

# Overview

*The Africa Competitiveness Report 2013* comes out at a time of growing international attention focused on Africa as an investment destination and mounting talk of an African economic renaissance. This increased optimism is being spurred on by a decade of historically strong growth, with many countries in Africa relatively unscathed by the global economic crisis, thanks to prudent macroeconomic management.<sup>1</sup> However, growth remains unevenly spread across the region and has not yet translated to a rise in living standards comparable to those observed in other rapidly growing developing regions. Further, the turbulence in North Africa has slowed growth in some of those countries. More generally, the question of how sustainable and inclusive Africa's growth will be going forward remains. Many efforts are still needed for African economies to diversify and enhance their competitiveness so that they can absorb the 10 million new entrants to the labor force every year.<sup>2</sup> Indeed, the *African Economic Outlook* (AEO) report in 2012 highlights the fast but jobless growth pattern on the continent: as a result of the youngest population in the world—200 million young people between the ages of 15 and 24—coupled with improved levels of education, Africa faces the challenge—and opportunity—of a youth bulge.

Africa is at a crossroads, and decisions and actions taken today will have a strong bearing on whether it places itself on a path similar to that of other regions such as developing Asia, allowing it to transition from resource-driven to higher-value-added growth. In this context, this *Report* will assess the extent to which African economies have laid the foundations and made the necessary investments for sustained growth.

The 2011 *Africa Competitiveness Report* examined Africa's human resources and services industries and looked at the efforts required to improve higher education, strengthen women's entrepreneurship, and capitalize on the emerging Travel & Tourism industry. Building on this work, this year's *Africa Competitiveness Report* focuses on the potential of regional integration as a stepping stone for building economies of scale, increasing competition, and fostering economic diversification. Information on the key data sources used in this *Report* can be found in Boxes 1 and 2. Although human capital development continues to be

critical for developing competitiveness in Africa, this year's *Report* leverages the research, expertise, and substantial amount of work on regional integration that has been carried out by its partner organizations—the World Economic Forum, the World Bank, and the African Development Bank. The aim is to provide a better understanding of the benefits of regional integration for higher-value-added growth and to discuss current constraints and the policy environment required to develop the necessary infrastructure for connecting Africa's markets in a sustainable way. It is based on the assumption that regional integration could be an important way to reinforce competitiveness across the continent. Such integration is, however, not an end in itself, but a reinforcing process. Both regional integration and competitiveness challenges must be addressed at the same time within a country to lay the basis for a strong and thriving private sector, and hence, increased productivity. Against this backdrop, the *Report* begins with an assessment of the different factors that affect Africa's economic competitiveness. Chapter 1.1 of the *Report* outlines the competitiveness challenges faced by the continent.

## ASSESSING THE COMPETITIVENESS OF AFRICAN COUNTRIES

Many African countries continue to feature among the least competitive economies in the world. By *competitiveness* we mean all of the factors, institutions, and policies that determine a country's level of productivity. Productivity, in turn, sets the sustainable level and path of prosperity that a country can achieve. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. Competitiveness also determines the rates of return obtained by investment. Because the rates of return are the fundamental drivers of growth rates, a more competitive economy is one that is likely to grow faster over the medium to long term.

Chapter 1.1 of the *Report* analyzes competitiveness across the continent and looks at a broad range of factors that impact productivity in African countries. The Global Competitiveness Index (GCI) identifies the majority of African countries as among the least competitive in the world, and notes that Africa must make headway

## Box 1: Data used in this Report

### The Executive Opinion Survey

The Executive Opinion Survey (the Survey) conducted annually by the World Economic Forum captures the perceptions of leading business executives on numerous dimensions of the economy from a cross-section of firms representing its main sectors. The Survey compiles data in the following areas: infrastructure, financial environment, innovation and technology, foreign trade and investment, domestic competition, company operations and strategy, government and public institutions, education and human capital, corruption, ethics and social responsibility, Travel & Tourism, environment, and health. All these areas feed into the 12 pillars of the Global Competitiveness Index. In the Survey, business leaders are asked to assess specific aspects of the business environment in the country in which they operate. For each question, respondents are asked to give their opinion about the situation in their country of residence, compared with a global norm.

The Survey gauges the current condition of a given economy's business climate. The data generated from the Survey comprise the core qualitative ingredient of the Global Competitiveness Index as well as a number of other development-related studies and indexes carried out by the Forum and other institutions. The most recent Survey data cover a record 144 economies, with responses of over 14,000 business executives worldwide, almost 3,000 of whom are from 38 African countries. To conduct the Survey in each country, the World Economic Forum relies on a network of over 160 Partner Institutes. Typically, the Partner Institutes are recognized economics departments of national universities, independent research institutes, or business organizations. More information on the Executive Opinion Survey can be found in Chapter 1.3 of *The Global Competitiveness Report 2012–2013*.

### Doing Business Indicators

The World Bank's Doing Business Indicators are updated on an annual basis, providing a quantitative measure of a particular aspect relevant to competitiveness: business regulations relevant to the operation of domestic small- to medium-sized enterprises (SMEs) throughout their life cycle. Specifically, they cover the following topics: Starting

a Business, Dealing with Construction Permits, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. The indicators are built on the basis of standardized scenarios that permit consistency of approach and straightforward comparisons across countries. They also enable the tracking of reform efforts over time. Ease of use makes this a useful tool for policy analysis. The Doing Business data are updated annually; the most recent report (published in September 2012) covers 185 economies, over 50 of them in Africa. Subnational Doing Business Rankings are now also available for some African countries, including Egypt, Kenya, Morocco, and Nigeria. Some of these indicators are included in the Global Competitiveness Index. For more information, visit [www.doingbusiness.org](http://www.doingbusiness.org).

### Enterprise Surveys

The World Bank's Enterprise Surveys provide another important point of reference, collecting both perception and objective indicators of the business environment in each country. Although not carried out in every country in every year, the Enterprise Surveys are made up of larger sample sizes that allow for a nuanced analysis of the results—for example, by economic sector and gender of respondent. The data are collected through face-to-face interviews with hundreds of entrepreneurs; hence responses reflect the managers' actual experiences. The data collected span all major investment climate topics, ranging from infrastructure to access to finance and from corruption to crime. Detailed productivity information includes firm finances, costs such as labor and materials, sales, and investment.

The breadth and depth of data allow for cross-country analysis by firm attributes (size, ownership, industry, etc.), and can probe the relationship between investment climate characteristics and firm productivity. Every year, 15–30 Enterprise Surveys are implemented, with updates planned for each country every three to five years. This reflects the intense nature of administering firm surveys, given that firms are required to respond to many detailed questions. So far, over 135 countries have been surveyed, including over 130,000 entrepreneurs, senior managers, and CEOs all over the world.

in many areas in order to set itself on a sustainable growth trajectory going forward. It shows that the gap with comparable regions—such as Southeast Asia and Latin America and the Caribbean—is particularly large in the basic building blocks for a competitive economy: governance and institutions, infrastructure, and education. Beyond these gaps, countries (with the exception of South Africa, Egypt, and the oil-exporting economies) suffer from small market sizes. Moreover, despite the rapid rise in mobile telephone subscriptions, Africa trails other regions significantly in its use of information and communication technologies (ICTs). Furthermore, the chapter finds wide regional differences in competitiveness across the continent, as captured in findings such as the placement of South Africa in the top

half of the rankings at 52nd, while Burundi is the lowest ranked country out of all assessed at 144th.

Recognizing the continent's heterogeneity, the chapter explores in greater detail the main competitiveness challenges by classifying Africa's economies into oil and gas exporters, middle-income economies, non-fragile low-income economies, and fragile economies.<sup>3</sup> We see that oil- and gas-exporting economies perform as poorly as fragile economies in 9 out of the 12 competitiveness pillars, calling into question whether these countries' high economic growth rates are sustainable. We further observe that non-fragile low-income economies do particularly well in the areas of financial, goods, and labor market efficiency. Middle-income economies, while generally faring better, face

many of the same competitiveness challenges as their peers.

These competitiveness figures bring to the fore the important question of whether, while enjoying high rates of growth, African countries have been making the types of investments and implementing policies that can put their economies on sustainable growth paths so that they can create enough jobs to benefit from, rather than suffer from, Africa's youth bulge. Given the importance of social and environmental sustainability for growth and development going forward, Africa's economies are also assessed according to these criteria, demonstrating that all eight African economies in the sample do worse when social and environmental variables are taken into account.

## REGIONAL INTEGRATION

Efforts to foster trade through regional integration will be critical for Africa to diversify its economies and increase the region's competitiveness. Participating in both intra-Africa and international trade and investment flows can fuel competitiveness in a number of ways. Increased cross-border trade can lead to a virtuous cycle of more competition in domestic markets that—coupled with the exploitation of economies of scale—lowers the costs of goods and services while increasing their variety, thereby generating more economic activity, such as the development of the manufacturing or services sectors. This, in turn, has the potential to create strong backward and forward linkages within the economy. For African countries, two inter-related challenges are critical: to diversify the export base to reduce vulnerability stemming from commodity price swings, and to tighten regional integration. A recent World Bank report shows that countries are losing out on billions of dollars in potential trade every year because of the region's fragmented regional market,<sup>4</sup> and because cross-border production networks that have spurred economic dynamism in other regions, especially East Asia, have yet to materialize in Africa.

## TRADE LIBERALIZATION

Africa has failed to benefit from trade liberalization to the same extent as other regions, such as Asia and some countries in Latin America. Chapter 2.1, therefore, looks at how to strengthen the trade performance of African economies. The Enabling Trade Index (ETI) points to a number of strengths and many challenges to developing trade on the African continent. Access to African markets has been significantly liberalized in most countries, and the business environment is often more conducive to corporate activity than it is in other regions, although regional differences between East, Southern, and West Africa remain. However, inefficient border administration reduces the price competitiveness of African exports in global markets and adds to the cost of imports. The transport and communications infrastructure is far less developed than in other regions, which also significantly

### Box 2: The African Development Bank: Knowledge to improve investment climate and competitiveness

The *African Economic Outlook* (AEO) is jointly produced by the African Development Bank (AfDB), the Organisation for Economic Co-operation and Development (OECD) Development Centre, the United Nations Development Programme (UNDP), and the United Nations Economic Commission for Africa (UNECA). It reviews recent economic developments in Africa by adopting a comparative approach and a common analytical framework. It provides forecasts for key macroeconomic variables. The AEO surveys and analyzes the current socioeconomic performance of African economies and provides information on a country-by-country basis on their socioeconomic progress as well as on the short- to medium-term prospects of these countries. It also provides an overview of specific international developments that may impact African economies.

Each year, the AEO addresses a specific theme that focuses on a critical area of Africa's socioeconomic development. The 2012 theme was Promoting Youth Employment. The 2013 edition of the AEO, with the theme of Structural Transformation and Natural Management, covers 53 African countries and is currently being prepared. The key objectives of the AEO are to broaden the knowledge base of African economies and to offer valuable support for policymaking, investment decisions, and donors' interventions. Another important objective is to assist in capacity building. Through the involvement of African experts and institutions in its preparation, the AEO increases research capacity and reinforces the ownership of local African experts in that research. For more information, visit [www.africaneconomicoutlook.org](http://www.africaneconomicoutlook.org).

raises the cost of trading, particularly for landlocked economies. The chapter also corroborates that access to finance and identifying potential markets and buyers are considered the most important bottlenecks to exporting across Africa. This suggests that further developing the financial services sector, as outlined in Chapter 1.1, would be beneficial for trade; there is also a need and a demand for accessible business services that could help exporters identify markets and buyers.

## AFRICA'S DEEP AND PERSISTENT INFRASTRUCTURE DEFICIT

Together with border administration, the insufficient amount and quality of infrastructure is one of the major impediments to developing trade in Africa and improving competitiveness; closing this deficit is part of the solution (see Chapters 2.1 and 2.2). While over half of Africa's improved growth performance can be attributed to improvements in infrastructure, US\$93 billion annually until 2020 is still needed for infrastructure development.<sup>5</sup> And increased urbanization, growing consumer markets,

and broader ties to the global economy are putting additional pressure on the need for African economies to invest more in infrastructure. Developing adequate and efficient infrastructure will assist African economies to increase productivity, especially in manufacturing and service delivery. This in turn will create more jobs and increase attractive investment opportunities as well as encourage the efficient use of natural resources. Improved and efficient infrastructure will also contribute to social development in the areas of health and education and reduce societal inequalities through a more equitable distribution of national wealth.

Chapter 2.2 therefore looks at infrastructure development in the sectors of energy, transportation, and ICTs. The chapter shows that, in general, progress has been very slow or even negative in terms of electricity generation and the provision of paved roads, while the uptake of mobile telephone subscriptions has been impressively rapid during the last decade. The chapter argues that, at the regional level, urgent attention should be given to the development of regional infrastructure to achieve economies of scale. Africa needs well-structured networks linking production centers and distribution hubs across the continent to deepen regional trade and integration. Reducing this significant infrastructure deficit will help to increase Africa's competitiveness. Very important for building the necessary infrastructure will be (1) planning for adequate maintenance in all sectors, including the new ICT sector; (2) removing regulatory and institutional bottlenecks; and (3) interconnecting infrastructure so as to maximize the benefits from regional integration.

### COMPREHENSIVE POLICY MIX NEEDED

Infrastructure development needs to be supported by a comprehensive policy mix to reinforce the backward and forward linkages of infrastructure investments in the economy. In this context, Chapter 2.3 discusses growth poles as a successful and innovative approach that links infrastructure investments to the development of industries and that can set into motion a reinforcing cycle of forward and backward linkages. Growth poles are multi-year, generally public-private investments aiming to accelerate growth in the industries that engage in export and to support infrastructure around already-existing opportunities in the economy, such as a natural resource (such as a mine) or an agglomeration economy (such as a boom city). Growth poles are built on the assumption that there is a need for simultaneous, coordinated investments in many sectors to encourage self-sustaining industrialization that could increase market size, thereby attracting more investment and employment. By bringing together investors from both the public and private sectors to share risks, growth poles can reduce the costs of infrastructure projects and especially incentivize the local private sector's participation in these projects. Growth pole projects can be a boost

to regional integration, as they often attract foreign direct investment, are built across borders, and have spillovers beyond national economies. Growth poles can thus be important spurs for national competitiveness, and can be especially effective by reinforcing the capacity for regional integration and increasing business sophistication.

### POLICY RECOMMENDATIONS

Several policy recommendations flow from the analysis in this *Report*. Individually each recommendation could facilitate trade and regional integration, and jointly they could be important drivers for more regional integration across Africa and for improving the region's competitiveness.

*Simplifying import-export procedures:* Chapter 2.1 shows that reducing import-export procedures lends itself to relatively rapid gains from trade facilitation, while countries are putting in place the necessary infrastructure that proves critical to more regional integration in the medium to long run. More specifically, streamlining border administration to reduce the cost of procedures and delays during clearance, along with improving the coordination of the clearance process, could be instrumental in providing these rapid gains. An example of this approach is seen in the Uganda-Kenya revenue authorities digital exchange platform (see Chapter 2.1, Box 3).

*Developing and leveraging ICTs:* Chapter 2.1 shows that improvements in ICTs could also further support and help make more transparent the administrative processes in regard to trade facilitation. Furthering this, Chapter 2.2 highlights the urgent need (1) to liberalize the subsector in countries still dominated by government monopolies, as well as to avoid policy reversals, which create uncertainty; (2) to improve private-sector participation, particularly in the backbone infrastructure, so as to enhance terrestrial connectivity; (3) to create an open, dynamic, and responsive legal and regulatory framework that responds to new advances such as mobile money; and (4) to anticipate plans for adequate maintenance.

*Improving energy:* From an in-depth analysis of Africa's energy sector, Chapter 2.2 recommends that policymakers should (1) reconsider subsidies and tariffs that are not cost-reflective and that prevent crucial investments; (2) invest in the diversification of the energy mix to reduce vulnerability of one source of energy and ensure sustainability; (3) promote energy efficiency and pursue green energy, which will address the energy deficit at no further cost to the environment; and (4) build competitive regional power pools coupled with the requisite legal and regulatory framework.

*Improving transportation:* In the transportation sector, outdated infrastructure and limited maintenance call for a pressing rehabilitation in all subsectors. Transport infrastructure is particularly important for

landlocked countries that face prohibitive costs in getting their goods to market, thereby undermining their competitiveness. Policymakers should encourage and facilitate investment in (1) upgrading rail transport links to ensure cost-effective transportation of bulky exports; (2) increasing capacity storage in the port sector; and (3) improving feeder and rural roads, thereby enhancing inclusiveness.

*Building growth poles:* Linked to but going beyond improving infrastructure, growth poles are an innovative means to link regional integration and develop productive capacity. Chapter 2.3 highlights policy lessons for building growth poles. It shows that growth poles can be an important means of creating dialogue among stakeholders, but they require a thorough upfront analysis and need to incorporate clear leadership on the implementation side. In dialogue with the private sector and other stakeholders, policymakers will then need to deal with three kinds of challenges: (1) policy coordination is key. Consideration must be given to how growth poles get picked and how specific transactions get selected. Responding to these challenges requires both institutional (horizontal) coordination, and effective coordination of implementation arrangements. (2) A monitoring and evaluation framework for growth pole investments must be established from the outset of the projects as a key measure for increasing the accountability and transparency of these investments. (3) Successful risk management of growth poles needs to recognize the specific risks associated with them (including risk-sharing and risk-management challenges, payment challenges, and demand and construction risk challenges).

A coordinated effort by several African countries is needed for the full positive impact of these recommendations, each building the necessary policy environments and building the required infrastructure that will facilitate regional integration. However, regional integration is not an end in itself. Efforts to close Africa's competitiveness gap—particularly in the areas of institutions, education and skills, and technological adoption—will be critical for African economies to build their productive capacities: putting in place the necessary factors to move up the value chain will lay the basis for a transformative manufacturing and services sector that will provide the goods and services that will be traded. Efforts are underway in some parts of the continent, but in order to truly improve Africa's productivity and competitiveness and see a rapid rise in living standards, such efforts must be scaled up and accelerated.

The final section of the *Report* provides detailed competitiveness profiles for the 38 African countries included in the World Economic Forum's Global Competitiveness Index. These profiles present the detailed rankings that underlie the broader global competitiveness rankings.

## NOTES

- 1 See, for example, IMF 2008. Furthermore, a recent IMF Working Paper (IMF 2013) shows that economic growth in sub-Saharan Africa was less volatile between 1995 and 2010 than it was between 1980 and 1994.
- 2 AfDB et al. 2012.
- 3 We follow the IMF's country classification applied in the *Regional Economic Outlooks* on sub-Saharan Africa based on the most recent data on per capita gross national income (averaged over three years) and the 2010 World Bank's (IDA) Resource Allocation Index (IRAI). Oil-exporting countries are those where oil exports make up for more than 30 percent of total exports. Middle-income countries not classified as oil exporter or fragile countries are those that had an average income per capital gross national income in the years 2008–10 of more than US\$992.7 and an IRAI score higher than 3.2; low-income countries not classified as fragile or oil exporters had average income per capital gross national income in the years 2008–10 of less than US\$992.7; and fragile countries not classified as oil exporters had IRAI scores of 3.2 or less (see IMF 2012). The criteria are extended to North African economies.
- 4 World Bank 2012.
- 5 AfDB Group 2010.

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