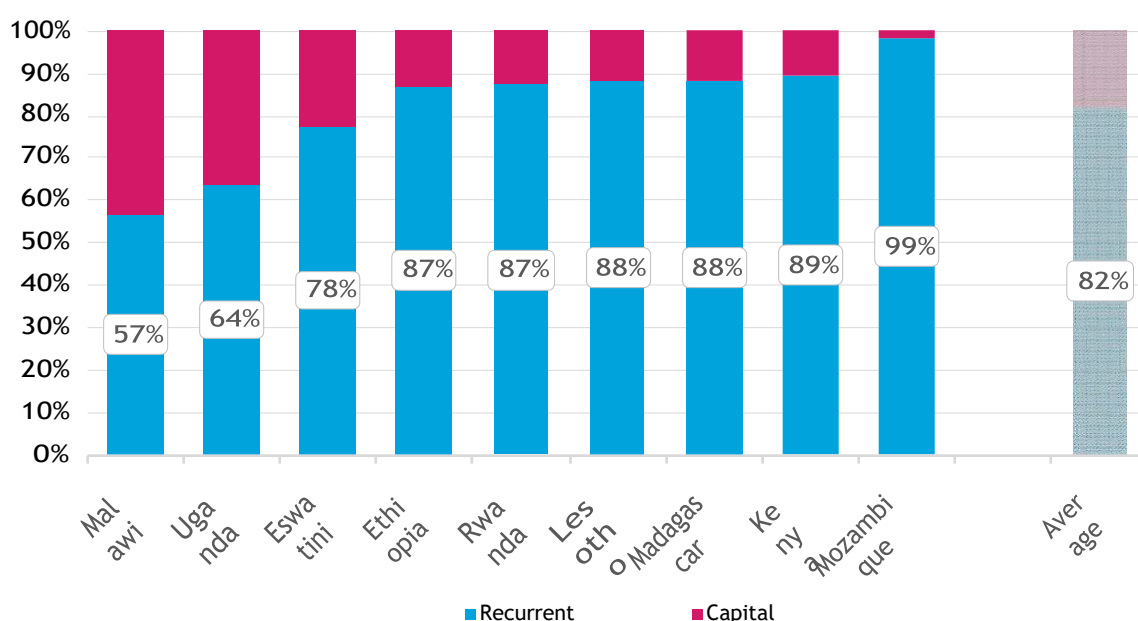
⁸⁵ This included the same target as the previous agreement: the eThekweni Declaration (2008).

Figure 7.15. Per capita budget allocations to water and sanitation in select ESAR countries, 2015-17 period averages (in constant US\$)



Source: Government Spending Watch (2019).
Note: Limited data availability.

Figure 7.16. Economic classification of government expenditure on water and sanitation in select ESAR countries, 2017 (as % of total government expenditure on water and sanitation)



Source: Government Spending Watch (2019).
Note: Limited data availability.

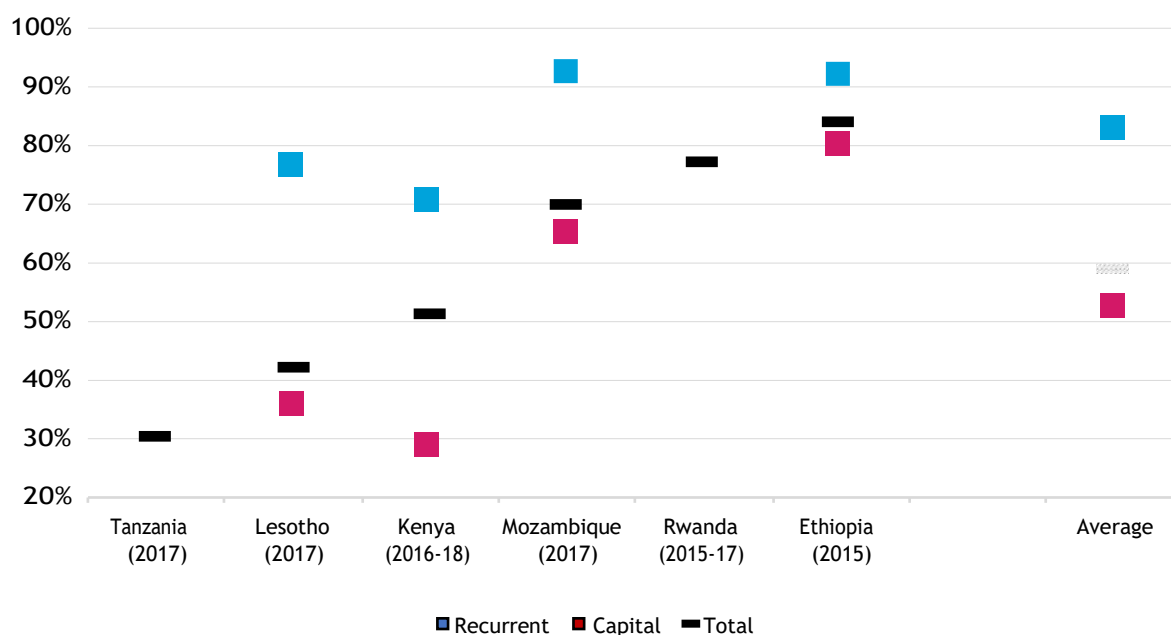
In terms of budget design, water and sanitation spending is heavily skewed toward capital items. In the nine countries with data available in fiscal year 2017, capital budgets received 82 per cent of total allocations to the sector (Figure 7.16). In Mozambique, recurrent allocations were close to zero, with five countries hovering around 90 per cent capital investment. Malawi and Uganda, in contrast, managed a much more even balance. This trend is particularly troubling given the widespread reporting in the region of malfunctioning or non-operational water systems, including rural hand pumps, a trend that is commonly attributed to a lack of recurrent funding for operation and maintenance (O&M) services.⁸⁶

The impact of water and sanitation budgets is further undermined by very low credibility. This information is difficult to come by, but data for six countries can be obtained from various public finance tools and databases to offer some very preliminary insights on budget implementation. Taking the latest three-year period averages, where available, the overall budget credibility rate for water and sanitation was 60 per cent, on average (Figure 7.17). This is much worse than the rates for health and education discussed earlier. Even within this limited sample, the variance is significant, from 30 per cent in Tanzania to 84 per cent in Ethiopia. Based on disaggregated information from four countries, capital budget credibility rates are significantly lower than those for recurrent budgets (52 versus 83 per cent, on average). This trend is, at least, partly explained by procurement challenges alongside significant donor funding for water and sanitation investment projects, which often require different administrative and reporting procedures and their own disbursement delays thus affecting overall credibility.⁸⁷

⁸⁶ Boateng, N. (2015). Key Policy Challenges and Opportunities for Improving Service Delivery in WASH in Africa. Pretoria: Collaborative Africa Budget Reform Initiative (CABRI); and World Bank (2017). Easing the Transition to Commercial Finance for Sustainable Water and Sanitation. Washington, DC.

⁸⁷ WHO and UN-Water (2017). Financing Universal WASH under the SDGs: GLAAS 2017 Report. Geneva.

Figure 7.17. Water and sanitation budget credibility rates in select ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)



Source: Author's calculations based on 2018 WASH budget briefs for Kenya, Rwanda and the United Republic of Tanzania; 2017 WASH budget brief for Mozambique; and 2017 PER of water for Ethiopia.
 Note: Limited data availability.

7.4 Social protection spending

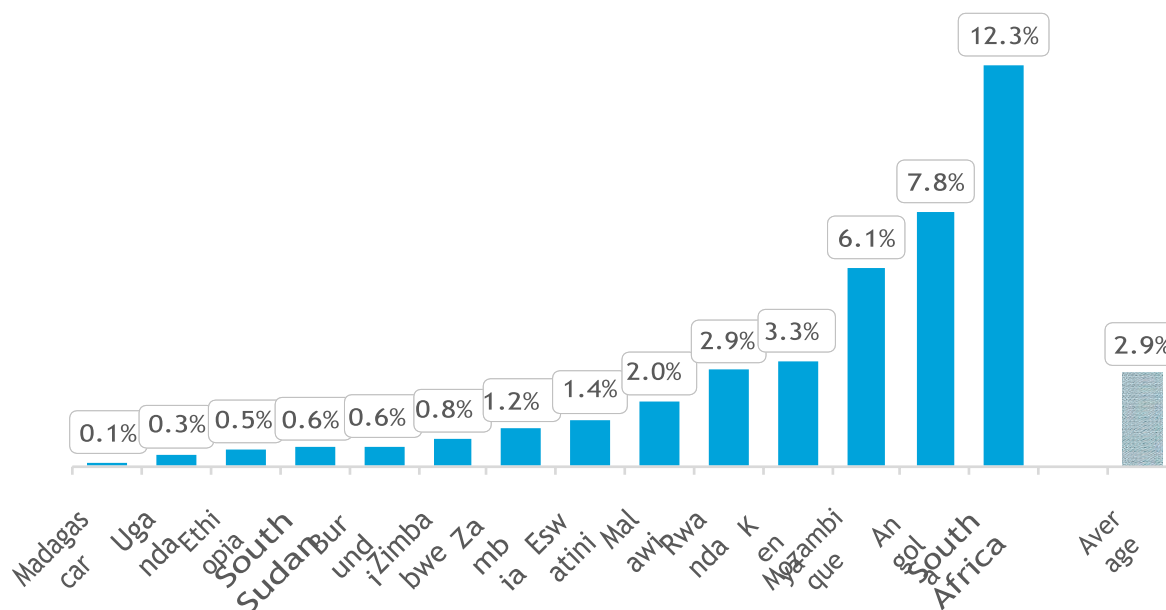
Although government reporting practices on social protection budgets are generally stronger than on water and sanitation, there are similar measurement and comparison issues. As in water and sanitation, social protection interventions are commonly spread across many ministries/departments/agencies, such as those responsible for providing services related to agriculture, children and families, health, education, the labour market and social protection (or welfare or development). The diverse operational arrangements make it difficult to delineate concrete budget borders around the social protection system, which also hampers aggregation processes to arrive at total estimates for the sector. Cross-country comparisons are made even problematic by the fact that few governments apply the same definition of the social protection sector. Despite these complexities, Government Spending Watch attempted to harmonize social protection definitions and analyse allocations, like its work on water and sanitation. In its classification, allocations to social transfers, employment programmes targeted to the poor, food security programmes and other non-contributory social security schemes are included as social protection spending, while contributory schemes, such as civil service pensions, as well as items that are disbursed through other sectors (such as agriculture and health) are not.⁸⁸

When applying a pro-poor, harmonized definition, social protection emerges as a very low investment priority in the region. On average, social protection received less than 3 per cent of total budget allocations based on the 2015-17 period averages of 14 ESAR countries with recent data (Figure 7.18).⁸⁹ However, six governments, or nearly half the

⁸⁸ For exact definitions, see: <www.governmentspendingwatch.org/definitions-and-sources>.

⁸⁹ It is important to recognize that several ESAR countries that perform better in terms of social protection investments are not included in the sample, in particular Botswana, Lesotho and Namibia. Given the very small sizes of their populations, their omission

Figure 7.18. Budget allocations to social protection in select ESAR countries, 2015-17 period averages (as % of total approved allocations)



Source: Government Spending Watch (2019).
Note: Limited data availability.

sample, allocated less than 1 per cent of their national budgets to social protection. This included Burundi, Ethiopia, Madagascar, South Sudan, Uganda and Zimbabwe. South Africa emerged as the regional leader, having devoted more than 12 per cent of national allocations to social protection in recent years.

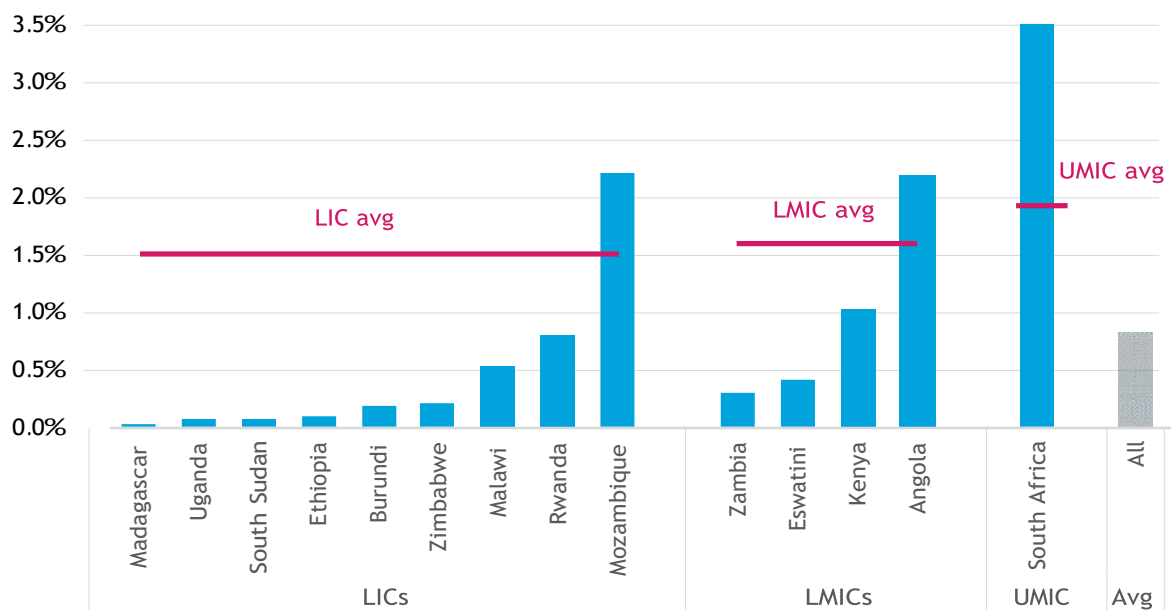
The levels of investments in social protection are also quite low in ESAR, although there is a significant difference across income groups. For the 14 countries that have recent data, the average allocations to the sector amounted to 0.8 per cent of GDP during fiscal years 2015-17 (Figure 7.19). This is exactly 50 per cent below the World Bank's estimate for social protection allocations among all developing countries, which is 1.6 per cent of GDP.⁹⁰ World Bank also assesses social protection spending levels by income groups. Here, LICs allocate an amount equivalent to 1.5 per cent of GDP, on average, with LMICs at 1.6 per cent, UMICs at 1.9 per cent and high-income countries at 2.9 per cent of GDP. When applied to ESAR, only 3 of the 14 countries with figures outperform their income group average spending benchmarks in recent fiscal years. These were Mozambique (2.2 versus 1.5 per cent of GDP), Angola (2.2 versus 1.6 per cent of GDP) and South Africa (3.5 versus 1.9 per cent).

Levels of investments in social protection are further concerning when looking at per capita values. Again, taking the same sample of 14 countries, social protection allocations during fiscal years 2015-17 amounted to US\$15 per capita, on average (Figure 7.20). However, if removing South Africa and its impressive US\$139 per person of social protection allocations in recent years, the regional average falls to just US\$5 per capita. The disparities across country income groups are particularly striking. For the LICs, average allocations to social protection over the 2015-17 period barely surpassed US\$1 per capita, on average,

does not heavily skew the overall regional investment patterns indicated by the 14 countries tracked by Government Spending Watch. However, it does underrepresent the level of government support for the social protection agenda in the region.

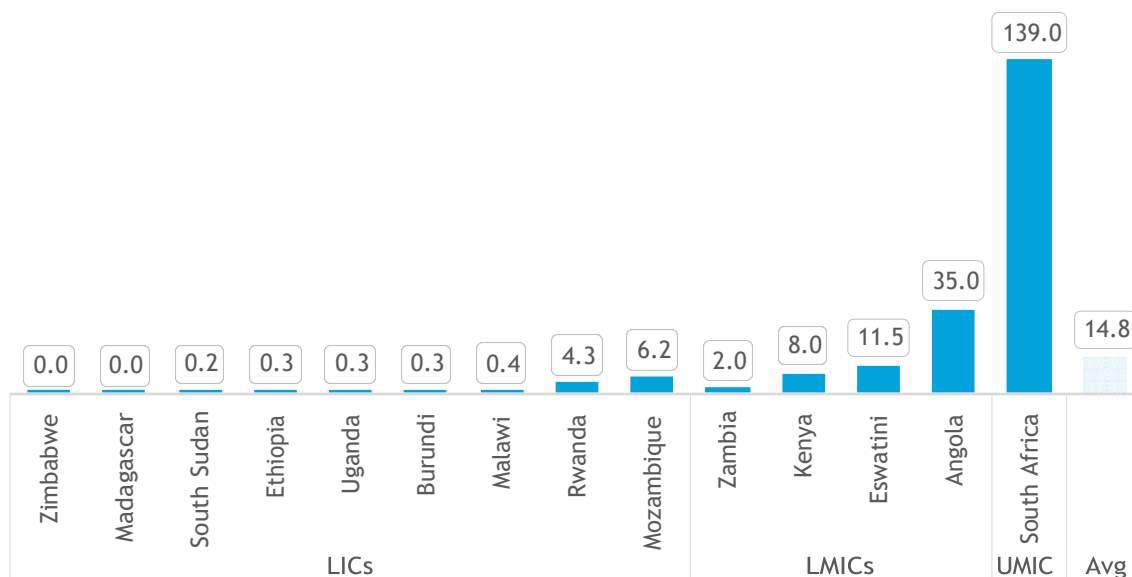
90 World Bank (2015). *The State of Social Safety Nets 2015*. Washington, DC.

Figure 7.19. Budget allocations to social protection in select ESAR countries and income group average investment levels, 2015-17 period averages (as % of GDP)



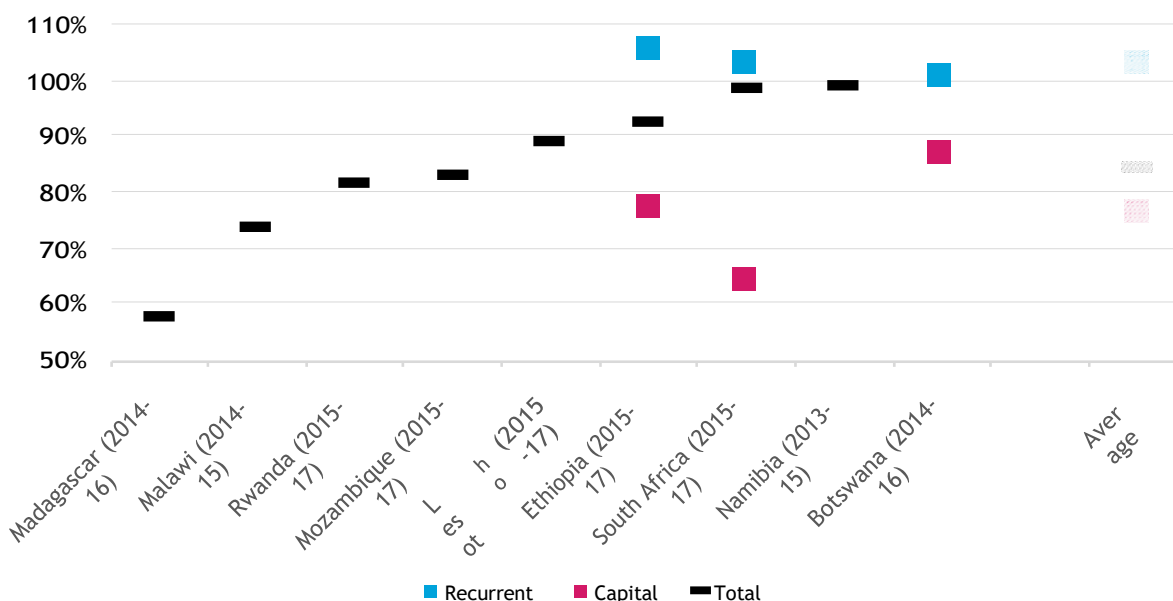
Sources: Government Spending Watch (2019) for social protection budget allocations; average levels of social protection investments by country income groups based on World Bank (2015). The State of Social Safety Nets. Washington, DC.
 Note: Limited data availability.

Figure 7.20. Per capita budgetary allocations to social protection in select ESAR countries, 2015-17 period averages (in constant US\$)



Source: Government Spending Watch (2019).
 Note: Limited data availability.

Figure 7.21. Social protection budget credibility rates in select ESAR countries, latest available 3-year period averages (actual expenditure as % of approved allocation)



Source: Author's calculations based on 2017 and 2018 social protection budget briefs for Botswana, Lesotho, Madagascar, Malawi, Namibia, Mozambique and Rwanda; Government Spending Watch for Ethiopia and South Africa.
 Note: Limited data availability.

with seven countries investing less than US\$0.50 per person, including Malawi (US\$0.44), Burundi, Ethiopia and Uganda (around US\$0.29), South Sudan (US\$0.19), Madagascar (US\$0.05) and Zimbabwe (US\$0.01). The four LMICs fared considerably better, averaging US\$14 per person. And as already mentioned, South Africa, the only UMIC in ESAR with data, was in a league of its own.

With regard to the credibility of social protection budgets, the sector performs moderately well but has ample room for improvement. Of the nine countries that have recent data, the average overall budget credibility rate for the sector was 85 per cent, based on the latest three-year period averages, where available (Figure 7.21). Credibility rates were below 80 per cent in just two countries (Madagascar and Malawi). On the other hand, nearly 100 per cent of the approved budget for social protection was spent in Namibia and South Africa. Information on the type of expenditure is scarce, but for three countries (Ethiopia, Namibia and South Africa), the credibility of recurrent social protection budgets was markedly better than capital budgets (103 versus 76 per cent, on average).

7.5 Total social sector spending

Having looked at four core social sectors separately,⁹¹ it is important to bring them together as best as possible. The aggregation process is inherently difficult given the data limitations. However, by selecting a common base year, merging various data sources and bearing the many caveats in mind, it is possible to present a bird's eye view of the priority, levels, design and credibility of social sector budgets in ESAR.

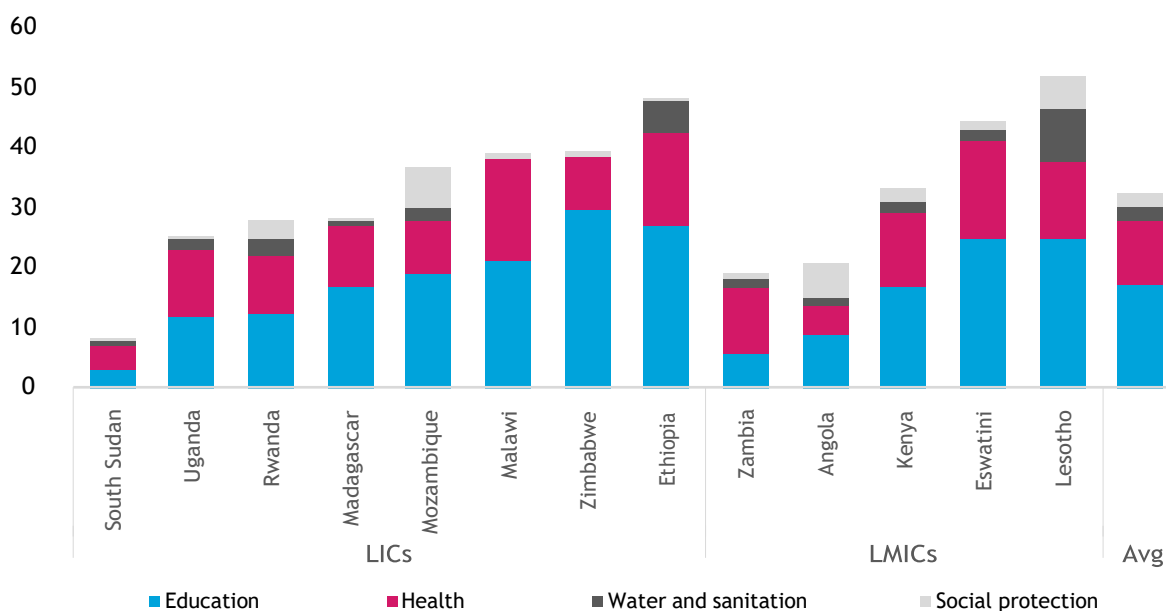
⁹¹ Note that other critical sectors and sub-sectors that are critical to child well-being (e.g. child protection, HIV/AIDS, nutrition and sanitation) are not reflected due to difficulties in accessing cross-country comparable budget data.

Starting with budget priority, social sector expenditure accounts for close to a third of total government expenditure as a crude regional average. Thirteen countries have information on actual expenditure and approved allocations for all four social sectors in fiscal year 2015, which allows for general trend analysis, all caveats considered. When reviewing this sample, four core social sectors benefitted from an average of 32.5 per cent of national budgets (Figure 7.22). Interestingly, there is little difference when comparing across income groups, with the five LMICs giving slightly more budget priority to the social sectors than the eight LICs (33.9 versus 31.7 per cent, on average). South Sudan had the lowest overall budget priority for the social sectors in the sample (less than 10 per cent), followed by two LMICs, Angola and Zambia, at around 20 per cent. In Ethiopia (LIC) and Lesotho (LMIC), around half of total expenditure was directed to these social sectors.

Within the social sectors, education benefits from the lion's share of expenditure, with very limited support for water and sanitation or social protection. Based on the sample average for fiscal year 2015, education accounted for more than 50 per cent of total social sector expenditure, followed by health, at just over a third (Figure 7.23). At around 7 per cent of total social sector expenditure, on average, social protection comes out just slightly ahead of water and sanitation (just above 6 per cent, on average). In terms of income groups, education receives a much higher share of total social sector expenditure in LICs than in LMICs based on the sample (54 versus 45 per cent, respectively). The opposite is true for social protection, with LMICs devoting around 11 per cent of all social sector expenditure to social protection compared to 5 per cent in LICs. For health and water and sanitation, only minimal differences are observed across income groups.

In terms of investment levels, social sector expenditure amounts to close to 10 per cent of GDP as a very rough regional approximation. Building on the same sample of 13 countries that have complete and comparable data for fiscal year 2015, total social sector expenditure

Figure 7.22. Social sector expenditure* in select ESAR countries, 2015 (as % of total expenditure)

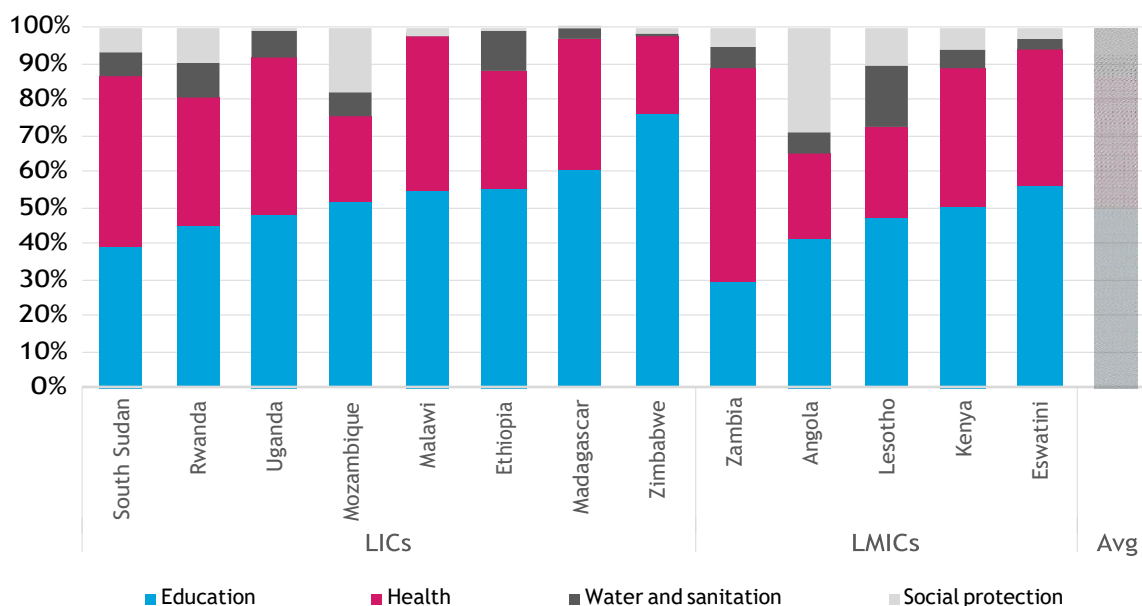


Sources: WHO Global Health Expenditure Database for health, UNESCO Institute for Statistics for education, and Government Spending Watch for water and sanitation as well as social protection.

* Data for water and sanitation are approved allocations and not actual expenditure as in the other categories.

Notes: Limited data availability; to maximize the sample, additional data points were obtained from UNICEF Zimbabwe (2018) WASH budget brief and UNICEF Lesotho (2018) social protection budget brief.

Figure 7.23. Composition of social sector expenditure* in select ESAR countries, 2015 (as % of total social sector expenditure)

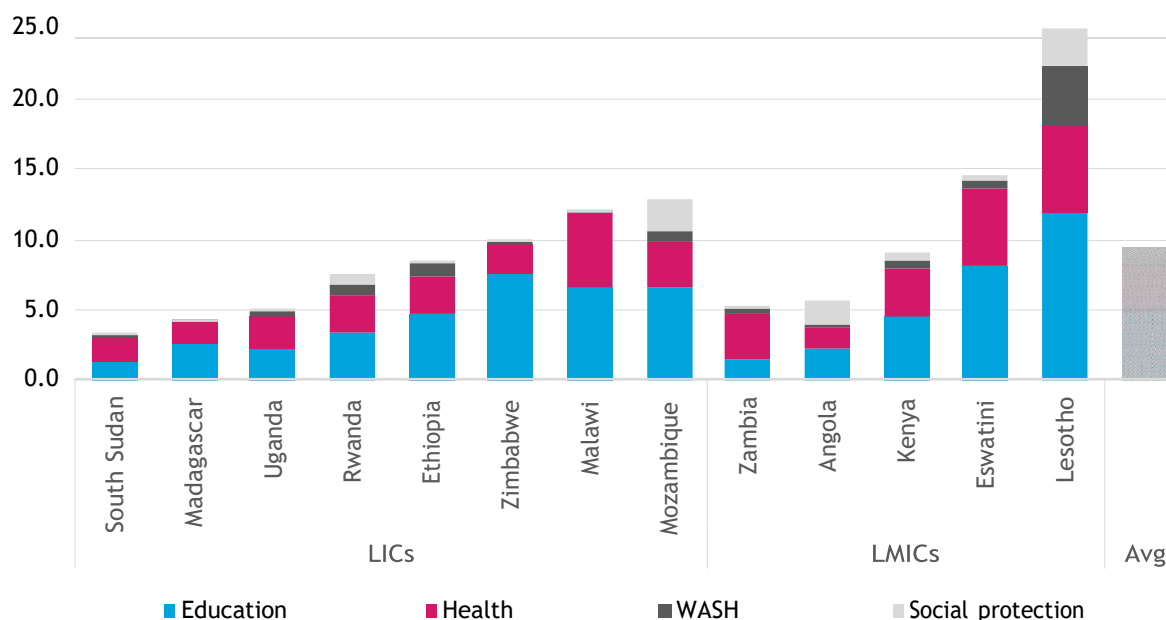


Sources: WHO Global Health Expenditure Database for health, UNESCO Institute for Statistics for education, and Government Spending Watch for water and sanitation as well as social protection.

* Data for water and sanitation are approved allocations and not actual expenditure as in the other categories.

Notes: Limited data availability; to maximize the sample, additional data points were obtained from UNICEF Zimbabwe (2018) WASH budget brief and UNICEF Lesotho (2018) social protection budget brief.

Figure 7.24. Social sector expenditure* in select ESAR countries, 2015 (as % of GDP)



Sources: WHO Global Health Expenditure Database for health, UNESCO Institute for Statistics for education, Government Spending Watch for water and sanitation as well as social protection, and IMF World Economic Outlook Database (April 2019) for GDP.

* Data for water and sanitation are approved allocations and not actual expenditure as in the other categories.

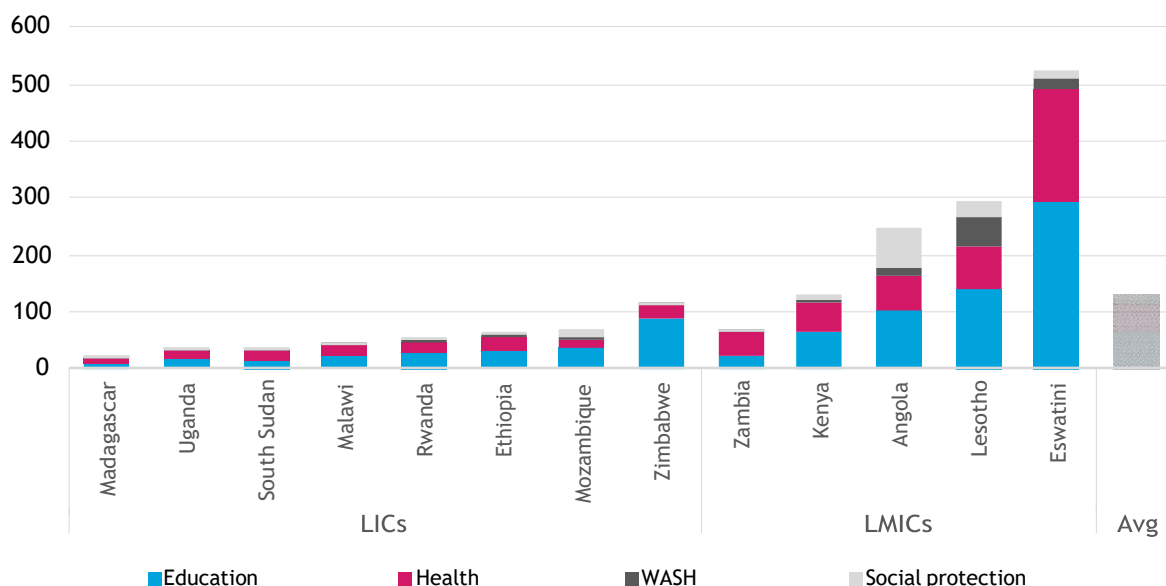
Notes: Limited data availability; to maximize the sample, additional data points were obtained from UNICEF Zimbabwe (2018) WASH budget brief and UNICEF Lesotho (2018) social protection budget brief.

amounted to 9.5 per cent of GDP, on average (Figure 7.24). Unlike budget priority, there is a major difference when looking across income groups. Whereas LMIC countries spent an equivalent of 12 per cent of GDP on social sectors, on average, the average was 8 per cent for the LICs in the sample. Here, education continued to receive the largest funding, at around 5 per cent of GDP, on average, with health averaging 3.2 per cent of GDP. Water and sanitation, along with social protection, were far behind, at around 0.7 per cent of GDP on average. Under this metric, expenditure on education and health in LMICs was around 1.3 per cent of GDP higher than in LICs, on average. The same trend is observed for levels of funding for water and sanitation and social protection, which were about 0.7 per cent higher in LMICs than in LICs, on average.

Even greater investment disparities are evident when looking at per capita social sector expenditure trends in the region. This analysis again uses the same sample of countries but converts spending in each social sector into international dollars using PPP exchange rates⁹² and then divides the amount by the size of the population to arrive at comparable per capita spending estimates. According to this metric, average social sector spending per capita amounted to current international US\$324 PPP in fiscal year 2015 (Figure 7.25). However, the difference across income groups is staggering. On average, per capita social sector investment was nearly five-fold more in LMICs than in MICs (US\$630 versus US\$132). To further underscore the magnitude of variance across the region, Eswatini

92 By converting the spending amounts based on an exchange rate that accounts for price differences across countries, rather than using market-based exchange rates which mainly reflect the prices of the tradable sector, this allows for a more accurate depiction of actual spending power in countries and hence a more realistic comparison across countries. To illustrate the significant differences based on these alternative methodologies, the regional average value of per capita social sector spending under PPP exchange rates in fiscal year 2015 amounted to current international US\$324 versus US\$131 under market exchange rates.

Figure 7.25. Per capita social sector expenditure* in select ESAR countries, 2015 (in PPP, current international US\$)



Source: Author's calculations based on WHO Global Health Expenditure Database for health, UNESCO Institute for Statistics for education, Government Spending Watch for water and sanitation as well as social protection, and IMF World Economic Outlook Database (April 2019) for GDP and total population.

* Data for water and sanitation are approved allocations and not actual expenditure as in the other categories.

Notes: Limited data availability; to maximize the sample, additional data points were obtained from UNICEF Zimbabwe (2018) WASH budget brief and UNICEF Lesotho (2018) social protection budget brief.

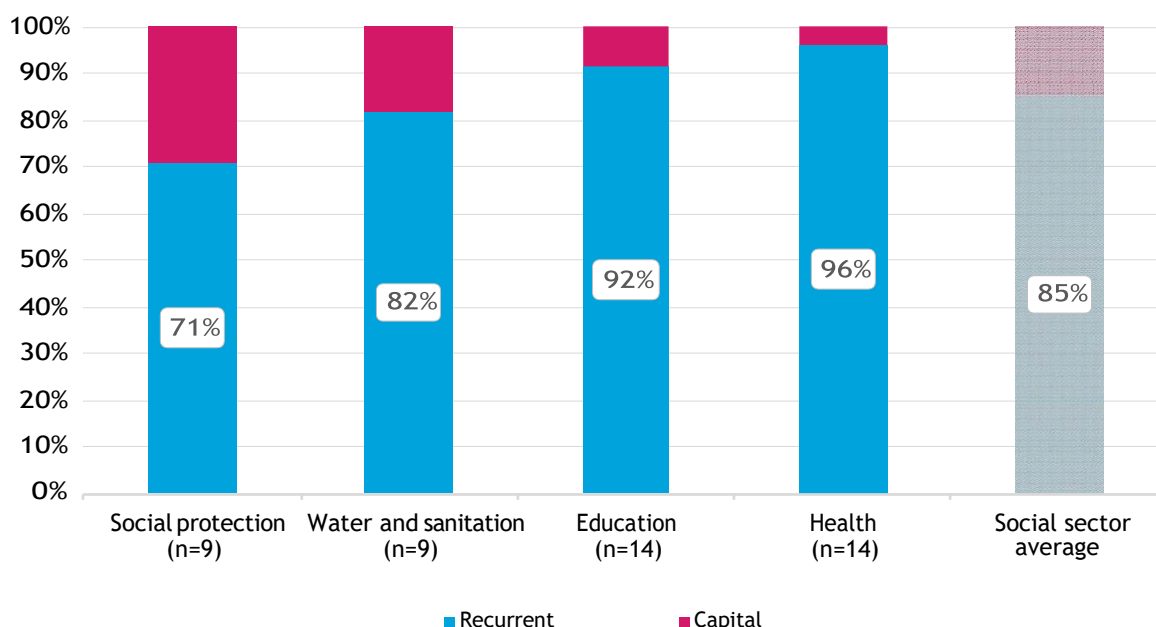
spent 23 times more than Madagascar in 2015. The differences are particularly acute for low budget priority areas, with LMICs spending more than six times as much on water and sanitation and more than eight times as much on social protection on a per capita basis than LICs, on average. One of the bigger alarm bells is the very low levels of investments observed in the group of LICs. On average, those countries invested a meagre US\$7 per capita (in PPP, current international US\$) in the water and sanitation and social protection sectors, compared to around US\$50 per capita in the group of LMICs.

Turning to the design of social sector budgets, severe imbalances are evident when comparing available information on recurrent and capital spending in the region. For this analysis, the samples are limited to 14 countries for health and education and nine countries for water and sanitation and social protection, with most information derived from fiscal years 2016 and 2017 (Figure 7.26). The eclectic database creates obvious comparability issues, but nonetheless offers some very initial insights on the design of social sector budgets in the region. If taking the average values of the four sectors, 85 per cent of recent spending supported recurrent items with 15 per cent on capital items. Social protection emerges as the sector with the highest portion of capital budgets (29 per cent, on average), which is indeed puzzling,⁹³ followed by water and sanitation (18 per cent, on average). In contrast, health and education budgets are dominated by recurrent spending, at 96 and 92 per cent, respectively, on average.

Lastly, an overview of available budget credibility rates across the social sectors indicates very poor regional performance, especially for capital spending. This sample is the most restricted and varied, as it relies on recent information from a wide variety of public finance

⁹³ Although it was not possible to confirm the spending items that were classified under the capital budget by Government Spending Watch, a likely explanation is that donor and development partner funding may have been classified as capital irrespective of its spending purpose, thus accounting for the large sharing of spending in the sample.

Figure 7.26. Economic classification of social sector expenditure* in ESAR, 2017 or latest available (as % of total social sector expenditure, regional averages)



Source: Author's calculations based on WHO Global Health Expenditure Database for health, UNESCO Institute for Statistics for education, and Government Spending Watch for water and sanitation as well as social protection.

* Data for water and sanitation are approved allocations and not actual expenditure as in the other categories.

tools, thereby requiring even greater interpretative caution. Keeping the limitations in mind, a back-of-the-envelope estimate is that around 80 per cent of total approved social sector budgets are spent by the end of the fiscal year, on average (Figure 7.27). At under 60 per cent, on average, water and sanitation has the lowest overall credibility by a wide margin, with health and social protection performing reasonably well in the 85 per cent range. Education, in contrast, performs the best, with an average budget credibility rate of 95 per cent. There is little doubt that capital budgets are the main credibility bottleneck, with around a third of planned capital spending in the social sectors going unspent by the end of the fiscal year, on average. Here, water and sanitation continues at the bottom, with an average capital budget credibility rate of around 50 per cent, but even health and education are unimpressive, at 70 per cent, on average.

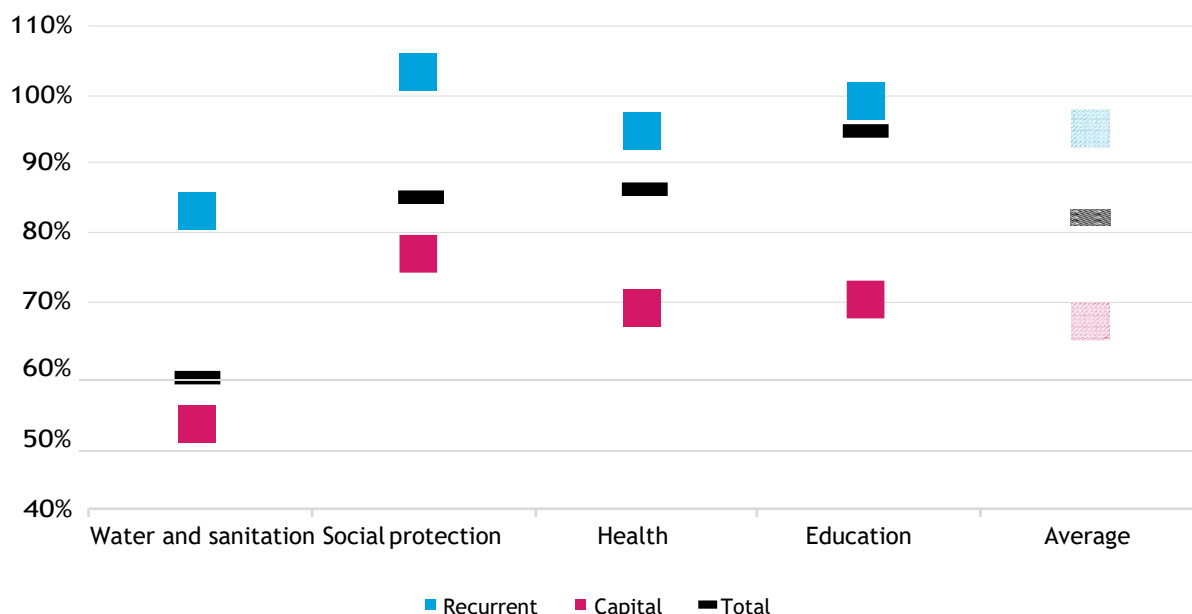
7.6 Shifting budget priorities and the impact on social sector spending

Investments in social sectors are often constrained by political decisions to prioritize budget allocations to other sectors, like the military. To highlight the potential of budget reprioritization, the military is commonly used as an example for two reasons. The first is the availability of data across countries.⁹⁴ Second, many governments spend a significant amount of resources on national defence in the absence of conflict. This certainly applies to ESAR, where only 6 out of 21 countries have been directly involved in a conflict since 2008 or face an imminent external threat,⁹⁵ meaning few countries can justify inflated military budgets.

⁹⁴ Military spending data for nearly all countries is compiled by the Stockholm International Peace Research Institute. However, it is important to recognize that this information is not as credible as information on health and education spending due to state secrecy and the reluctance of some governments to share data.

⁹⁵ These include Burundi, Ethiopia, Kenya, Somalia, South Sudan and Uganda, according to Uppsala Conflict Data Programme Armed Conflict Dataset version 18.1 (available at: <https://ucdp.uu.se/downloads/>).

Figure 7.27. Social sector budget credibility rates in ESAR, 2017 or latest available (actual expenditure as % of approved allocation, three-year period regional averages)

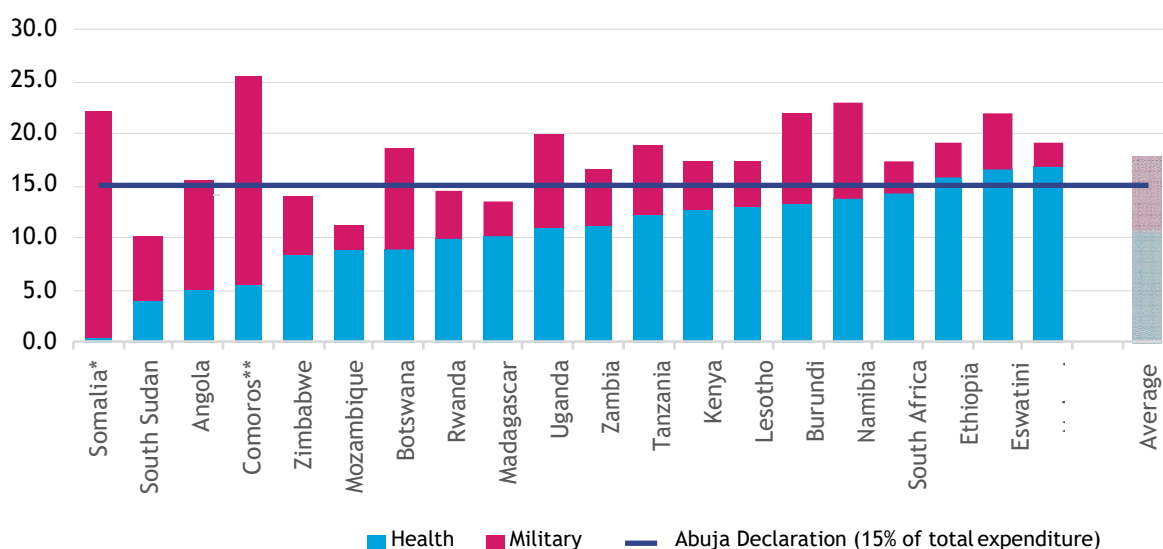


Source: Author's calculations based on UNICEF budget briefs, PERs, PEFAs, BOOST databases and Government Spending Watch published since 2016; see Figures 6, 12, 17 and 21 presented earlier in this chapter for exact sources.

By reallocating resources away from the military, most countries in ESAR could easily achieve core social sector spending benchmarks. For instance, if all military expenditure had been redirected to the health sector in the most recent year of data availability, health expenditure as a share of total expenditure would have increased from 10.6 to 17.9 per cent, as a regional average (Figure 7.28). This means that the number of governments that achieved the Abuja Declaration target (15 per cent of the budget for health) would have jumped from 3 to 15. Applying the same approach to education shows that 14 countries would have fulfilled their commitment to the Incheon Declaration (20 per cent of the budget for education), up from 5 (Figure 7.29). Here, total education expenditure would have reached 22.5 per cent of total expenditure, on average, compared to 15.2 per cent.

Beyond achieving basic financial targets, repurposing military budgets could also significantly boost levels of investment in basic social services. For example, if all military expenditure had been invested in the health and education sectors in 2015, core social sector investments would have climbed by an average of US\$50 on a per capita basis, equating to a 26 per cent increase on actual levels (Figure 7.30). In some contexts, the impacts could be transformational. In South Sudan, Angola and Botswana, this approach would have increased per capita social sector investments by around US\$100, US\$140 and US\$175 respectively, while in Namibia per capita levels would have jumped by more than US\$230.

Figure 7.28. Government expenditure on military and health in ESAR countries, 2017 (or latest available) (as % of total expenditure)



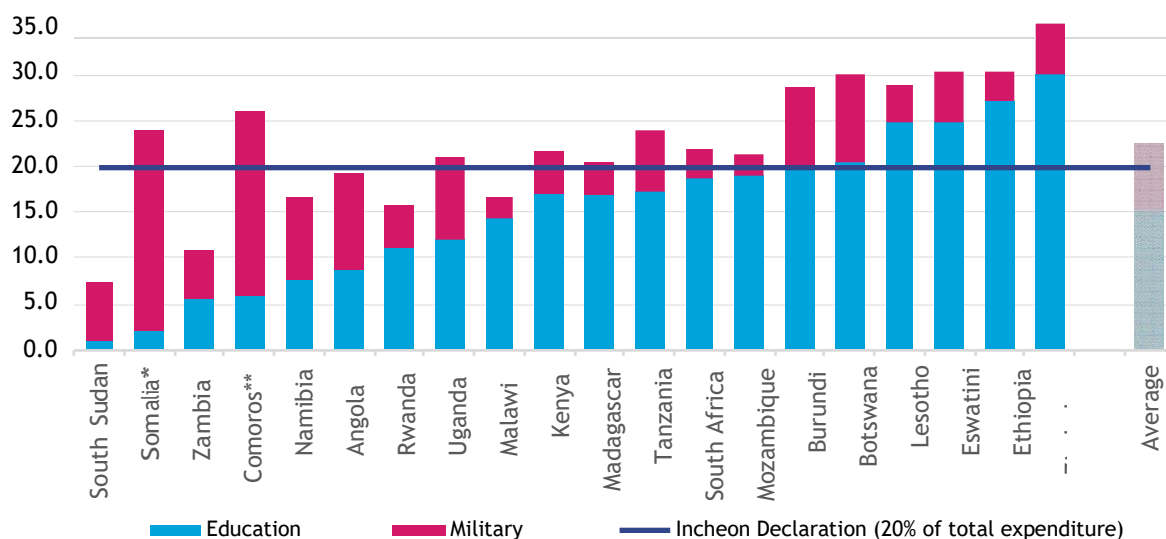
Sources: Stockholm International Peace Research Institute Military Expenditure Database for data on military expenditure and WHO Global Health Expenditure Database for data on health expenditure.

* Based on Federal Government of Somalia (2018). Citizen's Guide to the 2018 Budget.

** Based on Institut National de la Statistique et des Etudes Economiques et Demographiques (INSEED) (2017). Memoire Budgetaire Global 2016/17.

Note: Data unavailable for Eritrea.

Figure 7.29. Government expenditure on military and education in ESAR countries, 2017 (or latest available) (as % of total expenditure)



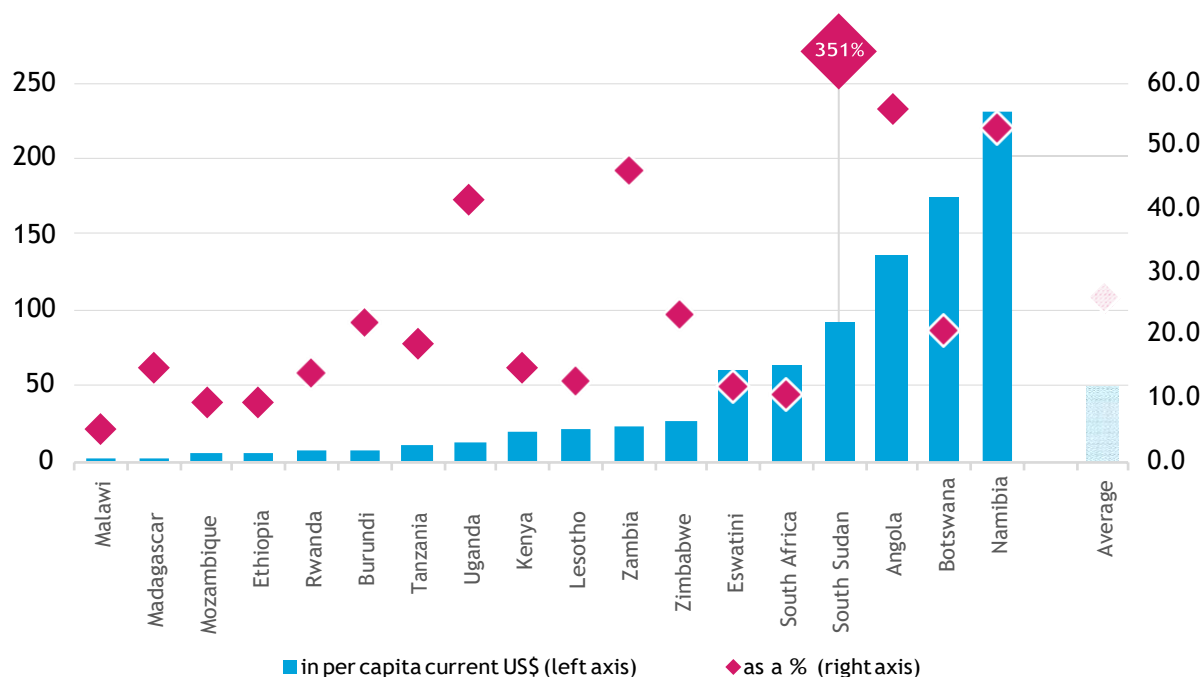
Sources: Stockholm International Peace Research Institute Military Expenditure Database for data on military expenditure and UNESCO Institute for Statistics for data on education expenditure.

* Based on Federal Government of Somalia (2018). Citizen's Guide to the 2018 Budget.

** Based on Institut National de la Statistique et des Etudes Economiques et Demographiques (INSEED) (2017). Memoire Budgetaire Global 2016/17.

Note: Data unavailable for Eritrea.

Figure 7.30. Per capita impact of reallocating military budgets to the education and health sectors in ESAR countries, 2015 (or latest available) (increase in current US\$ and as %)



Source: Author's calculations based on Stockholm International Peace Research Institute Military Expenditure Database for data on military expenditure, WHO Global Health Expenditure Database for data on health expenditure, UNESCO Institute for Statistics for data on education expenditure, and UN DESA World Population Prospects: 2017 Revision for population data.

Note: Data unavailable for Comoros, Eritrea and Somalia.

7.7 Takeaways

Key trends

- Few governments in the region are meeting their financial commitments to the social sectors, either in budget priority or in investment levels.
- Even where social sectors are afforded a large share of the budget, the low revenue base makes it impossible for most governments to achieve minimum spending levels. This underscores the need for greater domestic resource mobilization efforts as well as more ODA to ensure that the most vulnerable populations and children are reached by essential social services.
- The design of social sector budgets tends to favour tertiary services while neglecting basic and catalytic investment, including for primary healthcare, pre-primary education, social protection and WASH services.
- Low budget credibility is another critical investment constraint, especially for capital items, indicating that resources are not released to social sector line ministries as planned and/or available funding is not fully utilized by the end of the fiscal year. This is a particular concern for health, social protection, and water and sanitation budgets.
- Many governments could make significant progress toward closing social sector investment gaps by removing budget execution bottlenecks so that available funding is fully and effectively spent, as well as by reallocating resources from non-essential areas, like the military.

Implications for children

- Given that most households in the region have very limited incomes, child well-being heavily depends on the effective provision of public goods and services, and hence government budgets.
- The overall low levels of social sector investment in ESAR means that children affected by multi-dimensional poverty are not getting the support they need, and there is a real risk that existing support will progressively worsen as systems are forced to cope with the rapidly increasing number of children.
- Beyond the total volume of social sector investments, child well-being is directly affected by the design and execution of budgets. Here, one very explicit threat is the under-prioritization of capital budgets, including for things like expanding water and sanitation systems, building classrooms and health facilities, and procuring teaching materials and medical equipment. This is especially distressing when viewed in the regional context of low coverage rates alongside the continuous rise in demand for basic social services.

CHAPTER 8.

CONCLUSION

The macroeconomy is not working well for most children in ESAR. Widespread poverty is the starting point. Around 40 per cent of persons living in the region are affected by extreme poverty (less than US\$1.90 per day in PPP, 2011 international US\$), which rises to more than four out of every five persons if using a more realistic benchmark, such as the US\$5.50/day poverty line. This means that most families cannot adequately provide for themselves or their children. And while there has been undeniable progress toward poverty alleviation and improving the lives of children in recent decades, many basic indicators simply have not kept pace with population growth. The enormity of the challenges is well captured by the numbers:

- Around a million children under the age of five die from preventable causes every year, most during the first month of life;
- More than 27 million children under the age of five are stunted;
- 36 million school-age children are not attending primary or secondary school;
- Around 100 million persons practice open defecation, most of whom are children; and
- Close to 300 million lack access to safe water sources, again largely affecting children.

Social sector service delivery systems continue to act as a main barrier to faster progress.

The severe shortage of healthcare personnel means that around seven million births take place under dangerous conditions, exposing newborns and their mothers to life-threatening risks, while nearly half of the children aged 0-14 affected by HIV continue to lack access to life-saving ART. Where children are healthy and well-nourished enough to go to school, they often share classrooms with 50 or more other pupils, such as in primary schools in Angola, Burundi, Ethiopia, Malawi, Mozambique, Rwanda, South Sudan, the United Republic of Tanzania and Zambia. And for the 5 per cent or so of students that complete secondary school without unreasonable delay, an even smaller percentage are equipped with the level of competencies demanded by jobs in the formal sector. Moreover, barely one in ten persons in the region is supported by a social safety net programme, and many of these are unreliable and almost always insufficient to effectively help families transition through difficult times or overcome existing barriers to access social services. In such a context, it is unsurprising that around two in every three children suffer from multi-dimensional poverty.

Will macroeconomic forces and social sector investments catalyse sustainable change for children or decelerate progress? Optimism is hard to come by. Heavy clouds hang over economies, job markets, price indices, the fiscal balance and social sector budgets across the region. However, economic growth could outperform expectations... Labour markets could rapidly expand and create formal sector opportunities for young and adult workers... Price levels could permanently stabilize... Domestic resource mobilization and other financing efforts could produce strong returns... And social sector investment could suddenly grow in size and impact... Each of these potential trajectories is summarized below.

8.1 The downside

Economic growth is not nearly fast enough to propel incomes and poverty alleviation on a meaningful scale. Once factoring in expected price and demographic changes, real per capita GDP growth in ESAR is projected to be around 1.3 per cent in 2019 and 2020. This means that it would take the region around 55 years to double its income, on average, although this is a far cry for the seven the countries that are expected to experience negative growth on a real per capita basis during 2019-20. And while there are important exceptions, including Ethiopia and Rwanda, they are few and far between. Pervasive income inequality acts as an additional drag on the economic prospects of most of the region. Given the direct impact of economic growth on household income, child health outcomes, educational achievement and the availability of social services, among many others, the current trajectory does not bode well for most children in ESAR.

Labour markets also fall far short of providing the quality jobs needed by parents and young workers to improve their lives and the lives of children. As a regional average, around three out of four jobs are in the informal sector, mostly in agriculture. Here, pay is often insufficient and erratic to help workers and their families escape poverty: this has a direct impact on child well-being as well as their incentives to finish schooling. Given that ESAR has one of the highest unemployment rates in the world, the overall lack of job opportunities also directly affects child well-being. This is especially problematic in southern Africa, where many countries are confronting unemployment rates in excess of 20 per cent and dealing with rising risks of economic, political and social instability. And young workers are hardest hit. Unemployment rates among the 15-24 year old population are almost double the adult rates in the region, with around 6 million young job seekers projected to be unable to find work in 2019. This has already inflicted severe “wage scars” on a generation of young workers, irreversibly damaging their potential earnings. As labour markets are forced to absorb 12 million new job seekers each year, demographic forces will only exacerbate the prevailing employment woes.

In addition, rising prices are negatively influencing real economic growth, government investment and household welfare. Over the past decade, most countries have experienced extensive bouts of inflation and remain heavily exposed to risks from the printing press (to cover budget deficits), global commodity price movements and supply chain disruptions due to natural events. In 2019, the region houses some of the highest inflation rates in the world, with several countries facing dangerous levels of volatility, including Angola, South Sudan, Zambia and Zimbabwe. As already discussed, rising prices are hampering the real output of many economies. On the fiscal front, the impact of government budgets is being muted by inflation in far too many places: this is particularly problematic for social transfer values and hence direct support to children. And at the household level, rising prices erode disposable income, while food inflation runs substantially higher than general inflation in ESAR. These trends are a direct threat to the nutritional intake of children, whose well-being is further endangered by other household coping mechanisms, which can include being forced to work, having less time to study or dropping out of school altogether, among many others.

Small revenue bases, continuous budget deficits, high debt and the changing ODA landscape further limit government spending on essential children’s services. As an average, government budgets in ESAR are equivalent to around 27 per cent of GDP, which fares moderately well relative to other regions. However, budgets are constrained by the small size of formal economies in most countries. This is especially profound in places like Burundi, Madagascar, Malawi and South Sudan, where total government expenditure on a per capita basis is less than or barely exceeds US\$100, making it impossible to adequately fund services for children. To complement domestic revenue, borrowing has mushroomed across the region, with budget deficits nearly universal in 2019. In addition to the rapid rise of debt service payments, which crowds out available funding for social sectors, debt

sustainability concerns are elevating across the region: four countries are already in debt distress, with many others just one unexpected shock away. At the same time, although ODA serves as an important financing source for most governments, flows are heavily concentrated in a sub-set of countries, while its relative importance vis-à-vis domestic revenue is universally waning. As many ESAR countries are expected to reach middle income status in the near future, ODA eligibility will also become increasingly restricted.

Finally, the current levels, design and performance of social sector budgets prevent systems from delivering the services demanded by children and their families. As a starting point, few governments in the region are meeting their financial commitments to core social sectors, either in budget priority or in investment levels. And even where social sectors are afforded a large share of the budget, the low revenue base makes it impossible to achieve minimum spending levels. This should be an alarm bell in a context where insufficient incomes force families to rely on public goods and services to ensure child well-being. Social sector budget structures are also worrisome, as they commonly favour tertiary services while neglecting the primary services that are direly needed and gravely underfunded. Low budget credibility, especially for capital (or development) investment, acts as yet another barrier to reaching children.

8.2 The upside

Economic growth could outperform expectations. The recent discovery of large national resource deposits could act as one possible catalyst for the region. In countries like Kenya, Mozambique, Uganda and the United Republic of Tanzania, if governments can expedite the development of fields and exports, economic growth could surge. Similarly, if global commodity prices edge upwards and remain high, the many resource-intensive economies in the region could get an unexpected growth thrust. As the African Continental Free Trade Area comes into force, a swift move toward regional economic integration could also expand economic opportunities, while global trade patterns and foreign direct investment flows are other possible wild cards. At the same time, if governments could enhance income redistribution efforts through better taxation and social protection measures, they could lift the incomes of the most vulnerable households and their children, and further help engender bigger and increasingly sustainable economic growth trajectories.

The labour market outlook could equally surprise. Countries in ESAR have, for the most part, initiated development pathways from mainly agricultural-based economies to service-oriented economies, and services are now the largest contributor to GDP in the region. There are certainly questions surrounding the long-term potential of a development approach that largely skips the manufacturing base used by many other countries to catapult economic growth and employment. However, if service sector jobs more closely accompany the rapidly-growing service sectors in the formal economy, opportunities could abound. Of course, investment in education systems and ensuring smooth school-to-work transitions are indispensable, as is the development and adaptation of productive technologies alongside the adoption of more business-friendly regulations that encourage entrepreneurship and small- and medium-size enterprises in the formal sector. Concerted efforts to scale up more robust social protection measures could also provide better protection to workers and their families from unexpected job losses or shocks, and go a long way to supporting child well-being.

Price stabilization could also be the new norm. There are a few exceptions, but the region as a whole is already headed down a pathway of lower inflationary pressures. The near-term outlook for global commodity prices should help limit the forces of cost-push inflation, while more prudent monetary and fiscal policies could usher in a new era of sound economic management across ESAR. Since volatility peaked in 2016, food prices

have also stabilized in most places, with clear benefits for children. At the same time, greater government efforts to adjust social transfers to price indices and ensure that social sector budget allocations are evaluated in real terms could improve the impact of spending on programmes that benefit vulnerable households and children.

There is even scope for new income streams to avail unprecedented funding for social services. The introduction of progressive forms of taxation, such as on personal and corporate income, financial transactions, luxury goods and property, coupled with quick and strong improvements in tax administrative capacity, including to minimize tax evasion and illicit financial flows, could help unlock vast domestic revenue flows in most countries. If governments – especially in LICs – can effectively convince donors that additional ODA will be used as intended and deliver strong value for money, they could attract more grants and concessional loans to support social sectors. Similarly, through prudent debt management and careful risk mitigation, some governments could take better advantage of new financiers in the region, including China, to fund social infrastructure. All governments also show significant potential to increase the budget priority afforded to social services, which could be readily achieved by shifting allocations away from non-priority sectors, such as defence. And lastly, rapid improvements in the design, credibility and execution of social services budgets could bolster actual investment levels and the impacts on children’s lives.

8.3 Final takeaway

The current challenges facing children in ESAR are staggering in terms of sheer numbers, but there is positive momentum to build from. Progress is apparent when looking at the average changes in the incidence rates of key indicators since 2000. For example:⁹⁶

- Extreme poverty rates have fallen by around 10 per cent (from 54.5 to 45.1 per cent);
- Under-five mortality rates have improved by 55 per cent (from 134 to 60 deaths per 1,000 live births);
- Under-five stunting rates have declined by close to 10 per cent (from 44.5 to 35.1 per cent);
- Net enrollment rates for primary school age children have improved by nearly 20 per cent (from 67.5 to 85.5 per cent); and
- Access to basic drinking water services has increased by more than 10 per cent (from 46 to 57.5 per cent of the total population).

Whether the region can capitalize on the existing momentum depends, first and foremost, on promoting macroeconomic strength and predictability. This requires sustained economic growth, well-functioning job markets, price stability, and strong domestic resource mobilization and debt management capacity. While these outlooks are currently lacklustre and marred with uncertainty, sound policies and favorable external conditions could help unlock the upside.

Achieving meaningful and lasting improvements in child well-being also requires boosting spending on social services. The ongoing population boom has vast potential to transform the region – for good or ill – and the outcome will be largely dictated by the investment choices of governments today. If budgets strategically prioritize child well-being, current

⁹⁶ These reflect the average change of the available sample for each indicator based on the data point closest to the year 2000 and the latest available data point. The use of the historical data point restricted the sample in certain cases, which is why the average value reported here may not be identical to those presented in Chapter 2. Also note that the data sources are the same as those from Chapter 2.

and forthcoming generations will be healthier, smarter, safer and, ultimately, empowered to sustain economic growth and transform living standards and opportunities for themselves and their families. The alternative path could prove cataclysmic. If government investments fail to adequately prepare their fast-growing labour forces, poverty, inequality, crime, violence, social and political instability, out-migration and so on are likely to spiral out of control, squandering hope and turning the clock back on progress for children, their countries and the region.

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