2020 POLICY NOTE ON AFRICA

THE FUTURE OF PRODUCTION: THE CASE FOR REGIONAL INTEGRATION

INVESTMENT
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The future of production in Africa: The case for regional integration

This Policy Note provides insights from the private sector on the opportunities generated by regional integration in Africa. Regional co-operation holds the potential to be a game-changer for firms, allowing them to rethink their strategies and better serve a growing African market. The analysis builds on discussions which took place at the meeting "The future of production in Africa: The case for regional integration", organised by the OECD Development Centre's Emerging Markets Network (EMnet) at the OECD on 20 January 2020, desk research and bilateral conversations with multinationals operating in Africa. Africa's GDP was expected to grow by 3.6% in 2019 and 3.8% in 2020, but with COVID-19, recent forecasts show that recessions are a likely scenario: GDP growth could drop to -1.12% for 2020.

Key messages include:

- Africa has several of the world's fastest growing economies - Rwanda, Ethiopia and Côte d'Ivoire – and a growing population, notably in East, West and Central Africa.
- A shift in production towards semi-processed goods is expected to drive further growth in the coming years.
- Lowering tariffs on goods, the African Continental Free Trade Agreement (AfCFTA) creates the basis for a pan-African market that can support further industrialisation.
- Industrialisation depends on increasing local production for intra-African exports, which currently represents only 17% of the continent's total exports.
- Governments and regional economic communities (RECs) can provide additional impetus for growth by reducing non-tariff barriers, boosting trade in services and investment, and facilitating cross-border movement of workers.
- Businesses note the importance of harmonising regulations at the continental level as well as within and between RECs.
- Providing quality infrastructure, power supply and skilled labour can strengthen regional production networks.
- To further unlock private investment, firms highlight the importance of policies aiming to improve shipping and visa procedures, establish regional energy markets and lowering ICT costs.

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OECD EMERGING MARKETS NETWORK

Emerging Markets Network (EMnet) is an OECD-sponsored initiative dedicated to the private sector. Managed by the OECD Development Centre, the Network fosters dialogue and analysis on emerging economies and their impact on global economic and social issues.

EMnet gathers top executives (chief executive officers, vice-presidents, managing directors, chief financial officers, heads of strategy, chief economists) of multinational companies from diverse sectors, willing to engage in debates with high-level policy makers, including heads of state and ministers, and OECD experts.

EMnet events are closed to the public and media and operate under Chatham House rule to encourage open and dynamic discussions on doing business in Africa, Asia and Latin America. To learn more about EMnet, please consult www.oecd.org/dev/oecdemnet.htm.

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The analysis in this Policy Note is based on discussions held at the EMnet meeting on 20 January 2020 at the OECD in Boulogne-Billancourt (France), bilateral discussions with EMnet members and contacts, and desk research.

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ABBREVIATIONS AND ACRONYMS

AEC	African Economic Community
AFCAC	African Civil Aviation Commission
AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AFF	African Forest Forum
AU	African Union
AUC	African Union Commission
AUDA	African Union Development Agency
AUDA-NEPAD	African Union Development Agency-New Partnership for Africa's Development
CCTTFA	Central Corridor Transit Transport Facilitation Agency
CEMAC	Central African Economic and Monetary Community
CEN-SAD	*Communauté des États sahélo-sahariens* (Community of Sahel–Saharan States)
CIA	Central Intelligence Agency
COMESA	Common Market for Eastern and Southern Africa
DRC	Democratic Republic of the Congo
EAC	East African Community
EACO	East Africa Organisation of Communications
ECCAS	Economic Community of Central African States
ECOWAS	Economic Community of West African States
EMnet	Emerging Markets Network
EPA	Export Promotion Agency
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GERD	Grand Ethiopian Renaissance Dam
GGWSSI	Great Green Wall for the Sahara and the Sahel Initiative
GIZ	*Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Corporation for International Co-operation)

GNI	Gross National Income
GSMA	Global System for Mobile Communications Association
IATA	International Air Transport Association
ICT	Information and Communications Technology
IEA	International Energy Agency
IGAD	Intergovernmental Authority on Development
IISD	International Institute for Sustainable Development
IMF	International Monetary Fund
IMR	International Mobile Roaming
IRENA	International Renewable Energy Agency
JSE	Johannesburg Stock Exchange
KSEZ	Kigali Special Economic Zone
LAC	Latin America and the Caribbean
MRA	Mutual Recognition Agreement
NEPAD	New Partnership for Africa's Development
NTB	Non-Tariff Barrier
NTFC	National Trade Facilitation Committees
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OSBP	One-Stop Border Post
PAIC	Pan-African Investment Code
PPP	Public-Private Partnership
RBC	Responsible Business Conduct
REC	Regional Economic Community
SAATM	Single African Air Transport Market
SADC	Southern African Development Community
SATA	Southern African Telecommunications Association
SDG	Sustainable Development Goal
SEZ	Special Economic Zone
SME	Small and Medium-sized Enterprises
SOE	State-Owned Enterprise

UMA	*Union du Maghreb Arabe* (Arab Maghreb Union)
UN	United Nations
UNCCD	United Nations Convention to Combat Desertification
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNECA	United Nations Economic Commission for Africa
USD	United States dollar
WAEMU	West African Economic and Monetary Union
WEF	World Economic Forum
WHO	World Health Organization
WTO	World Trade Organization

AFRICA'S ECONOMIC AND BUSINESS OVERVIEW

This economic and business overview chapter brings together analysis and insights about Africa's economic growth, financial inflows, international and regional trade as well as megatrends that have affected the continent. This Policy Note covers the period before 2020, and neither it nor the data cited in it take into account the effects of the Coronavirus (COVID-19) crisis. The virus is resulting in significant economic disruption from quarantines, restrictions on travel, factory closures and a sharp decline in many service sector activities. As a result, the world economy is expected to be in its most precarious position since the financial crisis and experiencing a sharp slowdown (OECD, 2020). GDP growth was expected to be 3.8% in 2020 (pre-crisis estimate), but with COVID-19 affecting African economies, more recent forecasts show that recessions are likely: depending on the scenario, GDP growth in 2020 could drop to -1.12% (AUC/OECD, 2019; OECD, forthcoming). See also Box 1.

Box 1. The Coronavirus crisis in Africa

The Coronavirus (COVID-19) crisis is resulting in significant economic disruption from quarantines, restrictions on travel, factory closures and a sharp decline in many service sector activities (OECD, 2020). As a result, several African economies may see their first recession in 25 years. The potential economic and social crisis in Africa may be more severe than in other emerging and developing economies, as countries face additional vulnerabilities such as weak health infrastructure, a large immunocompromised population, import dependence, weak substitution of input materials, single export commodity dependence, overstretched debt in certain countries and limited fiscal capacity, (OECD, forthcoming).

Africa has dealt with recent health epidemics with devastating impact on local economies, for example the West-African Ebola epidemic in 2014-2016 or the large-scale Ebola outbreak in the Democratic Republic of the Congo in 2018 (Oqubay, 2020). Before the wide introduction of antiretroviral drugs, the HIV/AIDS epidemic caused major economic setbacks, predominantly in Southern Africa (UN/AIDS, 2019). However, the impact of the global COVID-19 crisis has the potential to dwarf these epidemics. There are fears for the populations in informal settlements or those with weakened immune systems, e.g. because of poverty or HIV/AIDS, who could be particularly vulnerable. A factor working in Africa's favour is its young population: COVID-19 seems to affect senior citizens more than youth (WHO, 2020a). With a median age of less than 20 in Africa and just 3% of the population of Sub-Saharan Africa older than 65 (World Bank, 2018), Africa's young population can be a positive factor in this regard (Kaseje, 2020).

Box 1. The Coronavirus crisis in Africa *(cont.)*

African countries will experience declines in trade flows as global value chains are being disrupted. Declining or collapsing demand from North America, Europe and the People's Republic of China (hereafter: 'China') will hurt African economies (UNECA, 2020). China's exports were down 16% in the first two months of the year (National Bureau of Statistics (2020). The slowdown in China, a major trading partner, is already having its ripple effects. Besides, many North and West African countries heavily depend on trade with the EU, whose slowdown will also strongly reverberate (OECD, forthcoming). The travel and tourism sector in Africa are particularly vulnerable due to the border closures and travel restrictions. Oil exporting nations were expected to lose up to USD 65 billion in revenues as crude oil prices tumble, with up to USD 19 billion in Nigeria alone (UNECA, 2020; Pezzini, 2020). Commodity-sensitive economies such as Algeria, Angola, Cameroon, Equatorial Guinea, Ghana, Gabon, Nigeria and the Republic of Congo are among the most affected (OECD, forthcoming).

Financial flows will be strongly impacted too. African countries have taken on large amounts of debt in recent years, rising from USD 235 billion in 2008 to USD 634 billion in 2019 (up from 21% to 36% of GDP) (Wheatley, 2019). A rising dollar puts the question of debt servicing on the table. Besides, with an average tax-to-GDP ratio around 17% in 2017, African countries do not have much leeway to cushion the blow (OECD/ATAF/AUC, 2019). Increased uncertainty will also see portfolio investment outflows. Changing fortunes in North America or Europe also have the potential to sharply reduce the flow of remittances to Africa.

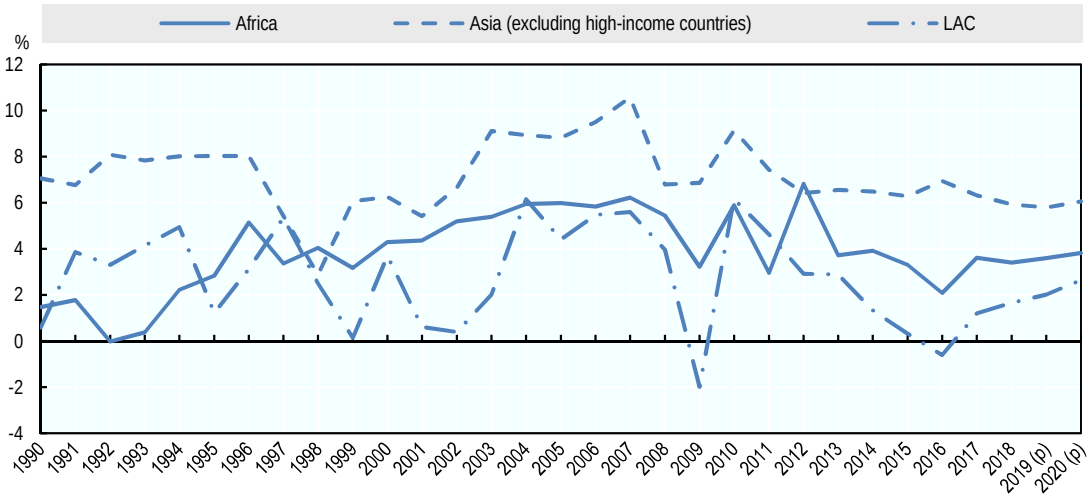
Overall, growth prospects are much reduced, the extent of the recovery will depend on whether African countries and their trade partners manage to bring the virus under control. A rapid implementation of the AfCFTA could also help mitigate the COVID-19 impact (Nyaira, 2020).

For the latest information on impacts and consequences of the COVID-19 pandemic, please visit www.oecd.org/coronavirus.

African markets experienced moderate economic growth

Africa's gross domestic product (GDP) grew at 3.6% in 2019, registering a slowdown from the 4.6% average annual GDP growth in 2000-2018. The economic performance was better than that of Latin America and the Caribbean (LAC) at 2.6%, but lower than that of Emerging Asia[1] at 7.4% during the 2000-2018 period (AUC/OECD, 2019, see also Figure 1). Many of the world's fastest growing economies are African, including Rwanda, Ethiopia, Côte d'Ivoire, Ghana and Tanzania, while Africa's largest economies such as Nigeria, South Africa and Egypt had lower growth, dragging down the continental average: economic disparities between countries remained even before the Coronavirus pandemic had hit (AfDB, 2020).

Figure 1. **Growth dynamics in Africa, Asia, and Latin America and the Caribbean, 1990-2020**



Source: Authors' calculations based on IMF (2019a), as cited in AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.
StatLink https://doi.org/10.1787/888933966789.

Historically, consumption has been the main source of demand in Africa. However, its contribution to GDP has declined from 55% in 2015 to 48% in 2018, while investments increased from 14% to 48% that year. This rebalancing trend is expected to continue (AfDB, 2019a). Net exports also contributed strongly to growth, especially for commodity exporting countries as the oil price recovered in 2019 (AfDB, 2020).

During 2000-2018, West and East Africa represented regions with the biggest GDP growth, at 5.9% and 5.2% respectively (AUC/OECD, 2019). Growth in other regions has been relatively subdued. Between 2000 and 2018, Central, North and Southern African growth has averaged 4.8%, 4.3% and 3.4% respectively (AUC/OECD, 2019). Ethiopia has emerged as a recent success story with GDP growth expected to rise to 8.2% in 2019-20, supported by the country's rising incomes, an emerging and potentially large market of 94 million consumers, and increasing urbanisation (AfDB, 2019a). Djibouti, Rwanda and Tanzania have also recorded above-average growth rates (AfDB, 2019a). Beside the outbreak of the COVID-19 pandemic, growth forecasts for Africa are clouded by several risks such as escalating global trade tensions, normalisation of interest rates in developed economies, and internal political transitions across the continent (AfDB, 2019a).

Strong domestic factors have supported growth while increasing oil prices helped commodity exporters

Growth in Africa is currently primarily fuelled by domestic factors. Demand for processed goods in particular is growing 1.5 times faster than the global average (AUC/OECD, 2019). A rise in working age population – from 705 million in 2018 to an expected 1 billion by 2030 –, rising income levels and more concentrated demand in urban centres further boost growth (AUC/OECD, 2019). In commodity-exporters, growth has also been supported by a rebound in commodity prices. The price of Brent crude oil has risen 177% from USD 27 in February 2016 to USD 74 in October 2018 (AfDB, 2019a). Oil-exporting countries such as Algeria, Angola, Chad, Congo, Gabon, Libya and Nigeria have recovered to some extent, although at the expense of rising inflation (AfDB, 2019a).

Inflationary pressures are expected to ease in the coming years

Africa's average inflation reduced from 12.6% in 2017 to 10.9% in 2018, and was expected to reduce further to 8.1% in 2020, according to estimations done before the outbreak of the Coronavirus pandemic (AfDB, 2019a). In African economies where inflationary pressures have relaxed and exchange rates have stabilised, such as Ghana, South Africa and Uganda, central banks have eased monetary policy. For several others, such as Egypt and Tunisia, monetary policy restrictions remain in place to contain inflation (AfDB, 2019a). Low, stable inflation has been associated with economic growth, development outcomes, financial stability and poverty reduction (World Bank, 2019b).

Small and medium-sized enterprises and local firms are becoming increasingly important

African small and medium-sized enterprises (SMEs) and start-ups are important to job creation, and function as pillars of inclusive growth and business innovation (AUC/OECD, 2019). The youngest SMEs that are less than five years old and have fewer than 20 employees comprise 22% of net job creation (AUC/OECD, 2019). About 22% of Africa's working-age population are starting new businesses, the highest rate in the world, compared to 19% for Latin American countries and 13% for Emerging Asia (AUC/OECD, 2019). Local firms also leverage new technologies and business models to tap rising local demand and attract investments (AUC/OECD, 2019). In 2018, African tech start-ups raised USD 1.2 billion in equity compared to USD 560 million in 2017 (AUC/OECD, 2019). Although the amount is growing, it remains relatively small in comparison; India, for example, raised USD 20.5 billion during the same year (Grand Thornton, 2019).

Financial inflows are an important contributor to Africa's growth outlook

Total external financial inflows into Africa make up 11.6% of Africa's GDP, compared to 5.4% at the global level. The inflows, consisting of remittances, official development assistance (ODA), portfolio investments and FDI, grew by 23%: from USD 170 billion in 2016 to USD 209 billion in 2017 (AUC/OECD 2019). See also Table 1.

Table 1. **Financial flows and tax revenues to Africa and private savings (current USD, billion), 2000-2017**

			Average 2000-04	Average 2005-09	2010	2011	2012	2013	2014	2015	2016	2017
External financial inflows	Private	Foreign direct investment	16.1	46.0	46.7	46.7	52.0	50.8	52.4	56.6	53.2	41.8
		Portfolio investments	1.8	10.4	36.8	23.2	37.6	33.7	30.2	20.8	5.9	46.0
		Remittances	14.2	41.9	54.7	61.7	66.8	65.9	70.2	70.0	66.9	74.4
	Public	Official development assistance	20.5	38.8	42.8	46.5	46.4	52.0	47.9	44.9	44.1	47.0
Total foreign inflows			**12.1**	**25.9**	**52.5**	**137.1**	**181.0**	**178.2**	**202.8**	**202.4**	**200.7**	**192.4**
Tax revenues			**44.4**	**104.4**	**118.6**	**266.9**	**330.3**	**403.2**	**417.7**	**414.5**	**408.8**	**339.5**
Private savings			**35.4**	**76.8**	**130.8**	**299.1**	**423.5**	**448.5**	**475.0**	**508.0**	**516.2**	**427.3**

Source: AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.

Remittances have been the largest capital inflow, followed by ODA and portfolio investments

Remittances in 2017 stood at USD 74 billion, larger than other forms of capital inflows. Remittances constituted a relatively high proportion (45%) of financial inflows into West Africa in 2017 (AUC/OECD, 2019), with 70% (USD 24.3 million) in the region going to Nigeria in 2018 (AUC/OECD, 2019). In 2018, Egypt and Nigeria were the top receiving countries in Africa, with a total of USD 29 million and USD 24 million of remittances respectively (AUC, 2019). ODA to Africa peaked in 2013 at USD 52 billion and has since decreased to USD 45 billion in 2017 (AUC 2019b). While all regions saw an ODA increase between 2005 and 2010 and 2011 and 2016, East Africa and West Africa were the largest recipients (AUC 2019b). Portfolio investments are the third-highest contributor to net financial inflows in Africa. In 2017, the size of portfolio investments in Africa was USD 46 billion. Since 2009, Johannesburg in particular has attracted significant portfolio investments: the Johannesburg Stock Exchange (JSE) is Africa's largest stock exchange, and the country's financial sector operates as a hub for pan-African investments (AUC/OECD, 2019).

FDI into Africa remains relatively small compared to other regions, but sizeable in relation to GDP

FDI inflows in Africa fell from the 2008 peak of USD 58 billion to a 10-year low of USD 42 billion in 2017 (AfDB, 2019a). In 2018, however, FDI increased by 11% to USD 46 billion, or 5.1% of GDP (UNCTAD, 2019a; EY, 2019). By comparison, Emerging Asia recorded a 4% increase of FDI in 2018 to USD 512 billion and LAC saw a decline of 6% to USD 147 billion (UNCTAD, 2019a). Between 2013 and 2017, total FDI inflows to Africa were USD 51 billion a year and were mainly directed to Southern Africa (USD 12.5 billion per year), North Africa (USD 12 billion) and West Africa (USD 11.6 billion) (AUC/OECD 2019). The largest FDI recipient countries were Egypt with USD 12 billion and South Africa with USD 5 billion (EY, 2019). Based on capital invested, China, France and the United States were Africa's largest investors from 2014 to 2018, investing USD 72 billion, USD 34 billion and USD 31 billion respectively (EY, 2019).

Africa's outwards FDI decreases while intra-African investments show increasing momentum

FDI outflows from Africa dropped from USD 12 billion in 2017 to nearly USD 10 billion in 2018, mainly owing to reduced outward investment from Angola (nearly halted from USD 1.4 billion in 2017) and South Africa (nearly 40% reduction from USD 4.6 billion) (UNCTAD, 2019a). Africa is the fourth largest investor into itself, while intra-Africa investments are growing in importance (UN-Habitat and HIS-Erasmus University Rotterdam, 2018). Major economies on the continent seek a first-mover advantage, with Morocco overtaking South Africa as first intra-African investor (UNCTAD, 2019a). Cairo, Casablanca, Johannesburg, Lagos and Nairobi are identified the most significant hubs for intra-African investment (AfDB, 2019b).

Africa's contribution to global trade remains low, yet intra-regional trade is improving

Africa accounted for 2.6% of global trade in 2018, up from 2.4% in 2017 (Afreximbank, 2019). Intra-African trade has improved to around 16% in 2018 from 5.1% in 1980, but remains low compared to levels of intra-regional trade in other regions, e.g. Europe with 73% and Asia with 52% (Afreximbank, 2019). Africa's low level of regional trade can partly be explained by looking at its main sources of growth – primary commodities and natural resource extraction. These patterns of growth run counter to the continent's participation in a global trading system that is largely dominated by industrial products and manufactured goods with increasing technological content (Afreximbank, 2019). The African Continental Free Trade Agreement (AfCFTA), which came into effect in 2019, will gradually lower tariffs on 90% of goods, and is estimated to give a further boost to intra-African trade of up to 52% by 2025. Removing non-tariff barriers to intra-African trade, such as administrative obstacles, inconsistent application of regulations and uncertainty of exchange rate policies in destination countries, has the potential to increase welfare gains fivefold, from 0.65% to 3.15% of GDP (AUC/OECD, 2019; Brookings Institution, 2019b; GIZ, 2019a).

Africa's international trade of goods has expanded but downside risks exist

Africa's total goods exports grew by 13%, compared to import growth of about 2% (Afreximbank, 2019). Rising commodity prices helped sustain Africa's increase in trade in goods globally. The European Union was Africa's main partner in 2018, accounting for 29.8% of total trade (Afreximbank, 2019). Germany currently leads the EU exports to Africa (USD 9.15 billion), followed by France (USD 6.17 billion) (Brookings Institution, 2019a). Further, two-way trade with the United States fell from a high of USD 100 billion in 2008 to USD 39 billion in 2017, largely owing to US energy self-sufficiency (Brookings Institution, 2018a). African trade with the Global South grew significantly over the last decade to account for more than 35% of the continent's total trade in 2018 (Afreximbank, 2019). China and India are Africa's first and second single largest trading partners, accounting for over 21% of total African trade in 2018 (Afreximbank, 2019). However, escalating global trade tensions and growth deceleration in Europe and China – which combined account for 54% of total African trade – could pose downside risks for African economies (Afreximbank, 2019).

Megatrends affecting Africa's integration into the global economy

Five megatrends have been identified as key elements that will drive Africa's future economic and social development, as well as its productive transformation (see Table 2). The way Africa deals with them will have a significant impact on growth, job creation and equalities. Firms have the possibility of capitalising on innovative opportunities and mitigating potential risks associated with these megatrends.

Table 2. **Five megatrends affecting Africa's future development**

Megatrend	Main Risks	Main Opportunities
"Shifting wealth" and the rise of emerging economies	Competition from other emerging markets; Creating one-dollar jobs; New "scramble for Africa"; Environmental degradation	Diversification of the African exports basket; Reallocation of low-skilled manufacturing from Asia to Africa; Attracting FDI into Africa; New sources of development finance; Skills transfer
New industrial revolution	Automation; Re-shoring manufacturing to advanced economies; Unprepared skill and technological base; Illicit financial flows	Reduction in trade costs, especially for small firms; Creation of new niches and markets; Use of new technologies to improve access to public services and quality of public policies
Demographic transition	High youth unemployment and higher informal sector employment; Increased pressure on public services and environmental resources; Migration and brain drain	Growth of Africa's workforce; Greater savings, consumption and GDP growth due to increased labour supply and wealth creation; Growth of an African middle class
Urban transition	Increased urban poverty and inequality; Inequality between rural and urban areas; Urban congestion; More air pollution and inefficient use of water and other natural resources	Growth of an "urban" middle class and demand for high value-added goods, food and urban infrastructure; Generating economies of scale and social innovation; More sustainable use of resources thanks to efficient sharing of infrastructure in high-density areas
Climate Change	Natural disasters, droughts and changing weather patterns; Loss of livelihoods and economies activities	Expansion of new green sectors; Higher job creation in green sectors

Source: AUC/OECD (2018), *Africa's Development Dynamics 2018: Growth, Jobs and Inequalities*, https://doi.org/10.1787/9789264302501-en.

Digitalisation: A positive factor in favour of productive transformation

The digital age in Africa is promising for the region. In 2018, mobile technologies and services generated 8.6% of GDP in Sub-Saharan Africa, a contribution that amounted to over USD 144 billion of economic value added. This is expected to rise to 9.1% of the GDP by 2023. The mobile ecosystem also supported almost 3.5 million jobs (both directly and indirectly) and contributed with USD 15.6 billion in taxes to the funding of the public sector (GSMA, 2019). In 2018, there were 456 million unique mobile subscribers in Sub-Saharan Africa. It is estimated that half of the region's population – around 600 million – will subscribe to mobile services by 2025. Nigeria and Ethiopia are expected to record the fastest growth rates between 2018 and 2025, at 19% and 11% respectively (GSMA, 2019). To fully harness the potential of such digitalisation, improving proficiency in digital skills would be important as the shift in technology changes the demand for such skills (AUC/OECD, 2019). A 10% increase in mobile broadband penetration can increase GDP per capita by as much as 0.7% (IFC, 2019).

Demographic dividends: A growing middle class and the world's second largest workforce

Africa has the world's fastest-growing population, notably in East, West and Central Africa. It rose from 814 million in 2000 to 1.2 billion in 2015 (AUC/OECD 2018). The population in Sub-Saharan Africa is expected to increase to 2 billion by 2050 and 3.75 billion by 2100 (UNDESA, 2019). A large part of the population will live in cities: the urban population in Africa is expected to double between 2015 and 2035, reaching 893 million people (OECD, 2018a). Leading the urbanisation rate in Africa are countries such as Angola (4.32%), Ethiopia (4.63%), and Uganda (5.7%) (CIA, 2019). While urbanisation in African countries can lead to increased inequality and urban poverty, this transition also represents growth of an urban middle class and increased demand for high value-added goods, food and urban infrastructure (World Bank, 2015; AUC/OECD, 2019). Businesses in Africa have an opportunity to tap into the potential of increased spending by African consumers and businesses, expected to reach USD 6.66 trillion annually by 2030 (Brookings Institution, 2019c). Besides a growing workforce, recent strides in education are improving human capital, resulting in a stronger, more skilled workforce, although still below the global average (AUC/OECD, 2019).

Accelerating the development of productive sectors is critical to meet the objectives of the Agenda 2063

The complexity of supporting productive transformation requires a systemic strategy. Africa's productive firms must connect to the continent's growing regional demand. This will enable them to take advantage of the expanding consumer base to which the AfCFTA will ease access. The challenge here is not only to eliminate tariffs, co-ordinate customs procedures and improve the business environment. Most firms, especially African micro-, small and medium-sized enterprises, may not be able to reap the benefits of AfCFTA's reduced tariffs and larger market size without overcoming internal barriers on their capability and external barriers such as excessive transportation costs, barriers to cross-border investment and other non-tariff barriers (AUC/OECD, 2019).

This systemic approach to productive transformation in Africa entails focusing on three sets of policies: i) developing strategic clusters of firms; ii) facilitating regional production networks and iii) enhancing firms' abilities to thrive in new markets. These policies aim to improve African firms' capabilities, notably their capacity to anticipate future trends, adapt to changing market conditions, be aware of and upgrade their potential, and form linkages with each other (AUC/OECD, 2019).

THE BUSINESS OPPORTUNITIES IN REGIONAL INTEGRATION

Regional integration can have a strong and positive effect on the future of production in Africa. Opportunities abound for firms seeking to access national markets and beyond, but much needs to be done by governments to provide sound regulation, quality infrastructure and a skilled workforce that will reduce costs for firms, facilitate trade expansion and attract investments. Regional co-operation can be a game-changer for firms in Africa, allowing them to rethink their strategies and better serve a growing African market. The African Continental Free Trade Area (AfCFTA) will lower tariffs on the continent, but Africa as a whole will need more to achieve economic integration. Its Regional Economic Communities (RECs) and national governments can stimulate regional production networks by creating a supportive enabling environment and by ensuring the provision of quality infrastructure, power supply and skills. Emerging opportunities are evident.

The AfCFTA raises new hopes of creating pan-African markets to support industrialisation

On 21 March 2018, member states of the African Union (AU) convened in Kigali, Rwanda, to sign the AfCFTA. As of December 2019, all 54 African member states have signed the agreement (Tralac, 2019a), which was set to come into effect on 1 July 2020. The AfCFTA represents a flagship initiative at the core of the AU's Agenda 2063[2], in following with its stated vision of making Africa a prosperous and peaceful continent based on inclusive growth, sustainable development, regional co-operation, integration and good governance (AU, 2015). The trade agreement sets the continent to become the largest trade bloc in the world, bringing together 1.2 billion people (UN, 2019).

Under the agreement, 90% of goods originating from an exporting country within the free trade area would be subject to preferential treatment (zero import tariffs) (UNCTAD, 2019b). As a result, it is calculated that intra-African trade could grow by 33% and Africa's total trade deficit could be halved (UNCTAD, 2018). The AfCFTA is also expected to boost the market for intra-African trade in services such as cross-border payments, telecommunications, infrastructure services and professional services (UNCTAD, 2016). It contains a specific Protocol on Trade in Services, although further liberalisation in services is part of future negotiations. The first phase will address the business, communication, financial, transport and tourism sectors. Countries are also negotiating frameworks to foster regulatory co-operation in the services sector (GIZ, 2019b). The United Nations Economic Commission for Africa (UNECA) estimates the AfCFTA could help push African consumer and business combined spending to USD 6.7 trillion by 2030, up from USD 2.7 trillion in 2015 (UNECA, 2019a; Brookings Institution, 2018b). Overall, the AfCFTA has the potential to accelerate industrial development, expand economic diversification and facilitate quality job creation across Africa (Signé, 2018).

Although an important step, much more needs to be done to create one single continental African market for both goods and services. This includes infrastructure development, in particular electricity, investment in human capital, improving production quality and lower costs of corporate debt, by developing regional financial markets. Government efforts should concentrate on stabilising the business environment and simplifying tax systems across countries. Further removing non-tariff barriers reduces uncertainties for exporters and may increase the gains from tariff removal up to fivefold.

Further AU initiatives to accelerate regional integration efforts

Accelerating the development of Africa's productive sectors is critical to meet the continent's objectives. The AU's *Agenda 2063: The Africa We Want* provides a vision based on ten-year action plans to transform Africa into the global powerhouse of the future. Examples of pan-African AU initiatives (Kouassi, 2015a) include the Single African Air Transport Market (SAATM), the pan-African passport, and the Great Green Wall for the Sahara and the Sahel Initiative (GGWSSI). These initiatives underscore the removal of existing barriers to integration and the need for co-ordinated structural transformation and industrial development across Africa.

- The Single African Air Transport Market was established in January 2018 as part of the AU's Agenda 2063 (IATA, 2018). The initiative aims to liberalise civil aviation in Africa and be an impetus to the continent's economic integration and the free movement of people. African airlines carry less than 3% of passengers in Africa, and 80% of total air traffic is by non-African airlines (Proparco, 2016). It is estimated that liberalising routes for just 12 African countries would increase passenger traffic by 81%, creating more than 155 000 jobs and adding an extra USD 1.3 billion (0.1%) to the continent's annual GDP (InterVISTAS, 2014). To date, 32 AU member states have joined this initiative (AFCAC, 2019).
- The AU presented the adoption of a common passport in February 2019 to facilitate mobility across the continent such as student exchanges or business trips (AU, 2018). In addition, several African countries are liberalising their visa requirements and facilitating e-visas. Rwanda, for example, now gives citizens of African countries a visa on arrival. This policy resulted in a 24% increase in tourism, a 50% increase in intra-African trade and a 73% increase in trade with the Democratic Republic of the Congo (WEF, 2018). Starting in January 2020, Nigeria, Africa's largest economy (in 2017 US dollars), is set to give all African travellers visas on arrival, removing requirements to apply in advance (BBC, 2019).
- The Great Green Wall for the Sahara and the Sahel Initiative, a sustainable landscape programme launched in 2007, aims to address the social, economic and environmental impact of climate change, desertification and land degradation (AFF, 2014). The AU project, stretching over 20 countries from Dakar to Djibouti (FAO, 2016), is expected to absorb about 250 million tonnes of CO_2 and generate 10 million green jobs once completed in 2030 (UNCCD, 2019).

Apart from pan-African, continental initiatives such as those listed above, the Regional Economic Communities (RECs) are important actors for regional integration too. The AU recognises eight RECs[3] that facilitate, monitor, evaluate and co-ordinate the AU's Agenda (AU, 2015). These eight building blocks are designed to facilitate regional economic integration between members of the individual regions and through the overarching African Economic Community (AEC, as part of the AU) through a staged approach that involves a free trade area, and, down the line, a common market and monetary integration (AU, 2019a). The International Monetary Fund (IMF) attributes the increase in intra-regional trade to the development of the RECs, where tariffs are close to zero, over the last several decades (IMF, 2019b). According to IMF data, about 80% of all intra-African traded volumes flowed through RECs in 2015 (UNCTAD, 2017). In East Africa, COMESA and EAC are

significantly contributing to regional integration by simplifying trade regimes for small-scale traders including informal traders, and by enabling cross-border mobile payments. Similar efforts have the potential to yield new trade opportunities in all eight RECs.

Developing strategic clusters of firms and economic zones can unleash productive transformation

African governments have made significant strides in promoting regional clusters and special economic zones (SEZ) (UNCTAD, 2019c). Firms can benefit from clusters and economic zones when several steps are followed. First, it is critical to identify a good location for clusters by capitalising on the country's comparative advantage in specific sectors, its existing capabilities and local assets for jobs and value addition. Proximity to strategic inputs, markets or infrastructure is also key for this step. The relatively higher density of companies, suppliers, service providers and associated institutions in a cluster can lead to higher spill-overs and knowledge transfers (AUC/OECD, 2019). Second, governments can attract new capabilities by investing in infrastructure (electricity and transport), ensuring regulatory predictability and efficiency, and setting up dedicated investment promotion agencies as one-stop shops for investors. Third, an effective cluster develops linkages through "match-making" between lead firms and local suppliers, by supporting industrial associations and training for local workers, financial support for suppliers' upgrading and the engagement of local governments. Governments can thus mobilise investment beyond public spending to sustain clusters and economic zones through foreign direct investment (FDI). This systematic approach could generate additional spill-overs and enable knowledge and technology transfers. The concentration of FDI in the industrial sector is positive for technology transfers, an essential part of productive transformation. FDI in the same sectors will induce countries to compete with each other to attract investors, pressuring countries to improve their institutions and implement reforms (AUC/OECD, 2019). Ethiopia (Hawassa Industrial Park), Morocco (Tangier-Med) and Rwanda (Kigali Special Economic Zone, or KSEZ) are examples of recent clusters where governments provide access to quality infrastructure and a dependable regulatory environment, which has attracted world-class multinationals. For example, the KSEZ in Rwanda's capital hosts multinationals operating in a wide range of sectors such as automotive, aeronautics manufacturing, textile, garments and shoe production. Firms that moved into the KSEZ saw a 206% increase in sales, a 201% increase in value added and 18% increase in permanent employees in comparison to firms that are not part of the KSEZ (AUC/OECD (2019).

A focus on comparative advantages can strengthen regional production networks

African governments can create stronger regional production networks and scale up their economies by focusing on their comparative advantages and addressing specific challenges. A shift in production towards semi-processed goods is expected to drive further growth in the coming years. Currently, African producers source 12.9% of their inputs from the continent itself for intermediate goods, while regional sourcing in Southeast Asia can be as high as 21.6%. The comparable figure for final goods stood at 17% of total exports. A better co-ordination of strategies between countries can help identify regional competitive advantages, strengthen existing linkages among firms and, consequently, increase regional sourcing. There is an overlap in industrialisation strategies in about 49% of the targeted sectors in the region. Yet the World Bank's Enterprise Surveys indicate that

more than 60% of African firms rely on their own ideas and skills to develop product innovations; in Nigeria, 85% of firms depend entirely on internal capabilities (World Bank, 2019c).

Co-ordinated regional strategies are important to curb capability gaps between large multinationals and small domestic firms. For example, increasing capital financing for small domestic firms can help them compete both nationally and at the continental level (UNCTAD, 2018). Additionally, strong linkages between multinationals and local economies are critically important for the creation of more quality jobs and for the promotion of better knowledge and technology transfer. Moreover, sharing and harmonising management practices and product standards across firms and regions can also bridge capability gaps. For example, in Ghana, the top 1% most productive firms produce on average 169 times more value added per firm than the other 99% (Teal, 2016).

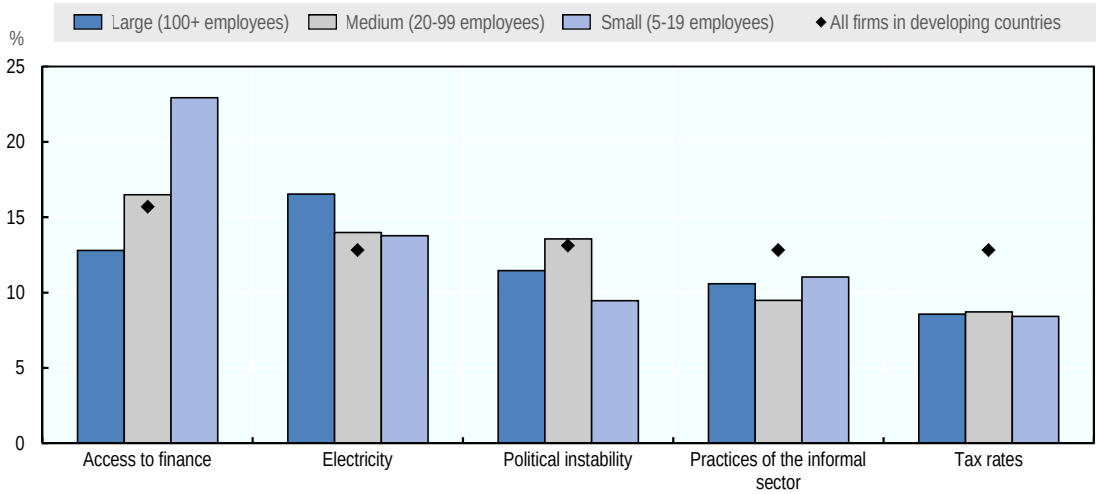
Enhancing firms' ability to thrive in new markets can ensure their survival

African firms can harness the opportunities of intra-African trade and existing clusters to develop their business. The launch of the AfCFTA can facilitate the opening and access to new markets and enable firms to tap into new demands. For example, larger firms can benefit from larger economies of scale notably through a wider production and distribution base, while small and medium-sized enterprises (SMEs) can tap into new markets for their products or ideas (Parenti, 2018). In terms of global export, targeted policy schemes can support young exporting firms (OECD, 2017). Export Promotion Agencies' (EPAs) targeted schemes could increase young firms' survival rates (AUC/OECD, 2018). Moreover, EPAs could provide information on destination markets, facilitate trade-financing solutions and promote branding (AUC/OECD, 2018). The AfCFTA also gives African exporters the opportunity to thrive in new markets across the region through the removal of tariff and non-tariff barriers. However, African exporting firms experience a relatively low survival rate in new markets. On average, African exporting firms send 5.4 products to 2.5 destinations, whereas other developing countries export 5.9 products to 3.0 markets. To tackle this low survival rate, African firms could significantly benefit from joining business clusters and economic zones, allowing companies to acquire more experience through knowledge and technology transfers, benefit from existing business linkages, anticipate future trends and fine-tune production processes and management practices.

Key conditions to attract FDI relate to macroeconomic stability, governance and regulations

Strengthening public governance and regulations fosters trust, transparency and alleviates investment barriers (OECD, 2016). Lower tax rates and low labour costs can be very appealing. However, alone they are not sufficient in fostering a conducive business environment. Stability and access to basic services are the basics for attracting FDI. Domestic political and macroeconomic stability and the dependability of the regulatory environment rank among the top determinants of FDI inflows (Figure 2).

Figure 2. **Top five constraints to doing business globally and in developing countries, by firm size**



Source: World Bank (2019c), *World Bank Enterprise Surveys* (database), as cited in AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.
StatLink https://doi.org/10.1787/888933966808.

Among the top factors to source from local suppliers are the skills of local suppliers. Clear governmental policies along with harmonised regional integration procedures can help create a stable business environment. For example, strong policies and institutions can provide for a better structure to attract more traditional and non-traditional sources of finance. Countries such as Côte d'Ivoire, Rwanda and Senegal have significantly improved their transparency International Index, which measures corruption perception levels (Transparency International, 2018). Their improvements can be attributed to the positive effects of their legal, institutional and policy reforms implementation. For efficient business environments, Côte d'Ivoire eliminated the requirement to notarise company deeds to start a business and expanded its credit bureau's borrower coverage (World Bank, 2019d). Senegal adopted a law that regulates all aspects of mediation, decreasing the time needed for property registration (World Bank, 2019d). Rwanda increased its foreign trade by removing trade restrictions including minimisation of border controls on goods moving between neighbouring countries. Mauritius has implemented important tax reforms and risk-based inspections and increased transparency in the administrative process of registering property. Such policies enabled Mauritius and Rwanda to rank among the top African countries when it comes to *Ease of Doing Business* (World Bank, 2019d).

Infrastructure challenges hinder regional integration and access to markets

With growing regional demand induced by intra-African trade and the AfCFTA, it is necessary to enhance infrastructure to access regional markets. Better transportation, energy and digital infrastructure can improve connectivity and access to national, regional and continental markets. Adopting a regional approach to infrastructure reform could help overcome the inefficiencies that emerge as formal trade barriers such as tariffs and administrative procedures are reduced. Regional trade could benefit from dynamic regional corridors between land-locked areas and outlets on the coast. Indeed, the poor quality of Africa's transport infrastructure accounts for 40% of logistics costs in coastal countries and 60% in landlocked countries. Moreover, infrastructure financing remains challenging. Fiscal space is limited, with an average African tax-to-GDP ratio of 17.2% in twenty-six countries surveyed compared to an OECD average of 34.2%, although the AfCFTA is expected to boost tax revenues in the long run due to its positive impact on GDP (OECD/ATAF/AUC, 2019). Closing the infrastructure gap requires long-term solutions including common approaches to domestic resource mobilisation.

Investing in transport infrastructure can remedy existing bottlenecks and high costs

Significant investments in transport infrastructure could facilitate Africa's integration in regional and global value chains and unlock private sector activity. African governments are collaborating on cross-border transport infrastructure to materialise this shared vision, as showcased by corridor initiatives between countries at the regional level. For example, the planned Kinshasa-Brazzaville Bridge road and rail project could alleviate logistic bottlenecks on the Congo River and potentially accommodate 3 million passengers and 2 million tonnes of freight annually by 2025. Another example is the "Central Corridor", which has lowered the cost of linking Central Africa to the Indian Ocean by connecting the Democratic Republic of the Congo (DRC) to the port of Dar es Salaam in Tanzania by road, rail and inland waterways through Burundi, Rwanda and Uganda (CCTTFA, 2019). In ECOWAS, the Abidjan-Lagos corridor facilitates trade between five countries (Benin, Côte d'Ivoire, Ghana, Nigeria and Togo). This initiative has been credited for reducing border crossing time and the large number of road checkpoints between member countries. Moreover, infrastructure corridors can play an important role in spatial development by enhancing the connectivity of rural areas. For example, the Walvis Bay transport corridor extends over and connects five Southern African Development Community (SADC) countries to Namibia. Additional initiatives are in progress such as Trans-African highway projects, which include a Cairo-Dakar highway and Algiers-Lagos highway.

Renewable, affordable energy provides opportunities for universal access and economic growth

Energy demand in Africa is projected to triple by 2030 as the continent is industrialising and increasing access to an already growing population (IRENA, 2015). By 2040, one-in-two people added to the world population will be African and 580 million Africans will live in urban areas (IEA, 2019a). Countries in the region are thus confronted with the challenge of finding new sources of energy. Energy deficits are often cited amongst the most important constraints for doing business

in Africa: inadequate energy infrastructure and access hamper firms' productivity and competitiveness. Although electricity production has expanded overall, it is still at the same per capita level as it was in 2007 due to population growth. Countries in the region have unequal access to electrification, with access rates ranging from 83% for Gabon to only 5.6% in Chad. According to one simulation ran by International Energy Agency (IEA), 530 million Africans will still lack access to electricity and nearly 1 billion will have no access to clean cooking in 2030 under the 'Stated Policies Scenario' (IEA, 2019a).

Meeting growing energy demand at the national, regional and continental levels requires combining different sources of energy. The IEA projects that Africa's shift towards modern energy sources, such as renewables and natural gas and efficiency improvements, can fuel an economy four times larger than today with only 50% more energy (IEA, 2019a). Currently, Africa heavily relies on a mix of biomass and fossil fuels. While biomass accounts for approximately half of the continent's total primary energy supply, coal and natural gas account for about 14% each, and oil accounts for approximately 22%. Hydropower represents only about 1% of the total primary energy supply (IRENA, 2015). Regional energy markets can leverage comparative advantages by harnessing the potential of renewable energy, which is becoming increasingly important in the total energy mix. According to the IEA, solar photovoltaic would provide the cheapest source of electricity for many of the 600 million people across Africa without electricity access today (IEA, 2019a).

The energy potential of Africa is vast. The main energy potential of Central Africa and North Africa resides in hydropower. Other regions can leverage enormous water, wind and solar potential. High-profile examples include the Grand Ethiopian Renaissance Dam (GERD) under construction, the proposed extension of the Inga-III dam in the Congo River in the DRC, and the "Noor" solar power plant in Ouarzazate, Morocco, the largest in the world of its kind. Regional integration presents an opportunity to tackle energy deficiency through "power pools" and regional interconnections. Regional power pools could create savings of USD 41 billion per year by 2040. Additionally, the levelled cost of energy would lead to savings of between 6% (in Southern Africa) and 10% (East Africa) for end-users, equivalent to nearly USD 10 billion per year (Castellano et al., 2015). The Central African Economic and Monetary Community (CEMAC) recently established a Central African Energy Policy for 2035 to ensure reliable, efficient energy infrastructure for the region's physical integration (AfDB, 2019c). The Central African Energy Pool aims to create a regional energy market through physical connections (e.g. transmission lines) and harmonised regulations. Progress so far includes a Central African Electricity Procurement Code and a development fund for the region's electricity sector.

Decreasing prices of renewable energy create a business case for bridging Africa's infrastructure gap with green energy. South Africa has shown – through a large, USD 14 billion programme with the goal of providing 13 225 MW by 2025 – that renewable energy can deliver power at competitive prices (Eni, 2020). Moreover, governments can create competitive clusters in renewable energy. As investment in infrastructure is costly, lenders need political guarantees so that they can see returns on their investments in the long term. Access to finance and security of investment remain important constraints to expanding energy infrastructure. While Africa is not a major CO_2-emitter (4.3% projected increase from 2019 to 2040), the continent experiences the effects of climate change first-hand (IEA, 2019a). With 1.2 billion Africans living in areas where the average daily temperature exceeds 25 degrees by 2040, energy infrastructure must be climate-resilient (IEA, 2019b).

Digital connectivity requires investments and the harmonisation of regulations

Mobile phone-based technology has the potential to offer immediate results in terms of digital inclusion as well as the provision of mobile-services platforms. The digital revolution has pushed the mobile phone penetration rate to 96% at the continental level, although the penetration of mobile broadband remains low. Africa's digital integration is also generating a new demand of skills. For example, 41% of all firms in Tanzania, 30% in Kenya, 9% in South Africa, and 6% in Nigeria, have identified inadequately skilled workforces as a major constraint to their productivity. Similarly, a lack of proficiency in digital skills remains a major hindrance for firms.

Attempts to put in place policies enhancing Information and Communications Technology (ICT) skills have already been made in African countries such as Botswana, Rwanda, Uganda and Zambia (Banga and Willem te Velde, 2018). Digitalisation has opened up the possibility to provide high-quality training on a large scale. In rural Niger, mobile phone-based training within the *Alphabétisation de Base par Cellulaire* project (Cellular Basic Literacy project) increased adults' writing and mathematics test scores by 20-25% higher than the standard adult literacy and numeracy programme. Similar efforts can progressively reverse Africa's low score on the *Global Talent Competitiveness Index* and enable African firms to grow, attract and retain talent (INSEAD, 2019). Countries such as Ghana, Kenya, Rwanda and Senegal have made significant strides toward this objective.

Digital transformation opened up new and larger markets across the continent via e-commerce platforms such as Nigeria-based Jumia of Kenya's M-Kopa, a solar energy company and possible next unicorn. New logistics and payment services such as M-Pesa or Orange Mobile Money can pave the way for the growth of e-commerce. Growth in the digital economy will require governments to: i) invest in connectivity; ii) invest in human capital; and iii) design new legislation and regulations around cyber security, on line payments, data protection, servers, privacy, and so on. To this end, African governments will be able to address low Internet use (only 23% of the population in Sub-Saharan Africa has mobile Internet access) and low broadband penetration in the majority of African countries (GSMA, 2019). Other notable efforts include the creation of regional ecosystems which combines mobile money systems, connectivity and innovative. For example, the member states of the West African Economic Monetary Union (WAEMU) are building an interoperable system that will connect 110 million people to more than 125 banks, dozens of e-money issuers, and more than 600 microfinance institutions (GSMA, 2019).

Digital government services can play a critical role in unlocking Africa's economic potential. For example, e-government has great potential to deliver more efficient and higher-quality public services. The South African e-procurement system, for example, allows open and transparent bidding on government tenders, and the e-filing initiative facilitates the electronic submission of tax returns and payments by taxpayers and tax practitioners (Mutula et al, 2010). Moreover, compliance costs decreased by 22.4% after the South Africa Revenue Service introduced e-filing. Rwanda and Kenya introduced mobile payment of taxes through their M-Service platforms in 2013 and 2014 respectively (AUC/OECD, 2019). At the continental level, governments have recognised that taking advantage of the opportunities of the AfCFTA requires the development of a robust digital identity and payment system (UNECA, 2018). Other key regional initiatives to pursue include: enacting

model laws on telecoms, ICT and cybersecurity as well as a regulatory framework for cross-border interconnections; attracting foreign investors in ICT infrastructure and security (following the Brazzaville Declaration); and creating regional Internet exchange points (AfDB, 2019d).

Building a new consensus around sustainable development in Africa

While new business opportunities can be found in the various regional integration efforts, political alignment around Africa's development continues to build momentum. The Dakar Consensus, launched by several governments and international organisations in 2019, provides an African perspective on sustainable development that is of relevance to the private sector (see Box 2 below). Its goals are to promote productive transformation in Africa, produce more quality jobs and improve the well-being of the population. To achieve these goals, Africa requires greater and sustained investments in human capital, infrastructure and productive activities capable of strengthening complementarities at the regional and continental level. Discussions centred on levers to amplify investments and guarantee the sustainability of investments, in particular by changing the perception of risk. Additional private resource mobilisation – through banks, financial markets, funds, and savings – will be a key factor.

Box 2. The Dakar Consensus

The Dakar international conference on *Sustainable Development & Sustainable Debt: Finding the Right Balance* was held on 2 December 2019. It was co-organised by the President of Senegal, the IMF, the United Nations and the Cercle des Économistes. It ended with a joint statement: "The Dakar Consensus".

The Dakar Consensus: Seven points of agreement

- Strengthen the mobilisation of domestic resources, taxes and public savings to finance development.
- Continuously improve public financial governance and the business environment.
- Take into account, for African countries, the particular constraints related to environmental impact, including climate change, and security expenditure in the face of the terrorist shock.
- Given the urgency of investment needs in Africa, development partners must take into account the value of assets in analysing the debt sustainability of each of the continent's countries.
- Combat unequal trade, in particular the low remuneration of raw materials and the still persistent deficit in the creation of value chains through local processing of products.
- Restore an objective view by international institutions of risk perception in Africa that is now exaggerated and has an impact on investment project ratings.
- Maintain collaboration between African countries and bilateral and multilateral partners for more equitable global financial governance and for Africa to be a driving force for global growth.

Source: Cercle des Économistes (2019), *The Dakar Consensus, International Conference – "Africa Sustainable Development & Sustainable Debt"*, https://lecercledeseconomistes.fr/en/evenements/africa-sustainable-development-sustainable-debt.

PRIVATE SECTOR INSIGHTS ON THE FUTURE OF PRODUCTION IN AFRICA

This section features insights from companies that participated in the EMnet meeting on Africa held in Paris on 20 January 2020. It explores business views on the significant opportunities offered by the possibilities of regional integration in the region, as well as on some of the key policy solutions at the continental, regional and national level to unlocking this potential.

The African Continental Free Trade Area agreement, championed by the African Union Commission (AUC), raises new hopes of creating a pan-African market for the continent's industrialisation and socio-economic transformation. Companies at EMnet's meeting hail the AfCFTA agreement as an important starting point to reducing tariffs and liberalising trade in services, but indicate that more needs to be done. The mobility of labour and inter-African co-operation on investment policy remains critical to the success of pan-African business operations. The Regional Economic Communities (RECs) can help to advance bottlenecks at the regional level. Additionally, companies indicate that addressing non-tariff barriers (NTBs) can be the real game changer for the creation of regional markets: the harmonisation of norms and regulations, together with streamlining certification requirements, could promote intra-African trade further and boost the quality of exports. Companies see an important role for regional bodies in promoting further harmonisation and identifying best practices from international standards.

Regional production networks, which take into account comparative advantages, can lead to economies of scale and could be a way of realising the potential for Africa's industrialisation. Companies indicate that larger, regional markets have the potential to attract greater investments, but they also point to the need for a greater skills base and infrastructure provision, through additional investments in education, training and physical and digital infrastructure. Lowering risk perceptions and ensuring the security of investments were also seen as key factors to attract more FDI.

The final section dives deeper into costs across three areas which firms say are key to doing business in the region – transportation, energy and digitalisation – while making propositions on how these could be reduced.

The AfCFTA will reduce tariffs and provide a framework for further economic integration

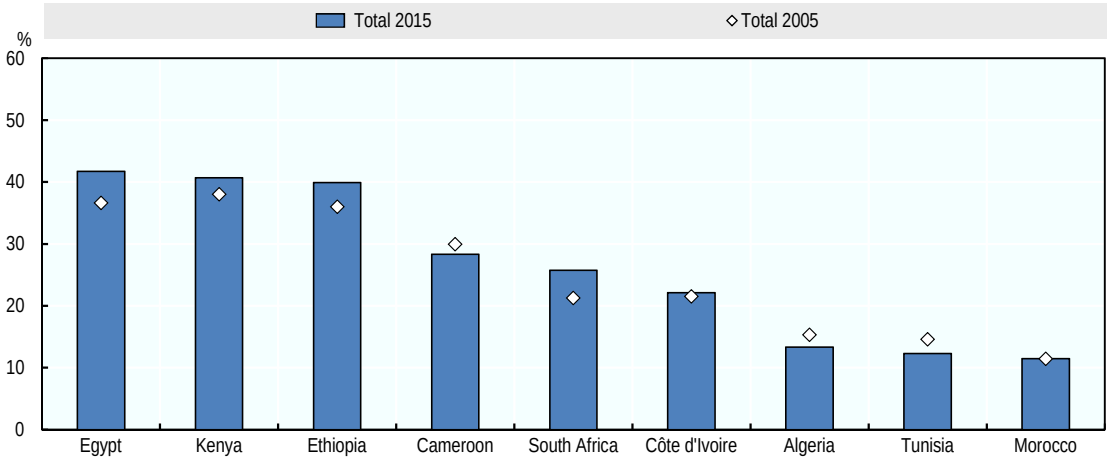
Companies welcome progress on lowering tariffs on goods, but are equally interested in the further steps that the AfCFTA framework will provide on liberalising trade in services, free movement of labour, and co-operation on investment towards a single continental. The AfCFTA is expected to enhance competitiveness at the industry and enterprise level through exploitation of opportunities for scale production, continental market access and better allocation of resources (Tralac, 2019a).

Liberalising trade in services is a critical aspect of regional integration

Companies stress that further liberalisation of trade in and reduction of tariffs on services is needed to increase market access and regulate service provision on the continent. Services already

account for more than 50% of GDP growth in Africa, while the share of industry and agriculture is projected to be declining further in the coming years (AfDB, 2020). Services further account for 75% of greenfield investments, but only 22% of trade. Indeed, Africa only accounts for 2% of global services exports (GIZ, 2019b). Services such as ICT, marketing, transport or distribution play an important part in the value-added to the manufacturing, mining and agricultural sectors (see Figure 3 below); in 2015, services accounted for more than 40% of value addition in these sectors in Egypt, Kenya and Ethiopia (AUC/OECD, 2019).

Figure 3. **Services value-added contents in total export of manufacturing, mining and agricultural products in nine African countries**



Note: Total export of "manufacturing, mining and agricultural products" defined as ISIC codes D01 to 03 (agriculture) + codes D05 to 09 (mining) + codes D10 to 33 (manufacturing).
Source: Authors' calculations of preliminary results based on the underlying data sources of OECD Inter-Country Input Output System for the 2018 TiVA indicators in AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.
StatLink https://doi.org/10.1787/888933966637.

As part of the AfCFTA, the Protocol on Trade in Services is a first step in the direction of service liberalisation (Tralac, 2019b). The 2019 WTO World Trade Report highlights that the barriers to increased trade in services lie in regulatory regimes deep behind borders (Drake-Brockman, 2019), which are typically difficult to adjust and constrain commercial service business across borders. Progress on trade in services also requires a number of countries to address the absence of rules-based national regulatory regimes before they can be aligned between countries (Erasmus, 2019).

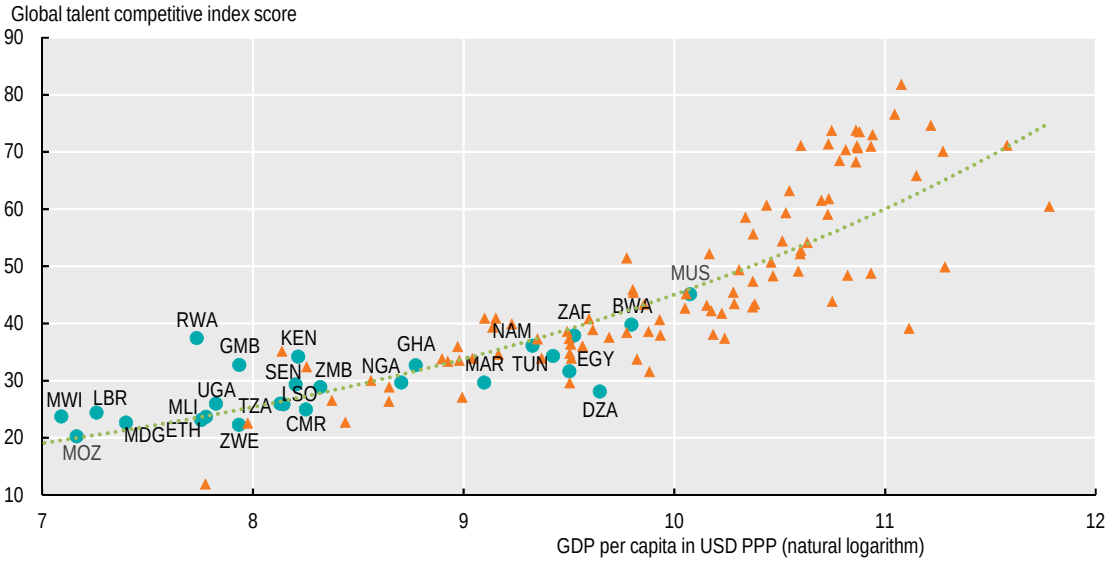
The AfCFTA can play its part by stimulating national regulatory regimes and their international alignment based on best practices, by stimulating market access and by lowering or abolishing surcharges such as that on international incoming telecommunications traffic that some countries have put in place. The first phase of the prospective negotiations focuses on five priority sectors: business, communication, financial, transport and tourism services. Negotiations of the remaining seven sectors is planned to follow thereafter (GIZ, 2019b). This development provides another

impetus to policy makers to facilitate trade in services across the continent, whether through the RECs or at the continental level. Currently, five of the eight RECs have negotiated regional service agreements or policies, allowing some firms to move from domestic markets only to servicing regional markets (GIZ, 2019b).

Free movement of labour is important to overcome a shortage of skills

For their operations, companies need skilled labour, which is in short supply: for example, 41% of all firms in Tanzania and 30% of firms in Kenya indicate an inadequately skilled workforce as a major constraint to their productivity (AUC/OECD, 2019). The Global Talent Competitiveness Index ranks Africa lower than other developing regions when it comes to growing, attracting and retaining talent (AUC/OECD, 2019; INSEAD, 2019).

Figure 4. **Global Talent Competitive Index scores versus gross domestic product per capita**



Source: INSEAD (2019). *The Global Talent Competitiveness Index 2019*, http://bit.ly/GTCI2019report, as cited in AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.
StatLink https://doi.org/10.1787/888933966884.

EMnet meeting participants indicate that increasing the freedom of movement, in particular for skilled labour, is critical to their operations. It can help match demand and supply of Africa's human capital and help companies find the right mix of skills when establishing new operations or subsidiaries in third countries. A recent survey found that internal talent mobility was important to 76% of respondents (Deloitte, 2019). Companies note that policy makers should ease the processes of visa approvals and work permits, citing examples of not being able to hire or move talented

workers from one country to another. The AfCFTA or regional agreements can help to remove the obstacles to free movement of (skilled) workers between countries (AfDB, 2020). Experience in the SADC, where most members states have exempted each other from visa requirements, shows that progress is possible, but also that potential imbalances in migration flows can slow down ratification of such protocols (UNECA, n.d.).

Enhancing investment through regional co-operation

The AfCFTA not only reduces tariffs, it also provides a framework for future co-operation on investment. Several of the RECs already have active investment protocols that seek to stimulate foreign direct investment. The AfCFTA will now reduce tariffs and non-tariff barriers, which will lead to more factories being built across the continent as industries develop (Absa, 2020). Beyond that, the AfCFTA is to include a protocol on investment, competition and intellectual property rights in its Phase II (IISD, 2019), with negotiations currently in their early stages. The focus will likely be on supporting mainly intra-African investment, to promote socio-economic and industrial development and enhance competitiveness (Chidede, 2019). In several instances, participating companies in the EMnet meeting stress the importance of market access, notably in the infrastructure and telecommunications sectors. A protocol could for example tackle barriers to entry, facilitate the issuing of permits, enhance institutional co-ordination, or raise the bar for responsible business conduct (RBC) (Chidede, 2019). The private sector, through individual company actions and trade associations, will have a key role to play in supporting an all-of-industry approach to RBC. The OECD Guidelines for Multinational Enterprises can also help, providing non-binding principles and internationally recognised standards on RBC (OECD, 2018b).

A harmonised investment framework with effective dispute settlement remains a question to be addressed. Although companies welcome the progress in this field, they also stress the importance of creating a level playing field between domestic and multinational companies. At the continental level, co-operation on investment can build on the Pan-African Investment Code (PAIC), which was devised as a possible solution to the patchwork of international investment agreements in Africa. Although a non-binding document, this strategic framework adopted by the African Union member states reflects a first African consensus on the shaping of international investment law which can guide countries when engaging in investment negotiations (Mbengue, 2016; AUC, 2016).

The AfCFTA can support achievement of the Sustainable Development Goals

The AfCFTA can also be instrumental to accelerate progress on the achievement of the Sustainable Development Goals (SDGs), as expanded trade, investment, and job creation will lead to greater economic and social development (Ndagijimana, 2020). In an example, while digitalising its African operations, the Italian energy company Eni is supporting the communities that host its operations through partnerships in line with the energy company's commitment to the SDGs, exploring new digitally-enabled ways of co-operation in Africa. Local communities can benefit from the development of digital infrastructure supported by Eni, as well as digital solutions and know-how at Eni's plants. They are further disseminated through projects in support of health, agriculture and education in collaboration with the community, strengthening mutual trust. Through public-private partnerships or partnerships with international organisations, companies can also scale their efforts (Mattei, 2019). In a partnership with the UN Food and Agricultural Organization (FAO), Eni has built

wells in Nigeria, powered by solar power, to provide clean and safe water to internally displaced persons and host communities (Mattei, 2019).

With Africa being home to 30% of the world's mineral reserves, much attention has focused on using Africa's natural capital toward achieving the SDGs through a financial, economic, social and environmental contribution (UNEP, n.d.). However, African multinationals across sectors show examples of contribution to wider societal goals: Dangote Industries provides youth from its host communities with vocational training, the OCP Group collaborates with African farmers to promote sustainable agriculture, and MTN Group built over fifty multimedia centres in seven countries in an effort to boost digital education impacting thousands of students on the continent (Bello, 2019; OCP Group, 2020; MTN, 2019).

Lowering non-tariff barriers will unlock further opportunities

Companies attending the EMnet business meeting note that addressing non-tariff barriers (NTBs) can be the real game changer when it comes to unlocking business opportunities on the African continent. They stress the need for harmonisation, but also underline the importance of quick implementation across jurisdictions. Provisions that improve the contractibility of intermediate goods are important to smooth out differences in contractual institutions and reduce uncertainty in international transactions (AUC/OECD, 2019). EMnet meeting participants indicate their willingness to contribute to a harmonisation process, via consultations in line with good regulatory practice, noting that trade associations and standard-setting bodies could play a key role in recognising international industry standards and quality assurance programmes. Estimates show that implementing the WTO Trade Facilitation Agreement would reduce trade costs in African economies by 16% (AUC/OECD, 2019).

Companies also mention the important role that the African Union Commission (AUC) and the Regional Economic Communities (RECs) can play in reducing trade barriers. They point to National Trade Facilitation Committees (NTFC) that the AUC has started preparing, empowering public-private partnerships for trade facilitation, and also highlight examples of REC co-operation in creating regional markets.

Customs procedures and border infrastructure are important to trade

Businesses indicate that the cost on exports of lengthy customs procedures and poor border infrastructure can be more significant than that of tariffs, and that progress in this area, such as simplifying procedures and improving freight and warehousing management (including specialised facilities e.g. certified cold stores to enable cold chain[4]) at or near the border would be welcome. In this area, companies indicate the importance of clear, transparent and uniform guidance at border inspection posts and improvements in trade logistics. Already, regional policies have shown that 'quick wins' are possible: the implementation of the East African Community (EAC) Single Custom's Territory, for example, significantly reduced transit times (50%) and costs (30%) for goods at the Mombasa Port in Kenya.

Businesses also underline the importance of investing in cross-border, multimodal and holistic infrastructure. At present, for example, it takes over 200 hours to comply with export border procedures for maritime transport in Côte d'Ivoire and Cameroon, compared to 13 hours in OECD countries (World Bank, 2020a). In 2009, Africa did not have one-stop border posts (OSBPs). The Programme for Infrastructure Development in Africa identified 76 future OSBPs and realised ten of them by 2016. The EAC in turn has operationalised 12 OSBPs by 2018, reducing transit times and costs in a move that is welcomed by businesses (EAC Secretariat, 2018).

Harmonising regulation, adopting common norms and equivalence agreements

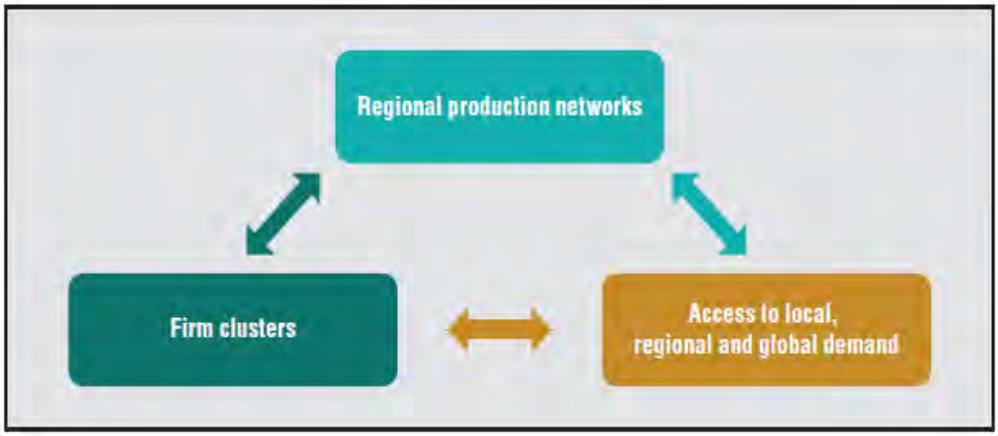
Adopting and implementing harmonised policies, common norms and regulatory equivalence agreements can significantly increase cross-border trade. Businesses express the importance of non-discriminatory, impartial, transparent and proportional regulations across jurisdictions and also indicate that regulations should be forward looking, taking into account technological innovations. In certain highly-regulated sectors, streamlining certification requirements; sanitary, phytosanitary and technical standards; and market approval requirements, notably in the areas of public and veterinary health; can enhance the volume and the quality of exports (AUC/OECD, 2019).

The development of common norms and reference to international standards are also necessary to decrease export costs and harmonise regulations. Regulatory equivalence could be achieved through mutual recognition agreements (MRAs), which can help reduce or eliminate the cost of re-testing and re-certifying goods, services and labour, thus enabling immediate entry into markets (AUC/OECD, 2019). Several regional bodies, e.g. COMESA, the EAC, ECOWAS and SADC, already have MRAs in place, although implementation across the RECs is advancing slowly.

Regional production networks can help to attract more FDI

Foreign Direct Investment (FDI) in Africa remains small by global standards, but prominent in relation to GDP: the continent attracted 733 projects and USD 82 billion per year during the 2014-18 period, which represented 5.1% of African GDP in 2018 (EY, 2019). In order to help attract more investments to Africa, firms agree that a systemic approach of regional productive transformation can be adopted, focusing on three sets of policies: developing strategic clusters of firms; facilitating regional production networks; and enhancing firms' abilities to thrive in new markets (see Figure 5).

Figure 5. **Three inter-related sets of policies to support African firms in productive transformation**



Source: Authors' elaboration. AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.

Regional markets have the potential to attract greater investment

Companies confirm that regional complementarities can provide new competitive advantages for African economies, and encourage governments to join forces to attract more FDI and help firms generate regional economies of scale. In this context, investment promotion strategies need further coherence at national and regional levels, to fine-tune the main selling points to investors and become more attractive globally (AUC/OECD, 2019). Creating regional financial markets can also create higher levels of liquidity. Ongoing initiatives to link regional stock markets can encourage cross-border investment and draw in more international investors (Garrido and Overdahl, 2019). SADC countries are already collaborating on expanded regional markets with higher levels of liquidity, in order to facilitate FDI and portfolio investments (SADC, n.d.).

Investors need a secure and stable environment for their business

A secure and stable environment is an important prerequisite to attract investment. Important elements for security of investment include a stable political environment (low political risk), a stable policy and regulatory environment, predictability of policy changes, and transparent procurement and tendering procedures. The enforceability of contracts and clear procedures for licences and permits are also key for the security of investment. Additionally, firms stress the importance of a stable and predictable fiscal environment and their regional harmonisation as a way of stimulating long-term investment. Only two Sub-Saharan African countries are among the top-50 in the World Bank's *Ease of Doing Business* ranking, while the region as a whole would rank 150th among 190 countries. From the largest economies, only Morocco (43), Kenya (56) and South Africa (87) make it in the top-100. Sub-Saharan economies performed best in the areas of getting credit (113). The region scored below average in terms of getting electricity (146), trading across borders (140)

and registering property (129). African countries with the most regulatory reforms in 2019 included Egypt, Kenya, Nigeria, Togo and Zimbabwe (World Bank, 2020a; World Bank, 2020b).

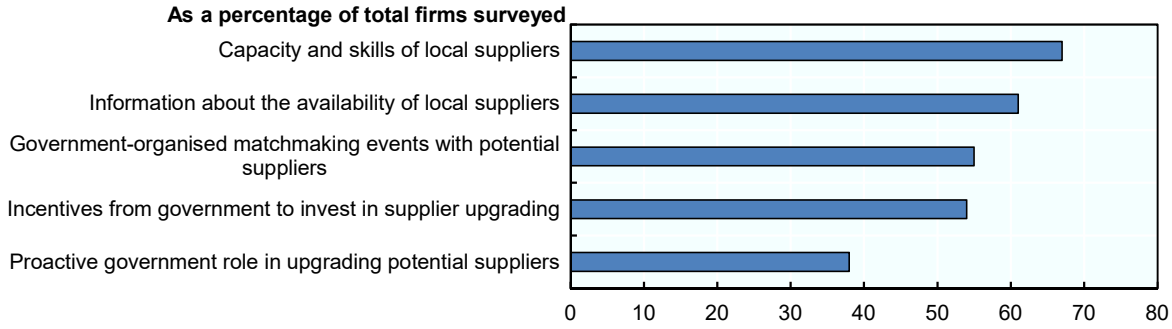
Basic infrastructure provision can unlock further investments

Participants in the EMnet meeting agree that to meet the needs of Africa's growing population and domestic demands across sectors and industries, more investment in infrastructure is needed, particularly in transportation, energy, and digital infrastructure. The African Union Commission highlights how bridging the infrastructure gap can also be an economic opportunity for the private sector, if policy makers and companies work together on a common platform (AU, 2019b). The current infrastructure gap is estimated at 3.1-6.9% of GDP per year, and covers the investment needs for maintenance and replacement costs as well as new infrastructure construction. Gaps exists across sectors. In transport, for example, only one-third of Africans living in rural areas are within 2 km of an all-season road. With respect to investment trends in energy, projections show that it will take Africa until 2080 to achieve full electricity access, while current power outages hurt and drive up costs for businesses. And while the Internet can play an important role in promoting skills, entrepreneurship and SME development, only 15% of African households have Internet access, compared to two thirds in Central Asia. The gaps remain a major impediment to private sector development in Africa (Ashiagbor et al., 2018). Constraints to infrastructure development include a lack of well-structured, bankable investment opportunities; underdeveloped markets and regulatory barriers; and other issues related to the overall business environment. Unlocking further private sector investments in infrastructure requires addressing these constraints, for example by lowering (perceived) risk, market fragmentation and information asymmetries; by improving access to long-term financing; and by improving the enabling policy environment, including transparency and the local capacity to deal with these complex projects (Ashiagbor et al, 2018; AUC/OECD, 2019).

Companies need continuous investment in human capital

Businesses stress the importance of a trained workforce in domestic SMEs, to be able to source from local suppliers (Figure 6). Efforts at the national and continental level focus on reducing the skills mismatch for socio-economic transformation, by equipping young people with the skills required by the labour market and by creating an environment that promotes innovation and start-up development. RECs too can play an important role. SADC, for example, has identified Centres of Specialisation and Centres of Excellence with the goal of developing technical capabilities in support of its industrialisation strategy (AUC/OECD, 2019; SADC 2012).

Figure 6. **What matters for foreign investment firms to source from local suppliers, in 2017**



Note: The total sample of the survey includes 750 multinational investors and corporate executives. The percentages represent respondents who answered "important" or "critically important" to the question "How important are the capabilities of local firms to act as suppliers in your decision to invest in developing countries?"

Source: OECD Development Centre, based on World Bank (2017a), *Global Investment Competitiveness Report: Foreign investor Perspectives and Policy Implications*, as cited in AUC/OECD (2019), *Africa's Development Dynamics 2019: Achieving Productive Transformation*, https://doi.org/10.1787/c1cd7de0-en.

StatLink https://doi.org/10.1787/888933966656.

Large multinationals can also contribute in upskilling the workforce (Google, 2020; TechGig, 2019; Eni, n.d.). Technology companies such as Google and Facebook have made on line training courses available to young Africans (Digify Africa, n.d.). The energy company Eni has put programmes in place that boost digital skills of local employees as part of their digital transformation strategy, encouraging the adoption of new digital tools.

Reducing cost of doing business in Africa can unlock further opportunities

Companies in the EMnet business meeting highlight important costs to doing business related to transportation and mobility, energy and digital access, and point to practical problems such as difficulties in obtaining visas or expensive broadband and roaming across different African countries.

Transport and other mobility costs hamper private sector activity

Logistics costs present a challenge to businesses, especially related to transport and travel. The high cost of travel can include poor transport infrastructure and road safety. Companies in the EMnet meeting illustrate these points, noting that in certain instances it can be easier to import a container from China or ship goods to the United States, rather than from one African country to another. Data on global shipping confirm the high costs associated with some African ports. It is almost twice as expensive to ship a container from New York to Lagos compared with shipping to South Africa, even though Nigeria is much closer (Kazeem, 2018). Shipping from Asia (Shanghai) to Lagos was over 200% more expensive than shipping from Shanghai to Northern Europe or the Mediterranean (UNCTAD, 2019d). Ports in Sub-Saharan Africa are the least efficient of any region (World Bank, 2020a).

In addition to high monetary costs, road safety statistics also show that there are real, high costs in human health and human lives due to unsafe transportation: 90% of the world's fatalities on the roads occur in low- and middle-income countries, even though these countries have approximately 54% of the world's vehicles (WHO, 2020b). And while Africa only has 2.3% of the world's cars, it accounts for 16% of the world's road deaths, with more than 300 000 road traffic crash deaths per year (Global Alliance of NGOs for Road Safety, n.d.; UNECA, 2019b).

Businesses also see opportunities for the private sector to contribute, for example, to enhance roads, railroads, airports and hotels infrastructure. Public-private partnerships (PPP) could offer a way to unlock such opportunities (see last year's EMnet Policy Note – OECD, 2019). PPPs are long-term contractual arrangements between a government and the private sector in which the latter delivers and funds a public service using a capital asset while sharing the associated risk. Well-designed PPPs can bring greater efficiency and sustainability to infrastructure projects as they allocate risks to partners best suited to manage them, while harnessing the private sector's expertise in return for reasonable financial compensation (OECD, 2019). Hundreds of PPP infrastructure projects have taken off on the African continent, but African PPPs remain a small portion – between 2 and 12% – among the total number of these projects in emerging markets. Most of the projects are energy or transport PPPs, and most projects in Sub-Saharan Africa are concentrated in South Africa, Nigeria, Kenya and Uganda, which account for nearly half of the number of projects in the past 25 years. Domestic resource mobilisation remains difficult in many countries due to low tax revenues, weak banking systems and underdeveloped capital markets (World Bank, 2017b).

Finally, companies urge governments to address the ease of mobility for business travellers on the continent by liberalising visa regimes, lowering visa costs and enhancing the ease of acquiring a visa. According to the Africa Visa Openness Index, African citizens still needed a visa to travel to 51% of the other African countries in 2017, down from 54% in 2016. Ghana and Rwanda are among countries that have started to offer the possibility of visa on arrival (VOA) for a number of countries including those of the African Union, although subject to conditions and sometimes at a considerable fee (Accra airport; 2020; Rwanda 2020).

High energy costs act as a constraint on companies

According to data from the International Energy Agency, many African economies are hampered by unreliable electricity supply and high energy costs (IEA, 2019a). In one study conducted in Nigeria, high connection costs were cited as the main reason for not being connected to the grid in 62% of cases (GTM Research, 2017). The cost to obtain a permanent electrical connection in Sub-Saharan Africa is 3 times higher than the global average, and 52 times higher than in OECD economies (World Bank, 2020a). Retail prices for road transport (gasoline and diesel) are also often higher than the world average, for example in Tanzania, South Africa, Ghana and Kenya, with the notable exception of a few hydrocarbon exporting countries that subsidise fuel in the domestic market such as Algeria, Angola, Egypt and Nigeria.

Regional integration of energy markets could help bring down energy costs. Estimates show that in a full energy integration scenario, power pools could save USD 33 billion per year by 2040 (PIDA, n.d.). In addition to power pools, a shift toward renewable and clean energy sources can reduce

energy costs and induce growth. For example, given the dynamism of Africa's intermediary cities, cross-border special economic zones can provide the scale required to accelerate the deployment of renewables in Africa (Traoré and Saint-Martin, 2020). Furthermore, the AfCFTA provides new opportunity to align energy policies such as network codes across the region. In its *Agenda 2063*, the AUC emphasises the implementation of the Grand Inga Dam Project,[5] a proposed mega project on the Congo River, as a development priority and a means to support regional power integration (AUC, 2015; AU, n.d.).

The IEA estimates that African electricity production capacity needs to increase to 270-600 GW by 2040, which in turn requires investments of USD 45 billion to USD 100 billion per annum (IEA, 2019a). The public sector, which includes governments, SOEs and development banks, can only fund a modest portion; consequently, the private sector can help to fill the gap. However, in 34 countries out of 43 in Sub-Saharan Africa, current regulatory frameworks for energy supply do not allow private sector participation in transmission and distribution activities (IEA, 2019a). Policy initiatives could focus on introducing regulatory frameworks conducive for private investment and developing financial instruments that de-risk debt and equity investments.

Africa's digital economy remains fragmented and expensive

Companies indicate that Africa's digital economy remains fragmented and expensive, particularly due to coverage gap and high costs of broadband Internet and roaming. While 35% of people in Sub-Saharan Africa did not have mobile Internet access in 2018, another 41% lived within the footprint of a network, but could not access mobile Internet services because of affordability issues, lack of digital literacy, and sometimes a lack of content in local languages (Richard, 2019). According to the Alliance for Affordable Internet, the average costs for 1 GB of data in Africa is 7.12% of the average monthly salary, subjecting citizens to the least affordable Internet prices in the world (A4AI, 2019).

High tariffs, low broadband penetration and slow Internet speed directly constrain the growth of the ICT industry (AUC/OECD, 2019). Digital and ICT companies find that inadequate regulatory frameworks and a lack of competition from global actors are often major constraints for the growth of the digital economy in Africa. Proposed policy actions for countries in the region include reforms to increase investments in mobile and fixed broadband infrastructure, strengthening competition among Internet service providers, and improving the quality/price ratio for ICT services (AUC/OECD, 2019).

Substantial progress has been made within and between RECs with regards to roaming costs, which, however, still remain a concern for the private sector. Past data show that Africans on average paid 25% of monthly gross national income (GNI) for mobile cellular calls, versus 11% in other developing nations (World Bank/AfDB, 2012). Companies in the EMnet meeting stress how international mobile roaming (IMR) charges are an impediment to doing business across borders. In 2018, the East African Communications Organisation (EACO) organised cross-border frequency co-ordination exercises to prevent forced roaming in border areas (Adepoju, 2018). Further south, recognising high roaming costs, 13 ministers of ICT of the SADC came together in 2019 and announced the gradual implementation of a proposed single roaming tariff (Myles, 2019).

Negotiations took place under the umbrella of the Southern African Telecommunications Association (SATA) and its Digital Launch Platform provides an interface of exchange of ideas and collaboration. Discussions about abolishing roaming charges have also started in ECOWAS through its Roaming Initiative, a regional initiative committed to free roaming services for voice, SMS and data in West Africa (Tralac, 2017; Adepoju, 2019).

CONCLUSION

The future of regional production in Africa looks promising and regional integration is providing an additional impetus. The Africa Continental Free Trade Agreement, spearheaded by the African Union Commission, brought important political alignment around the creation of one pan-African market. Businesses can also benefit from further integration with regards to trade in services, investment and freedom of movement.

Companies believe that non-tariff barriers can be a real game changer that can boost intra-African trade and investment. National governments and regional bodies are important actors to achieve more harmonisation of regulations and widespread adoption of common norms or equivalence provisions, to make it easier to do business across African borders.

African countries can further boost their attractiveness to investors by creating economies of scale and by improving the enabling environment through enhanced security of investment, transparent regulations, basic infrastructure provision and the availability of skilled workers. Designing strategic clusters of firms and establishing special economic zones, in which governments provide access to quality infrastructure and dependable regulation, can further support industrialisation and regional specialisation. Finally, firms highlight how the high cost of doing business can act as a barrier to investment in Africa, citing examples of expensive transportation, lengthy customs procedures, high energy costs and difficult access to digital services. Public-private partnerships can help unlock more private investments in infrastructure, while governments can help bring down costs of cross-border business by lowering visas fees and requirements and by promoting the integration of the digital economy across country borders.

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Notes

[1] Emerging Asia encompasses the People's Republic of China (hereafter "China"), India and the ten ASEAN member states: Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic (hereafter: Lao PDR), Malaysia, Myanmar, the Philippines, Singapore, Thailand and Viet Nam.

[2] "*Agenda 2063: The Africa We Want*" is the Africa Union's blueprint and master plan to transform Africa in the global powerhouse of the future. Devised in 2013, it sets a strategic framework for the socio-economic transformation of the continent over the next 50 years. It builds on, and seeks to accelerate the implementation of past and existing continental initiatives for growth and sustainable development. It includes a series of flagship projects and five Ten Year Implementation Plans (see also AU, 2013).

[3] The eight RECs are: the Arab Maghreb Union (UMA), the Common Market for Eastern and Southern Africa (COMESA), the Community of Sahel–Saharan States (CEN–SAD), the East African Community (EAC), the Economic Community of Central African States (ECCAS), the Economic Community of West African States (ECOWAS), the Intergovernmental Authority on Development (IGAD), and the Southern African Development Community (SADC).

[4] The 'cold chain' is a system of storing and transporting vaccines at recommended temperatures from the point of manufacture to the point of use (WHO, 2020c).

[5] The Grand Inga Dam project, when completed, would generate over 40 000 MW of power, ensuring access to clean and affordable energy (AU, n.d.). The project would be located in the Congo River, the second-largest river in terms of flow after the Amazon, 50 km upstream in the western Democratic Republic of the Congo. The potentially transformative project is supported by a number of pan-African organisations, including AUDA-NEPAD, SADC, EAPP, and ESKOM, South Africa's largest utility. If completed, the dam would generate twice as much a power as the current largest dam in the world, China's Three Gorges Dam (International Rivers, n.d.) The project is experiencing significant take-off difficulties and shows large gaps in the planning (Misser, 2018).

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