SUMMARY NOTE

THE MACROECONOMIC AND SOCIAL INVESTMENT OUTLOOK FOR CHILDREN IN EASTERN AND SOUTHERN AFRICA
This document serves as a companion to The Macroeconomic and Social Investment Outlook for Children in Eastern and Southern Africa. It has two objectives. The first is to recap the main findings from the full report – in Part I. And the second is to present suggested actions for UNICEF country offices to protect and promote child well-being in response to a variety of macroeconomic and social sector investment situations – in Part II.

PART I. MAIN FINDINGS

Child well-being is inextricably linked to the performance of the macroeconomy. 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 (Figure 1). As the young and fast-growing population in the Eastern and Southern Africa region (ESAR) explodes from 540 million today to more than a billion in less than 30 years, the stakes for children have never been higher (Figure 2). 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 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, e.g. the US$5.50/day international 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 below:

- 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 practise 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 major 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 antiretroviral therapy. Where children are healthy and well-nourished enough to go to school, they often share classrooms with 50 or more other pupils, such as the average child 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 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 (Figure 3).

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 generate strong returns... And social sector investment could suddenly grow in size and impact... Each of these potential trajectories is summarized below.

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 gross domestic product (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 countries that are expected to experience negative growth during 2019-20 (Figure 4). 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...
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 (Figure 5). Here, pay is often insufficient and too 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 they remain heavily exposed to risks from the printing press (to cover budget deficits), global commodity price movements and the disruptive effects of natural disasters on supply chains. In 2019, the region is experiencing 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 (Figure 6). 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 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.
Figure 5. Employment inside and outside the formal sector in ESAR countries, 2018 or latest available (as % of total employment)

Source: ILOSTAT.

Figure 6. 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 of cash transfer programmes collected by UNICEF country offices in 2018 and consumer price index data from IMF World Economic Outlook Database (April 2019).
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 official development assistance (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 compared 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 (Figure 7). To complement domestic revenue, borrowing has mushroomed across the region, with budget deficits nearly universal in 2019 (Figure 8). 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 ODAs relative importance vis-à-vis domestic revenue is universally waning (Figure 9). 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 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...
Figure 8. General gross government debt trends in ESAR countries, 2011-12 period averages and 2019 (as % of GDP)

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

Figure 9. 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 online database (December 2018 update) for data on ODA and IMF World Economic Outlook Database (April 2019) for data on expenditure.
minimum spending levels (Figure 10). 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 (Figure 11).

**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 receive 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

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**Figure 10. 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.
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 low-income countries – 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.

**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:

- 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 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.
PART II.

IMPLICATIONS FOR UNICEF

This section presents suggested actions for UNICEF country offices to protect and promote child well-being in response to different macroeconomic and social sector investment situations. The structure is aligned to the chapters of the main report as follows: demographic, economic and social issues (Chapter 2); economic growth (Chapter 3); employment (Chapter 4); inflation (Chapter 5); the fiscal balance (government expenditure, income and debt) (Chapter 6); and social sector investment (Chapter 7). Each chapter presents a series of potential actions according to different country contexts. However, Chapter 7 is an exception, whereby actions are organized first around partnerships, then the budget cycle, and lastly budget transparency and accountability. Users can either peruse the entire menu of actions presented or go to directly to a topic of interest.

Chapter 2. Demographic, economic and social issues

In all contexts:

- Develop a demographic dividend country profile that identifies different sets of interventions and investment requirements to capitalize on the ongoing population changes. This should include scenarios that demonstrate the potential long-term economic gains that can be achieved through different combinations of investment levels and intervention packages.

- Analyse the monetary and non-monetary child poverty situation whenever a new household survey is released and ensure that the findings inform the design and implementation of plans and budgets at national and subnational levels. In the ideal circumstance, child poverty indicators can be presented alongside relevant sector investments at the subnational level (such as in districts) through a financial and equity dashboard system that allows for continuous monitoring of funding gaps and value money issues.

- Provide technical and financial support to social sector ministries to strengthen the coverage and effectiveness of delivery systems, especially around human resources.

- Monitor and forecast the supply of basic commodities and identify funding options that can be used by government counterparts to address any current or future stockouts.

- Where child grant programmes are in place, advocate for and provide technical support to achieve universal expansion, including with an assessment of different financing options. Where child grant programmes are in the pilot phase or only being considered, ensure that robust monitoring and evaluation is in place to document the impacts.

- Where appropriate, advocate for the abolition of formal and informal user fees that impact access to primary social services.
Chapter 3. Economic growth

In all contexts:

- Closely monitor the state of the economy and potential growth shocks to inform country programming and advocacy, including through the annual production of a national budget. Also participate in IMF Article IV mission de-briefing sessions to gain additional insights, making contributions to Article IV country reports where possible (such as drafting a box or annex on the state of social sector indicators and government investments in social sectors).

- Continuously make the case that investing in child-focused sectors today lays the foundation for robust economic growth tomorrow, citing widespread evidence on the benefits and costs. Some examples include:

  - Health: Investments in the health sector that extend life expectancy by one year raise annual GDP by 4 per cent; increasing per capita health spending by US$21-26 could lead to US$100 billion in annual economic benefits to African economies (a 4.1 benefit-cost ratio).

  - Early childhood development (ECD): US$1 invested in early childhood programmes generates up to US$17 in economic benefits.

  - Education: US$1 invested in general education yields up to US$10-15 in economic benefits over a person’s lifetime in the form of higher earnings and wages; investments that increase literacy scores 1 percentage point above the international average will achieve 2.5 per cent higher labour productivity rates and 1.5 per cent higher GDP per capita growth rates than countries with average literacy scores.

  - Water, sanitation and hygiene (WASH): US$1 invested in interventions to expand access to improved sanitation and drinking water sources generates up to US$7 in economic benefits.

  - Social protection: US$1 invested in cash transfers generates between US$1.87 and US$2.23 in local income multipliers in places like Lesotho and Zambia; the ratio of spending on social transfers to poverty gap reduction reaches as high as 40 in developing countries.

- Where helpful, present economic arguments based on the long-term economic consequences of not increasing financial support to key social services. For example, not preventing stunting in children can lower adult income – and hence economic

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output – by up to 22 per cent, while failing to expand access to basic WASH services causes annual economic losses of up to 7 per cent of GDP in some countries.

- Bring these types of advocacy messages to the fore of annual budget processes so that the value of investment in human capital is known and debated, especially in contexts where physical infrastructure projects consume a large share of the annual budget.

- Together with international financial institutions, encourage the government to introduce increasingly progressive taxation measures (on personal and corporate income, property, luxury goods and so on) along with social transfers to promote a more equitable distribution of income and a more sustainable economic growth trajectory.

**Chapter 4. Employment**

*In all contexts:*

- Provide technical and financial support to strengthen all aspects of the education system, from pre-primary to secondary and vocational, with a special focus on improving completion and graduate rates, smooth school-to-work transitions and ensuring skill acquisition that responds to labour market needs.

- Advocate for and support the introduction and/or scaling up of labour market social protection programmes to support vulnerable workers and their families, especially in middle income country contexts.

- Aggressively make the case that investing in the well-being of children and adolescents is fundamental to fostering a demographic dividend, including through the development of a demographic dividend country profile (see Chapter 2 actions).

- Working with development and private sector partners, identify and support promising young entrepreneurs and ideas in both the formal and informal sectors.

**Chapter 5. Inflation**

*In all contexts:*

- Advocate for cash transfer values to be indexed to inflation on an annual or biannual basis.

- Monitor the evolution of government social sector spending in real terms, including through budget briefs and thematic budget analyses, and ensure that advocacy efforts focus on influencing real spending changes in the upcoming budget.

- Promote the progressive introduction of a universal social protection floor to support adequate food consumption and access to essential social services.

- Encourage development partners and government counterparts to adopt long-term policies that effectively manage and regulate food markets and guarantee the basic right to food for all persons.

*In contexts of high price volatility:*

- Ensure that vulnerable families are covered by social protection programmes, including cash transfers and nutrition support, to minimize the risks of inadequate nutritional

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intake, interrupted access to health and other social services, and poor educational performance or school dropout.

- Advocate for the maintenance and scaling up of government and development partners’ investments in low-cost child health solutions, including nutrition supplementation programmes, school meals and vaccination programmes.
- Monitor government expenditure on critical social service items, including health and nutrition commodities, learning materials and salaries of frontline workers, and ensure that budget allocations in the forthcoming fiscal year account for higher prices.
- Support real-time monitoring and tracking of local food prices, as well as supply and demand forecasting, to anticipate risks and mobilize timely interventions, as required.

Chapter 6. The fiscal balance (expenditure, income and debt)

In all contexts:

- Generate evidence on and support greater domestic resource mobilization efforts, including through progressive taxation approaches, improved tax administrative capacity, and the prevention and capturing of illicit financial flows.
- Routinely monitor the fiscal balance to identify any potential risks to children’s services, including through the production of a national budget brief every year.
- Advocate for and provide technical assistance to the government to improve budget transparency and accountability practices, including through support to the Open Budget Survey, which can enhance access to international capital at lower interest rates, increase ODA flows and strengthen the impact of spending.

In small revenue / large ODA contexts:

- Advocate for donors and development partners to provide all ODA “on budget” to minimize aid fragmentation and strengthen national systems.
- Ensure that ODA is used as efficiently as possible, targeting value for money interventions, the most vulnerable groups and strengthening national capacity.
- Make the case for increased donor funding to ensure that a minimum level of essential social services can be provided to all vulnerable populations and children.

In large revenue / small ODA contexts:

- Ensure that aid programming is catalytic and effectively attracts public and private financing for children’s services.
- Support the government to diagnose and remove spending bottlenecks in order to maximize the impact of public investment on children’s services.

In high debt contexts:

- Closely monitor and influence budget planning processes to ensure that social sector allocations are protected in the face of rising debt service payments.
- Support government efforts to improve fiscal transparency practices so a complete and accurate picture of government income, expenditure and debt is publicly available and routinely monitored.
Chapter 7. Social sector investment

**Partnership:**
- Formalize strategic partnerships to advocate for more and better investment in social sectors, including by signing memorandums of understanding and/or developing joint annual work plans, where possible.
- Within government this includes the Ministry of Finance, the finance/budget departments within social sector ministries as well as the Parliament.
- Outside government this includes the African Development Bank, the European Union, the IMF, the World Bank and major donors in-country.

**Budget formulation:**
- Access and influence national financing dialogues, posing strategic arguments about the importance of increasing funding for children’s services to reap the demographic dividend, complement investment in physical infrastructure (such as economy growth agendas) and so on.
- Where a specific issue is underfunded or overlooked, consider conducting an investment case to highlight the economic benefits of increasing spending (cost benefit analysis) or the economic losses of not increasing spending (cost of inaction analysis).
- Develop (or update) a fiscal space analysis or financing study to bring evidence to the table about feasible options to increase funding for a particular programme or service.
- Support social sector ministries to develop strategies and plans, ensuring that they rely on a well-developed logical framework and identify concrete targets and indicators that can be monitored and adjusted over time.
- Support social sector ministries to cost strategies and plans, ensuring that they are anchored in actual budgets (that is, with a baseline that builds either on the previous budget or on the upcoming budget if already drafted) and include different scenarios to facilitate effective negotiations with the Ministry of Finance on how to address the current funding gaps.
- Support social sector ministries to draft budget proposals, ensuring that they are linked to costed strategies and plans, focused on the most important issues (prioritization), supporting the most cost-effective programmes, addressing any spending imbalances across service levels (such as favouring tertiary over primary services) or on the economic classification of the budget (such as focusing too many resources on salaries at the expense of spending on infrastructure or operations and maintenance), and providing extra support to geographic regions that are falling behind.
- Support social sector ministries to develop Medium-Term Expenditure Frameworks (MTEFs) so that critical funding gaps can be progressively planned for and addressed over time (in contexts where the MTEF actually influences future resource allocations).

**Budget approval:**
- Conduct a rapid analysis of the draft budget to influence Parliamentary debate, offering concrete recommendations to improve the child sensitivity of the proposal before it is approved.
- Organize public hearings in Parliament to discuss recommendations to improve the child sensitivity of the draft budget.
**Budget execution:**

- Lead or jointly conduct public finance diagnostic tools to identify and address budget design inefficiencies and/or credibility challenges in the social sectors, including through Public Expenditure Reviews (PER), Public Expenditure Tracking Surveys (PETS), value for money analyses and expenditure incidence analyses, ensuring that the recommendations are transformed into a multi-year action plan with the government and technically and financially supported by the office.

- Monitor budget execution trends through annual budget briefs for all social sectors, taking special care to acquire and report accurate data (the difference between the amount of funding released to a ministry and the amount spent).

- Diagnose budget execution challenges in social sectors by including special chapters in PERs or PETS or by initiating a standalone budget execution assessment.

- Advocate for the Ministry of Finance to generate and routinely report information on budget execution if not currently practiced.

- Advocate for updating the public financial management (PFM) law to require publishing internal budget information, such as on execution.

- Support the piloting or strengthening of programme-based budgeting so that budgets are designed and monitored based on sub-programmes and activities of spending units and linked to specific performance targets to inform on allocative efficiencies and value for money.

- Support reviews and revisions of inter-government fiscal transfer formulas so that distribution of resources from central to local governments engenders equity.

**Budget oversight:**

- Facilitate forums to discuss the budget at different points in the budget cycle (e.g. mid-year and/or end-year reviews).

- Organize workshops to help Parliamentarians read and analyse the budget with a child lens.

- Develop formal training programmes to support Parliamentarians and key personnel in social sector and finance ministries to understand the budget and how it affects children.

**Budget transparency and accountability:**

- Monitor social sector investments on an annual basis, including through the production of budget briefs and thematic budget analyses.

- Advocate for and provide technical support so that the government publishes comprehensive and reliable budget information in the public domain that can be analysed by UNICEF, civil society and development partners.

- Support the revision of the Chart of Accounts so that the accounting system generates information on cross-cutting spending activities that affect children (protection issues, ECD, HIV/AIDS, hygiene, sanitation and so on) as well as across subnational levels.

**In low revenue / high ODA contexts:**

- Make the case together with, or on behalf of, the government for increased donor funding to address critical social service funding gaps.

- Where ODA is provided through parallel (project-based) approaches and not recorded by the Ministry of Finance or their counterparts in subnational governments, advocate for donors and development partners to provide all support “on budget.”
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