African Economic Outlook 2017

SPECIAL THEME:

Entrepreneurship and Industrialisation



AFRICAN DEVELOPMENT BANK GROUP

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African Economic Outlook 2017

ENTREPRENEURSHIP AND INDUSTRIALISATION

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Foreword

The annual *African Economic Outlook* (*AEO*) monitors the continent's state of affairs using a collaborative approach. The AEO assesses the recent economic and social situation in Africa, projects likely developments for the near future and explores a special theme on the structure of African economies. The *AEO 2017*, the 16th edition, examines entrepreneurship and industrialisation in Africa. The report results from a unique partnership between three international organisations: the African Development Bank, the OECD Development Centre and the United Nations Development Programme.

Three parts comprise the *AEO 2017*. Part I examines Africa's macroeconomic performance, financing, trade policies and regional integration, human development, and governance. Part II explains how improving entrepreneurship contributes to Africa's industrialisation and offers policies to do so. Part III summarises the performance of every African country; a condensed version appears in the printed copy of the report.

The statistical annex contains 26 tables comparing economic, social and political indicators across all 54 African countries. For the first time, they are published only online, allowing for updates throughout the year.

The *AEO* presents rigorous and independent analysis and data for a large audience. Over 150 researchers, economists, statisticians, and other experts from Africa and different regions of the world contribute to this report. They draw on data from numerous sources, including national statistics offices, ministries, multilateral development institutions, civil society and the media. This valuable, policy-relevant compilation can inform decision makers, advisors, business analysts, private sector actors, journalists, non-governmental organisations and engaged citizens around the globe on factors shaping Africa's development trajectory.

The *AEO 2017* is available in various editions and formats. The full report is published in English and French, and an abridged version is produced in Portuguese. Each version is available in both hard copy and electronic format. The report has a dedicated website: www.africaneconomicoutlook.org, which houses these as well as past editions. The site also contains 54 full-length country notes in their original language and accompanying figures and tables, along with the 26 statistical tables.

Editorial

The 16th edition of the *African Economic Outlook* highlights the fact that Africa's economic performance is reflecting the perils of the global economy. The region's real GDP growth slowed down to 2.2% in 2016, mainly due to the continued fall in commodity prices and weak global economic growth. East Africa was the fastest growing region at 5.3% real GDP growth, followed by North Africa at 3%. Growth in other regions was anaemic, ranging from a low of 0.4% in West Africa, dragged down by the recession in Nigeria, to 1.1% in Southern Africa, with South Africa, the region's largest economy, posting only 0.3% growth.

With dynamic private sectors, entrepreneurial spirit and vast resources, Africa has the potential to grow faster and more inclusively. The continent's average growth is expected to rebound to 3.4% in 2017, assuming that the recovery in commodity prices is sustained, the world economy is strengthened and domestic macroeconomic reforms are entrenched. In 2018, growth is expected to consolidate, expanding by 4.3%.

The composition of total financial flows to Africa reflects the dynamism of its domestic markets. In 2017, inflows are projected at almost USD 180 billion. Remittances will reach USD 66.2 billion, up from USD 64.6 billion in 2016. Foreign direct investment inflows are expected to reach over USD 57 billion in 2017, supported mainly by greenfield investments from emerging economies. Tax revenue remains the most important source of domestic financing in African countries but has slowed with the decline in commodity prices. African countries will need to explore other options of mobilising domestic resources to minimise vulnerability of revenues to volatility in commodity prices.

Unlocking Africa's less volatile sources of growth to spur human development will require greater investment in human capital – such as in health, education and skills – , stronger capacities to diversify financing and more effective efforts to promote structural transformation. Despite a decade of progress, 54% of the population in 46 African countries are still living in poverty. It is essential to double efforts to empower Africans with the necessary skills to promote development from the bottom up, driven by domestic innovation and investment. This is why the *African Economic Outlook* focuses this year on the role of entrepreneurs in Africa's industrialisation.

We need to help African countries address the challenges of low human development and social exclusion, and this is what we are doing. Industrialisation is one of the High 5 priority areas of the African Development Bank. It is also in line with the African Union's proclamation of industrialisation as the main strategy to promote inclusive economic transformation, and it is the ninth Sustainable Development Goal. In addition, in July 2016, the United Nations General Assembly proclaimed 2016-25 as the Third Industrial Development Decade for Africa; and under China's leadership, the G20 also agreed in September 2016 to support Africa's industrialisation as part of its Action Plan on the 2030 Agenda for Sustainable Development. To bolster this momentum, this year's *African Economic Outlook* proposes several concrete steps for action.

Africa's industrialisation will differ from the experience of other world regions. First, the 54 African countries are diverse and will thus follow various pathways to industrialisation. Second, industrialisation will not rely solely on the manufacturing sector, which remains modest at 11% of the continent's GDP. Twenty-first century industrial policies can target additional sectors with high-growth potential, such as agro-processing and services with higher value added. Third, policies must promote "green industrialisation", as technological and market changes have made it possible to achieve industrialisation with lower environmental costs. Greater efforts should also be made

to ensure that green infrastructure is developed and is accessible to firms and citizens. Fourth, and most importantly, Africa's industrialisation will also depend on the solid growth of African private companies. New industrialisation strategies should therefore leverage Africa's booming entrepreneurs.

The entrepreneurial culture is vibrant with about 80% of Africans viewing entrepreneurship as a good career opportunity. The continent has the highest share in the world of adults starting or running new businesses, but often in sectors where productivity remains low. New industrialisation strategies should focus on leveraging this dynamism and targeting the continent's fast-growing private enterprises which have potential to create quality jobs.

To unlock this huge potential and different sources of growth, global co-operation is needed more than ever. The *African Economic Outlook* – produced by the African Development Bank, the Organisation for Economic Co-operation and Development and the United Nations Development Programme – aims to promote up-to-date evidence and analytics to support Africa's decision makers.

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Executive summary

The *African Economic Outlook (AEO) 2017* shows that the continent's performance was uneven in 2016 in regard to economic, social and governance indicators, but prospects are favourable for 2017 and 2018. This year's edition of the *AEO* looks closely at how African entrepreneurs can thus accelerate the continent's industrialisation to change the course of development and discusses the policies necessary to foster more sustainable and inclusive growth.

Africa continued to experience regional and global headwinds in 2016, resulting in a further slowdown in growth performance. This notwithstanding, the outlook for the medium term is positive. The decline in economic growth posted in 2016 is attributed to several factors: low commodity prices, a sluggish performance in the global economy, a gradual deceleration in China's growth and second-order effects of the Arab Spring, amplified by the prolonged conflict in Libya. While Africa's net commodity exporters faced a difficult year, the majority of the continent's non-commodity exporting countries continued to grow, consolidating previous years' gains. Fiscal, monetary and exchange rate policies varied across the continent. Countries with co-ordinated policies were able to better withstand shocks.

In 2017 and 2018, Africa will benefit from commodity prices which started to rise in the latter part of 2016, increasing private demand including in domestic markets, sound macroeconomic policy management now entrenched in many countries, a generally improving and favourable business environment, and a more diversified economic structure, particularly towards the services sector and light manufacturing. Although current account deficits are expected to persist in 2017, they will be narrower compared to 2016, if the recent rise in commodity prices continues. The index of commodity prices was more than a quarter higher at the end of 2016 relative to the same period in 2015. Countries with more predictable policies and buffers should therefore be able to weather the storm in the wake of destabilising external imbalances.

In 2017, total external flows are expected to reach USD 179.7 billion, up from USD 177.7 billion in 2016, with foreign direct investment (FDI) and remittances remaining Africa's most important external financial sources. Total FDI is projected to be USD 57.5 billion thanks to inflows from the Far and Middle East. Investments are diversifying into consumer goods and services, such as financial services and information and telecommunications. Remittances are projected to increase to USD 66.2 billion in 2017, 2.4% higher than the previous year. While more and better aid will remain crucial for low-income and fragile economies, private flows will play an increasingly important role to mobilise finance and to spur local development and entrepreneurship. Despite significant efforts to increase fiscal revenues, these still fall short of Africa's financing needs.

Africa has enjoyed advances in trade and regional integration, but the volume of intra-Africa trade remains low. Over the past two decades, the value of trade between Africa and the world has quadrupled. Today the continent's trading partners are also more geographically diverse, and regional co-operation is building momentum. This is because African countries have adopted more open policies, invested in infrastructure and continued to pursue regional integration. These achievements ease business by reducing the costs and time required to move goods and services within countries and across borders; they also increase the continent's appeal as a partner in global trade. Moving forward, Africa should first diversify its exports to reduce exposure to commodity price shocks. Second, it should better tap the capacity of intra-Africa trade. Finally, governments should now focus on moving regional integration initiatives forward.

Eighteen African countries have achieved medium to high human development, and the share of people living in poverty is falling. However, progress in human development is slow and uneven. Employment creation and entrepreneurship can help in reducing poverty. Governments can achieve these by addressing barriers to entrepreneurship such as informality, fragility, and constrained business opportunities for the youth and women. By harnessing better education, skills and health, engaging the youth and women, and promoting sustainable use of environmental resources, Africa can better respect its commitments to the Sustainable Development Goals and Agenda 2063.

In terms of political and economic governance, the most recent data show improvements in Africa but also challenges to overcome. Governments are using public resources more efficiently and delivering more social services, thanks to regulatory reforms and digital innovations. They are also working to enhance the quality of the business environment to catalyse private sector investment. Yet, many Africans still expect greater economic opportunities than they are currently obtaining. To support businesses and foster innovation, governments need to expand access to electricity and financing and to improve competition policies. Furthermore, commitment to accountability within key policy-making institutions remains below citizens' expectations. The same is true of the performance of public administrations.

Promoting industrialisation is back on Africa's economic policy agenda, with renewed impetus and vigour. Industrialisation in 21st century Africa calls for innovative strategies embracing all the potential of its 54 countries. First, innovative industrialisation strategies should go beyond sectoral approaches that target only manufacturing. Africa can industrialise by promoting all economic sectors that have potential for high growth and employment creation. Second, strategies should include high-potential entrepreneurs. Start-ups and small and medium-sized firms with high-potential can complement the growth of large companies in driving Africa's industrialisation. Finally, policies must promote "green industrialisation" with lower environmental costs. Industrial policies must adapt lessons from countries that have already developed a strong industrial base to the distinct African context. Innovative peer learning is critical to the new wave of industrialisation in Africa.

How can African governments design and implement effective industrialisation strategies? About half of the African countries have strategies for industrial development which aim to create labour-intensive industries to enhance job growth. However, these blueprints often do not address the needs of firms that have high growth potential. Capacity to implement policies is also weak, often resulting in conflicting mandates across different government agencies. Governments should design strategies that remove the existing binding constraints on high-potential entrepreneurs. Implementing productivity strategies requires full commitment, strong and far-sighted political leadership, efficient government co-ordination and active private-sector participation. Involving local governments can help tailor industrial policies to firms' needs. Finally, evaluating policies and their impacts is key to ensuring the success of industrial policies.

The report's final chapter tackles three particularly important policy areas to ease the constraints that most entrepreneurs in Africa are confronted with. First, to strengthen skills, there is need for public policies that prioritise formal education, apprenticeships, vocational training and managerial capabilities in order to meet labour market needs. Second, policies that support business clusters can help raise the productivity and growth of firms, including smaller ones. Third, financial market policies can increase firms' access to innovative and tailored sources of finance.

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PART I
Africa's performance and prospects



Chapter 1

Africa's macroeconomic prospects

This chapter reviews macroeconomic conditions in the different regions and countries of Africa, and on the continent as a whole. It highlights past growth trends and projects future growth for 2017-18 based on prevailing global, regional and domestic dynamics and shocks. It examines the main drivers of growth on the supply and demand sides and provides comparisons at the regional level and based on the structure of African economies. The chapter also examines fiscal, monetary and financial sector policies, as well as external positions underpinning recent growth performance that are likely to shape the future growth paths of African countries.

IN BRIEF

Africa's economic growth continued to deteriorate in 2016, due mainly to lower commodity prices, with commodity exporters most adversely affected. Despite this trend, the majority of non-commodity exporting African countries maintained positive growth. Africa's growth outlook remains positive for 2017-18, boosted by expected increases in commodity prices and domestic demand.

Domestic demand continues to drive Africa's growth. Meanwhile, better macroeconomic management, increased diversification and an improved business environment will maintain Africa's growth resilience in 2017-18.

Countries with better co-ordinated and consistent fiscal, monetary and exchange rate policies are able to weather shocks. Countries perceived as safe destinations for investments (e.g. because of policy coherence), can accommodate higher external imbalances over longer periods of turbulence, irrespective of their macroeconomic governance fundamentals.

Did you know?

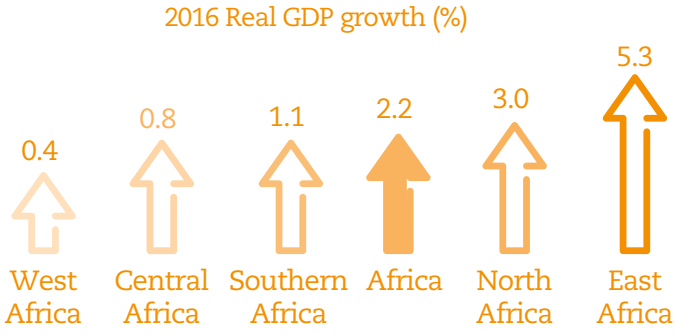
- Despite an economic slowdown in 2016, Africa's growth outlook is positive with marked resilience mainly anchored on strong domestic demand.
- Africa's growth is less dependent on natural resources and is increasingly favoured by improvements in the business environment and in macroeconomic governance.
- Increased structural diversification has significantly improved the continent's ability to withstand external shocks.
- Policy certainty is important in mitigating external imbalances, as macro fundamentals are weakening.

Africa's growth projections are positive after slowdown

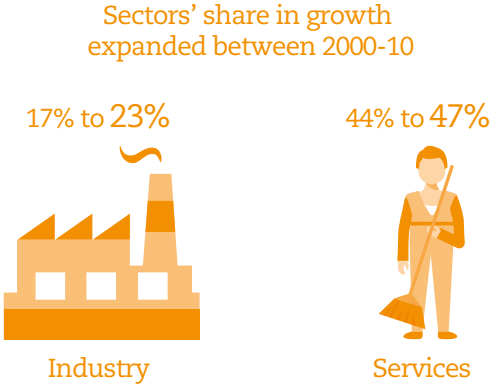


Africa's macroeconomic prospects

East Africa maintains its lead in regional growth



Increased diversification helped make growth more resilient

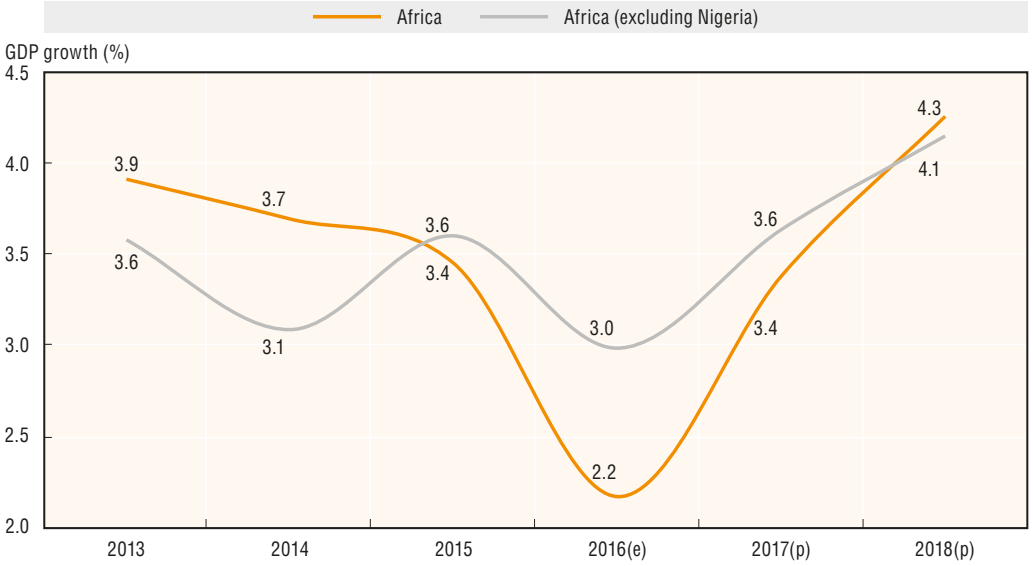


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Africa's growth resilience has been tested, but a basis for stronger future growth exists

The fall in commodity prices, which persisted until early 2016, has tested the validity of the "Africa Rising" narrative. Africa's growth slowed to 2.2% in 2016, down from 3.4% in 2015. This fall in gross domestic product (GDP) growth underscores the importance of a few big economies on Africa's overall growth performance in 2016. Nigeria carries the largest weight accounting for 29.3% of Africa's GDP. The recession experienced in Nigeria therefore had a more adverse impact on Africa's GDP growth than the recessions in Chad or Libya (Figure 1.1). Despite this deterioration, Africa's growth path is expected to remain resilient. This is due to stronger domestic demand, improved macroeconomic governance fundamentals and a friendlier business environment.

Figure 1.1. **Africa's economic growth, 2013-18**



Source: Adapted from AfDB Statistics Department data.
StatLink http://dx.doi.org/10.1787/888933474872

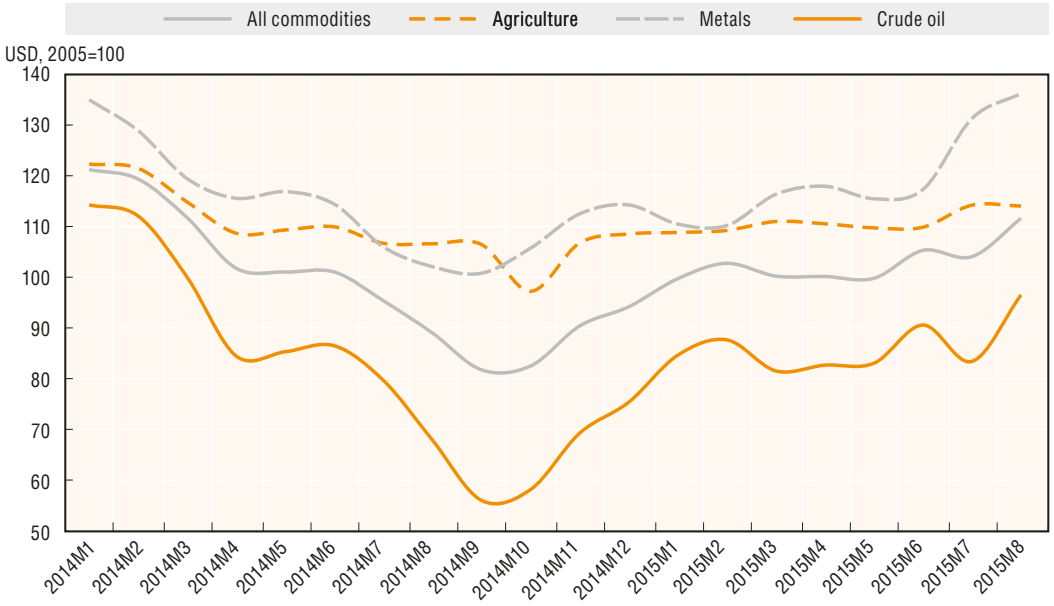
While the slowdown has concentrated mainly in commodity exporters, several factors have contributed to overall lacklustre performance in 2016. These include simmering effects from the Arab Spring, dampening of the global economic recovery including emerging economies (notably, continued slow growth in China, now a major trade partner in several African countries), and pockets of bad weather and drought in a number of African countries.

The recent fall in commodity prices is slowing growth

The decline in commodity prices that started in mid-2014 had a devastating impact on several commodity-exporting African economies. Non-energy commodity prices dropped by 6% in 2016 compared to 2015 prices and were particularly affected by the drop in metal and mineral prices. Average annual metal prices were 6% lower in 2016 compared to 2015, attributed mainly to the slowdown of growth in China. Agricultural commodities remained stable, even though the agricultural raw material price index recorded a drop from USD 83 in 2015 to USD 80 in 2016, due mainly to the escalation of subsidies and increased production. Energy prices in general decreased in 2016 compared to 2014. For example, nominal crude oil prices dropped from a high of USD 114.8 per barrel in

June 2014 to a low of USD 28.9 in January 2016 (Brent Crude, spot prices). The crude oil index (Figure 1.2) dropped from 203.05 to 56.06 over the same period. Despite the rise in crude oil prices in the second half of 2016, average crude oil prices stood at USD 43 per barrel in 2016, 16% lower than 2015 prices, which adversely affected 2016 growth performance.

Figure 1.2. **Commodity price indexes, monthly (2005 = 100)**



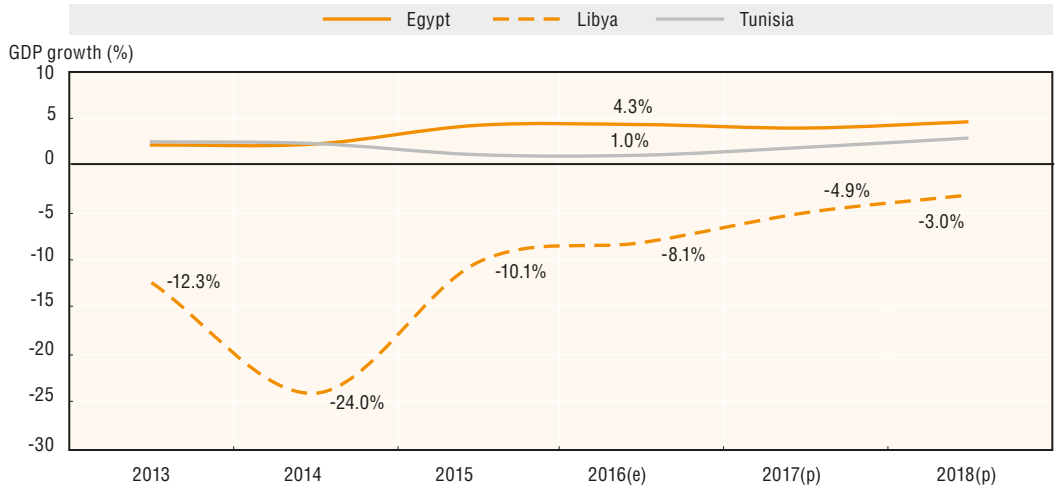
Source: Federal Reserve Bank of St. Louis (2017), https://fred.stlouisfed.org/series/PALLFNFINDEXQ.
StatLink http://dx.doi.org/10.1787/888933474884

The fall in oil prices can be attributed to both supply and demand factors. The supply factors included the production of shale by the United States and Saudi Arabia's decision to increase production in order to maintain its international market share. Among the demand factors were the slowdown in emerging markets and lower oil imports from the United States. As a result, the rate of growth among oil exporters, such as Algeria, Angola, Nigeria and Sudan, fell sharply to 1.6% in 2016 from 3.3% in 2015. In 2016, Libya was estimated to contract by -8.1% and Equatorial Guinea by -8.2%, while Chad and Nigeria were expected to record real GDP growth of -3.4% and -1.5%, respectively. In South Africa, one of Africa's largest economies and non-energy commodity exporters, a slump in mining and quarrying, among other factors, resulted in estimated weak growth of 0.4% for 2016.

Carry-over effects of the Arab Spring and pockets of conflict across the continent are hindering growth

The second factor impeding growth was the spill-over effect from the Arab Spring, which spread from Tunisia to Egypt and Libya, leading to a significant reduction in growth across North Africa. Egypt and Tunisia have recovered to some extent, but Libya is still in recession, though growth increased slightly from -10.1% in 2015 to -8.1% in 2016. This contraction was comparatively smaller than the -10.1% drop recorded in 2015. The continued deterioration of the Libyan economy is a direct result of the Arab Spring and the fall of Muammar Gaddafi, which has led to political instability and reduced oil production, currently at one-third of potential. The problem is further exacerbated by the lack of diversification of the Libyan economy.

Figure 1.3. **Growth among Arab Spring-affected countries of North Africa, 2013-18**



Source: Adapted from AfDB Statistics Department data.
StatLink http://dx.doi.org/10.1787/888933474897

A number of African countries continue to experience armed conflict, which hinders economic activity, therefore constraining economic growth. Although this number has decreased over the past decade, Africa still accounts for the largest share of the world's armed conflicts. In 2016, African countries involved in active armed conflict included Burundi, Central African Republic, the Democratic Republic of the Congo, Libya, Mali, Nigeria (Boko Haram and Militants in the Delta region), Somali and South Sudan. Pockets of conflict also took place in Cameroon and Ethiopia.

Economic growth continues to drag, due to the sluggish global recovery and the slowdown in emerging markets

A third factor continuing to slow down Africa's growth is the sluggish and fragile economic recovery in advanced economies and emerging markets, particularly China. January 2017 projections from the IMF's *World Economic Outlook* (see Table 1.A1.2 in Annex 1.A1) show that the global economy expanded by only 3.1% in 2016 and is expected to pick up modestly in 2017 and 2018, reaching 3.4% and 3.6%, respectively. The outlook is bleakest for advanced economies, which are expected to record growth of 1.6% in 2016, before recovering slightly to 1.9% in 2017 and 2.0% in 2018, respectively. Emerging market and developing economies (EMDEs) are estimated to maintain their growth momentum at 4.1% in 2016 and are projected to grow by 4.5% and 4.8% in 2017 and 2018, respectively. Emerging and developing Asian economies (China, India, Indonesia, Malaysia, the Philippines, Thailand and Viet Nam) boost the performance of EMDEs, estimated at 6.3% in 2016 and projected to reach 6.4% and 6.3% in 2017 and 2018, respectively.

Growth in China, however, remains subdued compared to previous years and is estimated to decline to 6.7% in 2016 down from 6.9% in 2015, before decelerating further to 6.5% and 6.0% in 2017 and 2018, respectively. The slowdown in China is attributed mainly to the shift of focus from investment and manufacturing towards consumption and services. However, the government has signalled a desire to continue with a stimulus package consisting of cheap credit provided mainly by government banks.

Africa's exports to emerging economies comprise mainly oil and metals and are dominated by China, exposing the continent to global demand shocks. Currently, China accounts for 27% of Africa's total global exports with primary commodities representing about 83% of exports to China.

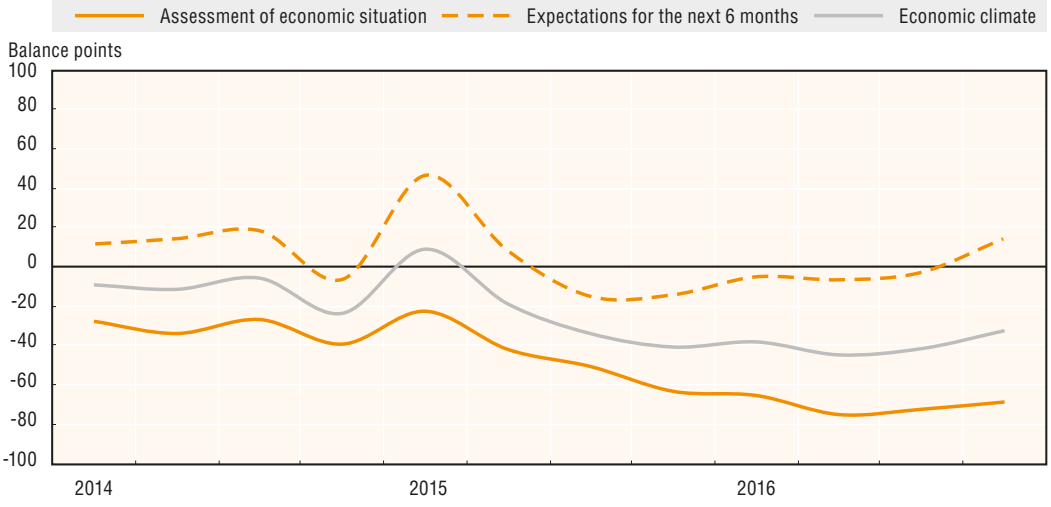
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China's slowdown may also affect trade linkages between African economies and countries in the Americas, Asia and Europe. The slowdown in growth may affect China's foreign investments in natural resources in Africa, Asia, Australia and Latin America, among others. This may lead to cutbacks in investment projects and hurt growth in host countries. The top ten destinations in Africa by foreign direct investment (FDI) stock account for almost 80% of total stock, with almost 50% attributed to Nigeria and South Africa (UNCTAD, 2015).

The recovery in commodity prices is brightening Africa's growth outlook

Growth projections for Africa show a moderate rebound to 3.4% and 4.3% in 2017 and 2018, respectively, up from 2.2% in 2016. Domestic factors remain the principal drivers behind this rebound; however, the expected increase in commodity prices will provide a much-needed cushion to bridge budget deficits and act as a growth catalyst. Prices of most commodities started to recover in 2016 and are expected to maintain an upward trajectory in 2017 and 2018. For example, oil prices began to recover at the beginning of 2016 and are projected to rise to USD 55 per barrel in 2017 up from USD 43 per barrel in 2016. The increase in oil prices is attributed to output cuts from some OPEC and non-OPEC oil-producing countries in the first quarter of 2017. In December 2016, OPEC and non-OPEC oil producers agreed separately to reduce oil output by nearly 1.8 million barrels per day in the first half of 2017. Following these agreements, crude oil prices jumped 10% at the end of the fourth quarter of 2016, averaging USD 49.1 per barrel. Since January 2017, crude oil prices have trended above USD 53 per barrel and by March 2017 had risen to USD 55.99 per barrel. An assessment of Africa's present economic situation, expectations and climate, conducted with African participants by the Ifo Institute's World Economic Survey, predicts an optimistic scenario for the first half of 2017 (Figure 1.4).

Figure 1.4. **Assessment of Africa's economic situation at 2017, Q1 and six-month expectations**



Source: Ifo World Economic Survey (Ifo Institute, 2017).
StatLink http://dx.doi.org/10.1787/888933474900

There is need for caution however, as the recent rise in oil crude prices may not endure over the long term. Increased production from the United States could ramp up the global supply of crude oil cancelling any production cuts from OPEC and price increases. Moreover, while the majority of OPEC members have reduced crude oil production, a number of countries including Iraq, Libya and Nigeria have increased production since

October 2016. In addition, the increase in spot oil prices following production cuts is expected to stimulate investment in oil production in 2017. Since early 2014, US shale oil investment has declined sharply in response to the fall in oil prices. This, in turn, triggered a decline in crude oil production within a few months. OPEC and non-OPEC production cuts could quickly be offset by an increase in shale oil output in the United States, since shale wells can begin production within a year of the initial investment.

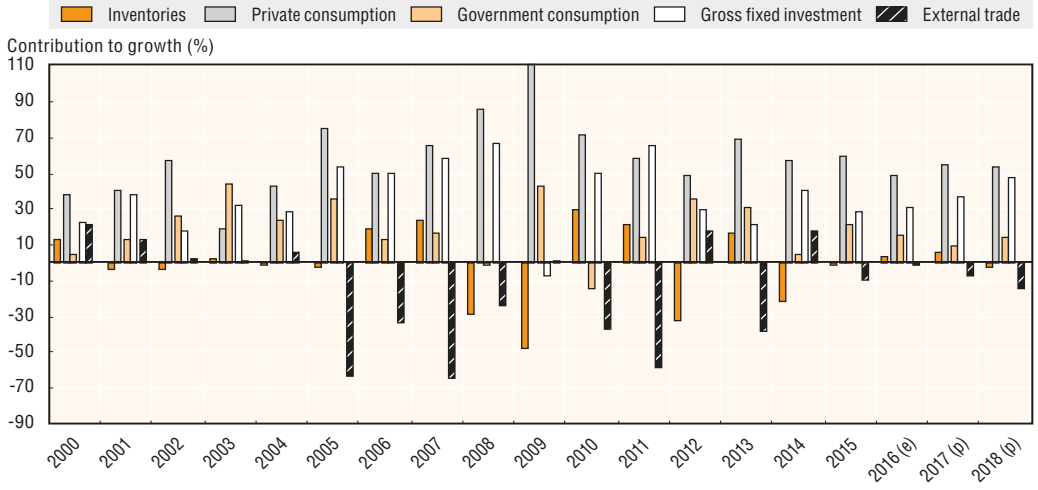
Domestic demand is becoming increasingly important as a driver of growth

Although natural resources and primary commodities remain a major driver of growth in Africa, their importance has declined, while domestic factors including consumption demand play an increasing role in maintaining the resilience of African economies. Domestic demand driven by Africa's growing population represents a major catalyst for African entrepreneurship and the contribution of entrepreneurs to industrialisation. In this context, institutional and regulatory reforms are slowly improving the governance and business environment (see Chapter 5), which provides the necessary support for growth.

Consumption demand boosted by population growth is an important source of resilience

Despite the slowdown affecting major commodity exporters, the rest of Africa (non-commodity exporters) has recorded stable rates of GDP growth over the past five years. Indeed, Africa remains the second fastest-growing region after developing Asia. The real GDP of oil-importing African countries grew at an annual rate of 3.0% in 2016, close to the rate of 3.3% recorded for Africa as a whole in 2015. Domestic factors continue to play a prominent part in Africa's growth, in particular private consumption. In addition, the scaling up of public infrastructure investments has cemented the importance of domestic demand as an anchor for Africa's growth resilience. Both private consumption and government consumption (mainly public infrastructure investment) play a critical role in GDP growth (Figure 1.5). In 2016, the two components combined accounted for more than 60%, with the contribution of private consumption increasing gradually from 2003 onwards.

Figure 1.5. **Drivers of growth in Africa, 2000-18**



Source: Adapted from World Development Indicators 2016 and author's projections.
StatLink http://dx.doi.org/10.1787/888933474913

Private consumption grew at an average of 3.7% between 2010 and 2016 and is expected to remain at an average of 3.5% during 2017-18. One of the main drivers of the surge in consumer demand in Africa is the continent's growing population (currently

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1 billion) and expanding middle class (estimated at 350 million), with Africa projected to host about 20% of the world's population by 2050 (McKinsey Global Institute, 2016). The growing population is expected to lead to a rise in consumer spending from USD 680 billion in 2008 to USD 2.2 trillion by 2030. Increased spending power by the middle class represents a vast source of potential for prosperity.

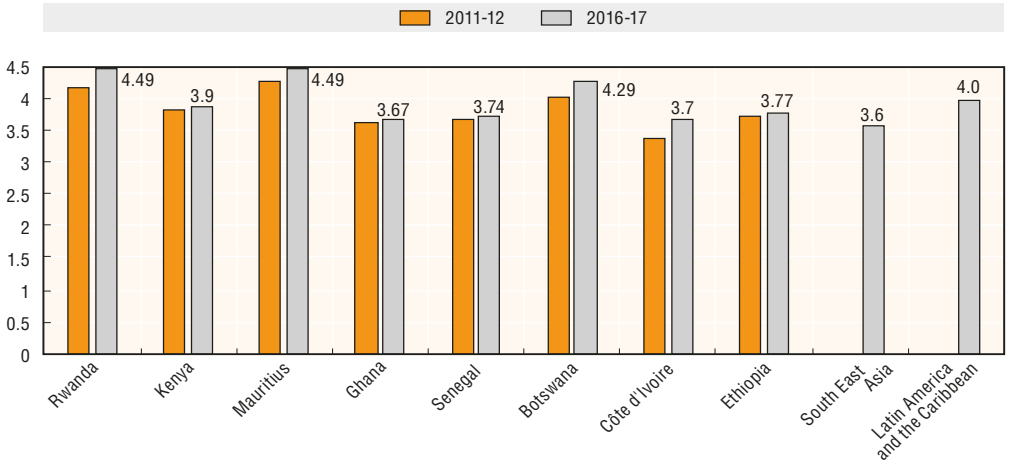
The pace of public infrastructure investment is increasing in Africa

The realisation that the continent's development is encumbered by a massive infrastructure gap, estimated at about USD 50 billion per year, has led African countries to ramp up investments in public infrastructure projects. About 645 million people in sub-Saharan Africa lack access to electricity, while only one-third of rural dwellers live within 2 kilometres of an all-weather road, compared with two-thirds in developing regions. Public investments rose by about 3% of GDP in 2014 and are expected to remain at this level for the next five years.

Business and macroeconomic governance reforms are taking root in the continent

Africa's growth resilience is premised on improvements in the business environment and governance, resulting from recent bold reforms. The continent has made steady progress in governance and management of public institutions and resources, and continues to do so. Relative to the past, Africa now enjoys better ratings on democratic governance and the rule of law, which are critical to nation building and policy consensus. The *2016 Ibrahim Index of African Governance* (Mo Ibrahim Foundation, 2016) reports that in 2015 70% of African citizens lived in a country that experienced improved governance. In the same year, 37 countries improved their Overall Governance score. Furthermore, the average continental score for Overall Governance improved by one point between 2006 and 2015, from 49.0 to 50.0. In 2014/15, Africa accounted for 75 of 230 (30%) of regulatory reforms – the largest number worldwide – making it easier to do business with Uganda, Kenya, Mauritania, Senegal and Benin among the top ten reformers. In addition to substantial progress in implementing regulatory reforms, ten African countries recorded significant gains in their business environment in 2015, with half of them located in sub-Saharan Africa. The World Economic Forum's *Global Competitiveness Reports* (2011 and 2016) show that a majority of African countries also recorded improvements in their competitiveness index over the last five years (between 2011 and 2016). Indeed, a number of African countries rank well above popular investment destinations in Asia including Cambodia, Indonesia and Myanmar (Figure 1.6).

Figure 1.6. **Improvement in global competitiveness among African countries, 2011-12 and 2016-17**



Source: Adapted from WEF (2011, 2016).
StatLink http://dx.doi.org/10.1787/888933474925

Intra-African trade provides opportunities to strengthen Africa's resilience

Fast-expanding regional markets, which now account for about 16% of total trade in Africa, provide an avenue to diversity, supplementing more volatile trade with external partners. Intra-regional trade has increased steadily, standing at 18% of Africa's total exports in 2015, up from 10% in 1995. However, this share is still low compared with other regions of the world. Manufactured products account for 60% of total regional trade and could therefore compensate for Africa's global exposure, especially in commodities. In contrast, Africa's exports to emerging economies, which are dominated by China and mainly comprise oil and metals, expose the continent to global demand shocks. Currently, China accounts for 27% of Africa's total global exports, with primary commodities representing about 83% (Pigato and Tang, 2015). Despite the shift in trade towards China, some African countries still trade predominantly with the euro area and the United States (South Africa) and India (Mauritius). For example, Mauritius's main export partners are the United Kingdom (13.2%), the United Arab Emirates (12.4%), France (11.9%), the United States (10.7%) and South Africa (8.6%), while their main importers are India (18.7%), China (17.8%), France (7.1%) and South Africa (6.5%). African countries that are less dependent on China for their export market have experienced a somewhat slow deceleration of their growth performance.

The role of natural resources and primary commodities is slowly declining

Natural resources and primary commodities are still important as sources of revenues in several African countries, but their role in driving growth is slowly diminishing. In Nigeria, for example, oil accounts for more than 90% of foreign exchange earnings but only about 10% of GDP, down from 25.6% in 2000. This is indicative of a sharp fall in the dominance of the petroleum industry compared with other sectors, notably services and agriculture. The decline in extractive resources as sources of growth is reflected across most of Africa. In 2015, the five fastest-growing economies were non-resource rich, with Ethiopia, Cote d'Ivoire and Rwanda leading the pack at 10.2, 8.8% and 7.1%, respectively. FDI flows are increasingly targeting non-resource-rich countries and sectors. In 2013, the FDI-to-GDP ratio for non-resource-rich countries stood at 4.5%, twice the level of 2000. Meanwhile, the share of total FDI to resource-rich countries is gradually decreasing, sliding from 78% of total FDI flows in 2008 to an estimated 65% in 2013.

More diversified economies are better performers regionally

While Africa's average growth performance has slowed, there is considerable variation among regions and countries, due in part to the dichotomous structure of African economies. Non-oil-dependent countries have, in particular, recorded sustained positive growth. Countries in East Africa including Djibouti, Ethiopia, Kenya, Rwanda and Tanzania, all recorded GDP growth rates above 6% in 2016, with Ethiopia leading at 8%. However, all regions recorded reduced growth performance.

East Africa maintains its lead in regional growth

East Africa continued to lead the pack with estimated growth of 5.3% in 2016, down from 6.5% in 2015. North Africa recorded the second-best growth performance in 2016 at 3.0%, buoyed by recovery in Egypt of 4.3% and Algeria of 3.5%. Persistent political uncertainties and reduced oil production in Libya, however, continue to drag down growth in North Africa. Southern Africa recorded the third-best performance regionally with growth of 1.1%, down from 1.9% in 2015. Central and West Africa, on the other hand, recorded the worst growth performance at 0.8% and 0.4%, respectively. Central African growth was slowed by the poor performance of Equatorial Guinea (estimated at -8.2% in

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2016 and -8.3% in 2015), the Republic of the Congo (which declined to 2.5% in 2016, down from 6.9% in 2015) and Chad (estimated at -3.4% in 2016, down from 1.8% in 2015). West Africa, on the other hand, was dragged down by the economic recession in Nigeria, with economic growth contracting to -1.5% in 2016, down from 2.8% in 2015.

The slowdown in large African economies is having a major impact on overall growth performance

The sharp drop in performance across West Africa highlights the vulnerability of average growth performance on the continent to events in a few large countries. The persistent fall in oil prices and policy uncertainties have adversely affected the growth prospects of Nigeria, as well as South Africa, and have significantly impacted the growth performance of the continent as a whole. Nigeria and South Africa account for the largest shares of Africa's GDP at 29.3% and 19.1%, respectively. The recession in Nigeria resulting from a combination of oil price effects and structural issues has been made worse by policy uncertainties, in particular regarding exchange rate policies. Meanwhile, South Africa is still reeling from a power deficit and the ongoing drought induced by El Niño.

The growth performance of these regions will therefore depend on the performance of individual countries with the largest weights. West Africa is expected to record an improved growth performance of 3.4% in 2017, due to the expected rebound in oil prices. Production from the delta region of Nigeria is also projected to improve following the arrest of militants behind recent attacks on oil fields. Southern Africa's growth will continue to be subdued in South Africa, with an expected growth performance of 1.4% in 2017. Similarly, continuing political uncertainty and conflict in Libya is projected to drag down growth performance for North Africa. Libya is expected to record negative growth of -3.7 in 2017.

Economic diversification is proving an important buffer against external shocks

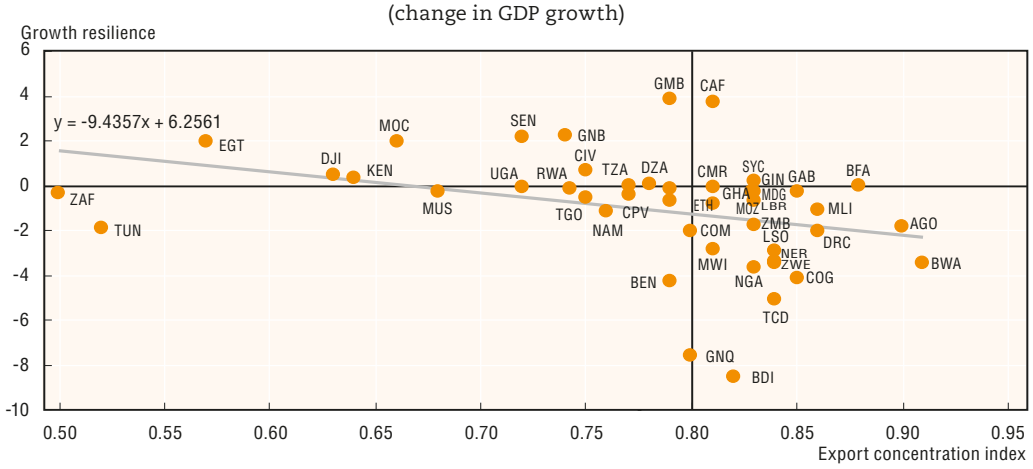
Looking deeper within regions reveals even further heterogeneity, with more diversified economies performing significantly better than those that are less diversified. Africa's economies in general have become increasingly diversified and therefore more resilient, in particular to external commodity shocks, compared to the situation a decade ago. The share of the industrial sector in growth expanded from 17% to 23% between 2000 and 2010, while the services sector's share rose from 44% to 47% over the same period. According to estimates, the services sector accounted for 49% of GDP in 2016, largely due to the information and telecommunications revolution. Technological innovation, particularly in financial services, has fuelled Africa's growth. In 2015, 45% of Kenya's GDP was transacted through M-PESA, a mobile money transfer and financing service. In Nigeria, the share of the services sector jumped from 13% of GDP in 2000 to 34.7% in 2010. The share of the agriculture sector, however, remains large at 16% and is dominated by subsistence farming.

However, progressive structural transformation in Africa (McMillan and Harttgen, 2014) led to a significant decline in the share of the labour force engaged in agriculture by up to 10% between 2000 and 2010. The share of the labour force engaged in manufacturing expanded by an average of 2.15% over the same period, while the share of labour engaged in services increased by an average of 8.23%. These statistics show that structural transformation is already taking place in Africa; however, further progress is needed to consolidate the gains.

Increased diversification has significantly improved Africa's ability to withstand external shocks and maintain resilience in growth. The extent to which increased export concentration reduces growth resilience is illustrated by the export concentration index

(Figure 1.7). The index, also known as the Herfindahl-Hirschmann Index (Product HHI), measures the degree of product concentration in African countries by plotting the level of economic diversification and growth resilience (change in GDP growth). The HHI diversification values range between 0 and 1, with an index value closer to 1 indicating that a country's exports are highly concentrated around a few products. By calculating the change in GDP growth between 2014 and 2015, it is possible to determine the growth resilience of African countries. In brief, positive values indicate resilience while negative values demonstrate growth volatility.

Figure 1.7. **Diversification and growth resilience in Africa, 2014-15**
(change in GDP growth)



Source: Adapted from UNCTADstat data (UNCTAD, 2017), http://unctadstat.unctad.org/wds/TableViewer/tableView.aspx.

StatLink http://dx.doi.org/10.1787/888933474933

Moving to an export-oriented economy requires a shift in the industrial structure towards advanced machinery and electronics, and an emphasis on higher value-added segments. The structural change should be supported by better allocation of credit (which fosters firm growth), enhanced research, and the development of new industrial technologies, as well as education systems that provide skills for the 21st century. National innovation systems and industrial clusters are one of the keys to successful industrial policies. In turn, industrial policies must take into account the country's natural, human, physical and institutional capital. Economic diversification is a medium- to long-term process that requires a transformation from natural resources assets towards a more balanced portfolio of physical and human capital, especially among commodity-exporting countries. In this context, it is important to improve education and health, infrastructure and communications, and regulations for private enterprise (see also Chapters 6, 7 and 8).

Policy co-ordination and consistency are important cushions against shocks

African countries affected by falling commodity prices have utilised fiscal, monetary and exchange rate policies to stem the economic decline. Those that have maintained policy consistency and co-ordination are reaping the benefits.

Fiscal policy consolidation was widespread among affected commodity exporters

In the wake of challenges emanating from falling commodity prices and shrinking revenues, a number of African governments had to operate within an increasingly constrained fiscal space. As a result of commodity price falls, the overall fiscal deficit for the continent weakened from 6.3% in 2015 to 6.6% in 2016. Deterioration was more rapid in oil-exporting countries, which recorded a fiscal deficit of 8.0% in 2016 compared to 7.5%

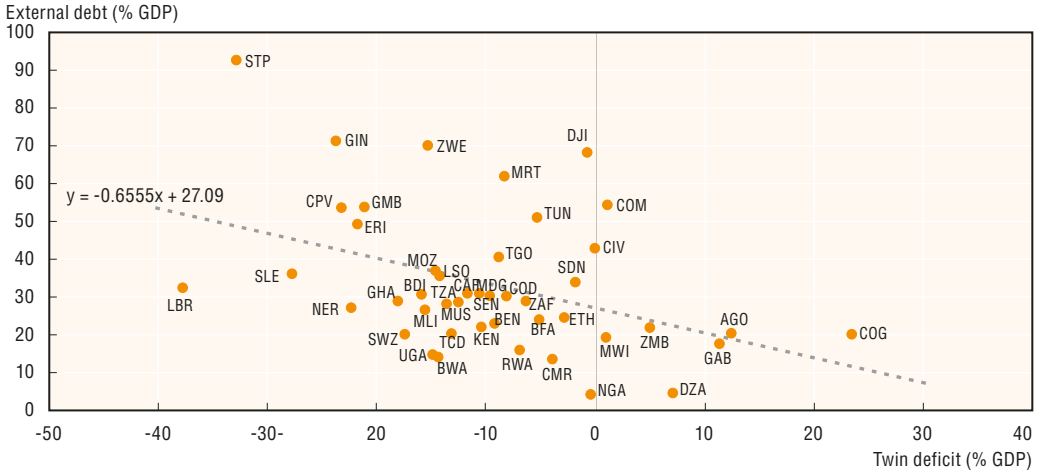
and 6.3% in 2015 and 2014, respectively. Meanwhile, the fiscal deficit for oil-importing African countries was 4.5%, 4.4% and 4.0% in 2016, 2015 and 2014, respectively. Regionally, North Africa recorded the highest fiscal deficit at 13.5% of GDP in 2016, compared to 2.9% in West Africa.

In response to widening deficits, several governments implemented fiscal consolidation measures in 2016 to reign in unproductive expenditures, while instituting measures to block revenue leakages. In Namibia, a commodity-dependent country, falling revenues and a prolonged period of expansionary fiscal policy conspired to widen the fiscal deficit to 7.3% of GDP in 2016. As a result, the government introduced a fiscal consolidation programme during the mid-term review of the 2016/17 budget, which introduced expenditure cuts of up to 2.8% of GDP in an effort to bring down the deficit.

Following the decline in fiscal revenues, several African governments resorted to more expensive commercial capital markets as sources for development finance. Many African countries, including heavily indebted poor country (HIPC) beneficiaries, are accumulating debt at a faster pace and are facing potential situations of debt distress. Quantitative easing in the euro area, Japan and the United States has encouraged global investors to search for high yields. However, lower growth prospects, widened current account deficits and weaker currencies contributed to less favourable debt dynamics and weaker debt sustainability.

Spurred by low global interest rates, African governments have been able to access global commercial debt markets in recent years with the aim of financing infrastructure and other capital investment projects and of stemming fiscal deficits. In 2013-15, African countries issued sovereign bonds worth USD 20.9 billion, compared to only USD 5.9 billion in 2009-12. The negative correlation between fiscal (and external deficits) and external debt (Figure 1.8) means that mounting fiscal deficits are worsening external debt positions, with attendant implications for the countries' debt sustainability situations.

Figure 1.8. **Correlation between fiscal deficits and external debt in African countries**



Source: Adapted from AfDB Statistics Department and World Bank (2016).
StatLink http://dx.doi.org/10.1787/888933474941

The outlook for fiscal balances in the region is expected to improve moderately in 2017 and 2018, reaching -5.5% and -4.5%, respectively. This improvement could be attributed to the fiscal consolidation measures underway in many commodity-exporting countries and the gradual recovery in commodity prices. Oil-exporting countries are expected to record a higher fiscal deficit of 6.3% and 5.0%, respectively, in 2017 and 2018, compared

to 4.3% and 3.8% for the same years in oil-importing countries. The deficit is expected to remain highest in North Africa at 11.1% in 2017, due mainly to revenue shortfalls from Libya's reduced oil production.

Policy uncertainty limited the effectiveness of monetary and exchange rate policies in some cases

Monetary and exchange rate policy responses to different economic situations across the continent have generally been mixed, and in certain cases they lacked co-ordination with fiscal policy. Some commodity exporters that faced fiscal constraints and implemented fiscal consolidation measures also undertook tight monetary policy stances. Most non-commodity exporters not adversely affected by falling commodity prices implemented expansionary monetary policies. Among this group of countries, the impact of the slump on commodity prices has resulted in declining inflation due to lower energy prices.

In some cases, lack of policy co-ordination between monetary and exchange rate policies and fiscal policies resulted in both sets of policies pursuing different objectives. In Nigeria, for instance, fiscal policy was contractionary, while monetary policy remained expansionary for a large part of 2016. Lack of co-ordination and certainty restricted the effectiveness of monetary policy interventions in response to global shocks. For example, in spite of monetary policy tightening in Ghana and Malawi in 2016, inflation remained in the double-digit range. In Nigeria, efforts to curtail demand for foreign currency, particularly speculative demand, did not bear fruit, even after the government ceased pegging the naira to the US dollar in June 2016. Prior to floating, the naira had been pegged at NGN 197 to the dollar; however, administrative restrictions and policy reversals widened the parallel market premium. As a result, the parallel market rate reached a high of NGN 520 to the dollar, compared to NGN 305 to the dollar traded at the interbank. Inflation has proved stubborn, remaining in double digits at 18.7% in January 2017. The ineffectiveness of monetary policy actions resulted from lack of certainty regarding the government's policy to tackle rising inflation, which in turn weakened the naira and low foreign currency reserves. In general, observations of countries where lack of policy co-ordination is pronounced show that external shocks are more persistent.

The monetary and exchange rate policy outlook remains mixed

The monetary policy outlook in the region is expected to remain mixed, depending on the extent to which countries are exposed to the terms-of-trade shocks. While commodity exporters are expected to maintain a tight and contractionary monetary policy stance, non-commodity exporters are expected to pursue expansionary and loose monetary policy frameworks to support private sector growth. Projections show that widening current account balances will continue to exert pressure on countries' currencies. Countries with fixed exchange rate regimes are likely to be more adversely affected, as they have limited reserves at their disposal to defend their currencies. Weak currencies are also likely to continue exerting pressure on countries' fiscal space, resulting in increased debt service obligations in domestic currency terms.

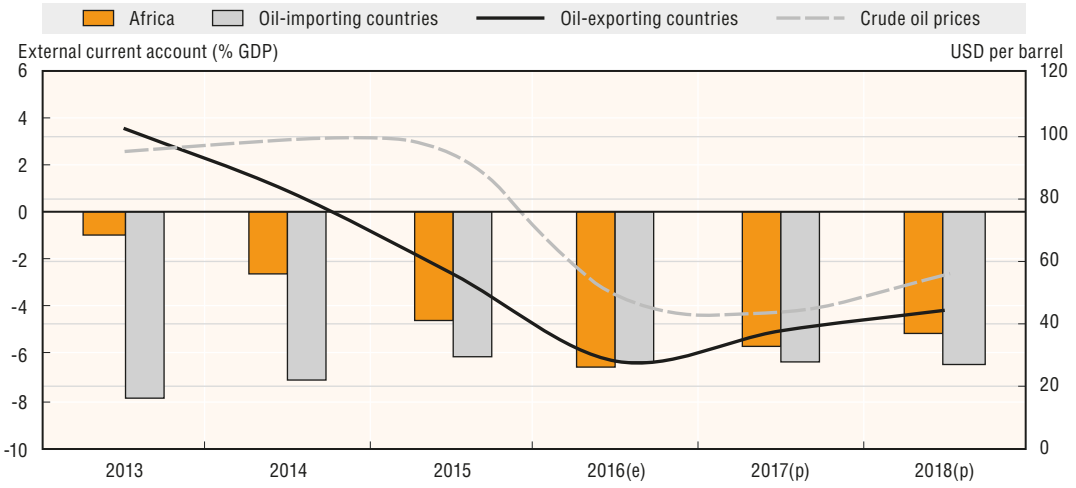
External imbalances are inherently associated with policy uncertainties

Most African economies experienced external deficits, not just from falling commodity prices but also driven by policy uncertainties that kept foreign capital out and weakened the countries' currencies. These made it difficult for them to maintain external balance. Persistent commodity price fall has depleted the revenue of a number of commodity-dependent countries, driving them into current account (external) deficits. Most of these

AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

countries are experiencing twin deficits, with both the government budget and current accounts in double-digit deficits. The external deficit of oil-importing countries, and of Africa in general, closely tracks movements in crude oil prices (Figure 1.9). The widening current account deficit problem is further exacerbated by the economic slowdown in China, which is a major consumer of Africa's primary exports.

Figure 1.9. **External current accounts, including grants, in Africa, 2013-18(p)**



Note: (e) estimates; (p) projections.
Source: Adapted from AfDB Statistics Department data.
StatLink http://dx.doi.org/10.1787/888933474953

According to estimates, Africa's current account deficit decreased to 6.5% of GDP in 2016 from 6.8% of GDP in 2015. Other than Botswana and Swaziland, all African countries are expected to record deficits in current account balances in 2016, with the highest expected in Libya (37.8%), Mozambique (31.1%), Liberia (28.5%) and Djibouti (27.9% of GDP). About 20 of the 54 African countries are expected to record double-digit current account deficits.

The external balance outlook for the continent is projected to improve in 2017 with improvements in commodity prices and a slight recovery on the part of the global economy. The current account deficits for 2017 and 2018 are projected to be 5.0% and 4.1%, respectively. With oil prices anticipated to rise from USD 43 per barrel in 2016 to USD 55 per barrel in 2017, the value of exports is expected to improve for the majority of oil-exporting countries. The same trends are projected for the other commodity-exporting countries, as commodity prices edge up. In addition, given the reduction in uncertainty and volatility in global commodity prices and strong domestic demand, Africa is expected to attract more foreign direct and portfolio investments in the near future.

Beyond the macro fundamentals, it is noteworthy that policy certainty plays an important role in maintaining external balance. Persistently high and unsustainable current account deficits, leading to foreign exchange crises and capital outflows, are intrinsically associated with policy inconsistency and uncertainty. The impact of policy uncertainty on external balance can be tracked by plotting the relationship between changes in external current account balances against changes in GDP growth for the same period and policy uncertainty (see Figure 1.A1.1 and the accompanying note).

Annex 1.A1. External balance and policy uncertainty in Africa

Table 1.A1.1. Macroeconomic developments in Africa, 2008-18

				March 2017 estimates			
	2008-12	2013	2014	2015	2016(e)	2017(p)	2018(p)
Real GDP growth (%)							
Central Africa	4.9	4.0	6.0	3.6	0.8	2.2	3.8
East Africa	5.6	7.2	5.9	6.5	5.3	5.7	6.0
North Africa	4.4	1.7	1.5	3.3	3.0	3.4	3.7
Southern Africa	3.1	3.7	2.8	1.9	1.1	1.9	2.6
West Africa	6.2	5.7	6.1	3.3	0.4	3.5	5.5
Africa	4.7	3.9	3.7	3.4	2.2	3.4	4.3
Africa (excluding Libya)	***4.5***	***4.3***	***4.2***	***3.7***	***2.3***	***3.5***	***4.4***
Memorandum items							
North Africa (including Sudan)	4.3	1.9	1.6	3.4	3.0	3.4	3.7
Sub-Saharan Africa	4.9	5.2	5.0	3.5	1.7	3.4	4.6
Sub-Saharan Africa excluding South Africa	***5.7***	***6.0***	***5.8***	***4.1***	***2.0***	***3.9***	***5.2***
Oil-exporting countries	5.0	3.5	3.6	3.3	1.6	3.0	4.1
Oil-importing countries	4.2	4.6	3.9	3.6	3.0	4.0	4.4
Consumer prices (inflation in %)							
Central Africa	6.8	1.9	2.4	2.2	3.1	2.2	2.4
East Africa	15.2	12.8	12.2	10.2	12.4	9.9	8.9
North Africa	6.6	4.9	6.2	7.5	8.1	10.3	8.2
Southern Africa	7.9	6.4	6.3	5.7	10.5	8.7	7.7
West Africa	10.7	7.6	7.3	8.3	13.0	11.4	9.8
Africa	19.4	6.7	7.0	7.4	10.1	9.8	8.3
Africa (excluding Libya)	***8.9***	***6.8***	***7.1***	***7.4***	***9.9***	***9.8***	***8.3***
Memorandum items							
North Africa (including Sudan)	7.4	6.9	8.1	8.2	8.5	10.7	8.5
Sub-Saharan Africa	11.1	7.8	7.5	7.4	11.3	9.5	8.4
Sub-Saharan Africa excluding South Africa	***9.2***	***6.5***	***6.3***	***6.4***	***10.0***	***8.3***	***7.3***
Oil-exporting countries	9.5	7.4	8.2	8.9	12.9	12.8	10.5
Oil-importing countries	7.7	5.6	5.3	5.3	6.1	5.6	5.2
Overall fiscal balance, including grants (% GDP)							
Central Africa	2.4	-1.1	-2.3	-2.9	-4.0	-3.5	-2.4
East Africa	-2.5	-4.3	-3.6	-5.1	-4.7	-4.5	-3.3
North Africa	-2.7	-6.8	-10.9	-13.3	-13.5	-11.1	-9.5
Southern Africa	-2.5	-2.9	-4.1	-3.9	-4.3	-3.8	-3.2
West Africa	-2.7	-3.1	-2.4	-2.0	-2.9	-2.8	-2.5
Africa	-2.3	-4.2	-5.4	-6.3	-6.6	-5.5	-4.5
Africa (excluding Libya)	***-2.9***	***-4.2***	***-4.8***	***-5.5***	***-5.7***	***-4.6***	***-3.6***
Memorandum items							
North Africa (including Sudan)	-2.6	-6.4	-9.9	-11.8	-11.9	-9.6	-8.2
Sub-Saharan Africa	-2.2	-3.1	-3.2	-3.3	-3.8	-3.5	-2.9
Sub-Saharan Africa excluding South Africa	***-1.8***	***-2.9***	***-3.1***	***-3.2***	***-3.9***	***-3.6***	***-2.9***
Oil-exporting countries	-1.6	-4.0	-6.3	-7.5	-8.0	-6.3	-5.0
Oil-importing countries	-3.3	-4.4	-4.0	-4.4	-4.5	-4.3	-3.8
External current account, including grants (% GDP)							
Central Africa	-2.1	0.3	-1.2	-7.4	-8.1	-5.9	-5.1
East Africa	-6.6	-7.0	-6.5	-7.7	-7.0	-7.6	-8.2
North Africa	3.2	-1.6	-5.3	-9.1	-9.8	-7.5	-5.8
Southern Africa	-2.4	-4.0	-5.0	-6.2	-6.4	-5.4	-4.9
West Africa	2.0	0.8	-0.7	-4.1	-2.8	-0.9	0.3
Africa	0.0	-2.1	-3.8	-6.8	-6.5	-5.0	-4.1
Africa (excluding Libya)	***-1.0***	***-2.5***	***-3.4***	***-6.2***	***-5.9***	***-4.5***	***-3.7***
Memorandum items							
North Africa (including Sudan)	2.3	-2.1	-5.4	-8.8	-9.1	-7.1	-5.7
Sub-Saharan Africa	-1.5	-2.4	-3.3	-5.8	-5.2	-4.2	-3.5
Sub-Saharan Africa excluding South Africa	***-0.9***	***-1.4***	***-2.8***	***-6.2***	***-5.5***	***-4.2***	***-3.5***
Oil-exporting countries	4.2	1.8	-1.8	-7.2	-6.6	-4.1	-2.5
Oil-importing countries	-5.8	-7.8	-7.1	-6.1	-6.3	-6.4	-6.4

Note: (e) estimates; (p) projections
Source: AfDB Statistics Department.

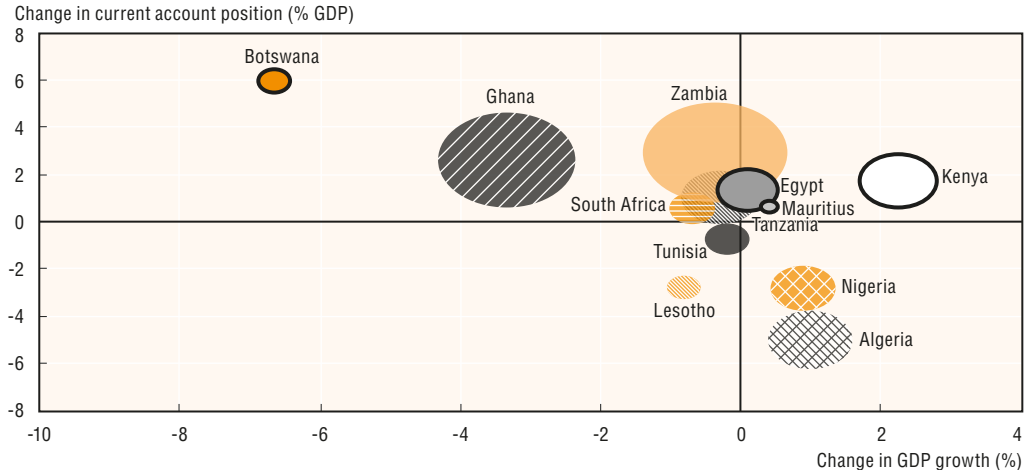
Table 1.A1.2. **Global economy and outlook, 2015-18**

	2015	2016 (e)	2017(p)	2018(p)
World output	3.2	3.1	3.4	3.6
Advanced economies	2.1	1.6	1.9	2.0
United States	2.6	1.6	2.3	2.5
Euro area	2.0	1.7	1.6	1.6
Germany	1.5	1.7	1.5	1.5
France	1.3	1.3	1.3	1.6
Italy	0.7	0.9	0.7	0.8
Spain	3.2	3.2	2.3	2.1
Japan	1.2	0.9	0.8	0.5
United Kingdom	2.2	2.0	1.5	1.4
Canada	0.9	1.3	1.9	2.0
Other advanced economies	2.0	1.9	2.2	2.4
Emerging market and developing economies	4.1	4.1	4.5	4.8
Commonwealth of Independent States	-2.8	-0.1	1.5	1.8
Russian Federation	-3.7	-0.6	1.1	1.2
Excluding Russian Federation	-0.5	1.1	2.5	3.3
Emerging and developing Asia	6.7	6.3	6.4	6.3
China	6.9	6.7	6.5	6.0
India	7.6	6.6	7.2	7.7
ASEAN-5	4.8	4.8	4.9	5.2
Emerging and Developing Europe	3.7	2.9	3.1	3.2
Latin America and the Caribbean	0.1	-0.7	1.2	2.1
Brazil	-3.8	-3.5	0.2	1.5
Mexico	2.6	2.2	1.7	2.0
Middle East, North Africa, Afghanistan and Pakistan	2.5	3.8	3.1	3.5
Saudi Arabia	4.1	1.4	0.4	2.3
Sub-Saharan Africa	3.4	1.6	2.8	3.7
Nigeria	2.7	-1.5	0.8	2.3
South Africa	1.3	0.3	0.8	1.6
Memorandum items				
Low-income developing countries	4.6	3.7	4.7	5.4
World growth based on market exchange rates	2.6	2.4	2.8	3.0
World trade volume (goods and services)	2.7	1.9	3.8	4.1
Advanced economies	4.0	2.0	3.6	3.8
Emerging market and developing economies	0.3	1.9	4.0	4.7
Commodity prices (US dollars)				
Oil	-47.2	-15.9	19.9	3.6
Non fuel (average based on world commodity export weights)	-17.4	-2.7	2.1	-0.9
Consumer prices				
Advanced economies	0.3	0.7	1.7	1.9
Emerging market and developing economies	4.7	4.5	4.5	4.4
London Interbank Offered Rate (percent)				
On US dollar deposits (six month)	0.5	1.0	1.7	2.8
On Euro deposits (three month)	0.0	-0.3	-0.3	-0.2
On Japanese yen deposits (six month)	0.1	0.0	0.0	0.0

Note: (e) estimates; (p) projections.
Source: *World Economic Outlook* (IMF, 2017), www.imf.org/external/pubs/ft/weo/2017/update/01.

A corrigendum has been issued for this page. See http://www.oecd.org/about/publishing/Corrigendum_AEO_2017_ENG.pdf

Figure 1.A1.1. **Impact of policy uncertainty on external balance, 2013-14**



Note: Policy uncertainty is captured by the change in the average bond yield between 2013 and 2014, with positive values showing a widening over this period, implying increased policy uncertainty. Negative values show a fall in bond yields between 2013 and 2014, signifying increased confidence in policy and general economic outlook. The bubble size therefore captures the extent of policy uncertainty (the larger the bubble, the higher the uncertainty). Negative values (with rings in the figure) show countries that recorded improvement in policy certainty over this period (Botswana, Egypt, Kenya and Mauritius). Positive GDP values indicate improvement in GDP growth. Positive current account balance values indicate improvement in the current account position (either reducing deficits or building surplus), while negative values indicate a worsening of the current account position (increasing deficit or reducing surplus). All the countries with ringed bubbles (more policy certainty) fall in the positive quadrant of the current account position irrespective of the change in GDP growth. While Kenya recorded a slight deterioration in GDP growth (the bubble is located in the negative quadrant of the change in GDP growth), the other three countries that recorded improvement in their policy certainty environment (Botswana, Egypt and Mauritius) all recorded improvements in their GDP growth rates between 2013 and 2014. No single country that recorded improved policy certainty had a deteriorating external balance position.

StatLink http://dx.doi.org/10.1787/888933474968

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Chapter 2

External financial flows and tax revenues for Africa

This chapter analyses recent trends in external financial flows to Africa and domestic revenue collection. It explores how foreign direct investment, portfolio investment, remittances and official development assistance have evolved in 2015 and 2016, and their outlook for 2017. It highlights the growing importance of private flows in comparison to public ones. The chapter concludes with a description of domestic revenue performance in Africa from 2005 to 2015, as well as an analysis of the challenges to increasing domestic revenue mobilisation.

IN BRIEF

Private external flows in the form of investment and remittances continue to drive growth in external finance to Africa. Despite prolonged weak commodity prices, foreign direct investment (FDI) inflows to Africa are estimated to have bounced back in 2016, reflecting increasing diversification of investment into services, manufacturing and infrastructure-related projects. FDI is expected to reach USD 57.5 billion in 2017, underpinned by large greenfield investment from economies from the Far East and Middle East. In 2016, Africa recorded its lowest total portfolio inflows since 2008 at USD 6.5 billion, and this downward trend is expected to continue, with a projected average of USD 5.2 billion in 2017. Remittances increased by more than 50% from 2005 to 2009 and are predicted to reach USD 66.2 billion in 2017, with Egypt and Nigeria receiving the bulk of flows. Official development assistance (ODA) to Africa declined in 2016, by 1.7% in real terms as some donors backtracked on a commitment to reverse past declines in flows to the poorest countries. The share of aid allocated to 17 of the 27 African low-income countries is expected to decline at least up to 2019, which gives rise for concern. In spite of progress, domestic revenue mobilisation remains low. To meet Africa's financing needs, the international community and African policy makers are exploring new ways of engaging with the private sector to mobilise finance and foster local financial markets and entrepreneurship.

Did you know?

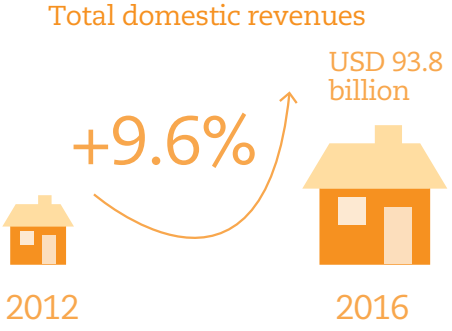
- FDI inflows to Africa bounced back in 2016, despite prolonged weak commodity prices.
- FDI to Africa should reach USD 57.5 billion in 2017, underpinned by large investments from the Far East and Middle East.
- Remittances to Africa increased by more than 50% from 2005 to 2009 and are projected to reach USD 66.2 billion in 2017.
- The share of aid allocated to 17 of Africa's 27 low-income countries is projected to decline at least until 2019.

Total external flows to Africa will increase in 2017

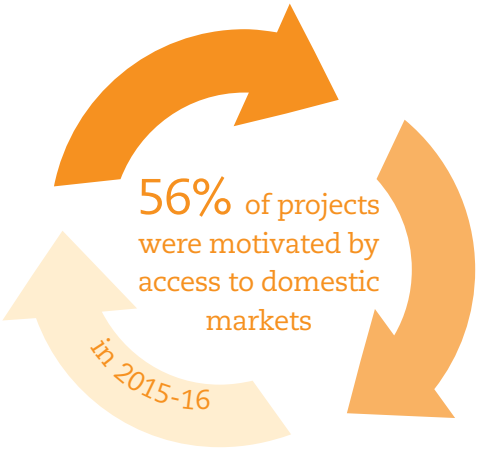


- ↑ Remittances (+2.4%)
- ↑ FDI (+1.9%)
- ↑ ODA (+1.4%)
- ↓ Portfolio inflows (-20.3%)

Non-resource-rich countries have increased their revenue mobilisation



FDI aims to tap growing domestic markets



AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

Private flows play an increasingly important role in the external financial landscape

This section reviews the evolution in external financial flows to Africa, highlighting the relative importance of FDI, portfolio investment, remittances and ODA. It also examines new ways of using aid and private financial flows to spur entrepreneurship in Africa.

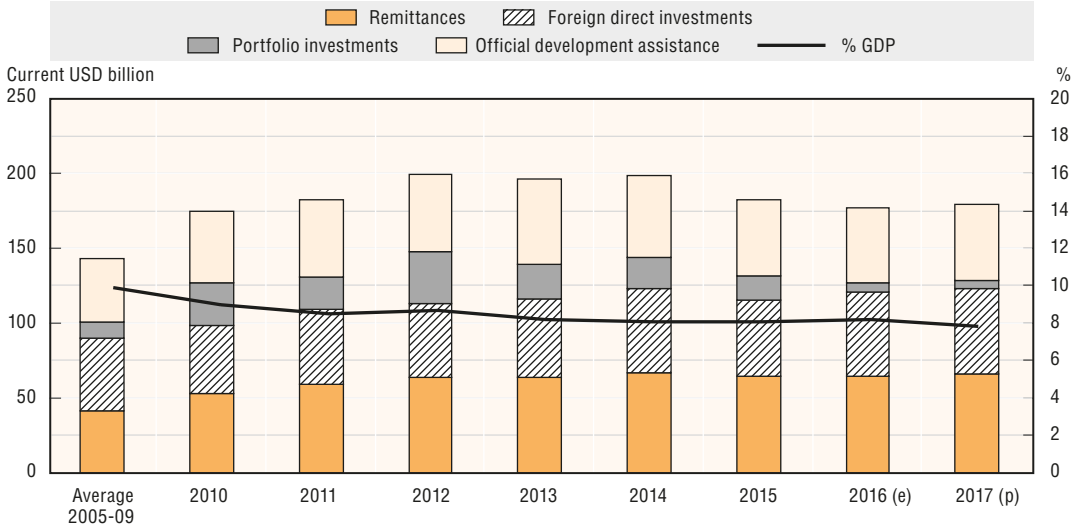
External flows slowed in 2016

In 2016, total external flows to Africa were estimated at USD 177.7 billion, down from USD 182.8 billion in 2015. This decrease was due mainly to a sharp drop in portfolio flows (60% compared to 2015) and a decline in ODA flows (2% compared to 2015) and remittances (0.3% compared to 2015). This decline offset the substantial rebound in FDI inflows to Africa which, despite weaker commodity prices, increased by 10%, recovering from the 2015 slump. In 2017, total external flows are projected to increase moderately to USD 179.7 billion on account of modest increases in remittances (+2.4%), FDI (+1.9%) and ODA (+1.4%). Conversely, portfolio inflows will continue their downward trend (-20.3%).

Foreign direct investment and remittances have gained in prominence

Private financial flows gained in prominence over the last decade, increasing from 61% of total external resources in 2002 (USD 33.5 billion) to 72% in 2016 (USD 127.6 billion). Foreign direct investment experienced a return to growth in 2016, following an increase in the share of total private flows from 39% to 44% in 2015 (Figure 2.1). To reduce their vulnerabilities to commodity price shocks, many African countries diversified away from mineral resources into consumer goods and services. As a result of this shift towards consumer goods, several countries are assuming a more important position on the investor radar, including Ethiopia, Ghana, Kenya and the United Republic of Tanzania (Tanzania). In addition, new investment partners notably from the Far East and Middle East, and within the continent, are becoming an increasingly important source of greenfield projects for Africa.

Figure 2.1. **External financial flows to Africa, 2005-17**



Note: ODA estimates (e) and projections (p) are based on the real increase in Country Programmable Aid (CPA) in OECD (2016). The forecast for remittances is based on the projected rate of growth according to the World Bank. (This graph excludes loans from commercial banks, official loans and trade credits.)

Sources: Adapted from *African Economic Outlook* data, IMF (2016a), OECD (2016) and World Bank (2016b).

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Conversely, portfolio investment inflows slumped in 2016, accounting for a mere 5% of private financial flows, compared to 13.5% in 2014-15. With a contraction of 60%, Africa recorded its lowest total portfolio inflows since 2008. Investors responded to global shocks by buying fewer developing country assets. Only Ghana and South Africa tapped the international bond market in 2016, in contrast to the rapidly increasing trend of sovereign bond issuance in the region.

Migrant remittances remain a major and stable source of external finance for Africa. Remittance flows have grown substantially over the last five years, accounting for 51% of private flows in 2016, compared to 42% in 2010. As less volatile than development aid and FDI, remittances represent a lifeline that helps to smooth household consumption and increase foreign exchange reserves. They also allow for investments, including in small businesses and provision of basic social services.

The relative importance of aid is diminishing, and domestic revenue mobilisation remains low

Foreign aid increased by 4% in real terms in 2015[1] and subsequently slowed by 1.7% in 2016, given that some donors backtracked on a commitment made at the Third International Conference on Financing for Development in 2015 in Addis Ababa to reverse past declines in flows to the poorest countries. Although international public flows remain a key pillar of development finance, especially for low-income African countries where ODA accounts for over 50% of total external finance, their relative importance is diminishing. This applies especially to bilateral aid from OECD countries. The share of ODA in total external flows declined from 37% in 2002-06 to 28% in 2012-16. Nevertheless, aid from China and other emerging partners is growing rapidly.

Domestic revenue mobilisation has slowed in Africa since 2013, due to the general fall in commodity prices, in particular oil prices. Although many non-resource-rich countries have made considerable efforts to improve tax revenue collection in recent years, domestic revenue mobilisation remains low overall (Table 2.1).

Table 2.1. **Financial flows and tax revenues to Africa, 2005-17**
(current USD billion)

			Average 2005-09	2010	2011	2012	2013	2014	2015	2016 (e)	2017 (p)
Foreign	Private	Inward foreign direct investments	48.7	46.0	49.8	49.4	53.1	56.0	51.3	56.5	57.5
		Portfolio investments	10.5	28.5	21.6	34.3	23.0	21.3	15.7	6.5	5.2
		Remittances	41.7	53.1	59.6	64.3	63.7	67.2	64.8	64.6	66.2
	Public	Official development assistance (net total, all donors)	42.6	47.8	51.6	51.8	56.8	54.3	51.0	50.2	50.9
		Total foreign flows	**143.6**	**175.4**	**182.7**	**199.8**	**196.7**	**198.8**	**182.8**	**177.7**	**179.7**
Domestic		Tax revenues	351.9	458.2	512.7	561.5	541.0	506.4	436.8		
Total foreign flows		Low-income countries	30.8	39.4	42.7	45.7	54.2	55.4	47.5	49.7	51.6
		Lower-middle-income countries	76.9	90.9	97.3	118.1	110.7	107.6	99.2	100.1	99.0
		Upper-middle-income countries	31.9	40.1	37.5	30.6	27.0	29.4	29.8	22.5	23.2

Note: ODA estimates (e) and projections (p) are based on the real increase of Country Programmable Aid (CPA) in OECD (2016). The forecast for remittances is based on the projected rate of growth according to the World Bank. (This table excludes loans from commercial banks, official loans and trade credits.)
Sources: Adapted from *African Economic Outlook* data, IMF (2016a), OECD (2016) and World Bank (2016b).

Both private flows and aid flows will increase slightly in 2017 but remain volatile

In 2017, external resource flows to the continent are expected to increase marginally. Private financial flows[2] to Africa are projected to reach USD 128.9 billion in 2017, representing an increase of 1.0% compared to 2016. FDI should grow by 1.9% but will

remain volatile due to domestic and global risks. Investor enthusiasm may diminish as a result of the sluggish global economy and slower improvements in commodity prices. In addition, the African investment landscape may be affected by the consequences of political events in 2016, notably the vote for Brexit in the United Kingdom, the result of the United States presidential election and increased geopolitical risk globally. On the domestic front, downside risks are emerging in certain countries due to slow progress in improving the business environment and reducing political instability.

Portfolio inflows will decline by a further 20.3% reflecting lower inflows in the Democratic Republic of the Congo (DRC), Nigeria and South Africa. Private equity deals have also suffered from lower commodity prices and currency volatility. However, surveys show that the majority of investors expect private equity activity to continue its positive trend in the medium term, albeit at a slower pace.

Remittances to Africa are projected to remain stable in 2017, increasing slightly by 2.4% to USD 66.2 billion. The regional distribution of remittances is expected to remain uneven, with North and West Africa receiving the bulk of remittance inflows.

New ways of using aid and private financial flows can spur entrepreneurship in Africa

After dropping in 2016, aid should return to the 2015 level in 2017 (USD 50.9 billion) and decline by 0.5% and 0.1% respectively in 2018 and 2019. Aid to some African low-income countries is projected to decline. In particular, 17 out of 27 low-income countries will receive less aid in 2019 than in 2015. This is a cause for concern given their high dependency on aid.

Improving mobilisation of domestic resources will be critical to counterbalancing aid declines. African governments will have to increase efforts to strengthen tax systems, expand domestic tax bases and enhance local financial markets to attract other private flows. However, these domestic resources will not be sufficient to meet financing needs. More and better quality aid will remain an essential complement, especially in low-income countries (AfDB et al., 2015).

In order to advance the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development, the development community is exploring ways to use aid as a catalyst to mobilise private investment. Examples include blended loans, equity investments, guarantees or more traditional public-private partnerships.

The private sector will play an increasingly important part not only in mobilising finance, but also in providing skills and know-how, and promoting innovation. In this respect, philanthropic donors are performing an increasingly significant role, by engaging in both blended finance and social impact investing.

Private capital flows can also contribute significantly to the development of local entrepreneurship, notably by spurring technology-based innovations in local financial services. The exponential growth of branchless banking and mobile banking technologies represent a positive trend in this direction.

Remittances too have huge untapped potential in terms of resource mobilisation. “Diaspora entrepreneurs”, for instance, can help to foster entrepreneurship in their countries of origin (see Chapter 8). This can be achieved either through direct implication (i.e. being themselves entrepreneurs) or indirectly by leveraging their remittances to finance business investment. Diaspora contributions go beyond financial investment; they also encompass knowledge and skill transfer, and improved access to international capital markets. Policy makers and the development community are exploring ways to exploit this potential, by creating enabling business environment conducive for diaspora entrepreneurship and investments.

Investments to Africa are returning to a growth path

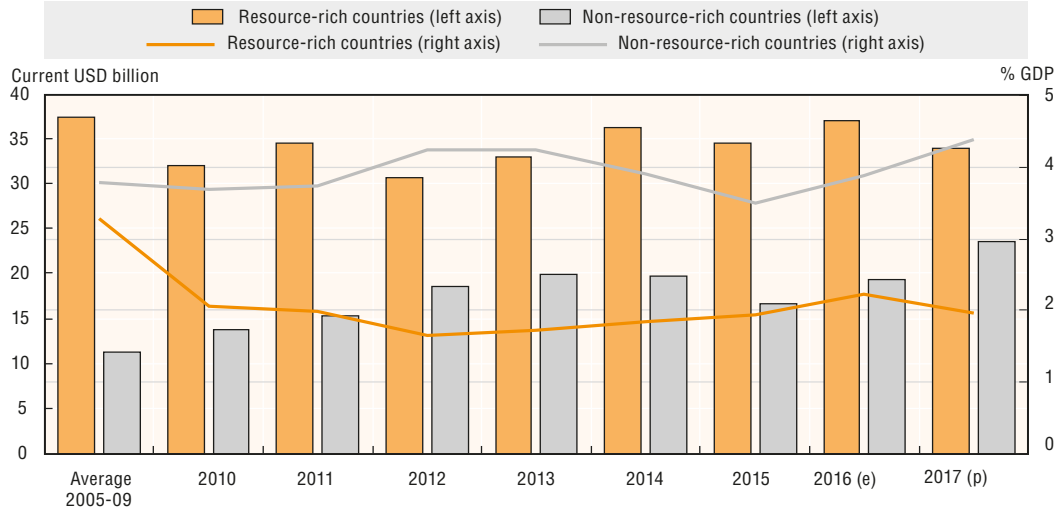
This section explores recent trends in FDI,[3] intra-Africa investment and portfolio investment, and their outlook. It points to the volatility that characterised investment flows to the continent in 2015-16 and analyses the strategies that African countries have implemented to reduce vulnerability to commodity price developments. The outlook for FDI in 2017 is favourable, but volatility may continue as a result of global and domestic risks.

Foreign investment inflows to Africa are returning to a growth path in 2016

FDI inflows to the continent experienced some volatility during 2015-16, with resource-rich countries suffering most from reduced inflows. FDI to Africa represented 11.5% of global FDI in 2016, with 642 projects accounting for 4% (fDi Markets, 2017). Although FDI recorded a drop of 8% in 2015, FDI inflows to Africa recovered in 2016, increasing by over 10% to USD 56.5 billion, and are projected to remain around USD 57.5 billion in 2017[4] (IMF, 2016a and UNCTAD, 2016c).

In the aftermath of the 2007-08 financial crisis, FDI inflows to Africa increased by 22% between 2010 and 2014. This trend was a reflection of the continent's high growth rates, burgeoning population, growing middle class, and perceived improved political and macroeconomic stability. Many of the large gains in FDI inflows during this five-year period were linked to the extractive industries, notably in Algeria and Egypt in North Africa, Ghana and Nigeria in West Africa, Chad and the Republic of the Congo (Congo) in Central Africa, and Angola, Mozambique and South Africa in Southern Africa (KPMG, 2016a). However, the end of the commodities "super-cycle" impacted heavily on GDP growth and resources-seeking investment across Africa. This resulted in a contraction of FDI in 2015, especially in natural resource-based economies in Central Africa and West Africa.

Figure 2.2. **Foreign direct investment to Africa, resource-rich vs. non-resource-rich countries, 2005-17**



Note : (e) refers to estimates and (p) refers to projections.
Sources: Adapted from IMF (2016a) and UNCTAD (2016c).
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Despite continued depressed conditions in oil, gas and mining, FDI inflows to Africa bounced back in 2016 according to estimates. This is due to the increasing diversification of investment in services, manufacturing and infrastructure-related projects. Greenfield projects announced from January to November 2016 (fDi Markets, 2017) saw the share of coal, gas and oil over total FDI in Africa shrink to 14% from 24% in 2015 and 36% in 2014.

This reduction in investment of 19% (from USD 15.8 billion in 2015 to USD 12.9 billion in 2016) has been more than compensated by increased investment in construction (+300%), manufacturing (+40%), transport (+300%), electricity, and information and communication technology (ICT).

Although mineral resource-rich countries[5] remain the principal destination for investment flows, FDI inflows to this group of countries fell in 2015, and non-resource-rich countries increasingly account for a larger share of FDI. According to the IMF, non-resource-rich countries are projected to receive 40% of the share of FDI in 2017, compared to 33% in 2015 and 24% in 2009. In tandem, the FDI-to-GDP ratio for non-resource-rich countries is projected to stand at 4.4% in 2017, twice the level of 2002. Conversely, the ratio for resource-rich countries will shrink to 2% from 4% over the same period (Figure 2.2).

Foreign investments are diversifying into services and manufacturing

Based on announced greenfield projects in 2016, the top ten African destination countries for FDI were Egypt, Morocco, Angola, Ghana, Mozambique, Ethiopia, South Africa, Nigeria, Tanzania and Kenya, in that order (fDi Markets, 2017). These ten countries accounted for 92% of announced foreign capital investment in the continent for 2016 (fDi Markets, 2017).

Although the extractive sector accounted for the bulk of investment, some countries are focusing on less capital-intensive services and manufacturing sectors to reduce their vulnerability to commodity price developments (Table 2.2). Morocco, for instance, is benefiting from FDI flows to the auto industry, with greenfield investment in 2016 amounting to USD 1.3 billion (fDi Markets, 2017), notably from PSA Peugeot-Citroen and Renault (France) and Ford (United States). This trend is a consequence of a relatively business-friendly environment, good industrial policy, growing urban consumer markets, good infrastructure and favourable trade agreements (UNCTAD, 2016a).

Table 2.2. **Top foreign direct investment destinations in Africa by value of investment, 2016**

Top destination country in 2016	Value (USD billion)	Main recipient sectors in 2016
Egypt	10.1	Real estate, oil, gas, alternative/renewable energy
Morocco	4.9	Alternative/renewable energy, real estate, automotive
Angola	4.4	Oil, gas, communication, transportation
Ghana	3.6	Oil, financial services, construction
Mozambique	3.4	Transport, coal, gas, real estate
Ethiopia	2.7	Chemicals, real estate, textiles
South Africa	2.8	Coal, oil, gas, transportation, automotive

Sources: Adapted from IMF (2016a) and fDi Markets (2017).

Countries are reviewing policies to attract foreign investment into the manufacturing sector

East African countries such as Ethiopia are also becoming attractive investment locations for manufacturing and services. The Ethiopian government has promoted the development of industrial parks focusing on textiles, leather, agro-processing and pharmaceuticals, as part of its 2025 Vision to make the country a light manufacturing hub in Africa. For example, the Hawassa Industrial Park, inaugurated in July 2016, was designed and built by a Chinese corporation and includes 35 manufacturing facilities and one fabric mill, equipped with new and innovative technologies powered by green energy. The park has already attracted 15 major manufacturing firms from China, Ethiopia, Indonesia and the United States. It aims to employ 60 000 people at full capacity and generate export revenue of USD 1 billion per year. Another nine industrial parks are under construction or

in the pipeline (the Diredawa, Mekelle, Adama and Kombolcha parks are due to be finalised during the 2016/17 fiscal year). Overall, the country is channelling USD 1 billion of annual investment into industrial parks over the next decade. The aim is to boost manufacturing exports, generate knowledge, transfer skills and contribute to job creation.

Kenya is also assuming a more prominent position on investors' radar, thanks to new business laws signed in September 2015. These include the Companies Act, the Business Registration Service Act, the Insolvency Act, the Finance Act 2015 and the Special Economic Zones (SEZs) Act. The latter provides a series of incentives for foreign investors to establish SEZs focused on manufacturing (KPMG, 2016b). Although FDI inflows to Kenya registered a drop in 2016, they have increased substantially over the last ten years. Between 2007 and 2015, fDi Markets tracked a 766.6% increase in project numbers and a total capital investment of USD 14.04 billion. In fact, 2015 was a record year with Kenya ranking second for FDI after South Africa. The country attracted 12.44% of total investment to the continent, with financial services, business services, communications, software and real estate accounting for the majority of FDI inflows (fDi Markets, 2016).

Foreign investment is moderate in Southern African countries such as Mozambique and South Africa. Mozambique recovered slightly in 2016 after a 24% drop in FDI in 2015 (UNCTAD, 2016c and IMF, 2016a), however inflows remain below their potential. Negotiations between the authorities and liquefied natural gas operators on new projects in the north have taken longer than expected. This led to the slimming down or exit of many companies that set up business in Mozambique hoping to benefit from liquefied natural gas deals. South Africa, traditionally one of the top recipients in the region, experienced moderate inflows of USD 1.8 billion in 2016. Although this represented a 3% increase on 2015 – the lowest level in ten years – this figure was substantially lower than the 2011-14 average of USD 6 billion. This modest inflow reflects the country's lacklustre economic performance, lower commodity prices and higher electricity costs.

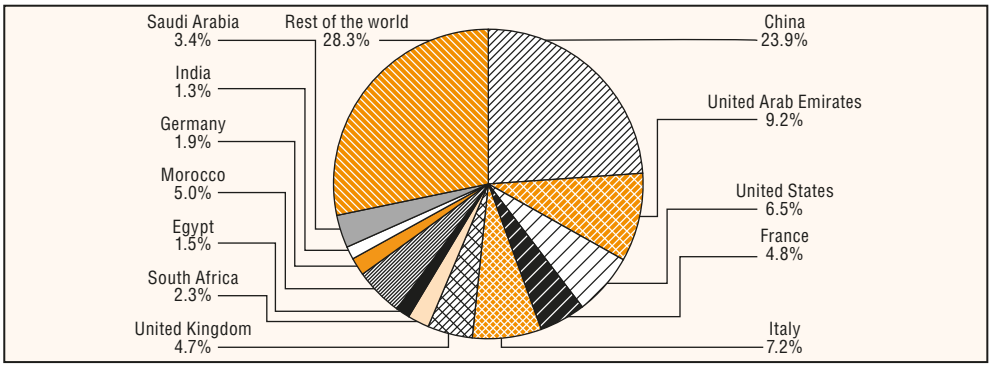
In West African countries, such as Ghana and Nigeria, performance is more varied. Nigeria experienced a slowdown of FDI inflows due to declining oil prices. According to fDi Markets, announced greenfield projects in oil, coal and natural gas declined from USD 3.5 billion in 2015 to USD 1.7 billion in 2016. In Ghana, average FDI amounted to USD 3.6 billion in 2016, representing an increase of 13% compared to the previous year, thanks to greater investment in financial and business services.

China's investments in Africa continue to rise

While FDI from Europe and North America – the continent's traditional investment partners – is decreasing, economies from the Far East and Middle East are increasingly investing in greenfield projects in African countries (Figure 2.3). In particular, Chinese investment in Africa continues to rise, despite the country's slowing economy and decreasing demand for oil and minerals. Based on announced greenfield projects, Chinese capital investment in Africa from January to November 2016 increased 1 400% compared to 2015 (fDi Markets, 2017).

fDi Markets estimate that Chinese companies announced more than USD 30 billion in investment in greenfield projects across Africa in 2016. This is the highest level ever recorded, far surpassing the record for Chinese investment in Africa of just over USD 9 billion in 2008 (fDi Markets 2017). The number of projects also reached a new high, doubling in value from 2015, with 64 projects announced from January to November 2016. These investments created about 38 000 jobs according to estimates (fDi Markets, 2017). The 2016 peak is explained mainly by a USD 20 billion deal signed between the Egyptian government and the China Fortune Land Development Co. (CFLD) to develop and manage 5 700 hectares east of Cairo, home to Egypt's new administrative capital. The remainder of Chinese investment in Africa is diversified into oil, transport, construction and clothing.

Figure 2.3. **Sources of greenfield investment in Africa (by capital investment), 2015-16 (cumulative)**



Source: Adapted from fDi Markets (2017).
StatLink http://dx.doi.org/10.1787/888933474993

Although China led greenfield investment in Africa for 2015-16 (USD 38.4 billion), investment by other economies is on the rise (Figure 2.3). The leading investors after China in terms of value of announced greenfield investment were the United Arab Emirates (UAE) (USD 14.9 billion), Italy (USD 11.6 billion), the United States (USD 10.4 billion), Morocco (USD 8.1 billion), France (USD 7.7 billion) and the United Kingdom (USD 7.5 billion). European countries accounted for 27% of FDI to Africa and 34% of jobs directly created by greenfield FDI (92 800 jobs during 2015-16) (fDi Markets, 2017). Over 2015-16, India invested USD 2.2 billion across 64 projects in Africa. It should be noted that from 2008 to 2014 India invested about USD 33 billion in 261 greenfield projects, accounting for 8% of total announced greenfield investment in the continent over this period (fDi Markets, 2017).

In total, 495 companies invested in Africa in 2016 – about the same number as in 2015. The UAE-based conglomerate Al Habtoor Group, the second largest investor by capital investment (see Table 2.3), is best known for construction but is also involved in the hotel, automotive, real estate, education and publishing sectors. Eni SpA became the third largest investor following its decision to build the Zohr gas processing plant in Egypt (fDi Market, 2017).

Table 2.3. **Top investing companies in Africa by capital investment, 2015-16 (cumulative)**

Investing company	Capital investment (USD billion)	Number of projects	Jobs created
China Fortune Land Development (CFLD)	20.0	1	3 000
Al Habtoor Group	8.5	1	3 000
Eni SpA (Eni)	8.1	5	2 984
China Petroleum Pipeline Bureau (CPP)	6.0	2	6 000
Office Cherifien des Phosphates (OCP)	4.2	4	947
Sisban Holding	3.6	1	3 000
Terra Sola	3.5	1	776
China State Construction Engineering Corporation	3.3	1	3 000
Indorama	3.1	3	3 002
Bionas Agropolitan Technology Corridor	2.5	1	1 520
Total E&P Angola	2.2	1	214
Taaleritehdas	2.2	7	5 150
Enel Green Power	2.2	11	516
Korea Electric Power	2.1	1	210

Note: Data are shown for companies from 170 source countries investing in 54 destination countries between January 2015 and December 2016. The data presented include FDI projects either announced or opened by a company. Data on capital investment and job creation are based on the investment the company makes at the time of project announcement or opening. As companies can raise capital locally, phase their investment over a period of time and channel their investment through different countries for tax efficiency purposes, the data used by fDi Markets differ from official data on FDI flows.
Source: Adapted from fDi Markets (2017).

Multinationals are investing across Africa for market-seeking reasons

FDI investments by companies in Africa in 2015-16 were primarily driven by location-based motives (Table 2.4). More than 50% of projects were motivated by access to domestic markets and about one-third of FDI was driven by proximity to regional markets and consumers.

Table 2.4. **Determinants for foreign direct investment in Africa, 2015-16**

Motive	Projects	% of FDI projects
Domestic market growth potential	98	55.6
Proximity to markets or customers	57	32.3
Regulations or business climate	52	29.5
Skilled workforce availability	17	9.6
Infrastructure and logistics	9	5.1
Industry cluster/Critical mass	5	2.8
Lower costs	4	2.2
ICT infrastructure	4	2.2
Attractiveness/Quality of life	3	1.7
Facilities site or real estate	3	1.7
Other motive	8	4.5

Source: Adapted from fDi Markets (2017).

Morocco is leading intra-African investment

Intra-African investments decreased slightly in 2015-16, however the overall trend reflects growth. The share of announced cross-border greenfield investment projects originating within Africa was 17%, slightly below the 2009-14 average of 19%, but still above the 2003-08 average of 11%. These investments were expected to create approximately 38 000 jobs in 2015-16 (fDi Markets, 2017).

Morocco is increasingly a leading investor in the continent, with about USD 8 billion of capital investment announced for 2015-16. This reflects the increasing capabilities of Moroccan firms in financial services, telecommunications and manufacturing (UNCTAD, 2016c). The majority of Morocco's announced investment is concentrated in Ethiopia. This is the result of an agreement signed in November 2016 between the Moroccan phosphate producer Office Chérifien des Phosphates (OCP) Group and the Ethiopian government to invest over USD 3 billion in building a fertiliser factory. The second largest recipient of Morocco's FDI is Côte d'Ivoire (USD 2.7 billion in 2015-16), where Morocco has surpassed France as the top investor. Among the companies in operation in the Ivorian territory are the Moroccan bank subsidiaries, Akwa Group and BTP. Overall, the past ten years have seen Morocco's financial institutions expand their sub-Saharan Africa footprint through numerous acquisitions across the continent, with Moroccan banks now present in more than 20 African countries.

A growing number of large African companies are increasingly pan-African in their operations, with some active in diverse sectors. Successful African companies are emerging in retail, financial services and transportation. Africa is home to 700 companies with revenues of more than USD 500 million per year. Half of the continent's large companies are based in South Africa (McKinsey, 2016).

Although investment by South Africa is lower than in the past, it remains a major source of FDI in Southern Africa and the leader in terms of greenfield projects. In 2015-16, South Africa was responsible for a capital investment of USD 3.6 billion, funding about 60 projects. Kenya, Nigeria and Mauritius were also important sources of intra-African investment, accounting for 51, 22 and 18 greenfield projects, respectively, over the same period (fDi Markets, 2017).

Technology-based innovations are supporting African entrepreneurship

Technology is creating new models and disrupting value chains, leading to new forms and methods of foreign investment. In particular, technology-based FDI is creating positive spill-overs for local entrepreneurship. Africa's entrepreneurs are applying new technologies to traditional services and, in turn, growing their businesses. Innovations range from financial services and mobile payments to solar photovoltaic energy projects. Both foreign and African companies are working with new start-ups and technology platforms to build a next generation of tech entrepreneurs (see Box 2.1).

Box 2.1. **Technology-based innovations as a platform for entrepreneurship**

The following start-ups are all adopting technology-based innovations:

Tala, a mobile credit app firm based in Santa Monica, United States, operates in Kenya and Tanzania, and is expanding into West Africa. Tala targets emerging markets and helps anyone with a mobile phone build a financial identity. Through its mobile app, Tala connects more than 10 000 data points per customer to create an instant credit score, deliver customised financial services and disburse loans directly to a customer's mobile phone. Tala has already processed 275 000 loans in Kenya to a client base of 75 000 customers. The majority are small and micro-entrepreneurs who are in need of small loans to finance businesses, but are locked out by traditional banks, which deem them high-risk borrowers and demand collateral. Mobile lending is developing rapidly in Kenya, with nearly a dozen major players in the market, including commercial bank platforms such as those of M-Shwari, M-Co-op Cash, KCB M-Pesa and Equitel.

Oxygen Africa Limited, based in Zimbabwe, is an investment advisory company that assists foreign investors in Zimbabwe. In 2013, Oxygen Africa partnered with Swiss-based Meeco Group, a renewable energy company, in a joint venture to establish Oursun Energy Zimbabwe. This independent power producer specialises in the development, building, owning and operating of utility-scale solar photovoltaic energy projects in Zimbabwe. Oxygen Africa has raised USD 7 million and is currently developing two 5 MW grid-connected solar plants in Zimbabwe.

Efulusi Africa, based in Tanzania, is a software development company that develops custom software with a focus on mobile finance apps and aggregation. Efulusi is credited for developing and deploying Tanzania's first mobile banking platform. In 2014, the founder of Efulusi established the AIM Group, a leading digital agency in Tanzania. AIM Group now has 25 employees and some of the country's most prominent brands as clients.

mPedigree, based in Ghana, is the global leader in the use of mobile and web technologies to secure products against fakes, counterfeiting and diversion. Its services enable consumers to authenticate products via unique PINs on smartphones or SMS. mPedigree has helped to launch a movement that is empowering corporations to protect their brands and governments to safeguard regulatory systems from the effects of fake and harmful products. It also enhances human security by protecting medicines and agricultural products such as pesticides and seeds.

Sources: Based on reports of selected companies and media articles (Forbes, 2016; US Africa Business Forum, 2016).

Investment flows from African countries to the outside world are decreasing

Although the last few years have witnessed an increase in FDI flows from Africa to the rest of the world, outward investment declined in 2016, reaching its lowest level since 2012 at USD 10.6 billion (IMF, 2016a).

In particular, outward investment from Nigeria and South Africa have declined since 2015, largely because of lower commodity prices, weaker demand from main trading partners and depreciating national currencies. South Africa, which is historically the largest investor abroad, saw its FDI outflows decline by 30% in 2015 to USD 5.3 billion, and by an additional 58% in 2016 to USD 2.2 billion (IMF, 2016a).

FDI should increase slightly in 2017, but remain volatile due to domestic and global risks

FDI flows to Africa are expected to grow by about 2% in 2017, reaching USD 57.5 billion. Egypt is expected to be the largest recipient (USD 9.5 billion), followed by Ethiopia (USD 4.4 billion) and Morocco (USD 4.3 billion). FDI inflows are projected to pick up gradually in some commodity exporters in 2017, following a slowdown in 2016. In Nigeria, inflows are expected to more than double their 2016 level reaching USD 2.9 billion, supported by policy reforms designed to improve the private investment environment. In Mozambique, FDI flows are projected to reach USD 3 billion in 2017, although still below the 2012-15 average of USD 4.3 billion. This growth is the result of recent progress in contractual arrangements with US oil major Anadarko and Italy's Eni, which has helped boost investment in the country's huge gas sector. In Ghana, FDI inflows are expected to rise (to USD 3 billion) as macroeconomic conditions continue to improve and energy supply increases. Côte d'Ivoire and Kenya will also witness growth in FDI (to USD 2.1 billion and 1.3 billion, respectively), as both countries are performing moderately well in terms of infrastructure and business enablement.

For other countries, such as Angola, DRC and South Africa, the outlook for 2017 is less positive. In South Africa, FDI inflows are expected to remain sluggish (at USD 1.7 billion) due to policy uncertainty and longstanding structural issues, including unstable power supplies (World Bank, 2016a). FDI inflows to Angola are also expected to fall due to a combination of plunging oil prices, high inflation and tight monetary policy, but will remain strong (USD 3 billion). FDI will decline by 35% (to USD 0.8 billion) in DRC, as weak investment due to political tension compounds the effects of low copper prices.

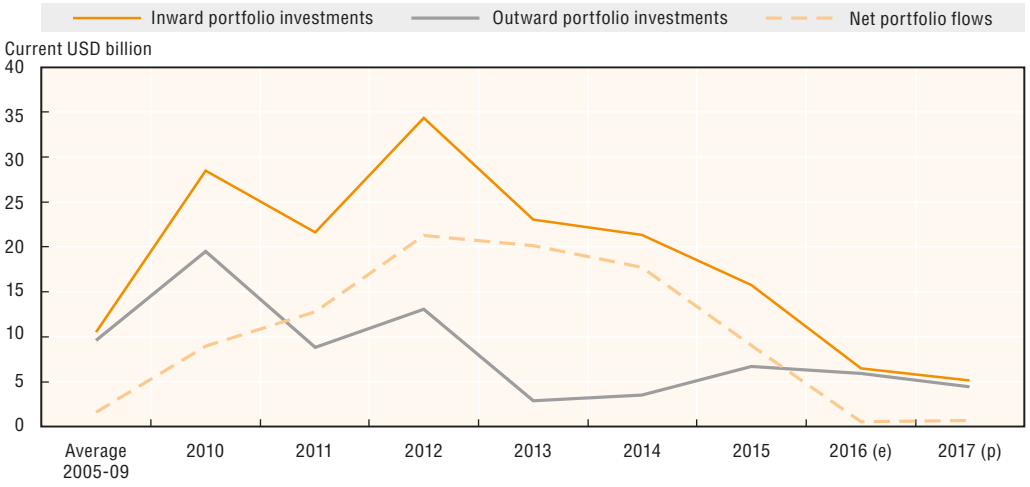
In general, a series of global and domestic factors threaten this outlook. On the external front, sluggish global economic momentum, combined with slower economic growth in China (Yao, 2014) and slower improvements in commodity prices (causing foreign investors to scale down operations in resource-rich countries), are weighing on cross-border investment. Additional uncertainty and volatility stem from the consequences of Brexit in the United Kingdom, the change in US administration and the increased geopolitical risk globally.

On the domestic front, downside risks are emanating from certain countries due to slow progress in improving the business environment and addressing political instability. Uncertainties around 2017 elections, particularly in Angola, DRC, Kenya, Liberia and Rwanda, also represent threats. In some countries, terrorist activity and deteriorating security pose an additional source of risk (World Bank, 2016a).

Portfolio inflows and outflows are decreasing

Portfolio investment inflows, including international investments in both equity and debt securities issued by non-resident entities, fell by 60% to USD 6.5 billion in 2016, according to estimates (IMF, 2016a). Portfolio outflows also declined, although less significantly, by 22% to USD 10.6 billion. Both inflows and outflows are expected to decline further in 2017, to USD 5.2 billion and USD 9.0 billion, respectively (IMF, 2016a) (Figure 2.4).

Figure 2.4. **Inward and outward portfolio investments, Africa, 2005-17**



Note: (e) refers to estimates and (p) refers to projections.
Source: Adapted from IMF (2016a).
StatLink http://dx.doi.org/10.1787/888933475001

Eurobond issuance in the continent has decreased sharply

In 2016, Africa recorded its lowest total portfolio inflows since 2008, as investors responded to global shocks by buying fewer developing country assets. In contrast to the rapidly increasing regional trend for sovereign bond issuance, only Ghana and South Africa tapped the international bond market in 2016. Investor demand for higher yields increased the cost of accessing external finance for governments under stress and forced them to postpone plans to issue Eurobonds (World Bank, 2016a). Eurobonds currently represent an important share of total public debt stock in some sub-Saharan African frontier market economies, including Gabon (48%), Namibia (32%), Côte d'Ivoire (26%), Zambia (24%), Ghana (16%), Senegal (15%) and Rwanda (13%) (IMF, 2016b).

Although sovereign bond spreads in the region fell slightly in the first half of 2016, they remain elevated when compared with other emerging markets. For example, sovereign yields on secondary markets have risen 170 basis points in Ghana and 310 basis points in Zambia since October 2014, settling around 9% in August 2016. Conversely, sovereign yields in better performing countries, such as Côte d'Ivoire, Kenya or Senegal, have remained stable between 5.5% and 7% (IMF, 2016b).

In the first six months of 2016 alone, Moody's, S&P and Fitch downgraded the sovereign credit rating of Angola, Congo, Gabon, Lesotho, Mozambique and Zambia on the back of rising debt burdens, recessions due to oil prices collapse and emerging risks. The pace of downgrades accelerated throughout the year, keeping the relative cost of borrowing high for these countries (World Bank, 2016a).

Several African countries experienced reduced portfolio inflows in 2016, and the outlook remains bleak for 2017. Although South Africa is still the largest recipient of portfolio investments, it recorded the sharpest drop in inflows from USD 8.3 billion in 2015 to an estimated USD 3.4 billion in 2016. Inflows are projected to decline further in 2017 to USD 2.9 billion. Inflows in DRC halved, with negative inflows of USD -1.2 billion in 2016 expected to drop further to USD -3.4 billion in 2017. Although Nigeria experienced a moderate increase (30%) in portfolio flows to USD 1.1 billion, this level is still well below the 2009-14 average of USD 6.5 billion (IMF, 2016a), due to currency scarcity, capital controls and difficulties at oil facilities. Inflows to Nigeria are projected to decline to

USD 0.3 billion in 2017. According to the IMF, the combined effect of lower inflows in DRC, Nigeria and South Africa explains the negative outlook for Africa as a whole for 2017. However, it should be noted that Nigeria launched a new Eurobond for about USD 1 billion in the first quarter of 2017.

Private equity deals are growing at a slower pace

The drop in commodity prices and currency volatility in many African countries are reflected in the private equity (PE) sector. African PE deals fell to USD 2.5 billion in 2015, compared with USD 8.1 billion in 2014. The total value of PE deals in Africa during the first half of 2016 was just USD 0.9 billion (AVCA, 2017).

Despite the slowdown in activity, the number of significant deals indicates that PE funds continue to invest in African companies with long-term growth potential. Notable examples include the USD 115 million deal struck by Helios Investment Partners with Oando Gas and Power in Nigeria. Kenya – one of the most resilient African economies in 2016 – also experienced substantial activity, with Apis Partners investing in Direct Pay Online (a FinTech company) and LeapFrog Investments making a USD 22 million investment in Goodlife Pharmacy (Popo, 2017).

With decreasing commodity prices, technology, financial services, FinTech and infrastructure became more prominent in 2016, a trend that is expected to continue in 2017. The Chan Zuckerberg Initiative, a foundation founded by Mark Zuckerberg and his wife, invested USD 24 million in Andela, a company that trains African software developers in Kenya and Nigeria. The Commonwealth Development Corporation invested USD 55 million in Jumia, Africa's leading e-commerce platform that operates in 23 countries, and Interswitch, a digital payments and e-commerce company, acquired VANSO, a Nigerian mobile money company (Popo, 2017).

According to the 2016 Africa Private Equity Confidence Survey (Deloitte, 2016), the majority of investors expect PE activity to continue its positive trend in the medium term, albeit at a slower pace. Investors foresee new opportunities in rapidly expanding markets, including Côte d'Ivoire, Ethiopia and Tanzania, which should replace more traditionally favoured destinations such as Kenya, Nigeria and South Africa.

Box 2.2 provides a review of the largest equity funds in Africa, and their sectoral and geographical concentration.

Box 2.2. The largest private equity funds in Africa

Local and international investment in PE funds in Africa has increased in the last few years, despite the slowdown in 2016. Between 2010 and the first half of 2016, PE funds invested a total of USD 22.7 billion in Africa across 928 reported deals (AVCA, 2017). In 2013-15 alone, PE funds accounted for USD 14.8 billion in deals (BCG Perspectives, 2016). In terms of value, Southern Africa's share of African deals dropped to 15% on average from 2010 to 2015, according to AVCA, while Central, East and West Africa captured 33% of total investment (BCG perspectives, 2016).

The following companies are among the biggest equity funds in Africa:

Helios Investment Partners is a USD 3 billion Africa-focused PE firm that manages a family of funds and their related co-investment entities. Helios' portfolio companies operate in 35 African countries across a range of industry sectors, with telecom infrastructure and services playing an important part.

Blackstone Group, based in the United States, is one of the largest PE funds in the world. The group has invested nearly USD 2 billion in African infrastructure projects, through its subsidiary Black Rhino, in Ethiopia, Mozambique, Nigeria and Togo.

Box 2.2. **The largest private equity funds in Africa** *(cont.)*

The Abraaj Group, based in Dubai, has been present in Africa for two decades. During that time it has deployed USD 3 billion across a range of sectors including healthcare, financial services, logistics, consumer goods, and food and beverages. In 2015, Abraaj raised USD 1.3 billion for its Africa-focused funds (AVCA, 2017). The group announced in October 2016 that it had acquired a minority stake in Indorama Fertilizers B.V., the largest urea fertiliser manufacturer in sub-Saharan Africa.

Carlyle Investment Management has raised USD 698 million for investments in sub-Saharan Africa. It also bought stakes in Diamond Bank of Nigeria. However, Diamond's Bank stock has slumped 90% in dollar terms since Carlyle invested USD 147 million in 2014, due to a plunging currency and acute foreign exchange shortages, all related to the drop in oil prices.

Warburg Pincus is a US-based PE company. In 2013, it invested USD 600 million in Delonex Energy, an oil and gas exploration company in Central and East Africa.

Catalyst Principal Partners is a USD 125 million East Africa-focused PE firm. In 2011, the firm raised USD 69 million meant for various investments in East Africa. It used part of the funds to invest USD 14.6 million in Chemi & Cortex Industries Limited, a Tanzanian consumer goods producer.

In terms of sectors, PE funds are diversifying their portfolios. Historically, these funds invested mainly in energy, banking and commodities. However, between 2007 and 2014, 57% of PE investments were in companies selling goods and services to Africa's growing consumer class (AVCA, 2017). PE funds are also promoting the development of small and medium-sized enterprises (SMEs). For example, **AfricInvest** and **Bpifrance** have announced the launch of the French African Fund (FFA), the first cross-border investment fund dedicated to the development of SMEs in both Africa and France. The fund will be managed by AfricInvest, a leading pan-African mid-cap-focused PE firm with almost EUR 1 billion in funds under management and offices in six African countries as well as France. The fund's strategy is to invest in mid-cap companies with significant growth potential. In addition to providing financial support, AfricInvest will assist French firms with their strategic development in Africa and assist African companies seeking to expand into France and the European continent.

Sources: Adapted from Afk Insider (2016), BCG perspectives (2016) and AVCA (2017).

Portfolio outflows are expected to decrease slightly

Portfolio outflows from Africa have been quite volatile over the past decade, but slowed down in 2016, as a result of lower outflows from South Africa. The country accounted for 54% of total outflows over 2013-15 but saw its share reduced to 28% in 2016. Portfolio outflows from South Africa halved from USD 3.9 billion in 2015 to USD 1.7 billion. The former level also reflected the acquisition (USD 1.2 billion) of the Russian company Kekh eKommerts by South African Naspers' (UNCTAD, 2016c). Angola recorded the largest portfolio outflow in 2016 at USD 4.8 billion (IMF, 2016a).

Remittances can spur investment and leverage entrepreneurship

This section reviews the recent trend in officially recorded remittances to Africa, highlighting how aggregate data hide huge heterogeneity across countries both geographically and by income group. Remittances represent a key and growing source of capital for African countries. They can be leveraged to spur investment and boost entrepreneurship.

Remittance inflows remain a major and stable source of external finance for Africa

For many African countries, funds sent by migrants represent a lifeline that helps to smooth household consumption, increase foreign exchange reserves and allow for investments, including in small businesses and education. In 2016, the remittances-to-GDP ratio was 10% or more in seven countries, including Gambia, Lesotho, Liberia and Senegal – countries that tend to have large diasporas –, while remittances per capita were higher than USD 100 in nine African countries (Table 2.5).

Table 2.5. **Fifteen largest recipient countries in Africa (ranked by % of GDP), 2016**

Country	% GDP	USD per capita	Current USD billion
Liberia	30.4	150.0	0.66
Comoros	21.4	161.4	0.13
Gambia	21.0	91.3	0.19
Lesotho	17.7	165.3	0.32
Senegal	13.2	127.4	1.96
Cabo Verde	12.1	384.7	0.20
Togo	10.0	60.3	0.45
Morocco	6.8	209.9	7.10
Mali	6.6	55.6	0.94
Egypt	5.7	204.9	18.66
Guinea-Bissau	5.6	36.3	0.07
Sao Tome and Principe	5.5	93.5	0.02
Ghana	5.0	78.1	2.15
Nigeria	4.8	108.9	20.00
Tunisia	4.8	180.0	2.02

Sources: Adapted from IMF (2016a) and World Bank (2016b).

Remittances remain an important source of external finance for Africa. They accounted for about 37% of total external financial flows in 2016. Migrant remittances to Africa have increased steadily since the mid-1990s, rising from USD 11 billion in 2000 to USD 64.8 billion in 2015. In 2016, total remittance inflows to Africa were USD 64.6 billion, about the same level as the year before.

In addition to being less volatile than development aid and FDI, migrant remittance flows have the advantage of increasing inversely with the economic situation of recipients. Migrants are likely to send more money when difficult situations arise in their country of origin. This counter-cyclical nature of remittances can help to sustain consumption and domestic investment during headwinds.

Egypt and Nigeria continue to receive the bulk of remittance flows to Africa

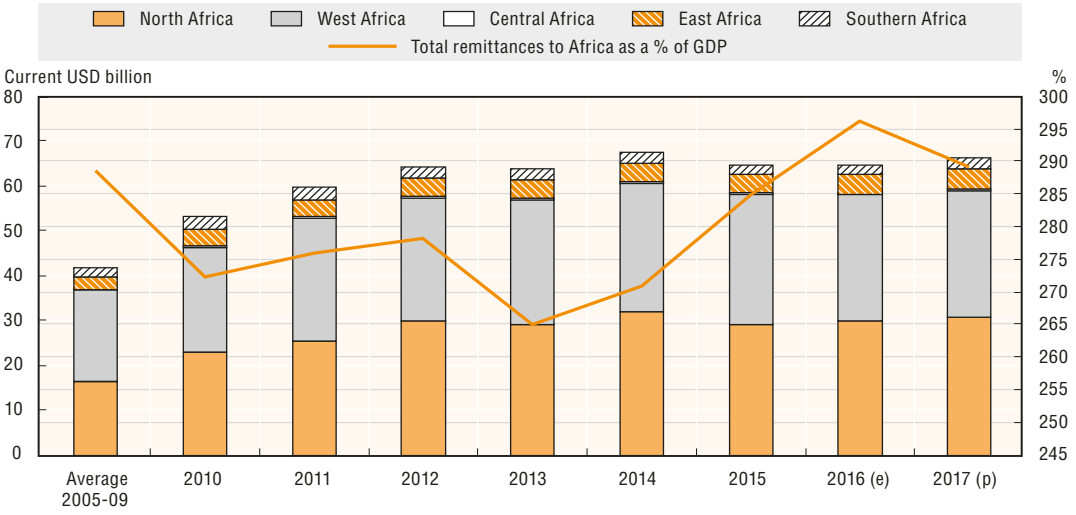
The relative stability of remittance inflows to Africa hides important country and regional differences. At the regional level, West Africa and North Africa remain the biggest recipients of remittances (Figure 2.5). In 2016, these two regions accounted for 90% of remittances in the continent with Nigeria and Egypt accounting for 71% and 63% of remittances in West Africa and North Africa, respectively. The largest recipients of remittances in 2016 were Nigeria (USD 20 billion), Egypt (USD 18.7 billion), Morocco (USD 7.1 billion), Ghana (USD 2.2 billion), Algeria (USD 2.1 billion), Tunisia (2 billion) and Senegal (1.9 billion). Kenya and Uganda were the only countries in East Africa to surpass the USD 1 billion threshold, accounting for USD 1.6 and 1.1 billion, respectively. In Southern Africa, the largest recipient was South Africa, receiving USD 0.8 billion.

In 2016, funds sent by migrants dropped substantially in some African countries but increased moderately in others. Remittance inflows decreased in Lesotho

A corrigendum has been issued for this page. See http://www.oecd.org/about/publishing/Corrigendum_AEO_2017_ENG.pdf

(12.4% to USD 320 million), Swaziland (11.9% to USD 16.5 million) and Namibia (11.8% to USD 7.7 million), but increased in Burundi (around 6% to USD 54.1 million), Côte d'Ivoire (6.5% to USD 409.6 million), Sudan (5.6% to USD 160 million), Togo (5.9% to USD 452.7 million) and Niger (5.6% to 154 million).

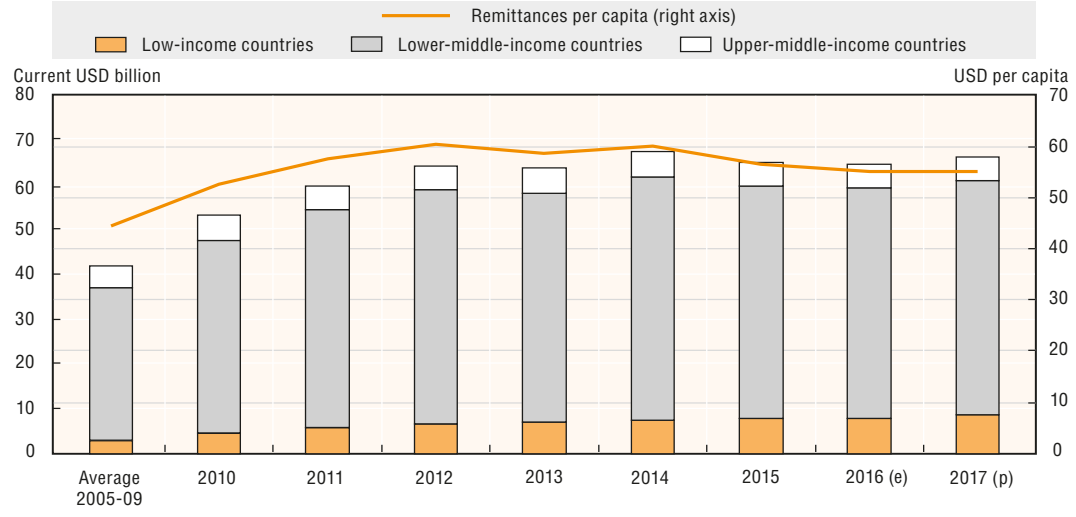
Figure 2.5. **Remittance inflows by African region, 2005-17**



Note: (e) refers to estimates and (p) refers to projections.
Source: Adapted from IMF (2016a) and World Bank (2016b).
StatLink http://dx.doi.org/10.1787/888933475016

The distribution of remittances across income levels has remained almost unchanged in Africa over the last five years (Figure 2.6). Lower-middle-income countries continue to account for the bulk of remittances at 80% in 2016, due to the weight of Egypt and Nigeria. The two countries received 75% of the total remittance inflows of lower-middle-income countries. Conversely, the share of low-income countries and upper-middle-income countries was 12% and 8%, respectively.

Figure 2.6. **Remittance flows to Africa by income group, 2005-17**



Note: (e) refers to estimates and (p) refers to projections.
Sources: Adapted from IMF (2016a) and World Bank (2016b).
StatLink http://dx.doi.org/10.1787/888933475024

"Diaspora entrepreneurs" spur domestic finance and economic activity

The contributions of diasporas go beyond financial investment. They encompass raising collective remittances to support philanthropic activities toward technology transfer, knowledge exchange and improved access to international capital markets. Migrants can help to foster economic growth in their country of origin, by returning to their home country as entrepreneurs, or by funding investment, including start-ups (see Chapter 8).

In 2016, the Ethiopian diaspora sent USD 639 million to their home country. Between 2000 and 2016, remittance inflows to Ethiopia multiplied by 12, compared to 6 for the rest of Africa. Over the last decade, the diaspora accounted for 10% of domestic investment in Ethiopia.

A host of factors operating in tandem may account for the performance of remittance flows to Ethiopia. First, the United States is the primary origin of remittances to Ethiopia, and 60% of Ethiopian immigrants to the United States arrived during or after 2000 (MPI, 2014). Second, the government has implemented a number of policies targeting the diaspora (Kuschminder, 2010). These include the establishment of the "Ethiopian Expatriate Affairs" to foster relationships with the diaspora, the "Ethiopian Investment Agency" to co-ordinate all foreign investment, and the "Investment and Import Incentives" scheme to make domestic investment attractive to the diaspora. Diaspora members have been granted the same benefits and rights as domestic investors through the issuance of yellow cards. They have also benefited from investment incentives, such as duty exemptions and discounted airfares for diaspora actors and diaspora entrepreneurs. These measures have encouraged many members of the Ethiopian diaspora to invest in small businesses in their country of origin (Wolff and Opoku-Owusu, 2016).

A number of policy tools are available for policy makers in Africa to boost the nexus between remittances and entrepreneurship. They include the mainstreaming of diaspora-related matters in national and local development policies, as well as sector policies to create an enabling business environment conducive for diaspora entrepreneurship and investments. Efforts to streamline regulatory procedures for SMEs also play an important role, with the creation of one-stop shops to provide information on opportunities for migrants' investments. For example, the Ghana Investment Promotion Centre offers a one-stop shop for diaspora members seeking to invest in their home country. Government can also strengthen the technical skills of migrant/diaspora entrepreneurs, in particular women and youth-led start-ups and social enterprises, by providing coaching, mentoring, and suitable and targeted financial products (Wolff and Opoku-Owusu, 2016).

Remittance flows will remain stable in the medium term

Remittances to Africa are projected to remain stable in the medium term. In 2017, remittances are projected to increase slightly by 2.4% to USD 66.2 billion. Regional distribution of remittances is expected to remain uneven. North and West Africa should receive the bulk of remittance inflows in 2017 at 46% and 43%, respectively. The five largest recipients of remittance inflows to Africa in 2017 are expected to be Nigeria (USD 20 billion), Egypt (USD 19.2 billion), Morocco (USD 7.3 billion), Ghana (USD 2.2 billion) and Algeria (USD 2.1 billion).

Risks to this outlook stem from economic slowdown in the European Union and tightening migration policies in developed countries. Indeed, if global economic growth increases from 3.1% in 2016 to 3.4% in 2017, as expected (IMF, 2017), economic growth will slow down, for example, in the euro area (which accounts for 72.5% of European Union GDP). The resurgence of different hotbeds of tension in the world, such as in Libya and Syria, and the "migrant crisis" in the West in general and in Europe in particular, have resulted in the tightening of migration policies. This might affect the prospects for positive medium-term remittance inflows to Africa.

Official development assistance to African countries is still below commitments

This section analyses trends in ODA to Africa, drawing on the OECD Development Assistance Committee (DAC) Survey on Donors' Forward Spending Plans (OECD, 2016). Aid to the poorest and most fragile countries remain limited, despite the commitments made at the 2014 DAC High-Level Meeting (HLM) and the Third International Conference on Financing for Development in 2015, in Addis Ababa, to reverse the decline of ODA by adhering to the 0.7% target. In Africa, more than half of low-income countries are expected to receive less ODA in 2019 than in 2015. In order to help finance the Sustainable Development Goals, the development community is exploring new ways to use aid as a catalyst for private investment.

Foreign aid to developing countries increased in 2015 due to in-donor refugees costs

Foreign aid from DAC member countries to developing countries totalled USD 131.4 billion in 2015, representing a rise of 6.6% in real terms from 2014. This increase reflects higher expenditures to meet in-donor refugee costs (considered as a form of ODA), as a result of the surge in asylum seekers. If these costs are excluded, net ODA still continued to grow by 1.3% in real terms (OECD, 2017).

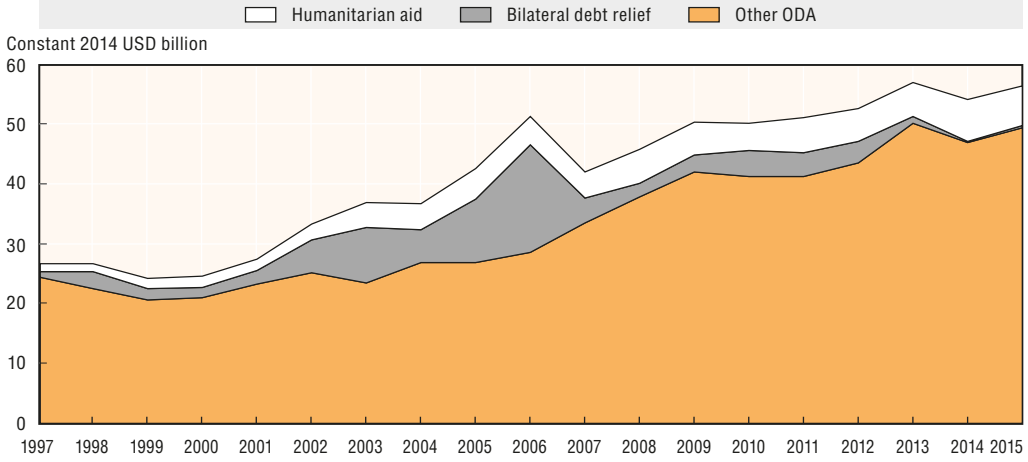
Aid from DAC[6] member countries, which accounts for around two thirds of total ODA, averaged 0.30% of gross national income (GNI), the same level as in 2014. This level still falls short of the 0.7% target. Overall, 2015 data show that DAC countries' bilateral aid to the least developed countries rose by 2.9% in real terms, in line with DAC donor commitments to reverse recent declines. This trend is expected to continue (OECD, 2017).

Aid from bilateral, multilateral and especially non-DAC donors to Africa

Official development assistance from all donors to Africa in 2015 totalled USD 51 billion, a 4% increase over the previous year (see Figure 2.7). However, preliminary estimates show a drop of 1.7% of ODA to the continent in 2016 to USD 45.0 billion, as some DAC members backtracked on a commitment to reverse past declines in flows to the poorest countries.

In 2015, DAC countries' bilateral ODA to sub-Saharan Africa amounted to USD 24 billion, representing an increase of 1.5% in real terms from 2014. It also rose across the African continent as a whole by 0.7% in real terms to USD 27 billion (OECD, 2017). Among DAC countries, the United States was the largest donor (USD 9.3 billion), followed by the United Kingdom (USD 4.2 billion), Germany (USD 3 billion) and France (USD 2.3 billion).

Figure 2.7. **Net official development assistance disbursements to Africa, 1997-2015**



Source: OECD (2017).

StatLink http://dx.doi.org/10.1787/888933475036

Multilateral aid increased by 7% in real terms to reach USD 19.6 billion. The major contributors were the International Development Association (USD 6.2 billion), European Union institutions (USD 5.2 billion), the Global Fund (USD 2.2 billion) and the African Development Bank (USD 2.2 billion).

Aid from non-DAC[7] donors reached USD 4.4 billion, registering the highest growth at 13% in real terms. Overall, aid by non-DAC donors has increased by more than 350% in real terms since 2012. More than 50% of aid from non-DAC donors is concentrated in Egypt and represents support from the United Arab Emirates.

Data on concessional flows by non-DAC donors are incomplete. For example, no data are available on China's development aid to the continent, as the country does not participate in the OECD's Creditor Reporting System. In addition, the Chinese government does not provide detailed information on its overseas aid. While there is a general consensus that China's aid to the continent has increased significantly over the last decade, estimates vary widely.

The College of William and Mary[8] estimates that China provided nearly USD 100 billion in various kinds of official development finance to Africa from 2000 to 2013. The majority of this concessional support was channelled to infrastructure development, including transportation and communications projects. According to the China Research Africa Initiative,[9] actual foreign aid expenditures amounted to USD 3.2 billion in 2013, compared to USD 600 million in 2000. Total spending for the period 2000-13 amounted to USD 20.6 billion (China Africa Research Initiative, 2016). The stark difference among data sources reflects the use of different definitions of aid (which in some cases is confused with FDI), announcements versus actual disbursements and different data collection methodologies.

At the 6th Forum on China Africa Cooperation (FOFAC), held in December 2015, China committed investments totalling USD 60 billion. These included USD 5 billion for grants and zero-interest loans, and USD 35 billion for concessional loans and buyer's credit, with the remainder in the form of commercial financing.

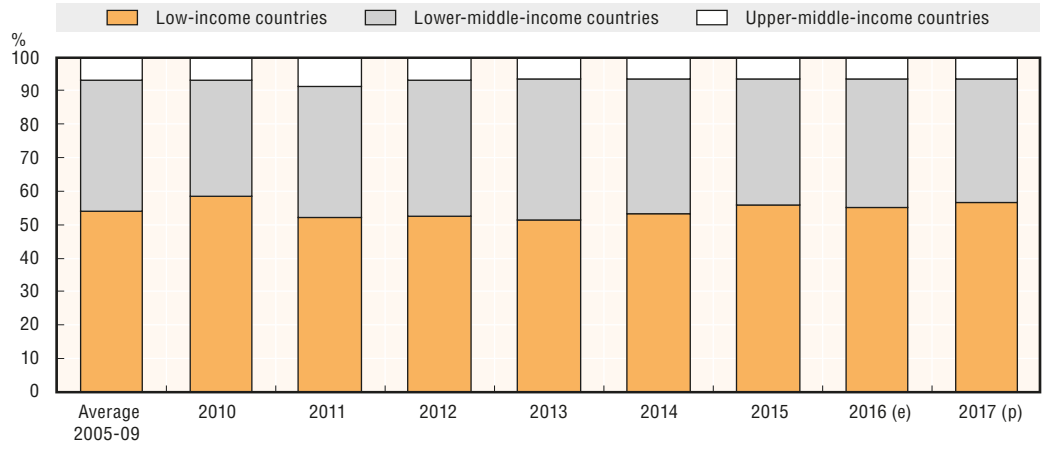
ODA to African low-income countries increased only slightly in 2015

Low-income countries accounted for just over half of ODA (56%) disbursed to Africa in 2015, up from an average of 52.5% during 2011-14 (Figure 2.8). However, the higher share of ODA is due mainly to a drop in financial support to Egypt and Morocco, both of which are lower-middle-income countries. It also reflects additional grants from DAC members and concessional loans from multilateral development banks to South Sudan and Ebola-affected Liberia and Sierra Leone.

Ethiopia was the largest recipient of ODA in 2015 (USD 3.2 billion), although aid fell by 2% compared to 2014. Other major recipients included DRC (USD 2.6 billion), Tanzania (USD 2.6 billion), Egypt (USD 2.5 billion), Kenya (USD 2.5 billion), Nigeria (USD 2.4 billion), Mozambique (USD 1.8 billion) and Ghana (USD 1.8 billion). These eight recipients accounted for 38% of total ODA to Africa.

East and West Africa accounted for the highest aid allocations in 2015 (USD 15.5 billion and USD 14.9 billion, respectively). The volume of ODA to East Africa is estimated to increase further in 2016 and 2017 (to USD 16.4 billion and 16.9 billion, respectively), while aid allocations to West Africa are expected to decline slightly over the same period (to USD 14.6 billion and USD 14.2 billion, respectively).

Figure 2.8. **Net official development assistance disbursements to African countries by income group, 2005-17**



Note: ODA (e) estimates and (p) projections are based on the real increase of Country Programmable Aid (CPA) in OECD (2016).

Source: Adapted from IMF (2016a) and OECD (2016).

StatLink http://dx.doi.org/10.1787/888933475040

Country Programmable Aid to 17 out of 27 low-income countries will decline between 2015 and 2019

Projections indicate that CPA for the continent will remain stable up to 2019. The 2016 DAC Survey on Donors' Forward Spending Plans provides estimates of future aid allocations for all DAC members and major non-DAC and multilateral donors for 2016-19, based on gross receipts of Country Programmable Aid (CPA).

After dropping in 2016, aid should return to the 2015 level in 2017 (USD 50.9 billion). It should then decline by 0.5% and 0.1% respectively in 2018 and 2019. A more granular analysis shows that only 21 African countries are projected to receive increases in aid in 2019, compared to 2015. The most notable increases will occur in Cameroon, Egypt, Ethiopia, Kenya, Liberia, Nigeria, Sierra Leone, South Sudan and Tunisia. For 31 sub-Saharan African countries, the level of CPA aid will be lower in 2019 than in 2015. In particular, levels of CPA will decline for 17 out of 27 low-income countries between 2015 and 2019. This is a cause of concern, as aid flows for most low-income countries still account for a large share of external financial flows (51% in 2015-16). Aid is expected to decline in Guinea, Madagascar, Niger and Togo, all countries repeatedly identified as aid orphans (OECD, 2014). Given Africa's growing population, aid per capita is projected to decline at a faster pace. Indeed, CPA per capita in sub-Saharan Africa will decrease from USD 35 per capita in 2015 to USD 31.1 per capita in 2019.

Achieving the 2030 Agenda requires innovative approaches to using aid

To achieve progress towards the Addis Ababa Action Agenda and the 2030 Agenda for Sustainable Development, the development community is exploring ways to use aid as a catalyst to mobilise additional financing. Blended finance is increasingly recognised as an important way of using public funds to mobilise private sector investment for emerging and frontier economies.[10] It encompasses traditional public-private partnerships, as well as instruments provided by development finance institutions (e.g. blended loans, equity investments and guarantees). These risk-sharing mechanisms are well suited to funding infrastructure projects, which by nature are long, costly and risky, and can deter private investment. Blended loans lower the financing costs for borrowers and also increase access to financing for local businesses.

While blended finance successfully targets infrastructure projects in middle-income countries, its application in low-income countries and social sectors remains limited. More could be done to deploy blended finance to address financing gaps in agriculture, health, education and other key development sectors in low-income countries (Clubb, 2016).

Greater engagement with the private sector will help not only to mobilise finance but also to harness skills and know-how and promote innovation. Philanthropic providers, for instance, increasingly engage in blended finance and social impact investment. Private sector players are also working voluntarily to support local entrepreneurship in Africa by promoting greater knowledge and skills transfer (see Box 2.3).

Box 2.3. **Inclusive innovations driving women's business growth**

Inclusive innovations are empowering women entrepreneurs through the use of ICTs in combination with mobile phone ownership. This trend is on the rise across Africa and presents promising results. As a result of investment by foreign, private and charity organisations, informal women entrepreneurs are able to access business education, financial services, business networks and real-time market information, all of which are otherwise inaccessible under Africa's resource-constrained settings. Women entrepreneurs who make use of such inclusive innovations benefit from new skills, business ideas and opportunities to reach customers and enter new markets. As a result, they increase the profitability of their businesses, invest in local job creation and improve the well-being of their families. The success of inclusive innovations for women entrepreneurs relies on two key factors:

- partnering with local women's businesses or youth associations for outreach
- practising inclusive strategies to ensure access and usage by women, especially for those that live in rural areas and are constrained by poor infrastructure, limited decision-making power, high transport costs and low English literacy skills.

One successful example is found in Malawi, where the Grow Movement uses ICTs to foster the business skills of African entrepreneurs. The Grow Movement is a UK-based private network of international volunteer business consultants. The concept works by matching consultants with entrepreneurs in Malawi to provide them with education on how to improve marketing, book keeping, financial planning and customer relations during free one-on-one sessions via Skype, WhatsApp or telephone. To reach women entrepreneurs, Grow works in close partnership with the National Association of Business Women in Malawi (NABW).

The Grow Movement acknowledges that human and social efforts are essential in order to facilitate and translate technology into a particular local setting. In the absence of such efforts, ICT-related innovations would reach only those entrepreneurs that already have access to ICT services and transport, live in urban areas and possess adequate English literacy skills. By using a frugal and inclusive strategy, Grow manages to operate at a low cost and deliver quality and accessible business consultancy services.

Sources: Vossenberg (2016a, 2016b).

Social enterprises that apply commercial strategies to maximise social impact have also been instrumental in increasing the skills and well-being of local communities. One notable example is the ethical jewellery brand SeeMe, a social enterprise based in Tunisia. Founded by a European investor and former aid manager, SeeMe strives to improve the lives of women who have been the victims of violence and discrimination. Women that seek sanctuary at a shelter home run by the Amal Center are trained as jewellery artisans and are later employed. SeeMe also aims to positively influence established brands in the fashion world, by supporting an ethical approach to sourcing procedures.

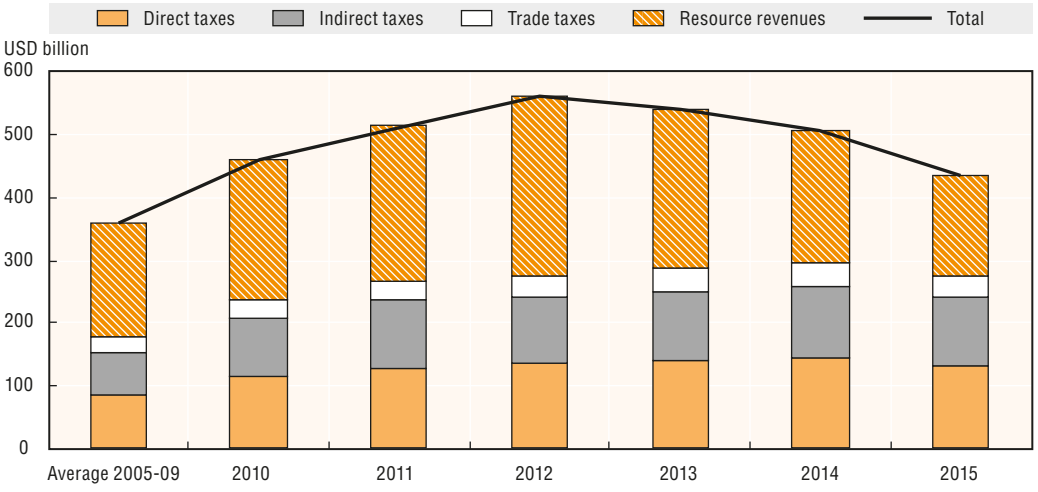
Domestic revenue mobilisation still falls short of needs

This section analyses the performance of domestic revenues in Africa from 2005 to 2015. It is based on the latest available data collected by the African Development Bank through the *African Economic Outlook*'s annual country missions. It describes trends in domestic revenue, as well the challenges faced by African countries to raise more revenue.

Domestic revenue has fallen as commodity prices remain low

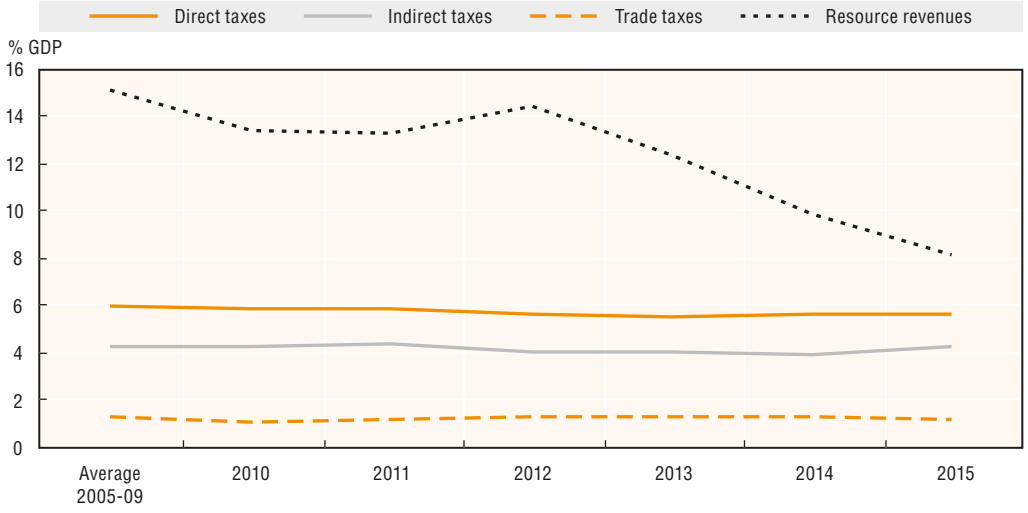
Domestic revenue mobilisation in Africa increased steadily over the last decade reaching a peak in 2012, at USD 561.5 billion. However, revenue mobilisation slowed down after 2013, due to a fall in commodity and, especially, oil prices (Figure 2.9). Between 2012 and 2015, domestic revenue decreased by 22.2%. This drop in domestic revenue is mainly explained by the huge slump in resource revenue (43.7%) over the same period.

Figure 2.9. **The tax revenue mix in Africa, 2005-15**



Source: African Economic Outlook data.
StatLink http://dx.doi.org/10.1787/888933475050

Figure 2.10. **The tax revenue mix in Africa's resource-rich countries, 2005-15**



Source: African Economic Outlook data.
StatLink http://dx.doi.org/10.1787/888933475060

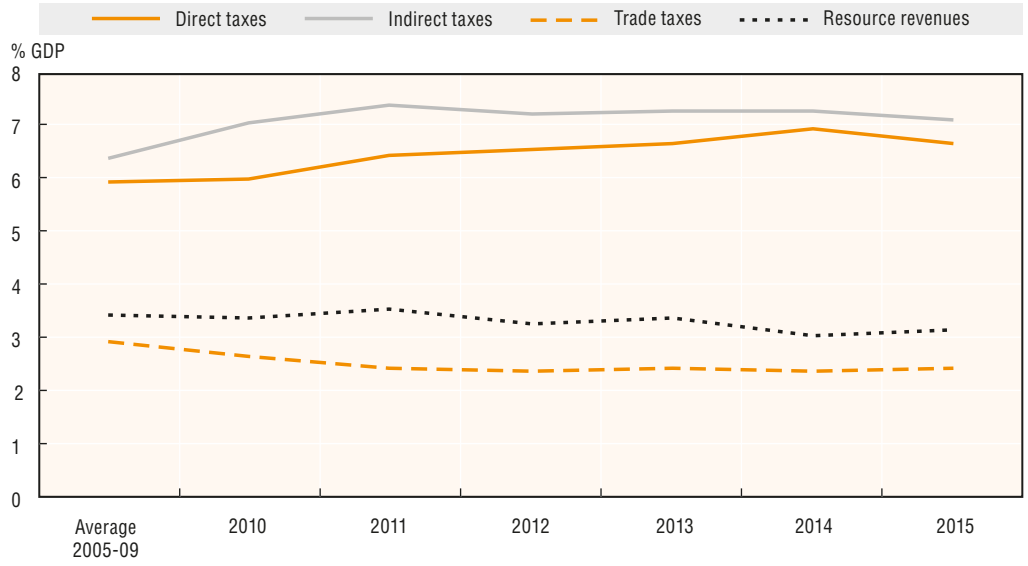
AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

Resource-rich countries were most affected by the fall in domestic revenue mobilisation. Between 2012 and 2015, resource revenue fell markedly by more than 50% in Algeria (51.8% to USD 27.9 billion), Angola (57.2% to USD 19.9 billion), Chad (65% to USD 2.8 billion) and Gabon (55% to USD 12.2 million). This was due mainly to the narrow tax base in resource-rich countries. Revenues other than those from resources have remained flat for more than a decade and below 6% of GDP (Figure 2.10). As a result, resource-rich countries were unable to offset the fall in resource rents, and their overall revenue-GDP ratio decreased from 25% in 2012 to 19% in 2015.

Non-resource-rich countries continue to improve domestic revenue mobilisation

Contrary to their counterparts, non-resource-rich countries have increased their revenue mobilisation (Figure 2.11). Between 2012 and 2016, their total domestic revenues increased by 9.6% to USD 93.8 billion. This performance is mainly explained by the increase in direct taxes (12% to USD 32.3 billion) and indirect taxes (8% to USD 34.3 billion).

Figure 2.11. **The tax revenue mix in Africa's non-resource-rich countries, 2005-15**



Sources: *African Economic Outlook* data.

StatLink http://dx.doi.org/10.1787/888933475075

Over the same period, the best performers in domestic revenue mobilisation among non-resource-rich countries were Ethiopia (60% to USD 11.2 billion), Rwanda (44.4% to USD 1.3 billion), Togo (32.6% to USD 965 million), Swaziland (26.5% to USD 1.1 billion), Malawi (25.2% to USD 928 million) and Seychelles (25.1% to USD 490 million).

Greater effort is needed to mobilise more domestic revenue

External financial flows to Africa increased steadily from USD 100 billion in 2000 to USD 182.8 billion in 2015, reflecting the continent's growing attractiveness for investors. However, more domestic resources are needed to meet the huge financing needs for development. According to estimates, sub-Saharan Africa needs USD 93 billion per year to fill its infrastructure gap (Foster and Briceno-Garmendia, 2009). Experience has also shown that countries that rely more on domestic revenue tend to grow faster (Aizenman et al., 2007).

While Africa has made some progress in mobilising domestic resources, greater efforts are needed. The 2015 Addis Ababa Action Agenda has made domestic public revenues its main priority, with a view to achieving the Sustainable Development Goals. Domestic revenue mobilised in Africa has risen from USD 258 billion in 2005 to USD 436.8 billion in 2015 and represents 2.4 times the total value of external financial flows.

A number of countries are expanding their domestic revenue by boosting the revenue from taxes through various measures. For example, Ethiopia is taking concrete action to fight tax evasion (Box 2.4).

Box 2.4. **Tax evasion in Africa: Evidence from randomised field experiments in Ethiopia**

Lack of studies on the magnitude of tax evasion in Africa means that little documented information is available regarding its incidence or the use of policy approaches to improve tax compliance effectively and efficiently. A recent study sponsored by the African Development Bank has helped to fill this gap. The study, which was conducted in Ethiopia, used a fully randomised control trial approach to investigate the magnitude of tax evasion, as well as the best approaches to enhance compliance. The study was undertaken in collaboration with the Ethiopian Revenue Authority.

Field experiments elicited information from businesses by exposing well-defined treatment groups to two types of letters duly signed by the revenue authority. The first letter threatened an audit, while the second, more complimentary letter praised recipients for an exemplary job in paying their taxes on time and complying fully without evasion. The control group did not receive either letter. Researchers then monitored the tax returns of businesses before and after the experiment using available administrative data from the tax authorities. In total, 4 500 firms participated in the experiment. The results showed that the recipients of threatening letters increased their tax returns by about 38%, while those in receipt of complimentary letters increased returns by 32%.

The following policy implications can be drawn from these results:

- Tax evasion in Africa is widespread and perhaps larger than assumed by initial estimates (around 20-30%).
- Revenue authorities must be empowered to collect and analyse taxpayer data. For example, third-party information relating to value-added tax can be used to identify serial tax evaders.
- To significantly reduce the transaction costs involved in mobilising taxes and decrease tax evasion, authorities should work to improve relations with businesses, conduct periodic evaluations of the utilisation of taxes for social and economic development, and employ incentives to ensure full compliance.

Source: Shimeles et al. (2017).

Togo is mobilising more tax revenue by increasing the efficiency of its fiscal administration, with the support of the development community, in particular the African Development Bank. Some African countries are also making progress in this area by sharing good practice and making their tax data comparable across countries (Box 2.5). However, further efforts are needed such as the use of new and innovative revenue mobilisation mechanisms including green bonds, banking and insurance service tax, tourism taxes and efforts to improve "tax morale" – the motivation to pay taxes (Daude et al., 2012).

Box 2.5. **Comparable revenue statistics in Africa**

The first edition of *Revenue Statistics in Africa* was launched in April 2016 as a concrete step towards the African Union's goal of harmonising economic statistics. The publication was co-authored by the African Union, the African Tax Administration Forum and the OECD and received financial backing from the European Commission. The first edition featured eight countries: Cameroon, Côte d'Ivoire, Mauritius, Morocco, Rwanda, Senegal, South Africa and Tunisia; future editions will expand coverage to other African countries. The project combined revenue statistics from African countries into a single dataset, enabling comparison of data according to international tax and revenue classification standards at an unprecedented level of detail. Valid comparisons are now possible among all OECD countries, in addition to 24 Latin American and Caribbean countries and 6 Asian countries.

According to the revenue data collected for the eight African countries, there is considerable variation in terms of domestic revenue mobilisation, although tax-to-GDP ratios were substantially lower than in most OECD countries. In Morocco, South Africa and Tunisia, tax-to-GDP ratios ranged from 28% to 31% of GDP in 2014. In contrast, tax revenues as a percentage of GDP varied between 16% and 20% in Cameroon, Côte d'Ivoire, Mauritius, Rwanda and Senegal. Non-tax revenues ranged from 9.5% of GDP in Rwanda to 0.6% of GDP in South Africa in the same year. Since 2000, every country in the report increased its tax-to-GDP ratio. In Morocco, Rwanda, South Africa and Tunisia, the ratio increased by over five percentage points. These increases are due in part to tax reforms and the modernisation of tax systems and administrations. Non-tax revenue was a far more volatile source of financing, showing far greater year-to-year variation than tax revenues.

International institutions have recognised the value of these data as a tool for policy analysis and informing policy changes, as well as motivating regional co-operation. The work involved contributes to the financial chapter of the African Charter on Statistics, towards rolling out the Strategy for the Harmonization of Statistics in Africa. It also supports the first ten-year implementation plan (2014-23) of the African Union's Agenda 2063, which aims to "develop and implement frameworks for policies on revenue statistics and fiscal inclusiveness for Africa". At a global level, the work supports Target 17.1 of the Sustainable Development Goals to "improve domestic capacity for tax and other revenue collection", and Target 17.19 to "support statistical capacity building in developing countries". The second edition will be launched in mid-2017 and will cover a larger number of countries.

Source: OECD/ATAF/AUC (2016).

The size of the informal sector in Africa limits the mobilisation of tax revenue

In order to increase tax revenue, African governments must broaden the tax base, among other policy measures. However, efforts to this end are undermined by the size of the informal sector. Indeed, the average size of the informal sector in sub-Saharan Africa is estimated at 42% of gross national income (GNI) and ranges from about 28% in South Africa to 60% in Nigeria, Tanzania and Zimbabwe (Verick, 2006).

According to the World Bank's Informal Enterprise Survey, informal firms in Africa cite avoidance of taxes on registered businesses as the main reason for not operating in the formal economy. By introducing appropriate incentives and a culture of compliance, revenue authorities can levy taxes on the informal sector, facilitate the transition to formal business of many unrecorded firms in Africa, and help them to better access finance and markets. Taxing the informal sector can also be an efficient way to increase direct taxation, which currently stands at an average of 6% of GDP in Africa compared to 22% of GDP in developed countries (Auriol, 2014).

However, broadening the tax base through taxation of the informal sector means lowering tax burdens, which tend to be high in Africa. Indeed, Africa has the highest average top marginal corporate tax rate in the world, estimated at 29%, against a global average of 23% (Pomerleau, 2015). According to the World Bank Enterprise Survey, firms in the formal sector systematically cite higher tax rates and tax administrative processes as among the most significant constraints they face (Bruhn, 2011). In addition, evidence has shown that high compliance costs for firms in the informal sector can push them to remain informal, while a decrease in the effective corporate rate is associated with an increase in the number of formal businesses (Djankov et al., 2010).

In summary, these results suggest that lower tax rates and reduced compliance costs can help Africa to boost the transition to formal business. In turn, a decrease in the size of the informal sector can help to broaden the current narrow tax base and increase direct taxation and, consequently, improve tax revenue mobilisation in the continent.

Notes

1. ODA in current terms declined in 2015 (see Table 2.1) due to the sharp depreciation of many DAC currencies against the US dollar.
2. Private financial flows are defined as total external flows minus official development assistance.
3. The OECD defines foreign direct investment as "a category of cross-border investment made by a resident in one economy with the objective of establishing a lasting interest in an enterprise that is resident in an economy other than that of the direct investor. The motivation to significantly influence or control an enterprise is the underlying factor that differentiates direct investment from cross-border portfolio investments. Portfolio investors do not have as an objective any long-term relationship. Return on the assets is the main determinant for the purchase or sale of their securities" (OECD, 2008).
4. A combination of IMF *World Economic Outlook* (WEO) data (October 2016) and UNCTAD *World Investment Report* (WIR) data (June 2016) has been used to compute FDI flows. In particular, the historical series FDI from IMF WEO for 2000-13 was adopted. However, the growth rate of FDI as per the UNCTAD WIR was applied for the computation of FDI for 2014 and 2015. This was done because IMF data presented some data gaps for 2014 and 2015. The rate of growth of FDI as per the IMF WEO was applied for the subsequent computation of FDI for 2016 (estimated) and for 2017 (projected).
5. Resource-rich countries include Algeria, Angola, Botswana, Cameroon, Chad, Congo, Côte d'Ivoire, DRC, Egypt, Equatorial Guinea, Gabon, Ghana, Guinea, Liberia, Libya, Mauritania, Namibia, Nigeria, Sierra Leone, South Africa, South Sudan, Sudan and Zambia (IMF definition).
6. DAC member countries include Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States. Figures from DAC member countries in this report do not include aid from Hungary which joined the DAC late in 2016. The European Union is also a member of the DAC, but its ODA figures are included with aid from multilateral providers in this report.
7. Non-DAC donor ODA disbursements to Africa include data from Croatia, Cyprus, Estonia, Hungary, Israel, Kuwait (KFAED), Latvia, Lithuania, Malta, Romania, Russian Federation, Saudi Arabia, Thailand, Turkey and the United Arab Emirates.
   Note by Turkey: The information in this document with reference to « Cyprus » relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognizes the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".
   Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.
   The statistical data for Israel are supplied by and under the responsibility of the relevant Israeli authorities. The use of such data by the OECD is without prejudice to the status of the Golan Heights, East Jerusalem and Israeli settlements in the West Bank under the terms of international law.
8. The College of William and Mary (AidData) uses a "media-based data collection" (MBDC) methodology, as well as data from Chinese and other government documents.
9. The China Research Africa Initiative collects data from the *China Statistical Yearbook* and other Chinese sources.
10. Definition from the DAC High Level Meeting Communique, 19 February 2016.

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Chapter 3

Trade policies and regional integration in Africa

Trade within Africa and its commercial relations with the rest of the world are changing quickly. This five-section chapter focuses on the diversification of Africa's trade partners and products and the potential for further progress. It assesses global economic developments, explains the eight regional economic communities, their policies and integration initiatives, and provides ideas on how Africa's private sector can maximise opportunities presented by regional and global value chains.

IN BRIEF

As the world evolves into a single highly interconnected global market, prosperity no longer depends just on a country's productivity but also on its strategic choice of trading partners, export products and policies. Africa's growth in recent years has been helped by advances in trade, policies, the regulatory environment and regional integration.

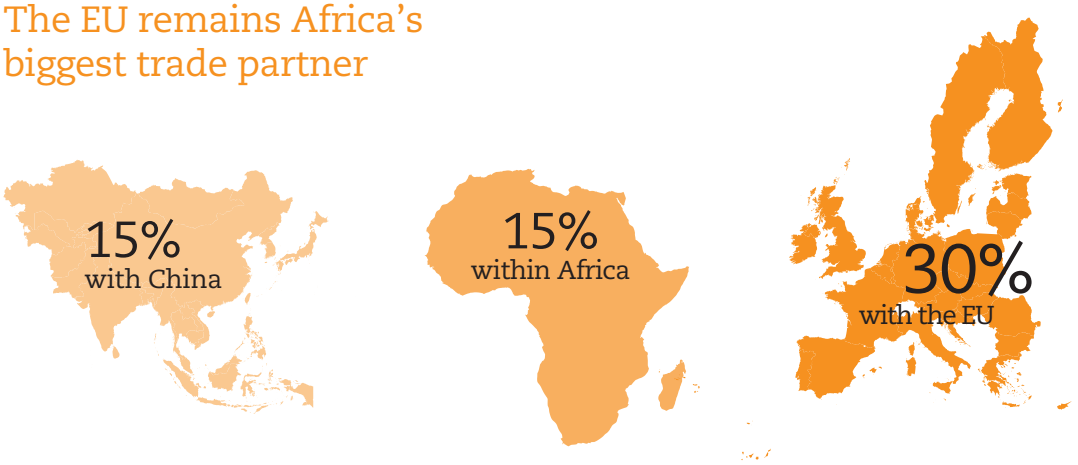
However, the widespread and uneven impact of commodity price shocks and criticism of the global trade system increase uncertainty about the future. Countries need to make the best use of globalisation by further diversifying their trade away from resources, and increasing trade within Africa. Economic and political changes in China and the United States will have varying effects on Africa's trade, but to counter risks, the continent must carry out structural and regulatory reforms, improve policy and investment climate, deepen regional integration and maintain its commitment to reform. Africa's regional economic communities are instrumental to strengthening economies and building resilience against global shocks. Increased political commitment therefore, especially at national level, is needed to actualise regional integration agreements. The proposed Continental Free Trade Area could yield large gains from trade and bolster other development objectives.

Did you know?

- In the past two decades, trade between Africa and the rest of the world increased fourfold.
- China and India, Africa's 8th and 9th largest trading partners in 2000, are the countries now in 1st and 2nd place.
- The geographic diversification of Africa's trading partners has not led to a significant change in the composition of its exports.
- Africa's Continental Free Trade Area is becoming the world's largest single free trade area by number of countries.

Trade between Africa and the world expanded four-fold in two decades

The EU remains Africa's biggest trade partner



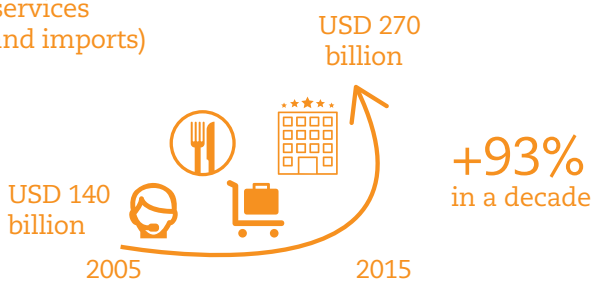
1 out of 4 African countries rely on 1-2 commodities for 75% or more of their export revenues



Overall, export remains undiversified

Africa enjoyed a steady increase in services trade

Trade in services (exports and imports)



AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

Africa's trade has grown but it seeks more products

Africa's huge growth in trade and its diversification of partners over the past two decades has not helped in expanding its export basket. Africa's goods trade with the rest of the world shot up from USD 197 billion in 1995 to USD 852 billion in 2015. This quantum rise reflects an expansion of imports and exports. Africa's purchase of goods from the rest of the world expanded 4.7 times over that period, while the continent's total exports quadrupled. Until 2013, the advanced economies were Africa's main trading partners. In a major change, from 2014, more than half of the continent's trade with the rest of the world was with emerging and developing economies. This diversification revolution was, however, not matched by changes to the variety of products that Africa sells. Expanding the continent's export basket to include more processed and manufactured products remains a challenge.

Trade with Asia has expanded

Africa's trade geography has seen a shift from Europe to Asia. With its size and economic development, the European Union remains the biggest single customer for Africa. It accounted for more than 30% of Africa's global trade in 2015 though this is down from 40% in 2000. In that time, the value of merchandise goods exchanged between Africa and Asia expanded fivefold to reach 25% of Africa's merchandise trade with the world in 2015. At a country level, China and India were the eighth and ninth largest trading partners for Africa in 2000. In 2015, they were first and second largest (see Table 3.1). The United States and France were first and second in 2000 but are now fourth and third, respectively. Trade between the United States and Africa declined for the sixth straight year in 2016. The main US imports from Africa are oil and commodities, such as precious stones, cocoa and ores. With its increased production of oil and gas, US imports from Africa continued a downward trend from a recent peak of USD 98 billion in 2010 to a low of USD 22 billion in 2016.

Table 3.1. **Africa's main trading partners and their value and ranking, 2000, 2010 and 2015**

	Total value of trade in goods (USD billion)			Share in Africa's global trade in goods			Rank among Africa's trading partners		
Trading partner	2000	2010	2015	2000	2010	2015	2000	2010	2015
China	7.3	93.3	135.9	3.0	11.4	15.9	8	2	1
India	6.9	37.5	51.1	2.9	4.6	6.0	9	4	2
France	27.3	53.2	50.1	11.3	6.5	5.9	2	3	3
United States	33.3	98.4	45.3	13.8	12.1	5.3	1	1	4
Spain	11.0	31.6	37.0	4.6	3.9	4.3	6	7	5
Germany	13.3	33.9	34.8	5.5	4.2	4.1	5	5	6
Italy	15.5	33.9	31.5	6.4	4.2	3.7	3	6	7
Netherlands	6.8	29.7	27.1	2.8	3.6	3.2	10	8	8
United Kingdom	13.6	21.3	23.1	5.6	2.6	2.7	4	10	9

Source: Adapted from IMF data, http://data.imf.org/.

Africa's new trading partners did not trigger export diversification

Despite the substantial trade expansion, export diversification remains a challenge for Africa. The concentration of exports in a few commodities and sectors limits trade potential, undermines the capacity to create jobs and increases exposure to global economic shocks. Aware of the risks, many countries now consider export diversification as a vital part of economic development (Hesse, 2008). In many African economies,

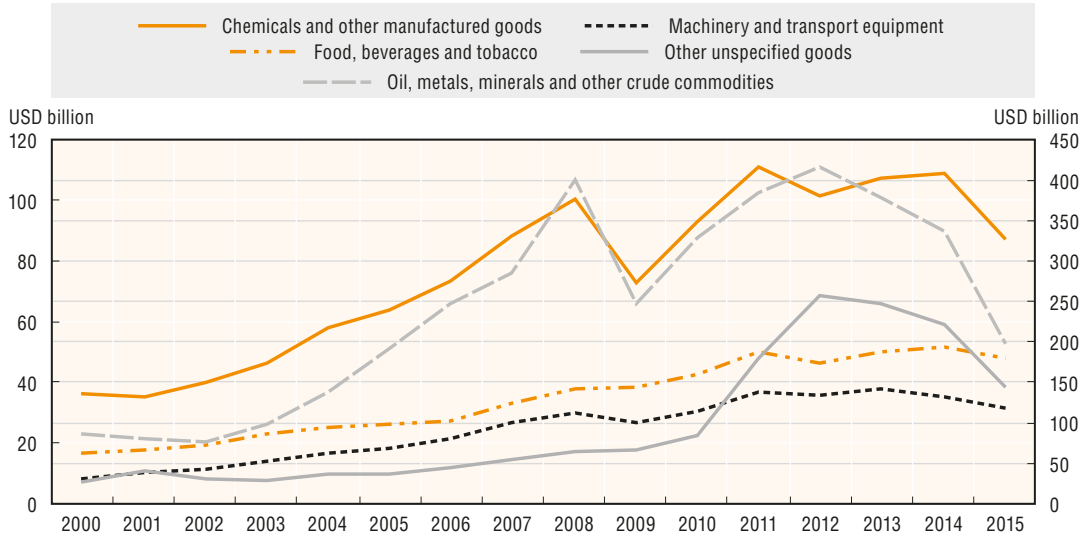
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however, efforts to initiate export diversification have not achieved much success. There is not a strong enough momentum for structural transformation. The production and trade concentration has left the continent vulnerable to global troubles and commodity price shocks.

For many economies, oil and mineral exports are the dominant if not sole source of revenue to finance development and expenditure. Over-dependence on oil revenues held back meaningful development initiatives in non-oil sectors. The strong link can be seen in the fiscal and external positions of countries reliant on the oil sector. In 2015, Africa's oil exporters experienced a much deeper deterioration in their fiscal deficit to 7.4%, relative to 4.2% for their net-importing counterparts.

Africa's trade has seen a protracted underperformance since the beginning of recent global commodity price shocks. In overall terms, the continent's current account balance decreased from an average surplus of 5.8% of gross domestic product (GDP) between 2005 and 2009 to an estimated deficit of 6.4% in 2016. The outlook remains weak while commodity prices stay low. Since 2012, weak demand in key markets for Africa's oil and gas along with a decline in commodity prices caused a large contraction in export earnings. In 2015, Africa's oil exports shrunk by 41% over the previous year, the biggest fall since 2000 (see Figure 3.1). Many African resource exporters had limited options to fill the large finance gap created by lost oil revenues. Agriculture provides jobs for more than 60% of the continent's workforce, yet it accounts for less than a quarter of total exports.

Figure 3.1. **Composition of Africa's merchandise exports, 2000-15**



Note: Values for "Oil, metals, minerals and other crude commodities" are reported on right axis.
Source: Adapted from World Integrated Trade Solution database, http://wits.worldbank.org/wits/.
StatLink http://dx.doi.org/10.1787/888933475086

Low manufacturing capacity causes increasing import bills for Africa

With more light manufacturing and processing of its primary produce, Africa could significantly lower its import bills. The continent's merchandise imports are mainly manufactured goods and transport equipment (Figure 3.2). Years of reliance on the production and export of primary commodities kept the continent away from exploring ways to produce goods it currently imports. This has led to swelling bills for food and less sophisticated manufactured products. Except for 2015, imports of food and non-

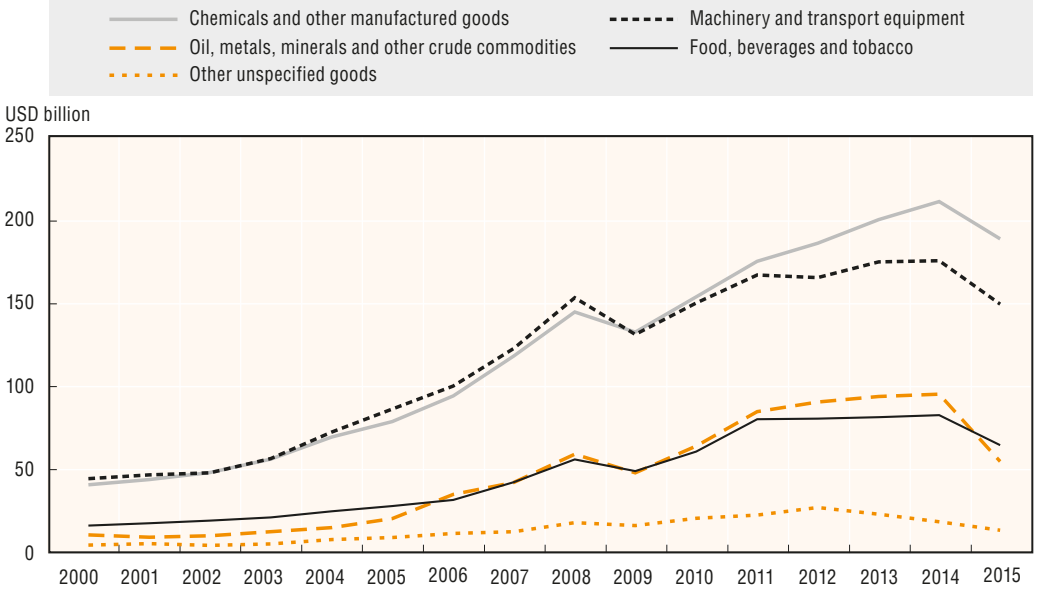
machinery manufactured goods have risen since 2000. Light manufacturing could help Africa reduce its imports from outside the continent and increase intra-African trade with countries that have agricultural production and processing capacity.

Africa currently spends about USD 63 billion a year on food, beverages and tobacco. Out of this amount, USD 35 billion is spent on food imports alone. With the growing population in Africa, forecasts show that the annual food import bill could reach USD 110 billion by 2025 unless domestic production is scaled up. This year, as was the case in previous three years, drought is affecting over 17 million people, mainly in the Horn of Africa.

There is, however, great potential for agricultural production and agro-processing industries to make the continent food self-sufficient particularly by enhancing regional trade corridors to ensure that food surpluses in one region balance the deficits in another through better linkages between production, distribution and consumption hubs.

The decline in oil and metal commodity prices serves as an incentive for African countries to diversify into agriculture, and the largest economies are making strategic choices of transforming the agriculture sectors in order to reduce dependency on food imports. These policy shifts, particularly in oil-exporting countries, should pay off in the medium-to-long-term.

Figure 3.2. **Composition of Africa's merchandise imports, 2000-15**

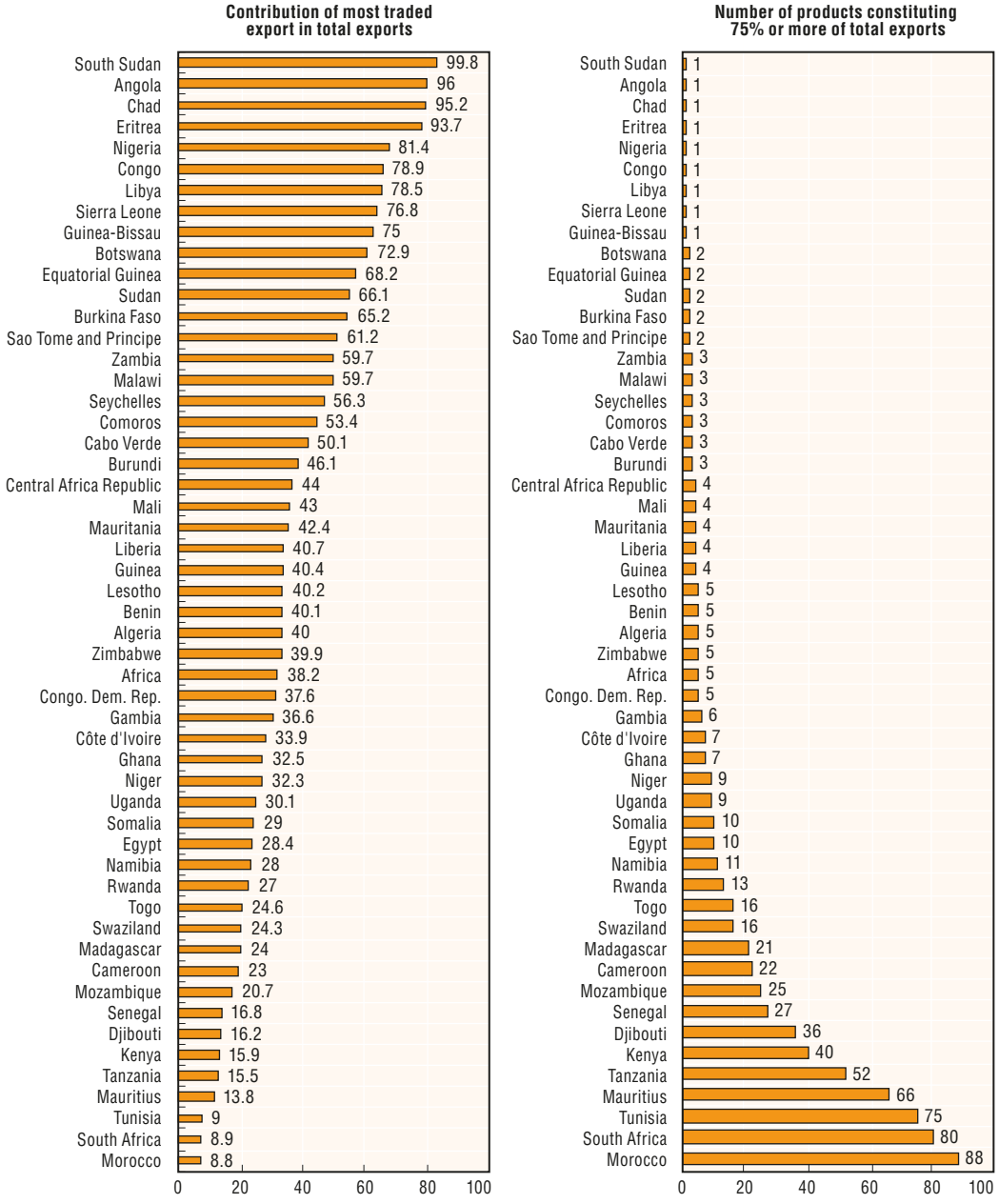


Source: Adapted from UN COMTRADE (database), http://wits.worldbank.org/wits/.
StatLink http://dx.doi.org/10.1787/888933475095

Africa must use its resources to export new products

Most African countries rely on unprocessed resource commodities for export revenues. A few countries, notably Egypt, Kenya, Mauritius, Morocco, South Africa and Tunisia, have incorporated some manufactured or semi-processed and relatively high technology products. But about 26% of Africa's countries rely on one or two resource commodities for at least 75% of their exports, while about 60% rely on up to five commodities. With falling commodity prices, a narrow export base increases current account pressures for countries such as Angola, Chad, Congo, Eritrea, Guinea-Bissau, Nigeria, Libya, Sierra Leone and South Sudan which almost exclusively depend on a single commodity export.

Figure 3.3. **Two measures of export diversification in African countries, 2014**



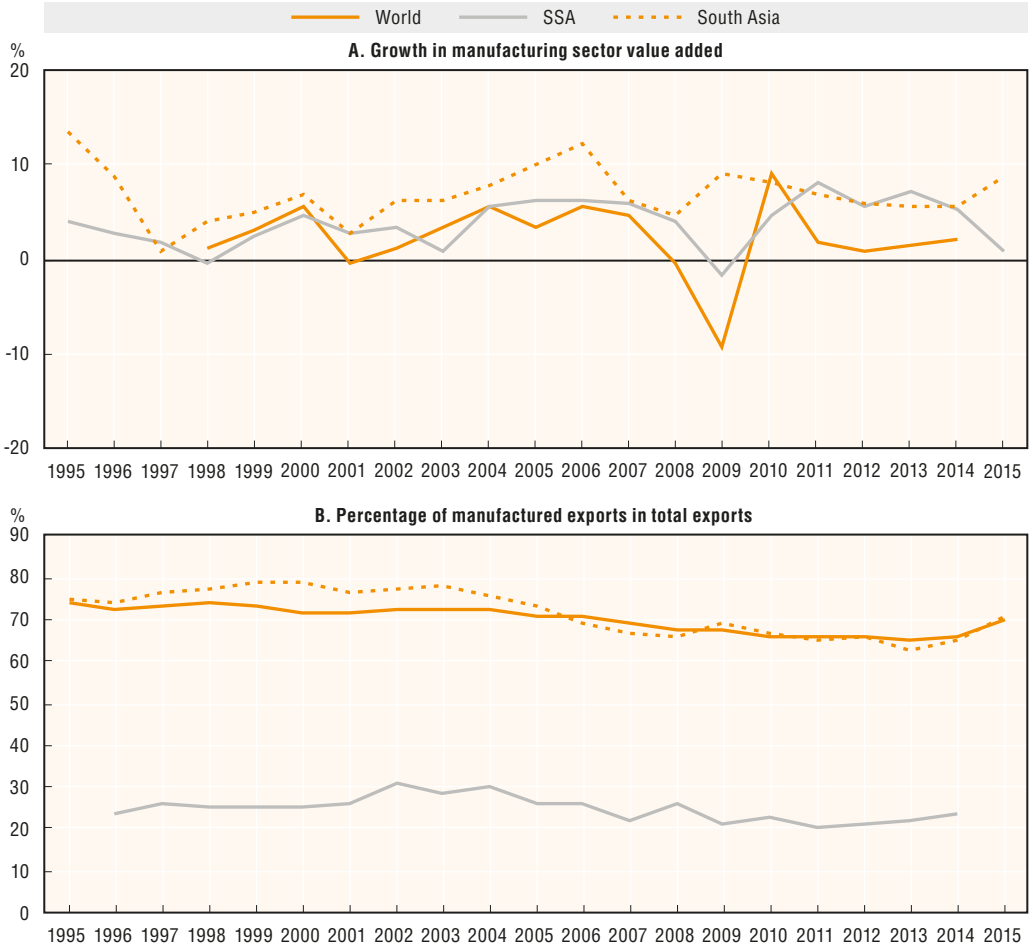
Source: AfDB/OECD/UNDP (2016).
StatLink http://dx.doi.org/10.1787/888933475105

Africa has long suffered from sluggish productivity growth and export diversification. The export diversification index of AfDB shows that the continent had only marginally improved from 5.2 to 6.5 between 2010 and 2014. Countries such as Djibouti, Kenya, Madagascar and Senegal have broadened their range of industries and products, however.

The challenges include weak value addition in the manufacturing sector and limited research and development and technological advances. Investment capital is important for driving structural transformation and improving competitiveness in the early stages of economic development. Africa has had high growth rates for much of the time since the

1990s but it has often been based on few production lines that have not been diversified or have been based on an unsustainable dependency on low technology extractive industries. To back this case, Figure 3.4 plots sub-Saharan Africa's average growth in manufacturing value added and its share of exports since 1995.

Figure 3.4. **Manufacturing sector growth in value added and percentage of total exports for the world, sub-Saharan African and South Asia, 1995-2015**



Source: World Bank (2017b).

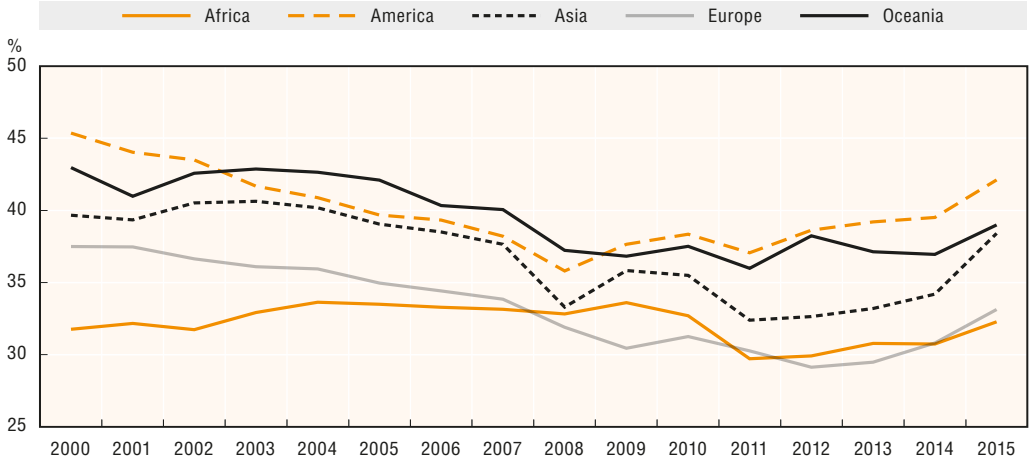
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Africa can diversify its exports by venturing into new sectors and products or by adding value to existing products. Rielander and Traore (2015) found that commodity diversification and investment in goods with higher manufacturing intensity are mutually beneficial for most developing countries. While success in commodity diversification in part depends on the availability of natural resources, diversification into higher manufacturing products can be achieved through improved technology and human skills.

Africa's production structure must be transformed to boost manufacturing exports. Production has remained tilted towards low technology intensive resource commodities in agriculture and the extractive industries. The continent has had a low uptake of advanced production technology and know-how. Africa's imports of heavy machinery and transport equipment are among the lowest of the world's regions. Until 2008, Africa had the lowest uptake of manufacturing equipment. In the past decade, the share of

heavy machinery and transport equipment in total imports was only comparable to that of Europe, a region that is a major producer of machinery and transport equipment, and as such is expected to have low imports.

Figure 3.5. **Share of machinery and transport equipment imports in Africa's imports, 2000-15**



Source: Adapted from UNCTAD database, http://unctadstat.unctad.org/.
StatLink http://dx.doi.org/10.1787/888933475127

The low use of new technology in Africa has slowed structural transformation and extended dependence on commodity exports and a limited export base. Thus, despite strong growth in global trade flows, Africa's trade growth has been weaker than other regions. The continent's exports, for example, grew by an average of 3.5% during the period after the 2007-08 global financial crisis, compared to average global growth of 5.1%. Similarly, the continent lags behind in global value chains integration, implying that Africa's job creation and income is not keeping up as the global economy expands and trade improves.

Figure 3.6. **Africa's imports and exports in services, 2005-15**



Source: Adapted from UNCTAD data, http://unctadstat.unctad.org/.
StatLink http://dx.doi.org/10.1787/888933475131

The region has vast exploitable opportunities to integrate deeper into global value chains if it can transform, use more advanced technology and increase manufacturing value added. The starting point is for Africa to exploit its comparative advantage in natural resources in minerals and agriculture. These sectors should be used to drive the

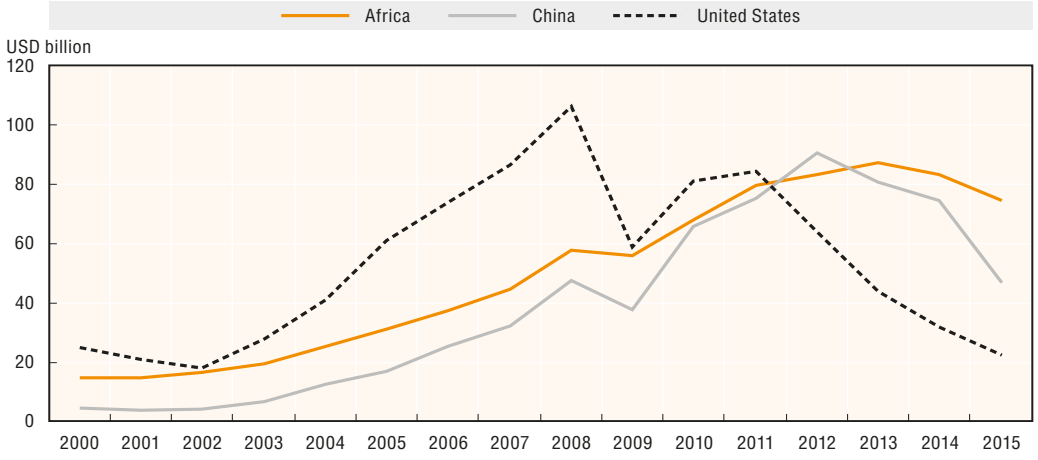
continent's structural transformation and enhance manufacturing, employment, foreign direct investment and the inflow of technology. Increased agriculture productivity could be achieved through methods such as the adoption of appropriate land tenure and better access to land; improved agricultural mechanisation; and use of irrigation and high yielding crop varieties. Agriculture insurance, sustainable transboundary resource management plans and integrated rural development strategies should be used as well to propel the continent's transformation.

The services sector has been a dominant contributor to Africa's GDP. Africa's growing, youthful and increasingly skilled population presents opportunities for growth in service sector exports. Trade in services (exports and imports) expanded from about USD 140 billion in 2005 to nearly USD 270 billion in 2015. Although Africa uses more services than it sells to the rest of the world, service exports have been on a slow but steady rise in the past decade. While the rest of the world faces a rapidly ageing population, Africa's growing population, with quality education and training, could help increase services exports.

Trade between African countries holds the key to sustainable economic development

Trade between African countries has the greatest potential for building sustainable economic development. Africa's recent economic progress has been accompanied by a similar expansion in trade between its countries. The continent's GDP and its internal trade expanded fourfold over the past two decades. Apart from its role as a driver of economic growth, intra-African trade is more resilient than exchanges with other regions of the world. Figure 3.7 shows that since 2011, merchandise exports to the United States and China suffered major declines of 65% and 48% respectively. The decline in intra-African trade is more subdued, and it appears to reflect the general slowdown in global trade. A similar trend was observed after the 2007-08 financial crisis as intra-African trade suffered less than trade between Africa and the rest of the world. Intra-regional commerce as a share of Africa's trade with the world increased from 10% in 2000 to about 16% in 2014 (AfDB/OECD/UNDP, 2016). In contrast to trade with the rest of the world, primary commodities do not dominate trade between African countries. Manufacturing products, which are less susceptible to price shocks, constitute more than 50% of regional trade (AfDB/OECD/UNDP, 2016).

Figure 3.7. **Merchandise exports from Africa, to Africa, China and the United States, 2000-15**



Source: Adapted from UNCTAD data, http://unctadstat.unctad.org/.

StatLink http://dx.doi.org/10.1787/888933475145

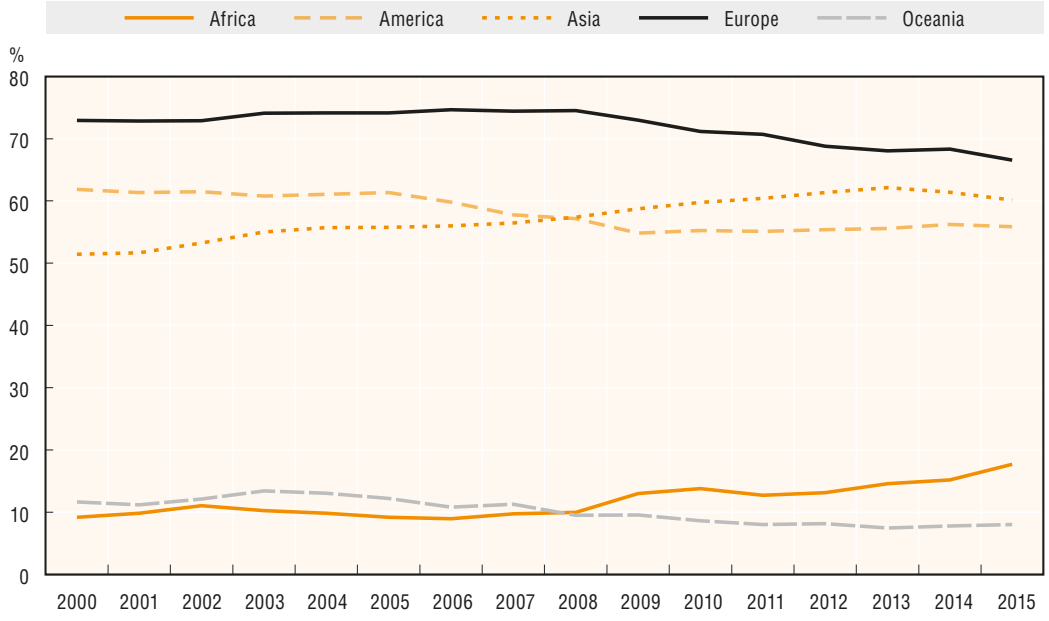
Heterogeneity of national exports helps intra-African trade

There is huge potential for trade between African countries. Neighbouring African countries may have similar export products, but the spread of products across the continent allows for a lot of trade between regions. Large food demands, especially among resource-rich countries, can be met by supplies from countries with more advanced agricultural productivity. Similarly, countries with more advanced manufacturing sectors hold a potential for growth if they can access the larger African market. From 2007 to 2015, the continent's light manufactured good imports tripled to reach USD 260 billion. Africa's prospects for greater regional trade are also highlighted by its consumer market of nearly one billion people, the rising number of affluent consumers and the increasing mobility of investment capital.

Low manufacturing capacity limits intra-African trade

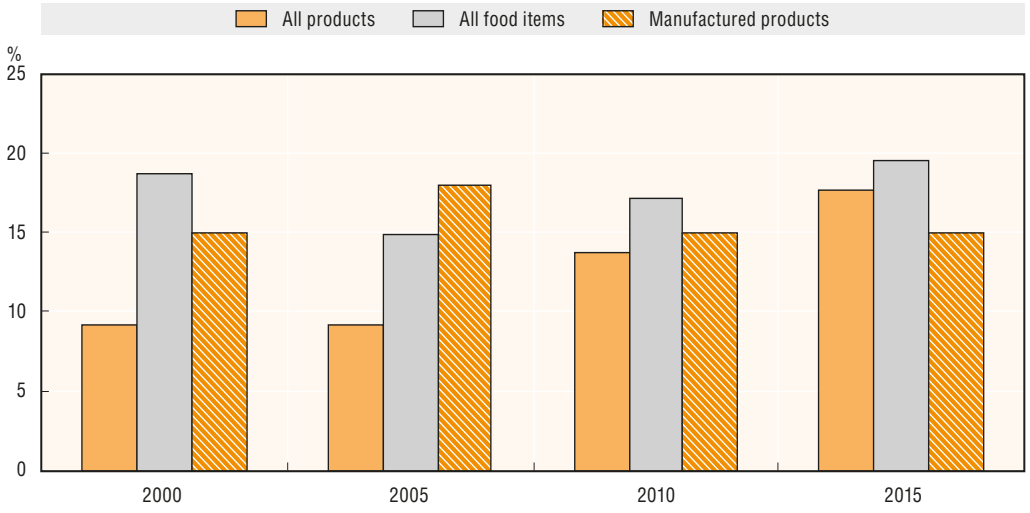
Despite the potential, intra-African exports in 2015 were only a quarter of the continent's total merchandise exports. This is far too low, especially compared to the 56% for the Americas, 60% for Europe and 67% for Asia (see Figure 3.8). Low manufacturing and processing capacity is a major limiting factor for trade among African countries. Intra-African manufacturing exports have not followed the trend in other products. Relative to food and other products, intra-African trade in manufacturing declined from 18% in 2005 to about 15% between 2010 and 2015 (Figure 3.9). Most of Africa's primary exports undergo little processing before they are re-exported. This is true for cocoa beans from Côte d'Ivoire and Ghana and crude oil and petroleum products from Nigeria. Petroleum exports from Africa to the rest of the world stood at USD 85 billion, yet Africa's fuel imports from outside the continent ranged between USD 63 billion and USD 84 billion from 2010 to 2015.

Figure 3.8. **Intra-regional exports of five world regions as a percentage of total exports, 2000-15**



Source: Adapted from UNCTAD data, http://unctadstat.unctad.org/.
StatLink http://dx.doi.org/10.1787/888933475152

Figure 3.9. **Intra-African exports as a share of total exports, 2000, 2005, 2010 and 2015**



Source: Adapted from UNCTAD data, http://unctadstat.unctad.org/.
StatLink http://dx.doi.org/10.1787/888933475163

Global economic developments are likely to have varying effects on trade with Africa

Integration into regional and global trade networks is still the ideal for most countries. However, the widespread and uneven impact of commodity price shocks and mounting criticism of the global trading system, especially through the United Kingdom's vote to leave the European Union and proposed protectionist policies in the United States, increases uncertainty about the future patterns of globalisation. In such erratic circumstances, countries need to make the best of globalisation by continuing to diversify their trade relations, particularly by deepening ties within Africa. At the same time, they must adequately manage existing risks.

A Chinese economic slowdown hits Africa more than other global partners

Several global trends have affected the direction of Africa's trade. A slowdown in the Chinese economy along with the commodity price decline and slow recovery of advanced economies have greatly impacted the value of Africa's trade globally. In 2015, China's overall imports declined by 18% but its imports from Africa shrank by 20%. The fall was particularly felt by Benin, Burkina Faso, the Republic of the Congo, Equatorial Guinea, Guinea-Bissau, Mozambique, Nigeria, Rwanda, Sierra Leone, South Africa, Sudan and Swaziland that constitute more than 75% of China's imports from Africa. While Africa's share of China's imports is declining, the continent's imports from China maintained an upward trend, and this added to Africa's unfavourable balance of payments.

Protectionist policies are unlikely to affect African exports to the United States

Protectionist policies discussed by the US administration that took office in 2017 may not affect Africa-US trade agreements. The new US government says that certain preferential trade agreements take jobs away from the United States. However, the African Growth and Opportunity Act (AGOA), the main Africa-US trade accord, involves mainly natural resources and low-value exports. As these have little or no bearing on the US job market, it is unlikely that AGOA will be directly affected by any new measures.

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AGOA is a vital part of Africa-US trade relations. It gives enhanced market access to the United States for sub-Saharan African countries that qualify. The framework covers more than 7 400 tariff lines, including coffee, foodstuffs, textiles and some apparel. With AGOA's renewal in 2015, it is expected that the framework will continue to support non-oil exports and the diversification of Africa's exports for the next ten years. Between 2000 and 2015, exports from sub-Saharan Africa under AGOA tripled from USD 1.4 billion to USD 4.1 billion (Office of the US Trade Representative, 2016). As Africa pursues export diversification to build resilient economies, AGOA will become increasingly important. Non-oil exports from Angola, Chad, Kenya, Nigeria and South Africa, including products such as fruit and nuts, cocoa and cocoa products, prepared vegetables, footwear, and cut flowers could become an increasingly vital source of revenue for small- and large-scale farmers in participating countries.

The Continental Free Trade Area will increase Africa's global trade appeal

The US withdrawal from the Trans-Pacific Partnership (TPP) and the formation of Africa's Continental Free Trade Area (CFTA) will strengthen Africa's appeal as a global trading partner. The TPP had been made up of Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam with nearly one-sixth of the world's population and 40% of global GDP. Until recently, this proposed agreement was still under negotiation. The United States withdrew from the TPP in January 2017 before a final trade accord had been drawn up.

The TPP could have adversely affected Africa's trade in a number of ways. It could have substituted Africa's exports to the United States with produce from member countries such as Chile, Mexico, Peru or Vietnam. Some of these countries have better international packaging and labelling standards than many African countries. The TPP could also have dampened any incentive for the United States to consider extending the agreed AGOA phase beyond 2025 and to include more countries and products. Some African economies such as Kenya and Mauritius have said they want a more mature and long-term trade relationship with the United States. However, whether the TPP proceeded or ceased, Africa's CFTA will increase the continent's appeal in global trade and potentially raise gains from Africa-US trade.[1]

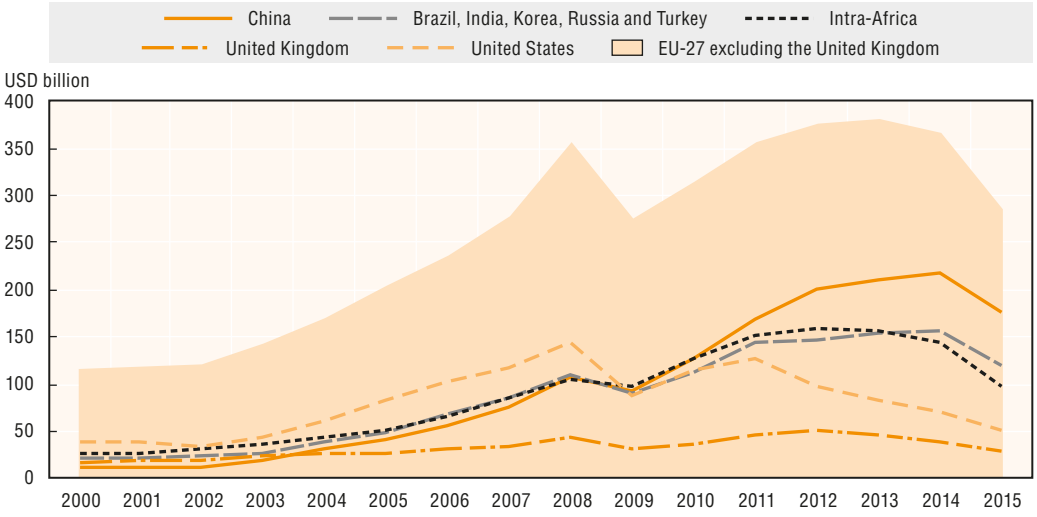
A close alternative to TPP is the Regional Comprehensive Economic Agreement (RCEP), a free trade area that comprises the ten members of the Association of Southeast Asian Nations (ASEAN) and Australia, China, India, Japan, New Zealand and South Korea with which ASEAN has free trade agreements. Unlike the TPP, the RCEP includes China, India and Japan, all major trading partners for Africa. The effect of this agreement on the South-South co-operation that Africa presses for is yet to be clearly understood. Given the diverse nature of the RCEP economies, the quasi-elimination of tariff duties on goods would allow for more trade among members. This could lead to a significant drop in Africa's exports to China, India and Japan (UNECA, 2015). The impact of RCEP on Africa could be larger if the agreement is extended to ease the movement of people and investment capital across borders.

The United Kingdom's exit from the European Union, or Brexit, is unlikely to have a negative impact on trade between the United Kingdom and Africa. The likely effect will depend on the level of Africa's trade with the United Kingdom. Despite the language and colonial heritage advantages that the United Kingdom has over many EU member countries, its share of Africa's trade has shrunk from about 8% in 2001 to 3.6% in 2015. Based on UK exports, it is unlikely that the reduction of its market access to the European Union will translate into reduced Africa-UK trade. Some African countries have more significant trade relations with the United Kingdom than many EU states, which could facilitate priority trade negotiations with the United Kingdom post-Brexit. Countries such as Gambia, Kenya, Mauritius, Seychelles and South Africa all have more than 20% of their

exports to the European Union go to the United Kingdom. There is no anti-trade rhetoric in Brexit, and any trade-related effects may only start unfolding once the United Kingdom has officially exited the European Union.

Greater trade ties between Africa and the European Union are also likely to minimise any adverse risks from Brexit. Since the Cotonou Agreement in 2000, several African economic communities have renewed commitments to Economic Partnership Agreements (EPAs) between the European Union and African, Caribbean and Pacific (ACP) countries. Recent developments include the signing of the first decision of the EPA Committee to adopt rules and procedures in some Central African states. In July 2014, Economic Community of West African States (ECOWAS) leaders endorsed an EPA for signature and in December 2016, East and Southern African communities agreed rules of origin after signing their EPA agreement earlier in the year (see European Union, 2017).

Figure 3.10. **Africa's total trade flows with selected partners and intra-African, 2000-15**



Source: Adapted from UN COMTRADE data, http://wits.worldbank.org/wits/.
StatLink http://dx.doi.org/10.1787/888933475171

Africa's regional communities champion trade policies and integration and face challenges

African governments have recognised that regional integration does not contravene national development objectives. Africa's 54 countries each form trade policies aimed at making trade contribute to wider national development goals. The multiplicity and sometimes conflicting nature of trade policies and the need to align with other countries for larger gains became the foundations for creating regional trade blocs. Some specific characteristics of African countries also helped. Small national economies, fragmented markets and constrained access to sea ports pushed some countries to pursue integration. Efforts to inter-connect African economies have taken several forms. There has been a gradual harmonisation of trade, production, infrastructure, financial, macroeconomic and employment policies. While these reforms have significantly evolved over time, the faster evolution in global trade necessitated moves to work closer together.

The African Union counts on economic communities to press regional integration

In 1991, the African Union's Abuja treaty established the African Economic Community to primarily provide the guiding principles and goals and a framework for

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regional integration. This political initiative steered the establishment of several regional economic communities (RECs). Today, the African Union recognises eight regional communities through which it implements regional integration:

The five North African countries in the **Arab Maghreb Union (UMA)**, established in 1989, aim to eliminate tariff and non-tariff barriers and to ease the free movement of people, services, goods and capital between member states. Practical implementation has been slow and the desired free trade area remains distant. Political instability and the subsequent political transition in some member countries such as Libya and Tunisia have contributed to the limited progress in negotiations (UNECA, 2017). There was also disruption in the union's initiatives following tension between Algeria and Morocco over the status of Western Sahara. According to export data, UMA is one of the least integrated of the African communities. In 2015, over 90% of exports from the zone went to non-African countries and only 3.4% to UMA neighbours.

The **East African Community (EAC)** had six members when established as a customs union in 2005. The EAC common market was established in 2010 to boost investment and improve members' productive capacity. This step is expected to facilitate the free movement of goods, labour, services and capital. Member states have committed to eliminate tariffs, non-tariff and technical barriers, harmonise standards and implement a common trade policy. The EAC's Common Market Protocol, which sets out the rules, is considered one of the most significant steps towards regional integration. The EAC became a full-force Common Customs Territory in 2015. According to the Office for the United States Trade Representative approximately 90% of all goods entering the EAC through the ports of Mombasa and Dar es Salaam now clear customs once on entry and are then taken to their final destination, even crossing borders, without new customs checks. This has sliced transit times from Mombasa to Kigali and Kampala. The 2016 African Regional Integration Index Report by the African Union, AfDB and UN Economic Commission for Africa (UNECA) shows the EAC as the most integrated region, based on the average score from the five criteria used.

Based on the exports of regional communities, Table 3.2 shows that the EAC has the second largest share of intra-REC exports of about 18%. The share of EAC exports to non-African countries is significantly lower, by 27 percentage points, compared to UMA and by at least six percentage points compared to the Inter-Governmental Authority on Development (IGAD). The EAC's success can in part be attributed to strong political will, its relative homogeneity and long established historical ties among member countries. To effectively sustain an efficient common market, the EAC needs to further standardise capital and labour regulations and ensure stringent competition policies that will prevent the marginalisation of member states with smaller economies.

The 19-nation **Common Market for Eastern and Southern Africa (COMESA)** spans northern, eastern and southern Africa. It was to become a common market in 1994. Six years later, eight members agreed to form a free trade area, with Burundi and Kenya joining in 2004. In 2009, an attempt to launch a customs union foundered because not all member states had aligned their tariff regimes with the common external tariff. Successive initiatives include harmonising transport regulations and standards implementing a COMESA Virtual Trade Facilitation System (CVFTS), an insurance system, and Regional Customs Bond Guarantee System. However, due to the distance between the member countries, COMESA has a low score in the 2016 African Regional Integration Index. Only 11% of exports from COMESA stay within the group. More than 80% of its exports in 2015 went to non-African countries.

Table 3.2. **Share of exports from Africa's regional economic communities to partner regions, 2012 and 2015 (% of total exports)**

	Share of exports to:					
	REC member countries		Non-REC member African countries		Non-African countries	
Regional economic communities (RECs)	2012	2015	2012	2015	2012	2015
Southern African Development Community (SADC)	17.3	19.5	2.3	2.7	80.4	77.8
East African Community (EAC)	19.7	18.1	13.9	15.2	66.4	66.6
Economic Community of West African States (ECOWAS)	7.6	12.1	5.0	6.3	87.4	81.6
Intergovernmental Authority on Development (IGAD)	14.4	12.0	12.8	14.2	72.8	73.8
Common Market for Eastern and Southern Africa (COMESA)	7.6	11.7	3.4	5.6	89.0	82.7
Community of Sahel-Saharan States (CEN–SAD)	6.8	10.4	3.1	4.7	90.1	84.9
Arab Maghreb Union (UMA)	2.1	3.4	1.3	2.7	96.6	93.9
Economic Community of Central African States (ECCAS)	0.8	1.5	4.1	4.9	95.1	93.6

Source: Adapted from IMF data, http://data.imf.org/.

At the time of its inception, the **Economic Community of West African States (ECOWAS)**, now 16 countries, was largely focused on enhancing living standards in member states through economic co-operation. ECOWAS has recognised the inextricable link between governance, peace and economic development. It has adopted a security mandate to help address conflicts in the region. It has envisioned attaining a near complete integration by 2020. In order to achieve this, ECOWAS adopted a common external tariff which became effective in January 2015. This was created on the basis that it would minimise lost revenues that may arise from competition in external tariff rates between the member states. The common tariff would also reduce the complexities associated with rule of origin requirements while helping to protect some emerging sectors. In 2015, about 12% of ECOWAS exports went to member countries, 6% to other African countries and about 80% outside of Africa. ECOWAS has since ratified a protocol on free movement of people. It is the top-ranked regional community for facilitating free movement of persons across borders. ECOWAS was third overall in the Africa Regional Integration Index 2016. Like other communities, non-implementation is one of the main factors holding back progress in many of ECOWA's regional integration initiatives.

The **Southern African Development Community (SADC)** is ranked the second most integrated regional community on the continent. Its 15 members announced a free trade area in 2008 though progressive removal of duties continued until 2012. The Democratic Republic of the Congo, one of the region's largest economies, is an SADC member but not a party to its trade protocol. Angola has also yet to submit its tariff offers to other member states. The group has contentious rule of origin problems among member countries. Some recent initiatives include agreement on a SADC Regional Development Fund to support regional integration steps (SARDC, 2016). Members have already approved the SADC Industrialisation Strategy and Roadmap 2015-2063 at a SADC Extraordinary Summit in April 2015.

The **Community of Sahel-Saharan States (CEN-SAD)** was established in February 1998 and obtained African Union recognition as a regional economic community in 2000. It has 28 members, the largest number of countries in a community, and includes most countries in western and northern Africa plus some in central and eastern Africa. In 2013, government leaders met to revive CEN-SAD, refocusing on regional security and sustainable development as priorities. Member countries have repeatedly indicated their commitment to regional integration through policy harmonisation and a free trade area, but limited progress has been made. Political instability in a number of member countries, especially in the north, and countries also being committed members of other regional blocs have slowed

progress. CEN-SAD has the lowest overall ranking in the 2016 African Regional Integration Index with particularly low scores in trade, infrastructure and production dimensions of integration. In 2015, CEN-SAD's intra-regional exports were only 10% of its total value. Total exports to the African continent accounted for 15% while 85% went outside Africa. Despite the slow progress in some aspects of integration, CEN-SAD is among the top-five blocs with the least restrictions on free movement of people. It has, however, been argued that this success may be due to the removal of travel restrictions in other regional communities that have overlapping membership with CEN-SAD (UNECA, 2017).

The **Economic Community of Central African States (ECCAS)** has also been dormant for many years due to protracted conflict in the Great Lakes region, particularly in the Democratic Republic of the Congo, which also involved Angola and Rwanda. The revived ECCAS now focuses on removing custom duties and restrictions on free movement of people and on promoting the establishment of a common external tariff, harmonised national policies and other initiatives to further co-operation among its 11 member countries. The first 20-year timeline to set up a free trade area was delayed by 4 years to 2004, when ECCAS established an free trade area with a commitment to launch a customs union by 2008. Despite the presence of a functional monetary union, the six-nation Central African Economic and Monetary Community, ECCAS has not succeeded in setting up a customs union. The region however does facilitate trade between members through mechanisms including one-stop border posts (UNECA, 2017). ECCAS has missed several deadlines for the implementation of its protocol on free movement of people. The founding treaty in 1983 established a protocol on free movement of people. Since then, follow-up initiatives in 1990 and 2000 meant to fast-track implementation of the treaty were not successful. CEMAC members inside the group have visa free travel. Other ECCAS countries require visas.

The eight-country **Intergovernmental Authority on Development (IGAD)** in eastern Africa was established to tackle drought and desertification in the Horn of Africa. In 1996, ten years after its creation, it refocused its objectives on regional economic co-operation to harmonise macroeconomic and sectoral policies, ease the movement of goods and services across borders, ensure food security and environmental protection, co-ordinate infrastructure investment, ensure regional peace, and promote the objectives of COMESA and African economic communities. Market integration through the practical involvement of the private sector has been a vital approach to IGAD's integration. In 2010, it revived the Business Forum, an initiative that engages the chambers of commerce of member countries to promote regional integration proposals. In addition, IGAD has prioritised the removal of cross border restrictions by focusing on improved interstate transport and communication. The 2016 Africa Integration Index ranked IGAD number one in terms of infrastructure. In terms of trade integration, over 12% of IGAD's 2015 exports were to other group members and 26% remained in Africa as a whole. The remaining 74% went to non-African countries. Though the agreement establishing IGAD emphasises free movement of people, there is no protocol in this area. Instead, member countries such as Djibouti, Ethiopia, Kenya and Uganda have bilateral free movement agreements.

Africa's regional communities face integration challenges

Despite progress, Africa's trade and regional integration faces several obstacles. The new concept of regionalism calls for more than just elimination of tariffs. It stresses a broader approach to reducing administrative and transaction costs and overcoming market segmentation. Facing these challenges requires scaling up infrastructure investment to improve connections between and within African countries. For instance, transportation and communication infrastructure for intra-African trade is less developed than those that connect Africa to the rest of the world. This undermines the impacts of regional integration on trade and development.

Complex issues including how to handle the conflicting terms of agreement in overlapping trade blocs and the rule of origin requirements need to be resolved to allow the full implementation of trade agreements (see Box 3.1 on rules of origin in Africa's free trade areas). In such circumstances, managing integration across countries and multiple economic agreements becomes even more challenging. These complications tend to remain even if governments follow the linear step-by-step model of goods, labour and capital markets integration, and eventually monetary and fiscal integration. The institutions of trade policy in many African countries need to be stronger to efficiently participate in trade negotiations.

Similarly, over concentration on harmonising or regulating import tariffs at the expense of other important supply-side factors does not meaningfully help Africa's integration agenda. A deeper integration that includes services, investment, competition policy and other domestic issues can address national-level supply-side constraints far more effectively than an agenda which focuses almost exclusively on border measures (Hartzenberg, 2011). This would certainly help to exploit opportunities to scale up African businesses and enhance over all competitiveness.

Box 3.1. **Preferential rules of origin and Africa's free trade areas**

As free trade areas are still the main regional integration agreement in Africa, the role of preferential rules of origin is important. These rules, which determine the economic nationality of a product, play a key role in preferential market access. They are meant to prevent trade deflection but can become the fine print that holds back an area's potential market integration.

The rules aim to find a balance so that only the free trade area's members benefit from preferential market access, while allowing flexibility in input sourcing to promote efficiency and competitiveness. This is not an easy task, especially as the rules can be used to provide effective protection to domestic industry. They can also become an important supply side issue that affect decisions by firms and as a result competitiveness.

Different rules of origin regimes clearly show the impact they can have on trade between Africa's regions. The difference between rules applied by SADC and COMESA is a case in point. SADC rules follow a product or sector approach. This allows specific interests to protect an industry or sector but simultaneously frustrates intra-regional trade opportunities. COMESA uses more across-the-board rules, though with some minor exceptions. The SADC rules were initially (when the SADC trade protocol was negotiated in the mid-1990s) very similar to COMESA. But they were never fully implemented and subsequently amended to follow a more restrictive product/sector approach (Naumann, 2011).

More recent developments, including the establishment of the TFTA for COMESA, EAC and SADC are easing trade processes by removing distortion effects of the rules of origin. Some agreements have already been reached on agricultural products wholly produced within the region.

Source: Hartzenberg, 2011.

What is widely considered as a last step for Africa's regional economic communities – free movement of people – may be the crucial first step. Information technology and payment systems are not well developed in many African countries. Online transactions are not common, and many business transactions require buyers and sellers to travel across country borders. Therefore, an important step in Africa's integration requires visa reforms to facilitate free movement of people across borders. Currently, apart from few bilateral and regional zones that permit visa-free travel, most citizens need visas to travel from one African country to another. In fact, only one African country offers free visa access to all other 53 nations, only 15 countries offer visa on arrival to at least 22 other

countries and nearly 40 countries require visa before travel for at least 22 other countries (AfDB, 2016). Lifting visa requirements can foster tourism, facilitate trade and investment and expand opportunities for talented people to exploit markets beyond their borders.

Political will is key to furthering integration for Africa's regional communities. More effort is needed from African governments to address the lack of implementation of agreements. Influencing political will is not always easy. It requires better understanding whether the absence of political incentives are a result of internal sovereignty matters or an outcome of incomplete information. Since 2000, political commitment to regional integration has improved, with countries committing to regional agreements, including agreements among multiple regional blocs.

Mega trade agreements can ease regional communities' bottlenecks

In 2015, COMESA, EAC and SADC signed a tripartite trade agreement to enhance market integration, infrastructure development and industrialisation. This mega trade bloc constitutes at least half of Africa's countries, its GDP and its population. Already 18 countries have signed the agreement though they are yet to ratify the instrument. Mold and Mukwaya (2015) estimated the potential benefits from eliminating tariffs within the mega trade bloc to be a nearly 30% expansion in intra-regional trade. The benefits are expected to help the manufacturing and food processing sectors more, contributing to export diversification and increased integration at the upper levels of global value chains.

In order to establish a single continental market for goods and services, free movement of business persons and investments, expand intra-African trade and increase the continents appeal as a global trade partner, the AU Heads of State committed to establish CFTA by October 2017. When implemented, Africa's Continental Free Trade Area will be the world's largest single free trade area by number of countries, with all the continent's 54 African states. The negotiations were launched in June 2015. It is hoped that successive steps will translate this initiative into a binding and functional trade agreement.

Overlapping membership, rules of origin obstacles and low implementation of agreements can be resolved in later stages of integration or through mega trade agreements. As regional economic communities move from free trade areas to customs unions or common markets, the issue of rules of origin will be resolved through common external tariffs. Similarly, moves toward giant trade blocs such as TFTA and the CFTA will minimise the effect of overlapping membership, especially if the rules in the tripartite trade area are superior to those of its component regional communities. The problem of low implementation of trade agreements can be addressed in part through enhancing the capacity of negotiators and policy makers to reduce uncertainty over integration agreements. Finally, one of the challenges that slows the implementation of common external tariffs and the transition to customs unions is potential revenue losses, especially for countries dependent on tariff revenues. It is more important for countries to assess gains from trade relative to revenue losses than to focus on lost tariffs.

Regional integration success requires action on supply and demand limitations

Africa must work to deepen regional integration. Progress has been made with cross-border infrastructure investment projects on the rise, political commitment improved and regional communities engaging member countries to reduce trade-related inefficiencies. Co-ordination and monitoring of regional trade agreements is essential for their success. Building on these achievements would require broadening their scope and depth within and across countries and increasing private sector engagement to address pertinent supply-side factors.

Regional transportation and energy achievements need to be reinforced

African countries should seize opportunities presented by increasing energy and transportation links. Apart from ports, improving the large number of roads and rails that connect borders to internal growth centres could slash the time and cost of doing business in Africa. Major transport corridors such as the Maputo Development Corridor linking South Africa to Mozambique, the Trans-Kalahari Corridor linking Botswana, Namibia, South Africa and Tanzania and the recent electric rail linking Djibouti and Ethiopia should be replicated to reduce distance and facilitate trade. Similarly, development planning should focus on locating new economic activities around existing infrastructure. Evidence shows that African regions with longer transport corridors attract a larger density of trade (AfDB, 2014). Efforts should also be scaled up to improve efficiency in transport corridors by eliminating administrative obstacles to transit and crossing borders.

Aviation and maritime efficiencies also need to be examined to support trade and investments on the continent. Boeing's long term forecast for 2014-2033 indicates that, driven by a positive economic outlook, increasing trade links, and the growing middle class, traffic to, from, and within Africa is projected to grow by about 6% per year for the next two decades (UNECA, 2016). To prepare for this positive economic outlook, airport infrastructure requires major investment and masterplans for hubs need to overcome the challenges facing intra-African connectivity. Similarly, economic integration into the broader network of world trading systems is highly dependent on hub ports. Key measures in the process to transform ports into regional hubs include fostering and financing integrated port and transport facilities and associated land use. Also, introducing policies that enhance competition are necessary to increase efficiency (AfDB, 2010).

Increased energy trading across borders highlight Africa's progressive integration. The lack of adequate and reliable energy limits production capabilities in many African countries, while some have large untapped energy generation capacity to share. Effectively linking these two strands could trigger a jump in production, productivity and trade. The "New Deal on Energy for Africa", spearheaded by the African Development Bank, proposes a transformative partnership to mobilise support and funding and push for needed energy sector reforms to achieve universal and reliable access to energy by 2025. This initiative aims to mobilise an additional USD 40-70 billion annually in domestic and international capital for Africa's energy sector.

At the United Nations climate change meeting, or COP 21, in 2015, African leaders launched the Africa Renewable Energy Initiative to accelerate and scale up the harnessing of the continent's huge renewable energy potential. It aims to install 10 giga watts (GW) of additional capacity by 2020 and increase it to 300 GW by 2030. Success in this initiative would lift several factors constraining productivity and trade.

Infrastructure enhancement needs to be complemented by trade facilitation

Regional integration would also mean more trade if in addition to hard infrastructure, such as roads and electricity networks, countries invested in soft infrastructure, such as legal and financial systems and customs procedures to curtail the cost and time taken to clear goods. Trade facilitation can significantly reduce costs by focusing on lowering barriers along Africa's trade corridors. In many regional communities, tariffs have been significantly lowered but the time and cost of moving goods across borders remains high.

The Boosting Intra-Africa Trade action plan of the African Union and the Trade Facilitation Agreement of the World Trade Organisation both seek to expedite the movement, release and clearance of goods, including those in transit. These initiatives,

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combined with inter-continental infrastructure projects, can significantly change the course of trade in Africa. Some projects are already contributing to significant cost reduction and timesaving. For example, between 2006 and 2011, the Mombasa-Kampala corridor reduced import times by 33 days and exports by five days. A corridor linking Chad, Central African Republic and Cameroon is believed to have reduced transportation costs after road and rail improvements. The Walvis Bay Corridor Group sliced the average SADC clearance time from 48 hours to just two hours in Namibia and Zambia.

Regional financial integration can resolve bottlenecks emanating from Africa's fragmented financial markets. Harmonisation of regulation frameworks, financial infrastructure and instruments can deepen and broaden Africa's financial sectors. The sequence of economic integration often starts with regional trade agreements and moves onto custom unions, common markets and then financial integration. Because most of Africa's integration initiatives are still at the early stages of this sequence, the continent has not witnessed extensive levels of financial integration.

Free movement of people can further facilitate intra-African trade

Complete regional integration means the lifting of restrictions on the movement of people across borders. Africans need visas to travel to more than 75% of African countries. Travel restrictions vary from region to region, with North and Central Africa considered the most restrictive regions, as noted by a recent African Development Bank (AfDB/OECD/UNDP, 2016) report. It said that African countries that are relatively well off economically, such as those in the upper-middle-income group, tend to have more travel restrictions.

The complexity of visa processes, cost and time taken to get visas are major restrictions on travel. Pioneer cases such as the Seychelles, the only African country with free visa access for all Africans, can be emulated. In addition, improving access to information, simplifying procedures and reducing the cost of entry visas can bolster the regional integration agenda. There are a number of good initiatives that can be scaled up to ease the movement of people. Visa-free regional blocs such as ECOWAS and regional bloc visas as in the East Africa Tourist Visa could be models for a continental-level visa-free initiative, or a continental visa valid in all African economies. These initiatives would be in line with the African Union's call for an African passport to facilitate free movement of people. The passport has already been issued to heads of state and some senior African diplomats since July 2016 when it was first unveiled at an African Union summit. The African Union wants to have at least visa-free travel across the continent for all Africans by 2020. Travel processes can also be simplified with the use of electronic visas such as those used by Côte d'Ivoire, Gabon, Nigeria, Rwanda and others. Standardising application processes across countries could also help.

The private sector could be crucial for Africa's regional integration

The private sector has for long been recognised as the engine of growth but the conditions necessary for its effective participation are not really present. Unlocking private sector potential will require better infrastructure, efforts to bridge fragmented markets coursed by borders, and freeing people and goods to move across borders.

Africa's infrastructure deficiency alone is estimated to lower companies' productivity by 40% (UNCTAD, 2017). This leads to increased production and distribution costs, lowers competitiveness and deters the adoption of new innovation technologies. Most firms in Africa are relatively smaller and often weakly connected to other firms in the same industry.

Freeing the movement of goods and services across Africa's borders helps private sector participation because it expands market size for businesses and enables the movement of human and physical capital towards areas where they are most needed. Ease

of input mobility increases productivity and competitiveness and expands possibilities for local and foreign investors.

Private sector participation in trade policy formulation and negotiations can ease implementation by ensuring that real-world concerns are raised. The lack of political will and in some cases insurmountable practical implementation challenges are the main causes for the low implementation of regional trade agreements. For this reason, the involvements of the private sector in trade negotiations could address many hurdles that constrain trade and regional integration in Africa. Clearly, other factors such as a well-defined government vision and mandate play a vital role in directing government and private sector resources towards improving conditions for business. This is where RECs can also play a transformative role towards a continent-wide integration.

Note

1. At regional and continental levels, other US trade initiatives include US-East Africa Community (EAC) Trade and Investment Partnership, the Trade Africa Initiative, Trade and Investment Framework Agreements, and US bilateral investment treaties.

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Chapter 4

Human development in Africa

This chapter presents human development in Africa and its close links to entrepreneurship. It highlights the importance of investing in people – including their health and nutrition, knowledge and skills, and decent jobs and livelihoods – in order to unlock entrepreneurial activity across the continent. It discusses strategic actions in achieving significant reduction in risks of future progress such as unemployment, inequality and vulnerability.

IN BRIEF

Advancement in human capabilities is central to development in two ways – first, as an integral part of advancing development (including poverty and inequality reduction), and second as a platform for promoting productivity and entrepreneurship. Given the potential for a virtuous circle of human development and economic growth, investments in education and skills, health and nutrition, and social protection are also investments in inclusive growth and entrepreneurial development. It is only with the support of a productive, skilled and entrepreneurial labour force that Africa will be able to harness its demographic dividend. Human development is about creating opportunities and building people's capability for innovation and entrepreneurship.

The outlook is positive. There is a high degree of convergence in a shared agenda and associated political will across Africa's leaders and their partners for prioritising human development to underpin entrepreneurship and economic growth. Moving forward together with innovative policies and programmes will help ensure the demographic dividend is unlocked and the objective of "leaving no one behind" across Africa is achieved.

Did you know?

- 18 African countries have medium to high levels of human development.
- Multidimensional poverty fell in 30 out of 35 African countries.
- The largest human development gap due to inequality is in West Africa.
- Education levels are improving across the continent, and the gender gap is narrowing.
- The SDGs, Agenda 2063 and AfDB's High 5s can help accelerate human development.

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Africa's human development

Led by Rwanda, Ghana, Liberia, Comoros and DRC

Multi-dimensional poverty fell in 30 out of 35 African countries...

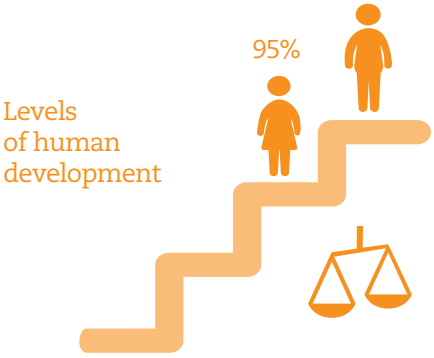


2005 2015

... but 54% of the population in 46 African countries is still considered multi-dimensionally poor



Women in Botswana, Namibia, Rwanda, Lesotho, and Mauritius achieve almost equal levels of human development as men



These countries also have the lowest levels of gender inequality in terms of economic, social and political empowerment

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Human development is both a means and an end

The 1990 Human Development Report articulated two fundamental reasons for the importance of human development: it is as an intrinsic good; and it is as a means to achieve other development objectives.

Human development is an end in itself

We recognise that human development has an intrinsic value. Given the multidimensional nature of poverty, it is clear that investing in the dignity and capability of people is integral to the development project. Investment in the various dimensions of human development – basic health, education and social protection – empower people to move out of poverty, equip people to be socially mobile and to avoid exclusion, as well as improve resilience for both individuals and society as a whole. Investment in women's education, for instance, has a particularly beneficial impact on individual, child, and household health and welfare, as well as on equality. Investments in human development all combine to promote social and political stability. In this regard, human development underpins the global Sustainable Development Goals (SDGs), the Africa Union's Agenda 2063 and the African Development Bank's High 5s Agenda. The three agendas see people as the means to, and end of, development. Improving life expectancy, reducing the scourge of malnutrition and strengthening health status are major drivers of the quality of poor people's lives. Education, at all levels, is what equips communities to build knowledge, skills and livelihoods and to prosper. Access to social protection measures help to provide both a springboard for entrepreneurial activity and to bolster the resilience of poor households in the face of shocks.

However, as this chapter will illustrate, human development is more than advancement in welfare – it is also an enabler of growth. Without improved human development outcomes, Africa cannot realise the potential of its demographic dividend and inclusive growth.

Human development is an enabler of growth

The economic rationale for better human development is incontestable. Human development is a major determinant of growth in general, and of inclusive growth in particular.[1] This emerges from both economic and social choice theories and the wider empirical literature.[2] Investment in health and education improves the productivity of the labour force, including its capacity for innovation. In turn, increased productivity, other things being equal, delivers higher growth. Therefore, investment in human capital, particularly primary health care and secondary education, can have long-lasting positive effects on the economy. Human development allows a large segment of the population to participate in, and benefit from, the growth process.

Education – particularly post-primary education from the age of about 12 – is a critical dimension of human capital development and fundamental to harnessing the demographic dividend. Better educated and healthier people tend to earn higher wages. Research has proven that combining broad-based secondary education with universal primary schooling provides a significant boost to skills development and knowledge in poorer countries. The evidence suggests that an extra year of education raises economic growth by 1.2 percentage points per year, while an increase in school enrolment of 1% results in improvements in gross domestic product (GDP) per capita growth rates of 1 to 3% for post-primary male education (Barro, 1996; Wilson and Briscoe, 2004). In developing countries, the potential returns are much higher: an extra year of schooling in Indonesia led to an 8.7% increase

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in wages (Duflo, 2001); in Kenya it increased wages by 11.3%; and in Tanzania by 8.3% (KfW, 2007). It is precisely this investment in human capital that would allow African countries to benefit from the demographic dividend offered by the continent's young population.

Investing in human development, particularly secondary education, makes growth more inclusive. Healthier and better educated workers are more likely to participate in opportunities created by economic growth. Human development also encourages foreign and domestic investment, as companies locate to where there is a healthy workforce with the requisite skills. The role of human capital in improving resilience in the face of fragility and climate change magnifies these effects.

Africa is increasingly investing in social protection systems for the poorest and most vulnerable. This supports growth by smoothing consumption, boosting local markets and building resilience to shocks. A total of 40 African countries now have cash transfer programmes targeting the poorest for example (World Bank, 2015), providing them with the security to invest in their health, education and livelihoods, thus boosting inclusive growth.

Human development is a means of accelerating economic diversification and value chains

Human development is a prerequisite to Africa's economic transformation. Entrepreneurship will play an important role in opening up income-generating opportunities across Africa. This role was reaffirmed by the UN General Assembly in its resolution A/RES/67/202 adopted in December 2012, on "Entrepreneurship for Development" which acknowledges the role of entrepreneurship as "an engine of decent employment generation" (UN, 2014). Capabilities and opportunities are particularly diverse in agriculture, services and the creative industries, where the majority of Africans are employed. Over 60% of African employment is in agriculture where the potential for enhanced productivity and value chain development is high (AfDB, 2016f). This sector is also important for youth employment if modernised. To unlock the potential of "agri-preneurs" requires adequate investment in skills and health as well as in the transformation of the sector (including access to irrigation facilities, extension services and improved inputs), access to finance, extension services and an assured market for their products.

The state of human development in Africa shows positive results despite global shocks

This section documents the current state of human development in Africa. It considers trends in levels of human development including poverty, education, health and decent jobs, highlighting the improvements being made across the continent. It also explores three specific risks to future improvement in human development outcomes: unemployment (especially among the youth), inequality and vulnerability.

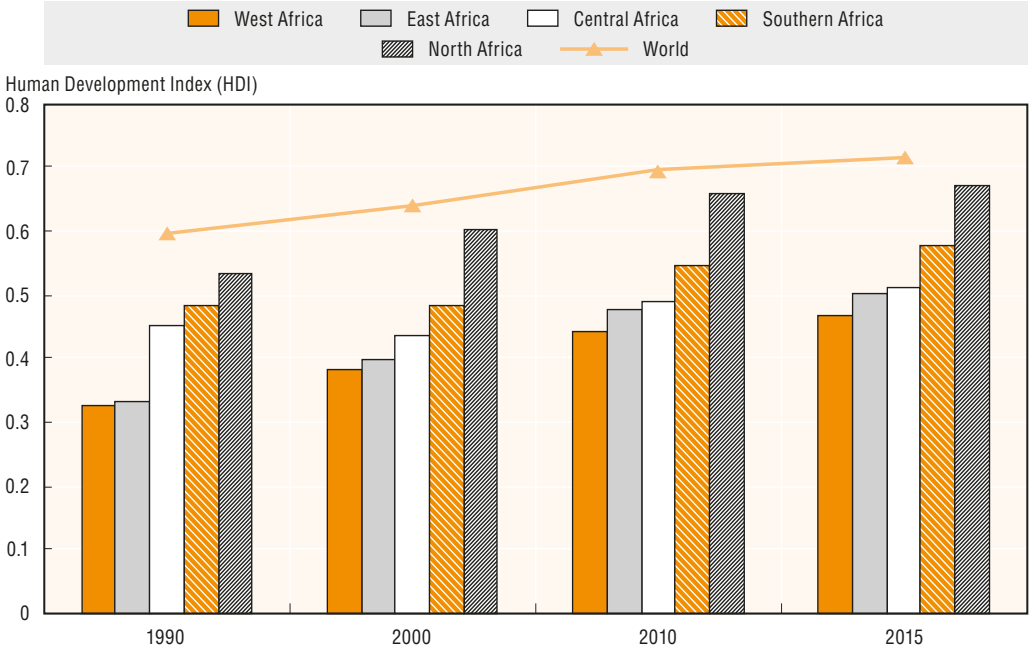
Human development is improving in Africa

Since the turn of the 21st century, Africa has shown steady progress on human development, as measured by the UN Human Development Index (HDI). The HDI measures the level and progress of core development indicators – health, education and standard of living focusing on human capabilities and choices. At least a third of African countries have now achieved medium to high levels of human development. North Africa has the highest levels, approaching the world average, but all sub-regions have seen steady improvement (see Figure 4.1).

The rate of progress in Africa is accelerating rapidly. Despite the lull in the global economy and the primary commodity cycle, especially between 2010 and 2015, African countries made faster progress in human development than all other regions except South Asia. During this period, Africa's annual rate of HDI growth was 1.04%, second after South Asia (1.25%) and ahead of East Asia and the Pacific (0.92%), Europe and Central Asia (0.63%), Latin America and the Caribbean (0.58%) and Arab States (0.45%) (UNDP, 2017b).

Importantly, it is not just those countries with high mineral resource endowments that are seeing improvements. Countries without substantial natural resources are also making significant progress in areas such as health, education and improved quality of life. Both the share of people living in poverty and the depth of poverty are falling in many countries. The global Multidimensional Poverty Index (MPI)[3] measures levels of poverty using health, education and living standards. Since 2005, multidimensional poverty has fallen in 30 out of the 35 African countries with time series data. Rwanda recorded the most progress, followed by Ghana, Liberia, Comoros and the Democratic Republic of the Congo (DRC). But significant progress in the fight against poverty can be found in all countries. Some districts of the Republic of the Congo, DRC, Kenya, Lesotho, Mali, Mauritania, Tanzania and Uganda have made faster reductions in poverty than Rwanda. However, 54% of the population in 46 countries – 544 million people – are still considered to be multidimensionally poor (Alkire et al., 2016).

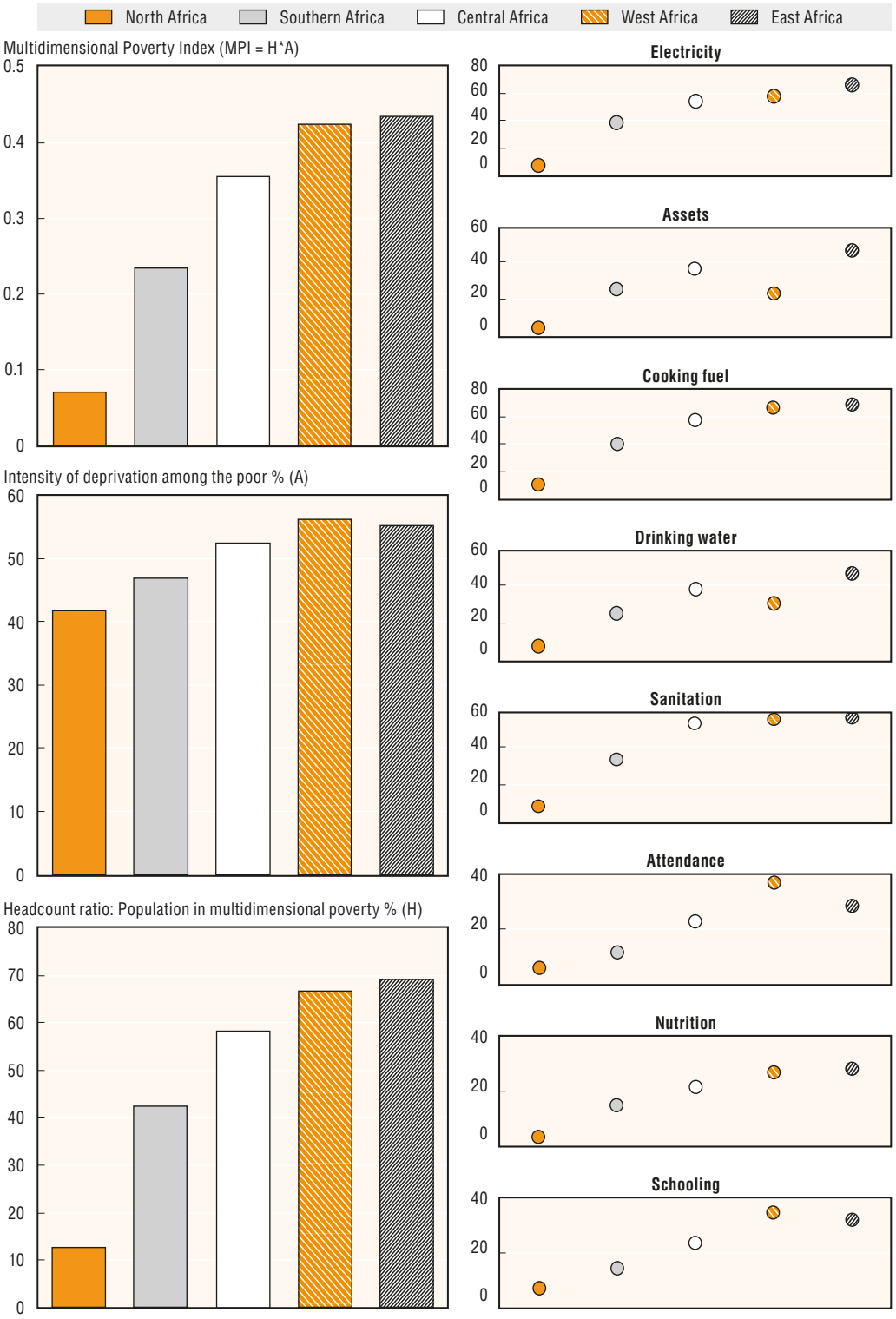
Figure 4.1. **Human development levels by region of Africa, 1990-2015**



Source: *Human Development Report* (UNDP, 2017a).
StatLink http://dx.doi.org/10.1787/888933475189

Poverty trends at continental, regional and sub-national levels hide a wide variety of differential experience across communities. Deprivation related to access to cooking fuel, electricity and sanitation contribute the most to poverty across Africa as a whole. Nutrition is a significant challenge faced by East Africa, while schooling deprivation is highest in West Africa, as illustrated in Figure 4.2.

Figure 4.2. **Multidimensional Poverty Index and dimensions by African region**

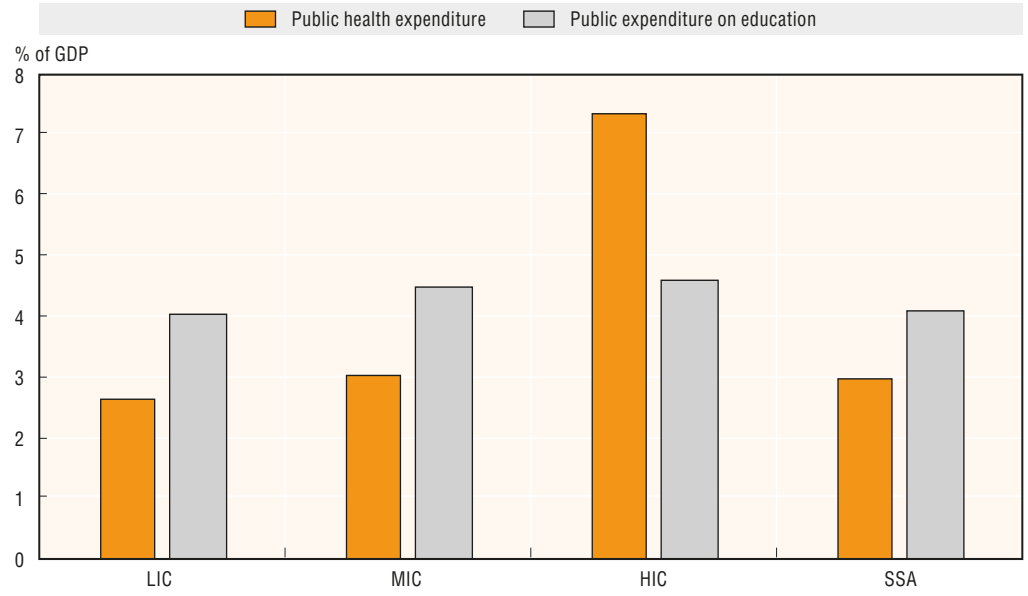


Source: Adapted from *Global MPI Database* (OPHI, 2016).
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African countries are investing in human development

African governments have demonstrated the priority they give to human development through their level of investment in the social sector. Reviewing the most recently available data from 2012, Figure 4.3 shows that public expenditure on human development continues to grow as countries become wealthier.

Figure 4.3. **Public expenditure on health and education**
(GDP shares)



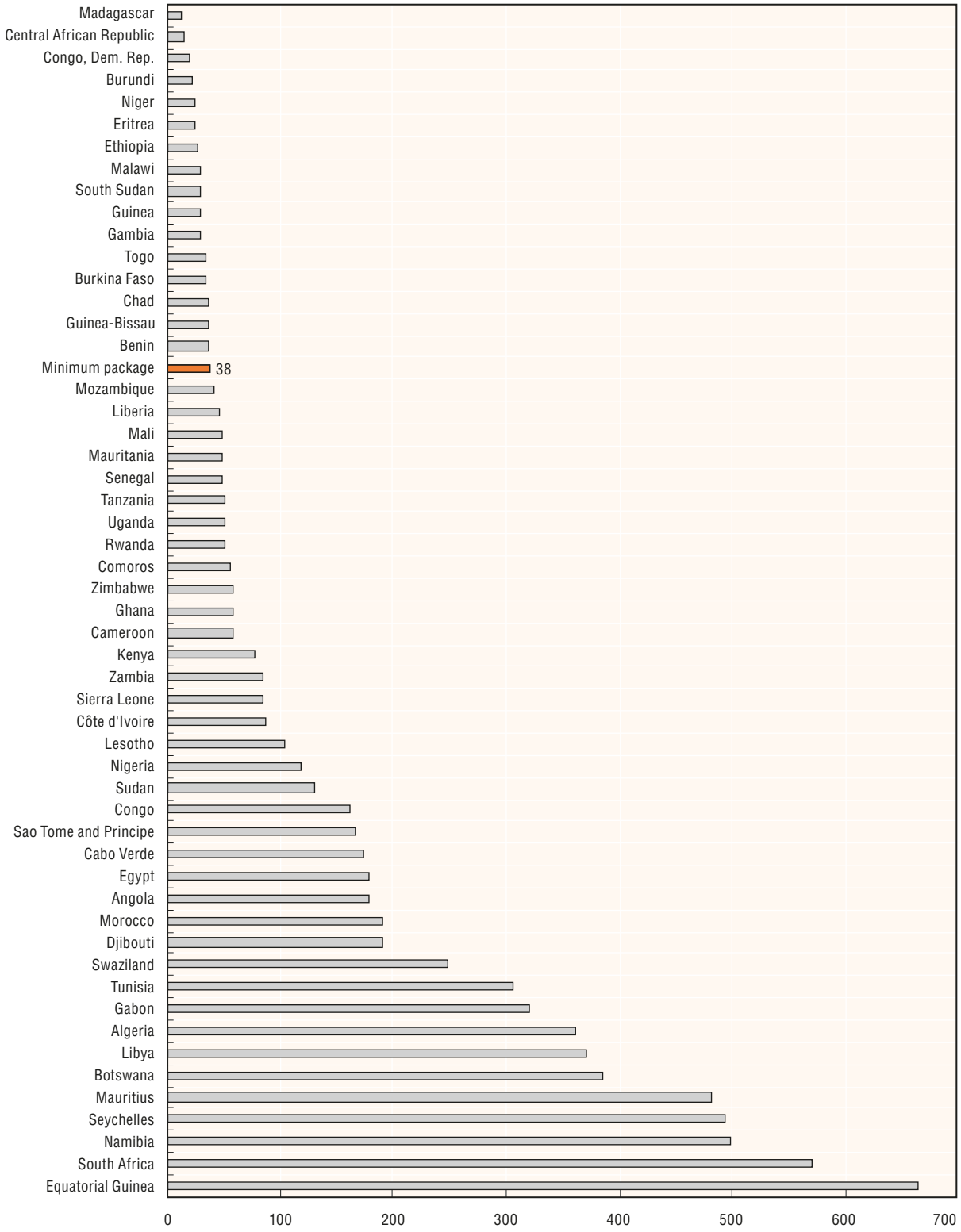
Source: Global 2012 data from World Bank (2016), *World Development Indicators*.
StatLink http://dx.doi.org/10.1787/888933475559

Some African governments already invested at considerably higher levels than the average, demonstrating the high priority attached to human development, even during a period of fiscal austerity. Public expenditure on health is up to 8% of GDP (in Lesotho, for example), while public expenditure on education is above 6% of GDP in Ghana, Malawi, Morocco, Mozambique, South Africa, Swaziland and Tunisia. However, many African countries continue to spend far less. Cameroon and Nigeria, for example, spend less than 1% of GDP on health (World Bank, 2017). Health expenditure remains below the 15% of government spending threshold prescribed under the 2001 Abuja Agreement.

However, there remains a significant financing gap. The minimum per capita expenditure for essential health services recommended by the 2001 WHO Commission on Macroeconomics and Health for low-income countries is USD 38.[4] While many African countries have achieved and surpassed that figure, 30% have not (see Figure 4.4).

African governments have also scaled up spending on education. Total expenditure on education in sub-Saharan African as a share of total expenditure is only surpassed by that of East Asia and Pacific and Latin America and the Caribbean (Figure 4.5). Compared to the 16.4% regional average, more than ten countries recorded above 21.0%.[5] However, some countries mainly those emerging from conflict or still mired in conflict lag behind the regional average by as much as 50%.

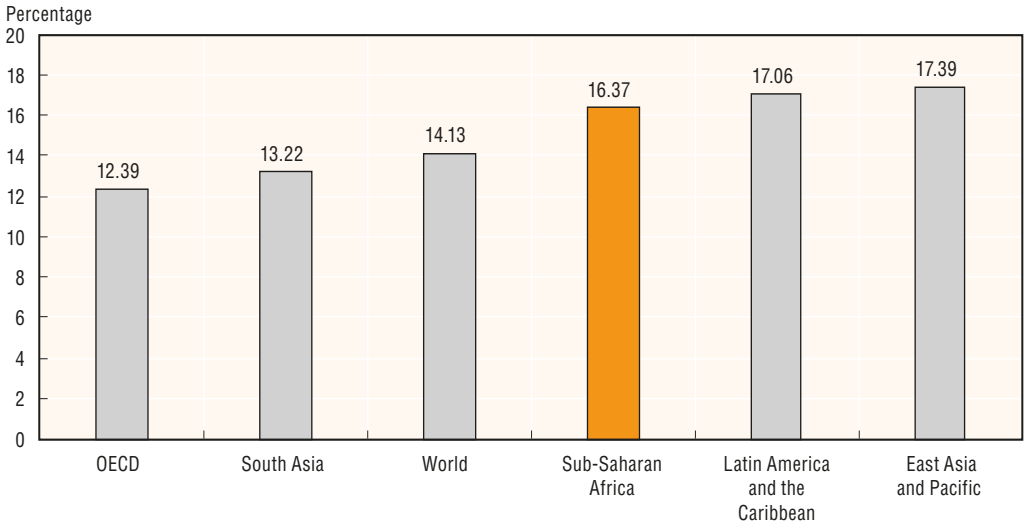
Figure 4.4. **Health expenditure per capita in African countries, 2014**
(current USD)



Source: World Bank (2017), *Health Nutrition and Population Statistics*.
StatLink http://dx.doi.org/10.1787/888933475207

Social protection systems are gaining traction across Africa. There is now 20% social protection coverage across Africa (World Bank, 2012), almost all of which has emerged in the last decade. The number of African countries with unconditional cash transfer programmes increased from 21 in 2010 to 40 in 2014, reaching 50 million people (World Bank, 2014). Although this remains low relative to other regions, the value of social safety nets has clearly been recognised across the continent.

Figure 4.5. **Total government expenditure on education, 2010-14**
(% of government expenditure)



Source: *World Development Indicators*, http://data.worldbank.org/indicator/SE.XPD.TOTL.GB.ZS (accessed in April 2017).
StatLink http://dx.doi.org/10.1787/888933475218

As highlighted in Chapter 2 of this report, the private sector will increasingly become the primary source of development finance in future. The same is true in the human development sector. Africa already benefits from investment in health and education services from private, community or corporate finance. About half of health spending in sub-Saharan Africa (SSA) comes from the private sector (AfDB, 2013b). While most of that is out-of-pocket expenditure, affordability may be an issue given the level of poverty. In this regard, there is a move to establish health insurance schemes. For instance, Rwanda's Community Based Health Insurance Program has placed the country on the path of universal health coverage (see Box 4.1). Egypt and Tunisia are other examples of higher health insurance coverage rates at 78% and 100%, respectively (Elgazzar et al., 2010). In Lesotho, the coverage rate is 50% of the population, 44% in Mauritius and 30% in Sierra Leone (World Bank, 2015c). In Ghana, the government added a National Health Insurance levy of 2.5% to value-added tax to finance national health insurance (White, Hodges and Greenslade, 2013).

Box 4.1. **Community-based health insurance in Rwanda**

In 2004, Rwanda formally implemented voluntary community-based health insurance (CBHI) schemes, integrating them into existing healthcare provision and financing systems. The CBHI programme is subsidised: premiums from subscribers cover half of the fund and the rest is from a consortium of contributors – including a designated government fund, cross-subsidy from other public insurance systems, non-governmental organisations and development partners. By 2010, more than 86% of the population (8.6 million people) were covered by CBHI schemes.

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Box 4.1. **Community-based health insurance in Rwanda** *(cont.)*

The CBHI has led to a significant increase in access to basic healthcare. Annual per capita out-of-pocket expenditure has reduced significantly. The incidence of catastrophic healthcare spending has declined by 20 percentage points, while health-related extreme poverty has fallen by 8 percentage points. The extreme poverty gap fell as well. With such a significant increase in healthcare utilisation, protecting households from health-related risks of financial bankruptcy and impoverishment, the CBHI is a model that could be replicated in other countries with comparable results, if well executed and adequately financed.

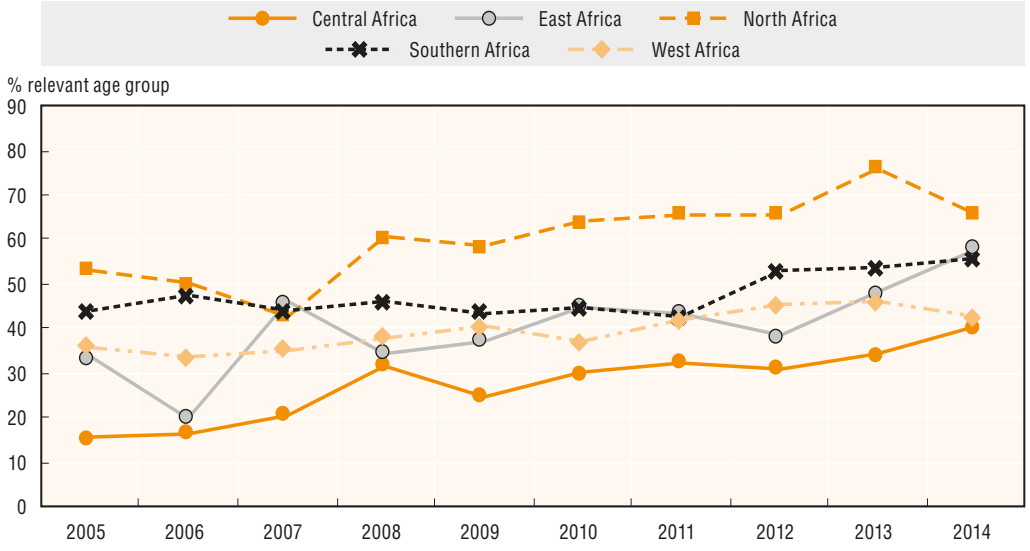
Source: AfDB (2016b), *A Program that Works: The Impacts of Rwandan Community Based Health Insurance Program*.

Africa continues to achieve positive results in education, health and social protection

Africa's increased expenditure on human development is producing results. Education levels are improving across Africa, albeit from a relatively low base, and the achievement gap between males and females is narrowing. Over the last ten years, secondary education completion rates have risen for all regions (Figure 4.6). Moreover, as Figure 4.6 shows, this improvement has been for both male and female students, producing progress towards gender equality in education. In North and Southern Africa, the percentage of the age group completing secondary schooling is higher for girls than boys. In East and West Africa, the gender gap has been reduced since 2005. Even in Central Africa, where female completion rates are the lowest in Africa, the gap is rapidly narrowing - with nearly three times as many girls completing secondary school since 2005 (Figure 4.7). Efforts to consolidate and sustain this process must be ensured.

Figure 4.6. **Trends in lower secondary school completion rates by region of Africa, 2005-14**

(% age group)

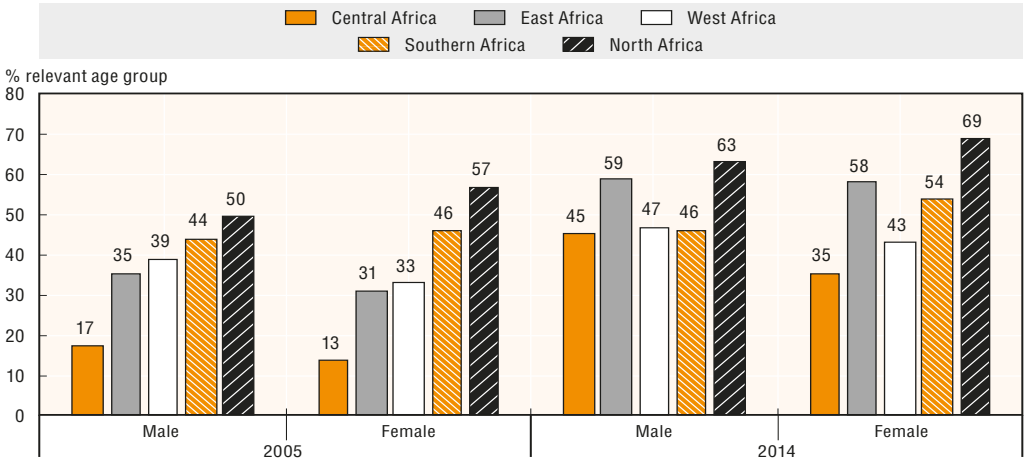


Source: World Bank (2016), UNESCO Institute for Statistics (2017).

StatLink http://dx.doi.org/10.1787/888933475224

Figure 4.7. **Gender composition of secondary school completion by region of Africa, 2005 and 2014**

(% age group)



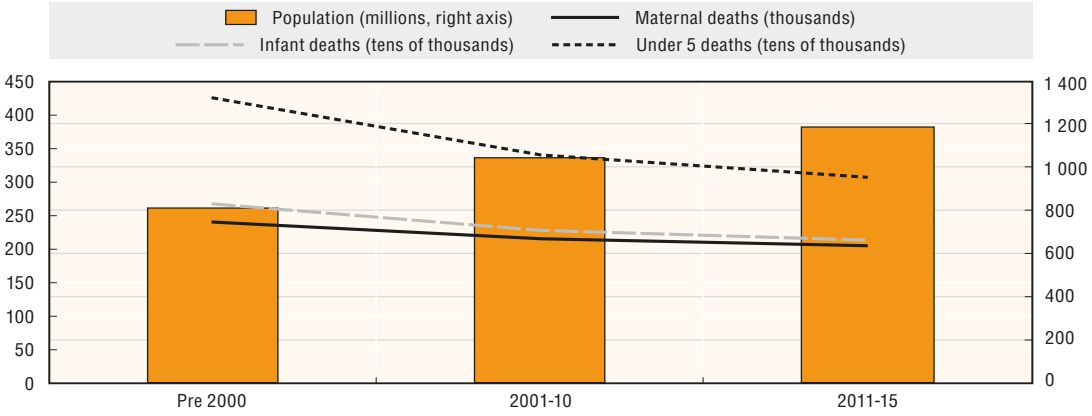
Source: WDI (2016), UNESCO Institute for Statistics (2017).
StatLink http://dx.doi.org/10.1787/888933475234

This progress will bolster the human capabilities and skills available to drive innovation, technology transfer diffusion and productive enterprise across African countries. To continue to build on the successes and ensure further acceleration, policy measures will be required to reduce adolescent pregnancy and increase female participation in both secondary school education and in the workplace (UNDP, 2016).

In public health, sub-Saharan Africa still lags behind the world in most areas, but significant progress has been made. From 1990 to 2008, the maternal mortality ratio fell by 66% in North Africa and by 44% in SSA and this trend has continued. Thanks to the aggressive implementation of the Campaign of Accelerated Reduction of Maternal Mortality in Africa (CARMMA), infant mortality rates also fell by 30% over the same time period, while the under-five mortality ratio halved from 1970 to 2010 (AfDB, 2013b). Figure 4.8 shows that the absolute number of maternal, infant and under-five deaths has fallen consistently across Africa, while population has increased. Progress has not been universal, however: the countries hardest hit by the HIV/AIDS epidemic (such as Botswana and Zimbabwe) and by conflict (such as South Sudan) experienced some setbacks.

Figure 4.8. **Africa's declining trends in maternal, infant and under-five deaths despite population growth**

(absolute numbers)



Source: World Bank (2016), *World Development Indicators*.
StatLink http://dx.doi.org/10.1787/888933475242

Future challenges include the double burden of communicable disease, particularly HIV/AIDS, malaria and tuberculosis (TB), alongside the increasing burden of non-communicable diseases such as cancer, diabetes and cardiovascular diseases associated with a growing middle class. Strengthening healthcare systems (including in managing the urbanisation trend), improving value for money and equity in access to health services are important priorities for the continent going forward (AfDB, 2013b).

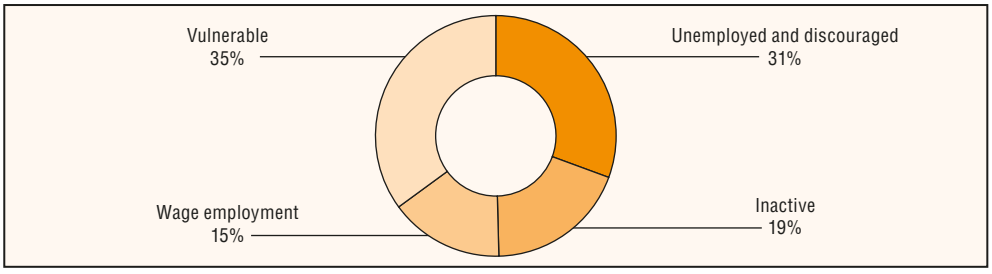
Unemployment remains a major challenge for the continent

High unemployment reduces the level of decent income that can be generated and weakens diversity of livelihoods in an economy. Unemployment across Africa is high, particularly in middle-income countries, reaching up to 50% in some countries. While low-income countries report very low rates of unemployment, the statistics are misleading, masking high levels of underemployment, particularly large informal sectors with low returns and high rates of vulnerability. The informal sector accounts for up to 80% of Africa's labour force (AfDB, 2016d). Africa's impressive economic growth record over the last 15 years has not generated much employment, as it has been concentrated in capital-intensive areas, like the extractive sector, or primary products that do not require much labour. To overcome jobless growth, Africa needs structural economic transformation – that is, the large-scale shift of labour from low to more productive sectors or activities. With rapid population growth, this is an urgent challenge: without diversified, productivity-driven and broad-based growth, Africa will continue to create fewer jobs than there are new entrants to the labour market.

For young people, the lack of jobs is the most pressing challenge. Despite their improved education, young Africans still suffer from both poor health and a lack of employable skills, as well as limited access to financial assets to start their own businesses. The mismatch between the education curriculum and labour market needs – the lack of skill content of the educational system – is a major factor. As a result, they suffer disproportionately from high unemployment. Given current demographic trends, the youth employment challenge will only become more critical.

Across Africa, youth are three times more likely to be unemployed than adults (ILO, 2015). The AfDB estimates that half of all youth are either unemployed or inactive while 35% are in vulnerable jobs (Figure 4.9) (AfDB, 2016d). Gender inequality makes the situation worse for females. Of concern, the youth unemployment rate increases consistently with the level of education, suggesting that Africa's education systems are not preparing people for the labour market. Youth who have completed tertiary education are two to three times more likely to be unemployed than the youth with primary education or less (ILO, 2015).

Figure 4.9. **Youth employment status in Africa, 2015**
(% of youth)



Source: AfDB (2016c)

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Despite the potential for "agri-preneural" activity, Africa's youth are moving away from agriculture to jobs in the informal service sector that provide few opportunities for advancement. The non-modernisation of the sector makes it unattractive to youth. According to the International Labour Organization (ILO), the service sector is the largest employer for youth in most African countries (ILO, 2015). Partnership initiatives such as the ENABLE Youth

Program are aimed at changing young people's perceptions of agriculture. The ENABLE Youth Program focuses on agribusiness as a means of economically empowering Africa's youth, with target investment of USD 12.5 billion to support enterprise and job creation for youth and women in 25 African countries.

Inequality is a major challenge

Despite progress in improving human development in Africa, inequality related to geographic location, gender, human capabilities and economic opportunities is slowing down progress on human development across Africa. Africa has the largest differences in distribution of benefits of human progress across the world. The overall loss in human development from inequality in Africa is 32%, compared to a global average of 22%.

Africa has one of the highest levels of income inequality in the world. The average Gini coefficient in Africa is 0.43, compared to 0.39 for other developing countries (Bhorat, Naidir and Pillay, 2016). Only Latin America exhibits greater inequality. This is of major concern because there is a strong relationship between inequality, economic growth and the rate of poverty reduction in Africa. High inequality lowers the poverty-reducing power of growth, so that the benefits accrue to a smaller proportion of the population. At present, half of Africa's income goes to just 10% of the population. In 2010, six of the world's ten fastest growing economies were in Africa. Yet in 2011, six of the ten most unequal countries were also in Africa (AfDB, 2013a).

In addition, gender inequality is high. The Gender Inequality Index measures the disparities between women and men in health and education, as well as in political participation and economic empowerment. It shows that, in low gender inequality countries such as Botswana, Mauritius, Namibia, Rwanda and South Africa, women achieve up to 96% of men's development. At the other extreme, in countries with high inequality levels such as the Central African Republic, Chad and Niger, women's development is 24% lower than men's. On average, due to discriminating social norms and harmful cultural practices, women achieve 87% of men's level of human development in Africa. Essentially, social norms that limit women and girls from reaching their potential also have deleterious effects on men and boys, as well as communities, thereby holding everyone back from achieving higher human development (UNDP, 2016).

Gender gaps persist in Africa in access to economic assets, workplace participation, entrepreneurship opportunities, and benefits from natural resources and the environment. According to estimates by UNDP, a 1% increase in gender inequality reduces overall human development by 0.75% (UNDP, 2016).

Africa is vulnerable to economic, conflict and natural disaster shocks

As discussed in earlier chapters, global headwinds, such as low commodity prices, have had a significant impact on Africa, particularly on primary commodity and oil exporting countries. These countries have suffered losses in terms of trade that have threatened to reverse gains in human development. Often, short-term shocks due to a fall in commodity prices or other sources of economic hardship hit the poor and the vulnerable most, leading also to worsening income inequality.

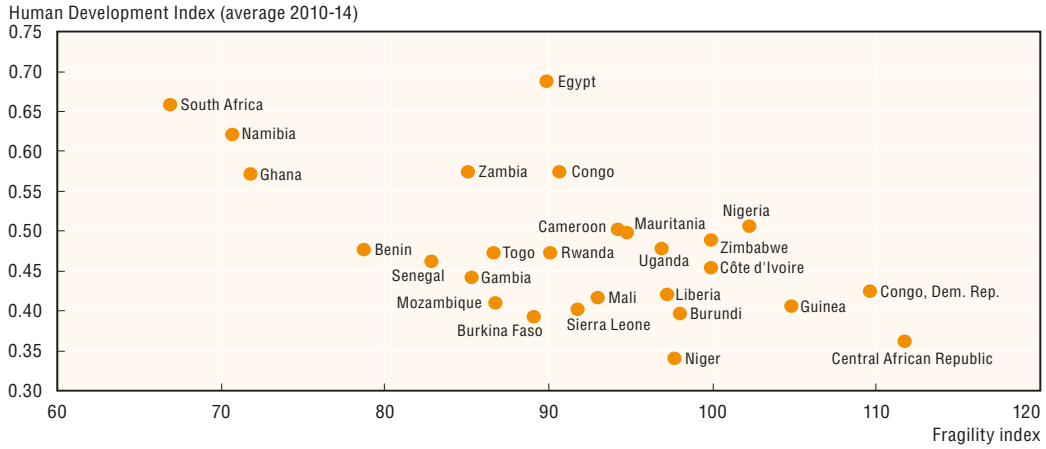
Countries dealing with fragility,[6] related to political instability, conflict, climate change and natural disasters, continue to exhibit the lowest levels of human development. The number of Africans affected by conflict is still high. The intensity of conflict fell from 55.0% in 2002 to 24.0% in 2011. Yet Africa accounts for 11 of the 20 countries with the highest likelihood of conflict, globally (Odusola et al., 2017). In 2015, out of the 65.3 million people forced to flee their homes because of violence and persecution globally, 37% lived

in the Middle East and North Africa, and a further 27% were south of the Sahara. In Africa, the most affected countries were Sudan (3.5 million people displaced), Nigeria (2.2 million), South Sudan (2.1 million) and the DRC (1.9 million). Evidence from Figure 4.10 shows that most countries experiencing fragility have low human development index. Peaceful countries like Ghana, Namibia and South Africa are associated with high human development index relative to those experiencing fragility.

Africa also saw an increase in numbers affected by natural hazards, particularly drought and flooding. In 2014, 7.6 million people were affected across the continent. That figure rose to 23.5 million in 2015. Almost half of the people affected (up to 10.2 million requiring emergency food assistance) were in Ethiopia (Development Initiatives, 2016). Climate change and its effects will mean these hazards increase in future, once again, having the most impact on the poorest who are least resilient.

Building resilience therefore needs to be part of the human development agenda. Even when households have made progress on human development, weak capacity to anticipate, prevent and recover from shocks threatens reversals. It is imperative that building resilience through increasing inclusive growth, supporting peaceful societies, preventing conflict, and averting and reducing disaster risk are considered an integral part of efforts to promote economic and human development.

Figure 4.10. **Correlation between Human Development Index and Fragility Index**



Source: Computed from the databases of UNDP Human Development Report Office, http://hdr.undp.org/en/data, and Fund for Peace http://fsi.fundforpeace.org/.

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Harnessing Africa's demographic dividend requires investing in skills and innovation

This section explores how the potential afforded by Africa's demographic dividend can be unlocked. It highlights the virtuous circle between human development and economic growth. It goes on to consider the relevance of innovation to unlocking Africa's demographic dividend and the potential for creating employment opportunities for Africa's youth and women. It concludes by documenting lessons learned about the centrality of skills and learning to this agenda.

There is potential for a demographic dividend

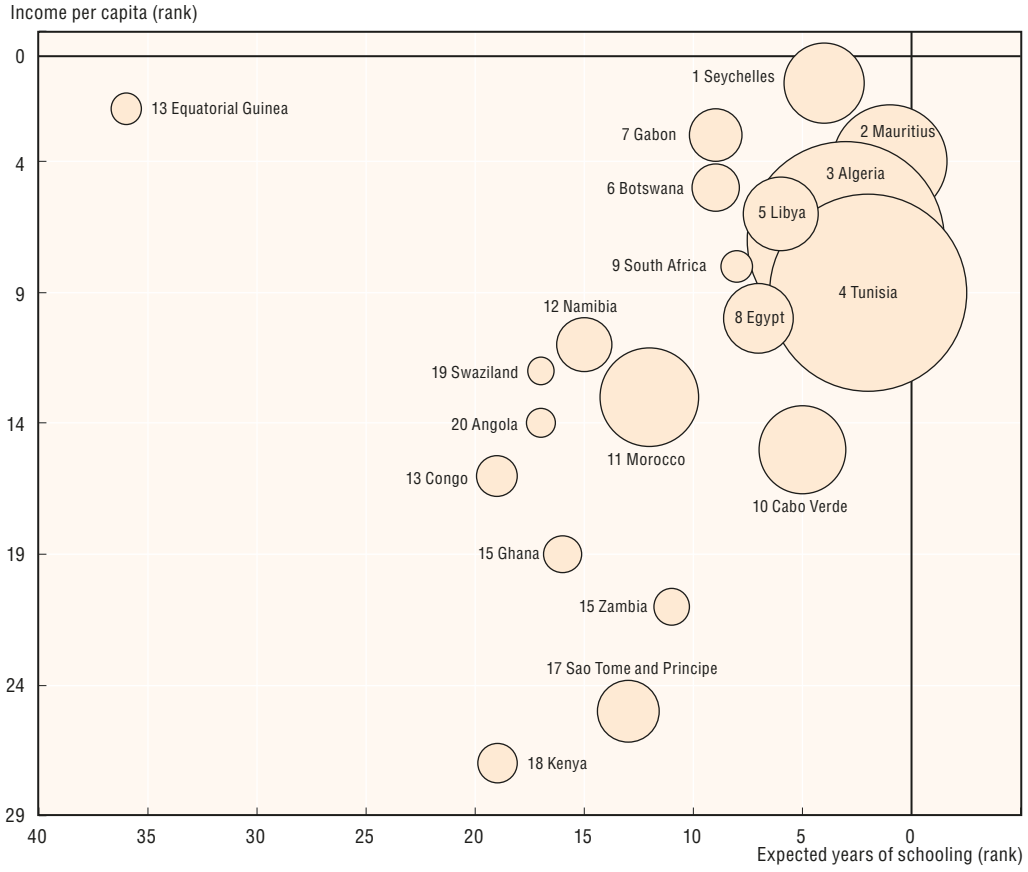
By 2050, Africa's population (currently 1.2 billion people) is projected to more than double. This entails a sharp increase in the youth population – by 2050, Africa will be home to 38 of the 40 youngest countries in the world, with median populations under 25 years of age (United Nations Population Division, 2015). As a result, the labour market will grow with an estimated 12 million new people joining the labour force each year (Pitamber and Foko, 2017).

The demographic challenge of ensuring adequate human development and employment opportunities for the youth bulge is both Africa's biggest opportunity and the biggest threat to its stability and growth prospects. A large labour force can help to propel Africa's economic transformation, by enabling it to compete successfully for labour-intensive industries like textiles. On the other hand, if young people are not given opportunities to work and improve their standard of living, it may present a real threat to social and political stability – particularly in rapidly growing urban areas. The amount invested in providing human development services for young people, particularly their education and skills, will help to determine whether Africa is able to harness the demographic dividend rather than risk a demographic time bomb.

In a virtuous circle, human development can enable as well as result in economic development

The good news is that investment in human development results not only in poverty reduction but also in growth, which, in turn, enables greater investment in human development. Conversely, if human development is insufficient, it acts as a major cost of doing business and can constrain growth, which in turn limits investment in human development. Figure 4.11 presents the correlation between human development status and economic growth: countries are ranked in terms of highest years of schooling and highest per capita incomes. There is a clear linear relationship between years of schooling and incomes.

Figure 4.11. **Top 20 African countries by dimensions of human development, 2015**



Note: The size of the bubble represents a higher rank in terms of life expectancy at birth.
Source: *Adapted from Human Development Report* data (UNDP, 2017a).
StatLink http://dx.doi.org/10.1787/888933475273

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Ramirez, Ranis and Stewart (1998) explore these relationships across 72 countries and find that high growth without strong investment in human development leads to countries falling back into low economic growth paths. To achieve and maintain the virtuous circle, countries need to invest in education and skills, health and nutrition, and income and gender equality.

Innovation is needed to capture the potential of Africa's youth bulge

Africans are dynamic and innovative. Countries with low human development are establishing new businesses at a higher rate than more advanced ones. Countries that are still considered to be in the early stages of economic development, with lower per capita incomes and higher reliance on primary commodities, also have the highest proportion of the working population establishing businesses – early stage entrepreneurs. This pattern is also present in Africa, where countries with lower HDI values have higher levels of business ownership.

Support for skills and entrepreneurship spurs further innovation, leading to a virtuous circle. In South Africa, a review of five social and environmental firms dealing with farmer enterprise development and recycling found that they contributed to reduced unemployment, increased income diversification and improved livelihoods for marginalised communities. Social and environmental entrepreneurship, also known as eco-entrepreneurship, combines the goals of social improvement and the sustainable use of natural resources through economically viable enterprises. The beneficiaries of these firms then reinvest income into other micro-businesses and add value to locally available raw materials, creating new value chains (SEED, 2015).

Innovation and entrepreneurship can also broaden access to social human development services directly. For example, the spread of mobile telephone services across Africa has demonstrated the enormous potential of innovation to provide services for the poor. Entrepreneurship in the provision of low-cost rural health and education services (including health insurance and e-learning) are among the sub-sectors being supported by the Boost Africa Initiative (see Box 4.2).

Box 4.2. The Boost Africa Initiative: Innovative support for entrepreneurial activity

The Boost Africa Initiative is a joint collaboration between the AfDB, the European Investment Bank and the European Commission, with other partners expected to join or co-finance. It has an initial budget of EUR 150 million to deliver innovative, additional and long-term financial capacities in Africa; provide business advisory services and skills transfer for youth entrepreneurs to help them grow in an efficient and sustainable way; and improve knowledge, information, and networks regarding the development of entrepreneurship and of small and medium-sized enterprises (SMEs) in Africa. Youth entrepreneurs are prioritised for support in sectors with development impact, including healthcare, education, agriculture/agribusiness, manufacturing and climate mitigation. Boost Africa is expected to help create and grow 1 500 innovative businesses, create 25 000 direct jobs and 100 000 indirect jobs, and improve environmental, social and management practices in African youth-owned SMEs.

Source: AfDB (2016e), Project Appraisal Report: Boost Africa Investment Program.

Better education increases the development returns from new enterprises

The impact of new enterprises on employment levels rises with the level of human development. Most entrepreneurs starting up a business in a relatively high development country have expectations of creating six or more jobs in five years. Countries such as

Nigeria, Senegal, Uganda and Zambia have some of the highest levels of new businesses but also relatively low expectations around job creation. Only 3-20% of the new entrepreneurs in these countries expect to create more than six additional jobs in five years. On the other hand, 26-40% of the new entrepreneurs in Botswana, Egypt, South Africa and Tunis expected to create additional jobs (GEM, 2015).

The risk is, therefore, that in countries with low human development, rising levels of entrepreneurship will not deliver the expected boost to employment. Boosting skills levels seems to be a key factor in maximising the development return from entrepreneurship.

Evidence of success emphasises skills development as a central element of business services

Quality education and training drive skills and innovation to take full advantage of market opportunities. For instance, mobile and information technology helps innovations in agriculture, manufacturing and services sectors such as finance, transportation, healthcare and tourism, which in turn allow entrepreneurs to capture market and growth opportunities. Countries with limited educational advances, such as low access to secondary and tertiary education, may have challenges in turning the youth bulge into youth gains through skill and entrepreneurship development.

While the levels of entrepreneurship are encouraging, most new businesses in Africa and other continents do not thrive. This subsection considers evidence of conditions for success on which Africa can build.

Successful start-ups in Africa have underlined the important role of support services and social norms. Burkina Faso, Ghana and Uganda have seen a higher transition of early entrepreneurs to established businesses. Analysing their experiences, four critical success factors emerge (GEM, 2015):

- First is the presence of government programmes that support the development of small and medium-sized enterprises (SMEs).
- Second is the incorporation of training in creating or managing SMEs in vocational schools, colleges and business schools.
- Third is the presence of property rights and of commercial, accounting and other legal and assessment services and institutions that support or promote SMEs.
- Finally, there are social and cultural norms that encourage new business methods or activities.

Skills and business incubation services feature prominently as determinants of success in supporting entrepreneurial activity. Africa has over 400 such incubators or accelerators (AfDB, 2016e). Further project-level evidence comes from UN capacity strengthening programmes – such as the United Nations Conference on Trade and Development (UNCTAD) Empretec Programme and the ILO Start and Improve Your Business (SIYB) Programme. These programmes found that improving entrepreneurial skills, behaviour and mind-sets, when combined with access to finance and business support services, generates significant results.

Reviewing their portfolio of programmes to support youth employment, entrepreneurship and SME development, the AfDB highlighted six key lessons learned for success:

1. Youth employment interventions are often partial, focusing on only one aspect of the situation. Skills, business services, finance, linking employees and employers, and other factors need to be addressed holistically.
2. Many interventions do not fully consider the needs and desires of the youth themselves.
3. There is fragmentation of effort across different actors. Within governments, a variety of ministries deal with youth employment directly and indirectly but usually in the absence of a co-ordinating structure such as a national action plan. Engaging the private sector and donors further hampers co-ordination.
4. Implementation of interventions is often ineffective.
5. Data gaps, including on the labour market data, need to be filled to enable better analysis of the youth employment market.
6. Innovative financial instruments for youth are needed to leverage the private sector.

These and other examples of success have led to new thinking across Africa on how best to promote jobs for youth. For example, Box 4.3 details the recent AfDB Youth Employment Strategy focused on Integration, Innovation and Investment.

Box 4.3. **AfDB's youth employment strategy**

The AfDB's 2016 Strategy for Jobs for Youth aims to create 25 million jobs over ten years through three channels:

Integration – The youth employment agenda will be integrated across the Bank project and programme portfolio to maximise leverage, and support will be provided to African governments to do the same.

Innovate – The Bank will incubate, implement, assess and scale promising solutions through an innovation and information lab to learn and to share good practices and will develop an enabling youth employment index.

Investment – There will be direct investment and leverage to increase investment in youth employment and the entrepreneurship ecosystem.

Source: AfDB (2016d), Bank Group Strategy for Jobs for Youth In Africa, 2016-2025.

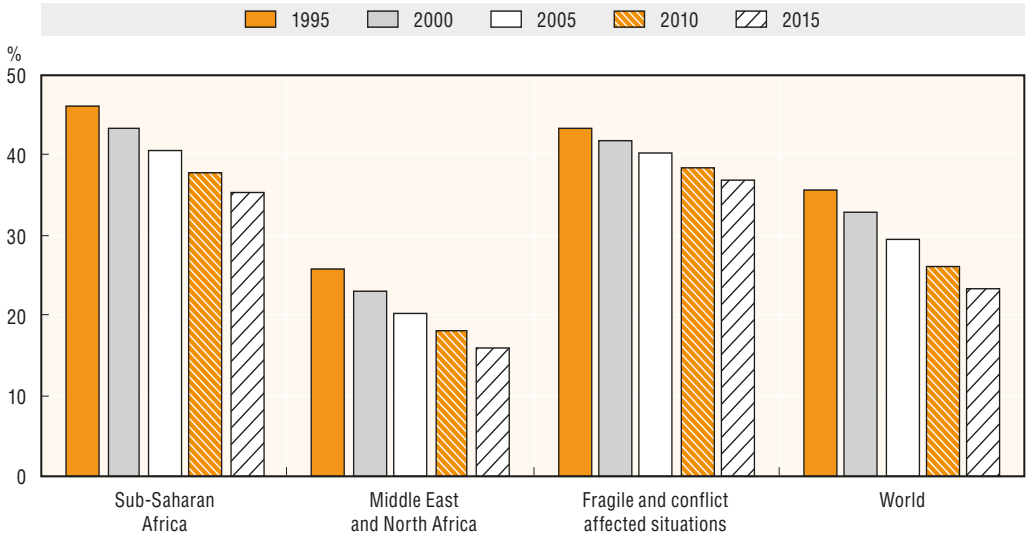
Investing in health and nutrition remains a critical priority to underpin productivity, growth and resilience

This section considers the value of health and nutrition as enablers for innovation and entrepreneurship and the potential to build cost-efficient social protection measures to help bolster resilience.

Malnutrition has a cost Africa cannot bear

Approximately one in every four Africans is malnourished (232 million) (AfDB, 2016a). The scourge of malnutrition is a fundamental breach of human rights as well as an appalling waste of human potential. Nutrition not only matters for quality of life, but it is also a key driver of productivity – poor childhood nutrition and stunting have adverse impacts on lifetime learning, productivity and income. The effects of malnutrition are long-term and trap generations of individuals and communities in the vicious circle of poverty (European Parliament, n.d.). Figure 4.12 highlights that Africa is making steady progress in reducing malnutrition. But in 2015, 35% of children under 5 years old, or more than 1 in 3, in sub-Saharan Africa were stunted (with malnourishment affecting height for age). This is equivalent to global rates some 20 years ago. The situation is worst in fragile and conflict-affected countries.

Figure 4.12. **Malnutrition prevalence among children under five years old, height for age**
(% of children)



Source: World Bank(2017), *Health Nutrition and Population Statistics*.
StatLink http://dx.doi.org/10.1787/888933475286

To maximise the potential of every individual, and society as a whole, ending the scourge of malnutrition is a high priority. According to estimates by UNICEF, the annual cost of poor nutrition in sub-Saharan Africa is USD25 billion. Estimates of its impact on GDP range from 2-3% (World Bank, 2006) to as much as 16% in the most affected countries (WFP, 2013). The AfDB suggests that Africa loses 11% of GDP every year due to poor nutrition, while about 20% of maternal deaths in Africa are linked to poor nutrition during pregnancy (Adesina, 2016).

> ***"The greatest contributor to economic growth is not physical infrastructure, but brainpower, what I refer to as 'grey matter infrastructure'…Stunted children today leads to stunted economies tomorrow."***
>
> Akinwumi Adesina, President of the African Development Bank (Adesina, 2016)

In May 2016, the Global Panel on Agriculture and Food Systems for Nutrition and the AfDB launched the African Leaders for Nutrition initiative, bringing together heads of state and other leaders from across the continent to champion and increase investment in nutrition. The Global Panel estimates that increased investment to meet the World Health Assembly target of reducing stunting by 40% by 2025 could add USD 83 billion in additional GDP growth in 15 sub-Saharan African countries. Countries with the most to gain are Nigeria, with an expected USD 29 billion increase in GDP, and Ethiopia, with a potential USD 16 billion increase (Global Panel, 2016).

Improving nutrition is therefore an important policy response in order to provide the basis for continued economic growth. One study found that investment in the nutrition of manual workers improved productivity by 17-20%.[7] More generally, the Global Panel found that the potential benefits per dollar invested in reducing chronic undernutrition range from USD 14 in Mali up to USD 21 return in Senegal (Global Panel, 2016).

A corrigendum has been issued for this page. See http://www.oecd.org/about/publishing/Corrigendum_AEO_2017_ENG.pdf

Poor health has crippling costs

The risks of poor health, and pandemics in particular, have a potentially enormous impact on damaging productivity, trade, investment, tourism and thus growth. This suggests a strong preventative case for investing in effective health systems – as was apparent during the 2014 Ebola epidemic in West Africa. The loss to GDP per year between 2014 and 2017 is USD 4.9 billion in West Africa (UNDG – Western and Central Africa, 2015). With over USD 10 billion in lost income and recovery costs in the West Africa region, the Ebola outbreak demonstrated the cost of underinvesting in human development. The cost of building effective public health systems in Guinea, Liberia and Sierra Leone are estimated at just a third of the cost of the Ebola response to date (Summers, 2015). The fiscal impact alone for the three affected countries was USD 500 million in 2014, equivalent to 5% of their combined GDP. But the impact on their economic growth was much more significant: the World Bank estimated that in 2015 alone, the three countries lost USD 2.2 billion in foregone economic growth.

The effects were also felt by the SSA region as a whole, which may have lost up to USD 6.2 billion over the same period. Contagion effects include losses in tourism bookings of up to 70% in Gambia, Kenya, Mozambique, Namibia and South Africa (Songwe, 2015). In Guinea, Liberia and Sierra Leone, growth rates fell by up to 11 percentage points from pre-Ebola forecasts in 2015, pushing growth rates negative in Guinea and Sierra Leone.[8] The loss of over 500 healthcare workers to the disease is also a tragedy with wider impacts on society – particularly for maternal mortality, which is expected to increase by up to 75% (World Bank, 2015b). While the direct mortality from Ebola was 11 000, stopping malaria care in 2014 to deal with the outbreak led to a further 10 000 deaths (Mullan, 2015). The Ebola Recovery Plans for the three countries for the 2015-17 period total a further USD 4.64 billion (Mullan, 2015). Ebola has thus demonstrated the enormous value of investing in quality health systems.

The Committee on Macroeconomics and Health reports global estimates for the cost of major disease outbreaks. TB is expected to have an economic impact of USD 1-3 trillion over the next decade, with a 4-7% loss of GDP due to productivity losses. The WHO (2002) estimates that TB costs the poor USD 12 billion annually. Malaria reduces annual growth rates by 1.3% and HIV has reduced SSA annual growth per capita by 2-4 percentage points (11 studies reviewed in Dixon, McDonald and Roberts, 2002). The cost of disease is not limited to the cost of deaths and treatment; it has much wider impacts on economic growth for countries and regions as productivity is reduced, tax revenues fall, imports of drugs increase, and travel and trade are impacted through fear. This is strong evidence of the value of improved health systems and pandemic response capacity in Africa.

The poor suffer disproportionately from the burden of ill-health. Investment in health. Investment in health is therefore pro-poor, as well as enabling a productive workforce to boost growth. The risk of future pandemics in Africa makes scaling up support to regional health systems a major priority.

Social protection is an effective tool in building resilience

Social protection reduces inequality, risk and vulnerability by building community and household resilience. It can therefore help to reduce destabilising factors that might otherwise reduce growth and entrepreneurship. Social protection mechanisms can promote innovation and skills development by mitigating risks for young entrepreneurs and spurring innovation and risk taking. They can also help to promote individual and community resilience during downturns and their ability to recover from shocks. Ensuring access to key social services for the young, aged and infirm frees up individual and family resources for productive investment, which is usually essential in the initial stages of enterprise development. Social protection programmes across Africa have been

instrumental in helping improve productivity (through education) and managing fragility and shocks, including enabling policy reforms (World Bank, 2012).

For vulnerable groups excluded from the growth process, social protection helps reduce poverty and inequality and does so cost-effectively, relative to other forms of aid. Before 2011, USD 180 per capita of humanitarian aid had not been able to stop the increase in poverty in Ethiopia. At USD 34 per capita, the Productive Safety Net Programme not only stopped the increase, but started to reduce poverty levels. A meta-analysis of social transfer programmes (White, Hodges and Greenslade, 2013) found cost transfer ratios varying from 1.05 to 2.11 (meaning the cost of transferring USD 1 to a beneficiary ranged from 5 cents to USD 1.11, with a cluster of results in the 29-59 cents range). African programmes saw costs from 34 cents (Kenya CT-OVC programme) and 55 cents (Mozambique food subsidies) to USD 1.11 (Ghana Livelihood Empowerment against Poverty). Rates of return between 8% and 26% were found (a single African study found a rate of return of 13%), and multiplier effects were found to be between 1.08 (marginal) to 2.45 in Africa.

Costs decline significantly as programmes expand (lower targeting and set-up costs) as seen by the Mexican PROGRESA programme, which had costs of USD 1.34 per USD 1 transferred falling to just 5 cents by the fourth year of implementation. It is important to note that public works programmes have not been found to be as efficient as unconditional cash transfers. With costs to transfer USD 1 to beneficiaries from USD 1.42 to USD 8.21 in Malawi and Zambia, public works programmes are relatively expensive, particularly if the works delivered have limited value. Indeed, beneficiaries are unlikely to graduate to formal employment (White, Hodges and Greenslade, 2013). Thus, cash transfer programmes seem to offer the most effective and efficient mechanisms for reducing vulnerability in most circumstances. Increasing operational efficiency and targeting social protection programmes as well as devoting substantial resources to skill acquisition through vocational training are vital to accelerating human development and entrepreneurship development in Africa.

Africa's common strategic vision for human development to enable entrepreneurship

This section concludes the chapter by mapping the common political will and shared development agenda for prioritising human development to underpin economic growth and entrepreneurial development in Africa. It explores the synergies between the UN 2030 Agenda (SDGs), African Union Agenda 2063 and the AfDB's High 5s priorities, which place human development front and centre to achieving entrepreneurial growth.

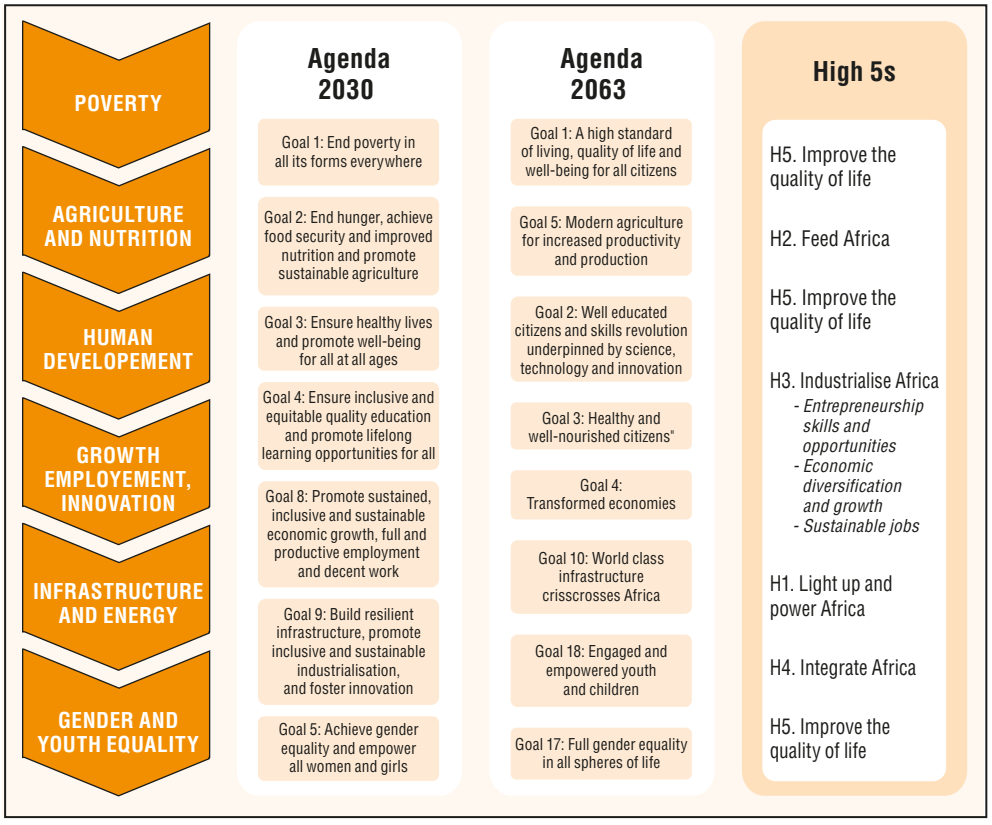
The SDGs, Agenda 2063 and the AfDB's High 5s priorities share political will and a common agenda

The global Sustainable Development Goals, Africa's Agenda 2063 and the AfDB's Ten Year Strategy, implemented through five priority areas (High 5s), are steering African countries towards accelerating inclusive human development. There is a high level of convergence in the priorities set out in these three top-level agendas, with 86% of goals and targets shared across them (UNDP, 2017b). Each sets out pathways towards sustainable jobs, enhanced entrepreneurship skills, and accelerated economic diversification and growth. Each identifies human development as central to that agenda. They share common goals around jobs, social security, agricultural productivity, education, youth, empowerment of women and girls, inclusive growth, economic diversification, resilience, and infrastructure. Figure 4.13 maps the main pillars of these strategies to highlight the convergence.

These agendas all reflect the importance of education, health, nutrition and social protection as components of a multidimensional approach to tackling poverty and inequality. Quality social services and social protection systems promote equity and help to ensure that no one is left behind. They help to avoid major setbacks to the development process, such as the Ebola crisis in West Africa. They are also indispensable to achieving structural economic transformation that is needed to spread prosperity and make major inroads into poverty and inequality reduction as well as human development.

This shared agenda offers the hope of co-ordinated investments in human development across the continent, with African governments working alongside development financiers and the private sector. The agenda is an urgent one, if Africa is to reap the benefits of its demographic dividend and achieve lasting improvements to the lives and livelihoods of Africans.

Figure 4.13. **Human development and entrepreneurship priorities for Agenda 2030, Agenda 2063 and the AfDB's High 5s**



Source: Agenda2030 (UN, 2015), Agenda 2063 (AUC, 2015), High 5s (AfDB, 2016a).

Notes

1. See Wilson and Briscoe (2004) and KfW (2007) for thorough assessments.
2. Including endogenous growth theory development by Paul Romer and Robert Lucas as well as the capabilities approach to human development developed by Amartya Sen.
3. The Global Multidimensional Poverty Index (MPI) developed by UNDP and Oxford Poverty and Human Development Initiative (OPHI) provides a measure of the level of poverty and the number of people who are living in poverty at national and subnational levels. It covers the core human development dimension – health, education and living standards. The dataset includes 44 countries in Africa, including data at sub-national level in 41 countries.
4. WHO (2001) found the minimum cost of essential services to be USD 34 in 2007 and USD 38 in 2015.
5. It ranges between 21% and 30 % in Benin, the Republic of the Congo, Côte d'Ivoire, Ethiopia, Ghana, Namibia, Senegal, Swaziland and Zambia.
6. Fragility in this context refers to countries that are affected by crisis, whether man made or otherwise and are unable to prevent or recover without substantial assistance (UNDP, 2012).
7. Chinese women cotton mill workers and Indonesian rubber tree tappers receiving iron supplements.
8. Economic growth fell in Sierra Leone from a forecasted 8.9% in 2015 to -2.0% post Ebola, in Liberia from 6.8% to 3.0% and in Guinea from 4.3% to -0.2%.

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Chapter 5

Political and economic governance in Africa

This chapter looks at the most recent data on governance in Africa, with the intent of assessing the effectiveness of public institutions in supporting Africa's development outcomes. It examines policy demands across the continent, current challenges in meeting these demands and examples of good initiatives paving the way forward.

The principal questions of interest are as follows: What do we know about citizens' demands for economic and political governance in Africa? How are public institutions currently performing in terms of meeting those demands? What are examples of policy initiatives leading the way in achieving results in Africa?

Key findings are presented first, and details about how these findings were arrived at are provided in subsequent sections.

IN BRIEF

The most recent data available on governance in Africa shows growing demands for better economic opportunities and more accountability with respect to public policies. Priorities for businesses include better access to electricity, financing and competition policies.

Regarding the policy-making processes, key challenges remain in most countries.

- Commitment to accountability within key policy-making institutions is still below citizens' expectations. The same is true of performance of public administrations.
- Opinion surveys show limited trust in key political institutions and lead policy agencies, in particular regarding their commitment to guaranteeing a transparent policy arena.

Recent policy initiatives show good examples of achieving results in public service delivery.

- African countries are taking the reform of their business environments seriously.
- Regulatory reforms and digital innovations are enhancing the effective use of public resources while improving the provision of services.
- A few new initiatives are currently aiming to address business development priorities.

Looking forward, stronger accountability and oversight processes will be crucial to identifying and solving cross-cutting challenges. Good oversight can also help reduce institutional fragmentation and duplication of effort across governments.

Did you know?

- Cabo Verde, Kenya, Morocco and Rwanda are notably improving public services through policy reforms and digital innovations.
- 30 African countries improved their budgetary management scores between 2005 and 2015.
- In 2014/15, 5 African countries ranked among the 10 best reformers in doing business.
- One-third of public protests between 2014 and 2016 focused on salaries, working conditions and unemployment.

AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

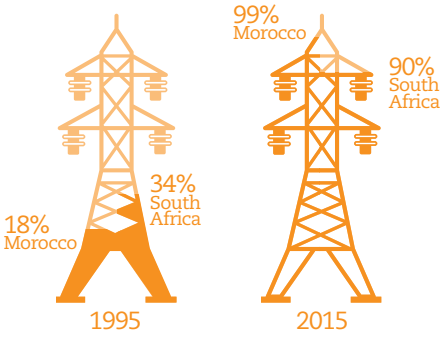
Services provision and the use of public resources are improving



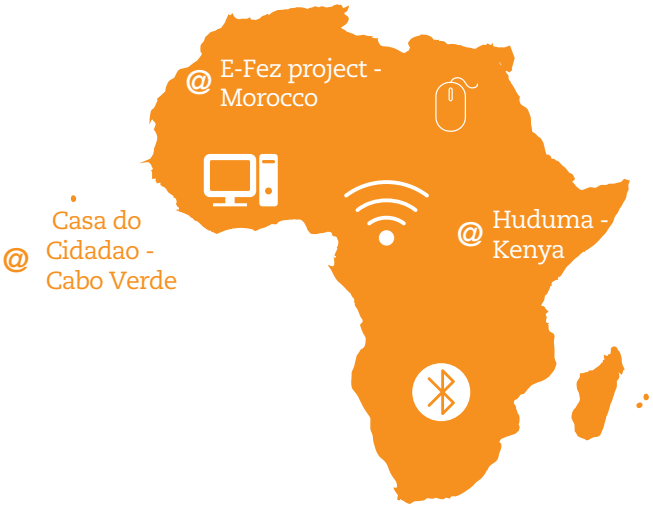
How are Africa's public institutions meeting citizens' demands?

Connectivity to the electrical network is improving

Villages connected to electricity in Morocco / Households in South Africa



E-government mechanisms are taking root within public administrations in Africa



The most recent data on governance in Africa shows growing demands for better economic opportunities and more accountability

The objective of this section is to document public demands for improvements in political and economic governance in Africa and what these reveal about the challenges facing governments and public institutions across the continent. The main question of interest is: What do we know about citizens' demands for improvements in political and economic governance in Africa, and how do they vary across the continent? The approach has been to identify and track public demands through data from opinion surveys as well as fact-based indicators on public protests and the motivations behind them (Box 5.1). Enterprise surveys and macroeconomic indicators have been examined to supplement this information by reflecting the major economic factors that indirectly drive public opinion.

Box 5.1. Analysing public demands for better quality of governance: The conceptual framework

This chapter considers the quality of governance in terms both of outcomes and the underlying processes and regulatory policies that may have contributed to these outcomes. Governance outcomes are the ability of governments and other public institutions to achieve results and meet citizens' expectations with regard to the delivery of public goods, services and economic opportunities.

The motivation to do so is the following: When societies are more demanding about the quality of governance, their governments and other public institutions need to adjust their policies and take actions to meet these demands. A chapter on governance is therefore included in the *African Economic Outlook* as a way not only to better understand the current economic situation but also to obtain clues as to whether the economy is evolving in a sustainable way. Indeed, the ability of governing institutions to respond to people's expectations though credible policy commitments is crucial for a country in achieving long-lasting economic and political progress.

Governance, according to David Levi-Faur, is not only about the architecture of formal and informal institutions but also the "processes, mechanisms and strategies" of policy making (Levi-Faur, 2012: 4; Rhodes, 2012). This refers to the processes of decision making, the mechanisms of compliance and control, and the strategies to steer institutions in ways that align with public preferences. This chapter acknowledges the importance of the political context and the complexity of the political bargaining among the elite. However, it does not aim to provide an in-depth analysis of these aspects of the political economy. Rather, it intends to document public demands for improvements to governance and assess the challenges within the policy-making process in meeting these demands.

Three sources of evidence are presented to document public demands for better quality governance in Africa: 1) opinion surveys; 2) the World Bank's Enterprise Surveys and macroeconomic indicators; and 3) a set of original indicators based on close monitoring of public protests. The OECD Development Centre is responsible for developing this last set of indicators, referred to as AEO Governance Indicators. These constitute a fact-based measure of public demands for better governance that tracks incidents of public protests, the motivations behind them and government response to protests. The indicators also track incidents reflecting changes in the quality of the interactions between governments, other political institutions and citizens. The methodology was first developed by Dessus, Lafay and Morrisson (1998).

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Box 5.1. **Analysing public demands for better quality of governance: The conceptual framework** *(cont.)*

- Public protests are defined as strikes or any type of demonstration with political, economic or social motives. Each event is weighted by its duration (number of days or weeks) and by an intensity score based on the number of protesters. The detailed methodology for the intensity scores is presented in the statistical annex of this report.
- Different forms of civil tensions – defined as violence with political motives, inter-community conflicts and terrorist acts against populations – are also monitored and reflect escalations of public demands or discontent into violence. Each relevant event is counted and then weighted based on such factors as intensity, duration and number of casualties.
- Incidents of political hardening are collected. They are defined as an increase in government restrictions on the population's ability to organise or express itself politically (e.g. bans on protests, curfews and states of emergency, arrests and violence perpetrated by government forces).

This detailed monitoring exercise is based on triangulation of newswires reported on a daily basis by a large network of journalists working for press agencies across Africa, Agence France-Presse (AFP) and Reuters. The use of reputable press agencies allows for the collection of news published in a multitude of newspapers, which is a good guarantor of their reliability. For instance, more than 65 000 relevant news reports across the whole continent are analysed each year for this report.

Finally, it is important to keep in mind that these indicators constitute a complementary insight into public demands and should be interpreted in light of the political freedom of the countries. For instance, a low level of protest is neither a sign of good nor poor governance. A country with few protests could be one in which there is general satisfaction with the ruling regime, but it could also be a case of a repressive regime successfully suppressing dissent. The existence of protests yields important information about public demands, which could help policy makers better understand them and improve policy responsiveness to citizens' expectations.

Priority demands expressed by citizens across Africa relate to jobs, while expectations for better public governance are growing

The most recent data from several opinion surveys (from Afrobarometer, Gallup Organization and Pew Research Center) confirms that unemployment remains the most pressing issue for African citizens. Citizens think governments should address this issue and also spend more money on it. Healthcare and education are respectively the second and third most mentioned problems. At the same time, expectations for better infrastructure have been on the rise since 2008.

Despite these general trends, responses to surveys vary widely between African countries. They also do not show clear regional groupings, with some countries in the same region having very different priorities (Table 5.1).

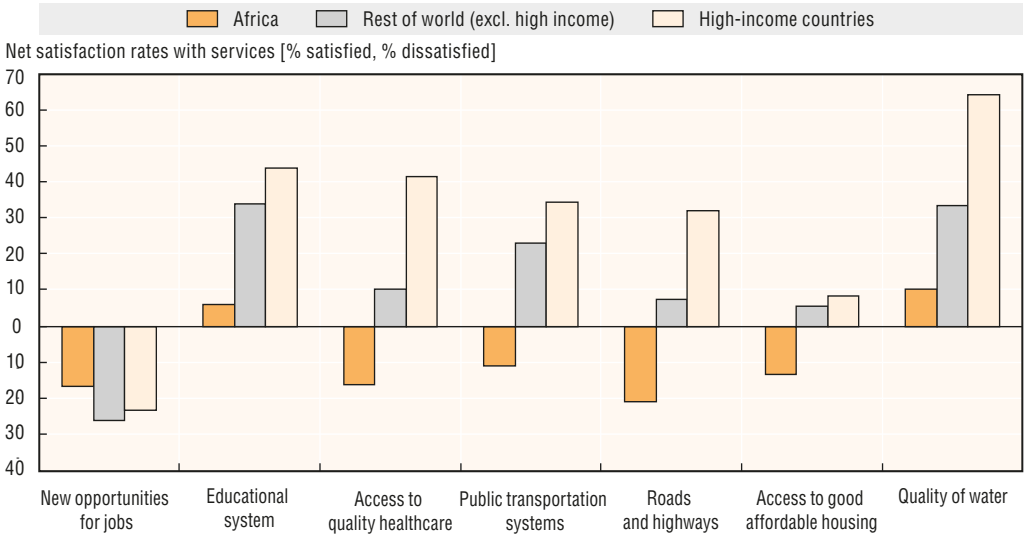
African citizens tend to have low net satisfaction rates with their public services compared with the rest of the world. According to Gallup polls, on average the net satisfaction rates are negative for most of the key services in the African countries that were investigated (Figure 5.1). By contrast, in the rest of the world, the net satisfaction rates are positive for all these services, except for government efforts to fix unemployment.

Table 5.1. The most important problems cited by African citizens by country (Afrobarometer 2014/15 survey)

		Was this topic among the three issues most often cited as the most important problem by residents of the country in 2015?								
Country	**Most often cited issue**	**Unemployment**	**Health**	**Education**	**Concern for poverty alleviation**	**Infrastructure/ roads**	**Water supply**	**Crime and security**	**Access to food (shortage risks)**	**Other issues***
Algeria	Unemployment	√			√					√
Benin	Infrastructure/ roads		√			√	√			
Botswana	Unemployment	√		√	√					
Burkina Faso	Water supply		√				√		√	
Burundi	Concern for poverty alleviation				√				√	√
Cameroon	Unemployment	√	√			√				
Cabo Verde	Unemployment	√			√			√		
Côte d'Ivoire	Unemployment	√	√			√				
Egypt	Unemployment	√	√		√					
Ghana	Unemployment	√		√						√
Guinea	Water supply		√			√	√			
Kenya	Crime and security	√		√				√		
Lesotho	Unemployment	√				√	√			
Liberia	Unemployment	√				√				√
Madagascar	Crime and security	√				√		√		
Malawi	Access to food (shortage risks)		√				√		√	
Mali	Access to food (shortage risks)		√						√	√
Mauritius	Unemployment	√			√			√		
Namibia	Unemployment	√		√	√					
Niger	Water supply		√				√		√	
Nigeria	Unemployment	√			√					√
Senegal	Health	√	√	√						
Sierra Leone	Education		√	√		√				
South Africa	Unemployment	√						√		√
Sudan	Unemployment	√			√					√
Swaziland	Unemployment	√		√	√					
Tanzania	Health		√	√			√			
Togo	Health	√	√	√						
Tunisia	Unemployment	√			√			√		
Uganda	Health		√	√			√			
Zambia	Health		√	√			√			
Zimbabwe	Unemployment	√				√				√
Count of number of countries citing this problem		**21**	**15**	**11**	**11**	**9**	**9**	**6**	**5**	**9**

Note: *Other issues include management of the economy (Liberia, Sudan and Zimbabwe), housing (Algeria and South Africa), electricity (Ghana and Nigeria), farming/agriculture (Burundi) and political instability/ethnic tensions (Mali).
Source: Adapted from Afrobarometer (2016), www.afrobarometer.org/.

Figure 5.1. **Net survey satisfaction rating for key services in Africa, high-income countries and the rest of the world, 2013-15**

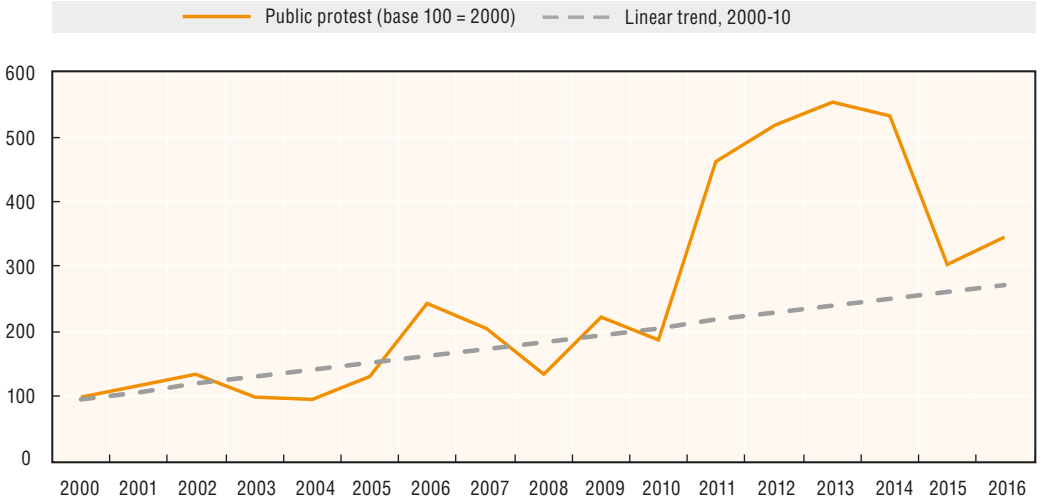


Source: Gallup polls in 2013, 2014 and 2015 (42 African countries, 49 high-income countries and 59 other countries are represented here) (Gallup, 2016), http://gallup.com/services/170945/world-poll.aspx.
StatLink http://dx.doi.org/10.1787/888933475294

Intensity of public protests reverted to their pre-2011 trends, but discontent with the economy and accountability remains widespread

Public protests in Africa in the form of strikes and demonstrations dropped after a few years of unusually high protests. That uptick was due in part to the Arab Spring. The year 2016 saw a slight increase in the intensity of those events (Figure 5.2), while remaining in line with the 2000-10 trend.

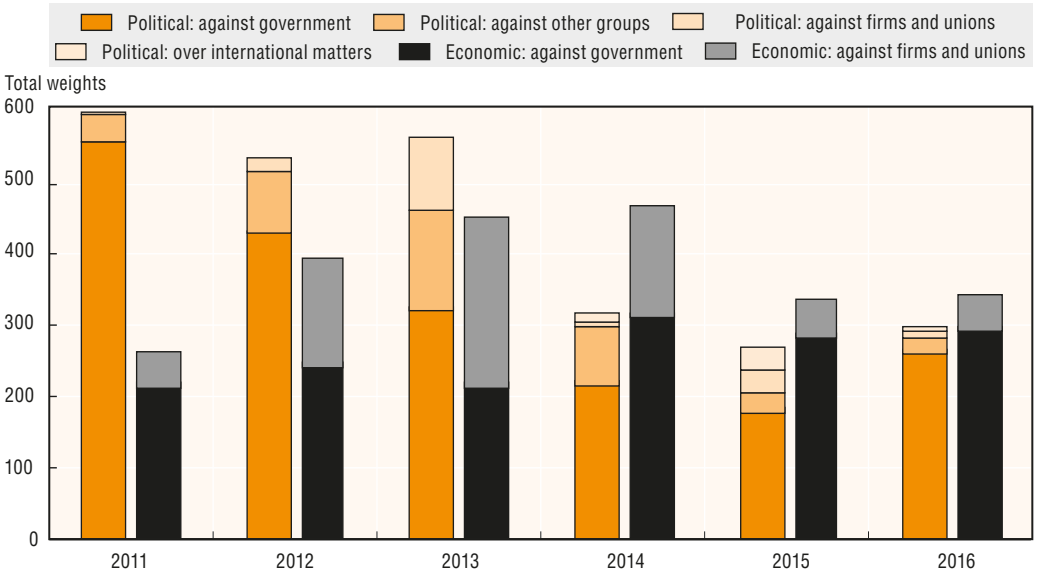
Figure 5.2. **Index of public protests in Africa, 2000-16**



Note: Public protests refer to strikes and any demonstration with political, economic or social motives. Each event is weighted by its duration, and by an intensity score based on the number of protesters. See the methodological annex for more details.
Source: AEO indicators based on news reports from AFP, Reuters and press agencies across Africa.
StatLink http://dx.doi.org/10.1787/888933475309

Discontent with the economy remains widespread and has taken the lead role in motivating protests. Protests motivated by economic concerns have been relatively unchanged since 2014 and have made up most public protest in Africa (Figure 5.3). This is in line with other research showing that discontent with the economy remains widespread in African countries (Wike et al., 2017). The most important economic issues driving protests were demands for better wages and work conditions. When it comes to politically-driven protests, strikes and demonstrations motivated by issues around the political process have declined sharply in recent years. In 2011, these kinds of protests made up most of the public protests in Africa.

Figure 5.3. **Motivations behind public protests in Africa: Political matters versus economic issues, 2011-16**



Note: Public protests refer to strikes and any demonstration with political, economic or social motives. Each event is weighted by its duration, and by an intensity score based on the number of protesters. See the methodological annex for more details.

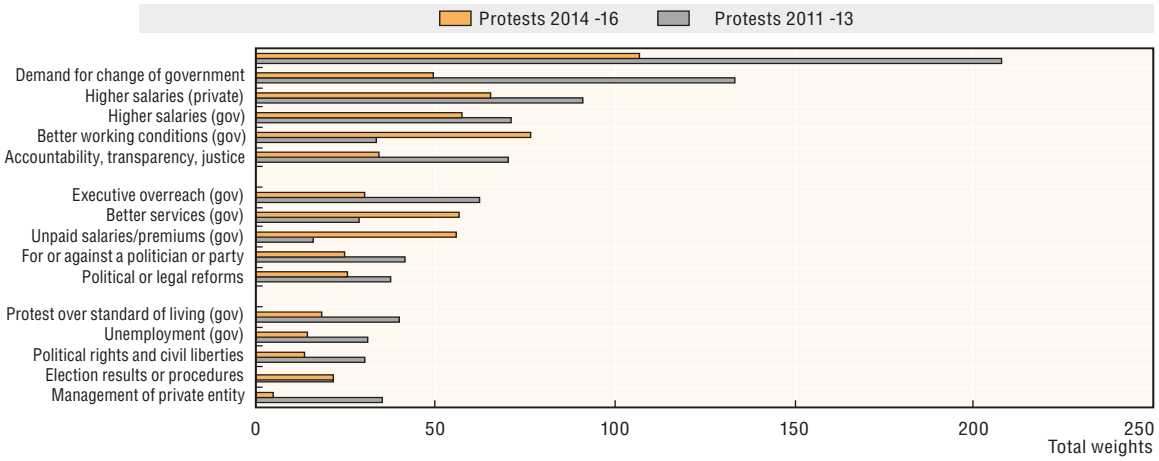
Source: AEO indicators based on news reports from AFP, Reuters and press agencies across Africa.

StatLink http://dx.doi.org/10.1787/888933475315

Overall more than 3 600 public protests with economic and political motivations have been reported in the AEO database between 2011 and 2016. These widespread democratic and peaceful forms of public demands often indicate both vibrant civil societies as well as progress in political freedom across the continent. Only three countries (Cabo Verde, Lesotho and Seychelles) had no public protest reported in the database between 2011 and 2016, while 41 countries had more than 10 public protests reported. The maximum number of protests was observed in Tunisia (416), followed by South Africa (356). It is important to note here that a low level of protests is neither a sign of good nor poor governance. They should be interpreted in light of the political freedom of the countries (Box 5.1). A country with few protests could be one in which there is general satisfaction with the ruling regime, but it could also be a case of a repressive regime successfully suppressing dissent.

The motivations behind protests have been recorded and analysed in detail. About 33% from 2014-16 were job-related issues, such as salaries, working conditions and unemployment. Protests around political issues mostly consisted of demands for more accountability from public officials and a desire to replace the governing leadership (Figure 5.4).

Figure 5.4. **Top 15 drivers of public protests in Africa, 2011-13 versus 2014-16**



Note: Public protests refer to strikes and any demonstration with political, economic or social motives. Each event is weighted by its duration and by an intensity score based on the number of protesters. See the methodological annex for more details.

Source: AEO indicators based on news reports from AFP, Reuters and press agencies across Africa.

StatLink http://dx.doi.org/10.1787/888933475321

Priorities for businesses include better access to electricity, better financing and better competition policies

The demand for electricity goes beyond the issue of limited access to the electrical grid

Though access to electrical grids has improved for entrepreneurs, electricity is still frequently cited by business owners as a main challenge for their operations. In 2008, more than 50% of the firms and entrepreneurs in sub-Saharan Africa had access to electricity (Fjose et al., 2010: 24-25). Today, 39% of African businesses see lack of access to electricity as a major constraint (Enterprise Surveys, 2016). This number is 20% in high-income OECD countries (Enterprise Surveys, 2016). Electrical outages and their durations are major issues in sub-Saharan Africa. This data source also shows the number of electrical outages in a typical month is about 8.5 for sub-Saharan Africa, and the duration of a typical electrical outage is about 4.1 hours, compared to 0.4 outages per month and 0.4 hours per outage for high-income OECD countries.

An unreliable electricity supply affects economic opportunities in most African countries (Oyuke et al., 2016). Power networks in 25 countries on the continent experience frequent crises characterised by power outages, irregular supply and high electricity costs (World Bank, 2013). On top of that, the price of electricity has been increasing due to demand outgrowing power capacity. Current transmission lines across the continent are overexploited, which increases the frequency of power outages, diminishing the prospects for economic growth (Fjose et al., 2010). Due to the lack of investment in energy and electricity infrastructure, most firms are generating their own power using diesel aggregates or generators, increasing production costs. According to the Enterprise Surveys, more than 50% of firms in sub-Saharan Africa own or share a generator, compared to 11% in high-income OECD countries. These frequent crises are the result of poor maintenance policies in the energy sector over the past decades. The good news is that several new initiatives are currently being taken to rectify this issue.

Finance for development suffers from limited regulatory support

Risk-premiums on lending are high and prevent small businesses from accessing adequate loans. About 20% of small and medium-sized enterprises (SMEs) across Africa consider access to finance the most important challenge in doing business (ACET/World

Bank, 2016). As shown in Table 5.2, the difference in Africa between the lending rates to the private sector and the rates for treasury bills are higher than in the rest of the world. The depth of credit information is also low.

The banking system in sub-Saharan Africa plays a less prominent role in giving credit to firms than in other world regions (Fjose et al., 2010; AfDB, 2013; IMF, 2016a). Use of bank loans and credits in sub-Saharan Africa is lower than in other developing regions of the world, even though there is variation between countries (Enterprise Surveys, 2016). This financing gap has the most impact on medium-sized enterprises, as their needs exceed the maximum loans provided by microfinance institutions, and yet they are also lower than the minimum loans available from commercial banks (UNIDO/GTZ, 2008; Beck, 2013). These firms – often also referred to as the missing middle – usually have high growth potential, including on the manufacturing export markets, as documented by a joint report by the OECD and the World Bank (2015).

Table 5.2. **Selected indicators on access to finance in Africa, high-income countries and the rest of the world, 2011-15**

Dimensions of credit access	Group of countries	Average value (2011-15)	Median value	Number of countries
Risk premium on lending (lending interest rate minus treasury bill rate)	Africa	9.6	7.4	22
	Rest of world (excl. high-income countries)	6.4	5.0	37
	High-income countries	3.7	3.7	21
Domestic credit to private sector by banks (% of GDP)	Africa	26.5	21.4	49
	Rest of world (excl. high-income countries)	47.0	43.9	80
	High-income countries	98.0	88.2	45
Depth of credit information index (0=low to 8=high)	Africa	2.4	0.0	52
	Rest of world (excl. high-income countries)	4.8	6.0	86
	High-income countries	5.8	6.0	49
Borrowers from commercial banks (per 1 000 adults)	Africa	66.6	36.6	36
	Rest of world (excl. high-income countries)	222.1	205.3	51
	High-income countries	515.2	524.3	14
Domestic credit to private sector (% of GDP)	Africa	28.5	21.6	49
	Rest of world (excl. high-income countries)	49.7	45.2	80
	High-income countries	103.0	92.1	45

Source: Adapted from *World Development Indicators* database, World Bank (2017a), http://data.worldbank.org/data-catalog/world-development-indicators (accessed in January 2017).

The policy and legal instruments needed to overcome information asymmetry remain underdeveloped, and the coverage of knowledge sharing systems such as public credit registries is low. The public credit registry coverage is the number of individuals and firms listed in a public credit registry with current information on repayment history, unpaid debts or credit outstanding. As of 2016, only five African countries have a public registry that covers more than 15% of adults: Mauritius (82.6%), Gabon (52%), Seychelles (47.5%), Tunisia (28.9%) and Cabo Verde (17.8%). Looking forward, key areas for better policy making include: 1) enhancing the availability of financial risk mitigation and guarantee instruments; and 2) strengthening national identification systems and data-coupling methods for credit registries.

Competition policies are still lagging far behind expectations

Getting firms to comply with regulations may require changing incentives. Competition with large informal actors is a challenge for formal firms in Africa. The majority of the actors in the informal sector produce goods and services that are not always in conformity with procedural requirements (ILO, 2014). Many SMEs stay in the informal economy to avoid taxation and regulation while still being able to adapt to the market. This situation may be profitable to them but prevents them from accessing formal credit and decreases their opportunities to expand (Chapter 8). Moreover, the informal competition seriously constrains the formal sector, in particular in countries where compliant firms need to go through time-consuming regulations or pay high taxes.

AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

If small companies are to be encouraged to join the formal sector, bureaucratic complexity is a major problem to tackle, not only in terms of the time taken by procedures but also in terms of the number of documents required. The fact that bureaucratic and legal procedures are often complicated and lengthy reduces the possibility for small firms to upgrade their standards in domestic markets or enter international markets. For example, firms across the continent see customs and trade regulations as obstacles to business operations because they cause delays in imports and exports, which in turn damages supply chains and has a negative effect on production. As a result, it is particularly important to continue easing procedures in order to allow more firms to move to the formal economy (Chapter 6).

Governments need officials with integrity to enforce state laws and regulations. Corruption can cripple a state's effectiveness in maintaining the formal economy, as well as impose additional costs on firms in the form of bribery payments and misallocated resources. Corruption is mentioned as one of the main challenges for 40.0% of enterprises in Africa (Beck and Cull, 2014; Enterprise Surveys, 2016). This percentage is roughly the same as the level observed in Latin America (43.4 %) and in South Asia (40.1 %). Entrepreneurs report having to pay bribes to obtain legal documents, registrations or licenses (Enterprise Surveys, 2016).

The current capacity and credibility of public institutions to improve policy responses are below expectations and consequently have limited credibility

The ability of governing institutions to respond to people's expectations is a key determinant of long-lasting economic and political progress (OECD, 2014). The main focus in this section is therefore to assess the magnitude of this challenge and identify the most important constraints on the ability of public institutions to address demands for better policies. It looks at opinion surveys and evidence-based assessments of the following:

- commitment of public institutions to promote the public interest
- trust in the institutions and feedback mechanisms
- separation of powers and strength of oversight mechanisms.

Commitment to accountability is still below citizens' expectations

Dissatisfaction with political arrangements was among the main drivers of public protests in Africa from 2011 to 2016. The majority of these protests called for more "accountability and justice in the public management systems" and for fairer elections (Figure 5.4). This is an indication of demand for higher standards of integrity within public institutions. The geographic spread across the continent, however, was unequal:

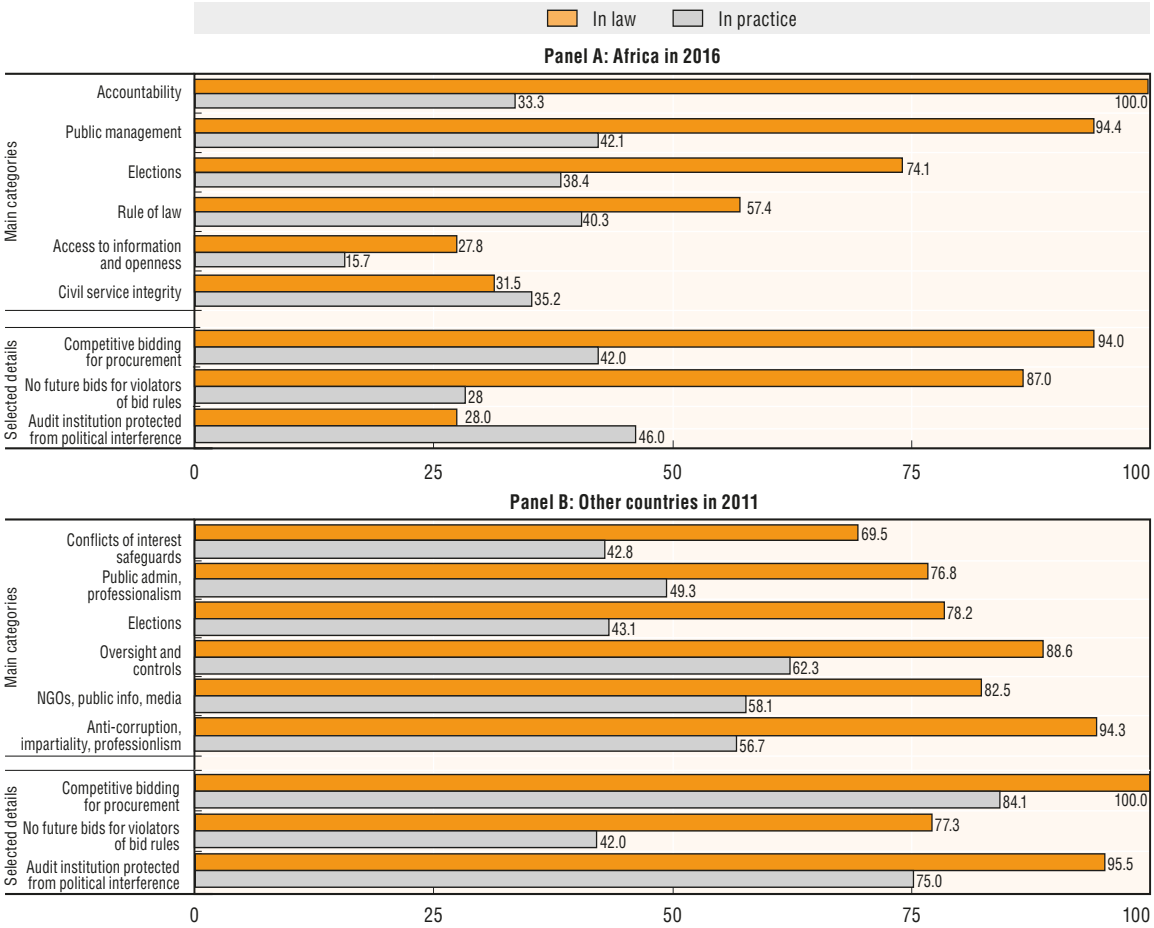
- Protests against executive overreach were the biggest driver of public protests in 7 of 41 countries.
- Demands for fairer and more competitive elections were the biggest drivers in 4 countries, and in another 4 countries it was demands for change of government.
- Demands for more political rights were the biggest driver in 3 countries, the same number as for partisan politics.
- More accountability was the top driver in 2 countries.

An assessment of the institutional setting shows significant gaps between governance objectives and outcomes in the policy arena. The *Africa Integrity Indicators* constitute a well-documented expert assessment of the strength of current legal frameworks in terms of promoting integrity and de facto practice in the country. All indicators are scored by in-country researchers, lawyers, journalists and academics. The dataset is produced by Global Integrity in collaboration with the Mo Ibrahim Foundation to "assess key social, economic, political and anti-corruption mechanisms at the national level across Africa". Indicators on transparency and accountability are broken down into six thematic areas:

rule of law, accountability, elections, public management, civil service integrity, and access to information and openness. These indicators are divided into the categories of "in law" (referring to laws and regulations) and "in practice" (referring to current practice).

- The Africa Integrity Indicators show that most of African countries score better on "in law" indicators than "in practice" (Figure 5.5, panel A). This means that the legal framework to promote transparency and accountability already exists in most of the countries but that the results expected are not always entirely attained.
- A few countries across the continent are doing quite well overall. In 2015, the African countries with the best integrity scores were South Africa, followed by Benin, Mauritius, Kenya and Liberia. These are followed by Ghana and Uganda. Most other countries in Africa had much lower scores.
- On average commitment to the application of existing rules for competitive bidding in public procurement is low, while the audit institutions need stronger empowerment in the legal frameworks. For instance, de facto practices in public procurement or public bidding processes are the farthest below existing legal standards, and supreme audit institutions are the least protected by law, especially when compared to non-African countries (Figure 5.5, panel B).

Figure 5.5. **Average integrity scores "in law" versus "in practice" around the world: Africa in 2016 compared to 22 other countries in 2011**



Source: Adapted from Global Integrity/Mo Ibrahim Foundation (2016), *African Integrity Indicators* (database), www.globalintegrity.org/africa-integrity-indicators/ (accessed in January 2017).

StatLink http://dx.doi.org/10.1787/888933475339

Trust in key political institutions and leading agents of policy change is limited

Political institutions are not trusted enough, in particular regarding their commitment to a transparent policy arena. Based on surveys by Afrobarometer, Bratton and Gyimah-Boadi (2016) found that formal public institutions are not trusted by their citizens. On average citizens express more trust in informal institutions such as religious and traditional leadership (72% and 61% respectively) than in formal executive agencies and the state (on average 54%). The legislative institutions and the electoral agencies – key players in a democracy – have even lower levels of trust. The least trusted institutions are the opposition political parties (36%), tax authorities (44%), electoral institutions (44%) and legislative institutions (47%). Low levels of trust in these last two types of institutions, which are responsible for a transparent policy arena, point to a real need for improvement. According to research, trust in electoral and judicial institutions is among the crucial enablers for a country's success with democracy (Dahlberg and Holmberg, 2016) and political stability.

Running a fair election still remains a challenge in many African countries. National elections took place in 18 African countries in 2016. All the official reports by election monitors from the African Union, Economic Community of West African States (ECOWAS), the European Union (EU) and the Electoral Institute for Sustainable Democracy in Africa found at the time of writing the elections in 12 countries were explicitly declared as free and fair (Table 5.3). Cabo Verde and Ghana consolidated their position as the best performers in Africa in terms of the capacity to organise credible and competitive elections.

Table 5.3. **Overview of national elections in Africa, 2016-18**

Country	Voting for	Date	Comments
Benin	president	06-03-2016	"The electoral process proceeded under acceptable conditions of freedom and transparency overall." (ECOWAS Commission, 2016)
Cabo Verde	president	31-08-2016	"The presidential elections were free, fair and transparent." (African Union Election Observation Mission, 2016)
Central African Republic	president and national assembly	14-02-2016	"The twin elections took place in a calm, serene and transparent atmosphere." (African Union Election Observation Mission, 2016)
Chad	president	10-04-2016	"The Chadian people have demonstrated their commitment to the consolidation of democracy in their country […] the election took place in a peaceful climate within the legal framework in force." (African Union Election Observation Mission, 2016)
Comoros	president	21-02-2016	"The vote counting process proceeded transparently and respectively to the stated dispositions in the law." (African Union Election Observation Mission, 2016)
Republic of the Congo (Congo)	president	20-03-2016	"The Mission notes that in a general manner, voting took place in a calm atmosphere, [with] peace and stability." (African Union Election Observation Mission, 2016)
Côte d'Ivoire	national assembly	18-12-2016	"These elections took place in a peaceful climate according to the legal framework regulating legislative elections in Côte d'Ivoire and relevant international instruments." (African Union Election Observation Mission, 2016)
Democratic Republic of the Congo (DRC)	president and national assembly	27-11-2016	Postponed (new dates to be agreed by the political actors)
Djibouti	president	08-04-2016	"Voting took place in peace and serenity […] The Mission deems the vote was inclusive, free and transparent enough to be considered as the credible reflect of the Djiboutian people's will." (African Union Election Observation Mission, 2016)
Equatorial Guinea	president	30-11-2016	"The election proceeded in a calm and disciplined manner, [with] peace and transparency." (African Union Election Observation Mission, 2016)
Gabon	president and national assembly	16-08-2016	"The election was inclusive and competitive." (African Union Election Observation Mission, ECOWAs, 2016)
Gambia	president	01-12-2016	"Peaceful, free, fair and transparent elections were held in the country on 1st of December 2016." (ECOWAS, African Union and UN Statement, 2016)
Ghana	president and national assembly	07-11-2016	"The 2016 elections were conducted in a largely peaceful, transparent and credible manner." (African Union Election Observation Mission, 2016)
Morocco	national assembly	07-10-2016	"The poll was organised with integrity and in full transparency." (Council of Europe, Parliamentary Assembly Election Observation Mission, 2016)
Niger	president and national assembly	21-02-2016	"These elections allowed the Nigerian people to choose its president and members of parliament freely and transparently. […] Integrity of the vote has been guaranteed and the secrecy of the vote has been preserved." (African Union Election Observation Mission, 2016)

Table 5.3. **Overview of national elections in Africa, 2016-18** *(cont.)*

Country	Voting for	Date	Comments
Sao Tome and Principe	president	31-07-2016	"The electoral process has taken place generally in accordance with the African Charter on Democracy, Elections and Governance and other instruments governing democratic elections in Africa, as well as the legal framework in force in Sao Tome and Principe." (African Union Election Observation Mission, 2016)
Seychelles	president and national assembly	31-10-2016	"The electoral process was transparent, credible and peaceful." (African Union Election Observation Mission, 2016)
Uganda	president and national assembly	18-02-2016	"The observed shortcomings were inconsistent with the requirements of the legal framework for elections in Uganda and international and continental principles and obligations for democratic elections." (Electoral Institute for Sustainable Democracy in Africa [EISA] Election Observation Mission, 2016)
Zambia	president and national assembly	11-08-2016	"The AUEOM commends ECZ (Electoral Commission of Zambia) for measures undertaken to enhance the integrity and credibility of the electoral process aimed at safeguarding the legitimacy of the election outcome in conformity with the 2003 African Peer Review Mechanism and the 2007 African Charter on Democracy, Elections and Governance." (African Union Electoral Observation Mission, 2016)
			ELECTIONS PLANNED IN 2017
Algeria	national assembly	05-2017	*
Angola	president and national assembly	08-2017	*
Chad	national assembly	2017	*
Congo	national assembly	2017	*
Gabon	national assembly	29-07-2017	*
Gambia	national assembly	06-04-2017	
Kenya	president, national assembly and senate	08-08-2017	*
Lesotho	national assembly	2017	*
Libya	president and national assembly	2017	*
Liberia	President and national assembly	10-10-2017	*
Madagascar	president	2017	*
Rwanda	president	04-08-2017	*
Senegal	national assembly	30-07-2017	*
Sierra Leone	president and national assembly	01-11-2017	*
Somalia	president	08-02-2017	
			ELECTIONS PLANNED IN 2018
Cameroon	president and national assembly	10-2018	*
Djibouti	national assembly	2018	*
Guinea	national assembly	2018	*
Madagascar	national assembly	2018	*
Mali	president and national assembly	2018	*

Note: *Election dates to be confirmed.
Sources: African Union (2017), International Foundation for Electoral Systems (IFES) (2017), International IDEA (2017), NDI (2017), EISA (2017).

Both the level of politically-motivated violence and political hardening across Africa have decreased slightly but risks remain high. The intensity of political violence by non-state actors is still about three times higher than the 2010 level (Figure 5.6) despite a decline from the peak it reached in 2013. Cross-border terrorism and insurrections continue to contribute to this political turmoil and undermine the capability of states to govern despite important military gains, for example, against Boko Haram (Box 5.2) and against the Islamic State in Libya in 2016. In addition, there were a few uncertain transitions of power when some heads of state attempted to remain in office in 2016 beyond their legal mandate but faced violent protests in response. Nevertheless, the intensity of political hardening – defined as government violence, arrests, bans, curfews and states of emergency – has slightly decreased (Figure 5.6).

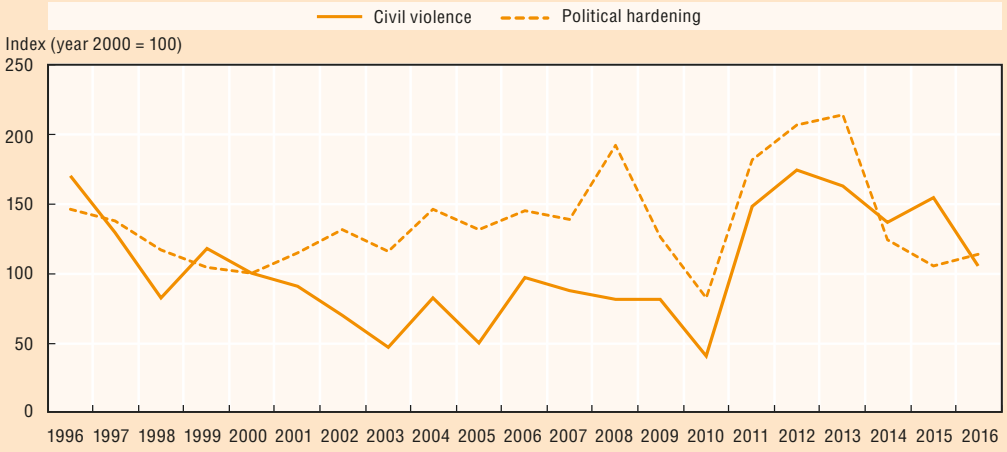
Box 5.2. **Terrorism and cross-border risk**

From 2013-15 the three major drivers of violence by non-state actors were 1) terrorism; 2) inter-community conflicts, often fuelled by clashes over scarce resources and ethnic resentments; and 3) protests over electoral processes where political parties have ignited or aggravated civil strife through violence.

In 2016, the intensity of violence by non-state actors decreased slightly in Africa (Figure 5.6). This is encouraging, as it is essentially due to large decreases in violent incidents in Nigeria, Egypt, Cameroon and the Central African Republic (Statistical Annex, Table 24).

- Cross-border co-ordination and co-operation against Boko-Haram paid off in 2016. After the kidnapping of more than 200 schoolgirls in Chibok in 2014, Multi-National Joint Task Force (MNJTF) was established by Benin, Cameroon, Chad, Niger and Nigeria. After taking office on 29 May 2015, Nigeria's president increased the pace of this regional co-operation, engaging more actively with his counterparts.
- Insecurity driven by inter-community conflicts is still a threat to political stability. A further decrease in politically-motivated violence is strongly needed to reduce the fragility of African countries. In 2016, out of 56 contexts classified as fragile, 37 are located in Africa (OECD, 2016). The root causes of the conflicts in 2015-16 seem more often linked to land disputes and access to mining resources (see Chapter 5 of AfDB/OECD/UNDP, 2016). The latest Afrobarometer survey showed there is a general African tolerance and acceptance of people from different ethnic or religious groups, and immigrants particularly (Dulani, Sambo and Dionne, 2016).

Figure 5.6. **Political hardening and civil violence, 1996-2016**

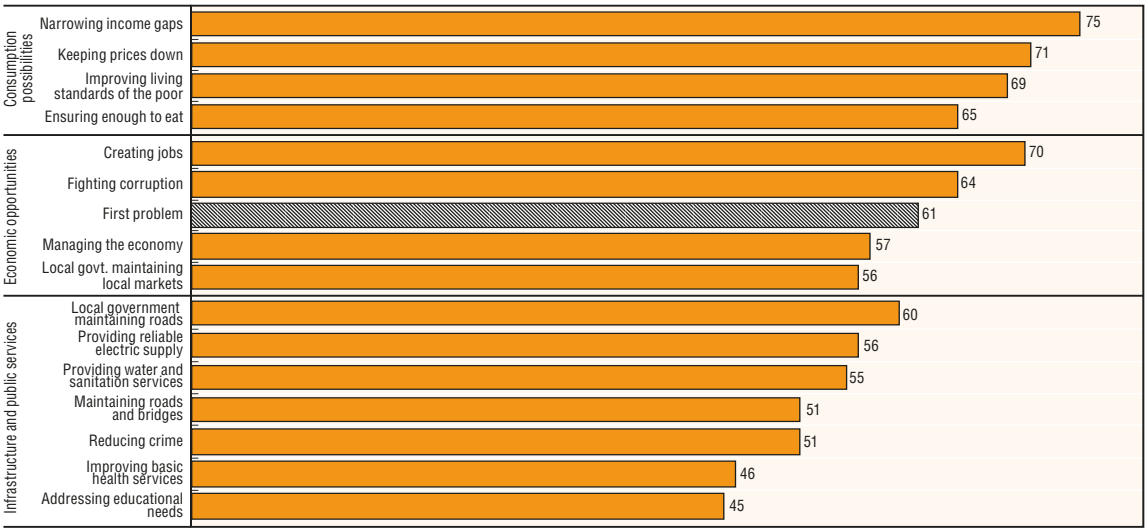


Note: Each violent act has been weighted by its intensity (number of deaths and/or injured people) according to a scaling methodology detailed in the annex of this report.
Source: AEO indicators based on news reports from AFP, Reuters and press agencies across Africa.
StatLink http://dx.doi.org/10.1787/888933475340

The current performance of public administrations does not fulfil citizens' expectations, in particular in terms of their responsiveness to top-priority demands

On average when respondents were asked if their greatest concerns were being handled well by the government, 61% said they were not (Figure 5.7). The issues about which respondents expressed the greatest dissatisfaction were those related to economic opportunity. Within this category of responses, the highest dissatisfaction was expressed around job opportunities and the fight against corruption.

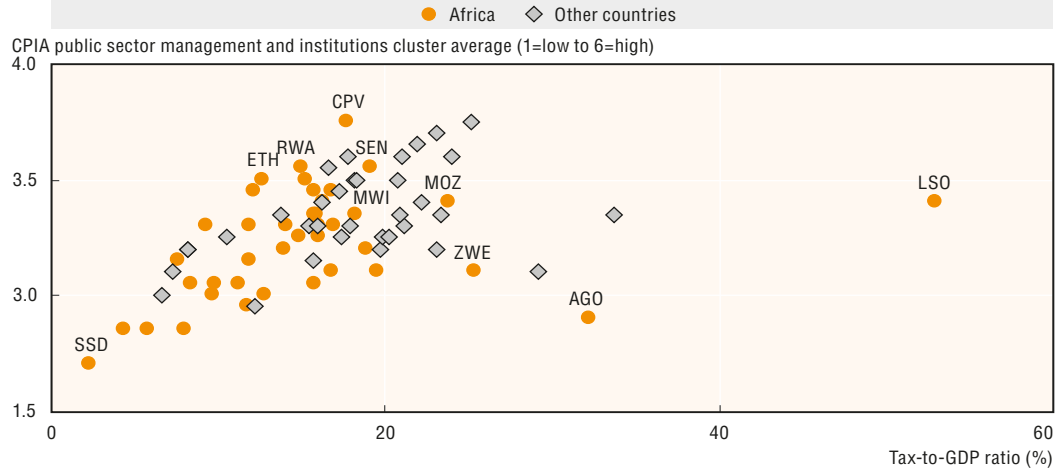
Figure 5.7. **The percentage of respondents not satisfied with their government's handling of various high-priority issues (Afrobarometer 2014/15 survey)**



Source: Adapted from Afrobarometer (2016), www.afrobarometer.org/.
StatLink http://dx.doi.org/10.1787/888933475351

Despite several waves of public sector reforms, progress on public management has been slow. Public sector reforms in Africa were initiated in the 1980s, followed by a second wave of reforms in the 1990s and a third in the 2000s (Ayee, 2006; AfDB/OECD/UNDP, 2015: 189-193). The *Country Policy and Institutional Assessment* (CPIA) by the African Development Bank (AfDB) shows that about 30 countries improved their budgetary management scores between 2005 and 2015. Despite this fact, scores on transparency and accountability in the public sector remain below the middle score of 3.5 out of 7 for 24 countries out of 40 (AfDB, 2016a). Figure 5.8, showing World Bank CPIA scores, confirms that only 4 African countries – Cabo Verde, Ethiopia, Rwanda and Senegal – have achieved scores above 3.5. A well-functioning public administration is a necessary condition to establish and implement the strategies and policies that effectively address citizens' demands.

Figure 5.8. **Public sector management versus tax-GDP ratio**



Note: Countries are named by their international ISO3-Alpha codes. The public sector management and institutions cluster includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilisation, quality of public administration, transparency, accountability and corruption in the public sector.
Source: Adapted from World Bank (2016a), http://data.worldbank.org/data-catalog/CPIA, and IMF (2016b).
StatLink http://dx.doi.org/10.1787/888933475360

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Information on the central government's budget and financial activities needs to be more open and accessible. In principle, this may be possible to achieve, as the planning and budgeting systems are already digitised though integrated financial management information systems in most African countries (Diamond and Khemani, 2005). However, informal budgeting practices can sometimes continue even despite the implementation of these changes (see Box 5.3). But so far only South Africa has extensive capacity in all pillars of budget transparency, including the strength of the formal oversight institutions (IBP, 2015).

Box 5.3. **Improving the planning and budgeting systems in African countries**

The World Bank supported the implementation of integrated financial management information systems (IFMIS) in several countries in order to promote transparency and accountability in public budgets (Dener and Min, 2013). A report by Deloitte (2012) found that a number of African countries have also implemented IFMIS relatively successfully, including Mauritius, Sierra Leone, South Africa, Tanzania and Uganda.

Such systems need strong oversight controls to ensure success, however. Malawi provides a good cautionary tale. In 2008, IFMIS was extended to local authorities. Subsequently, a mobile data service was launched, additional national operators were selected, and the fibre backbone was extended to the countryside. In principle, this allowed the central government to plan and manage the budgets and to automate the public financial operations in a more transparent manner. However, the massive Cashgate scandal in 2013 revealed the weaknesses within the oversight mechanisms when it was discovered that public employees were moving massive amounts of public money outside the IFMIS system. A report by Baker Tilly found that the government of Malawi had lost about USD 30 million between April and December 2013 (Baker Tilly, 2014; The Economist, 2014). Despite this setback, information on the central government's budget and financial activities has slightly improved in Malawi (see the *Open Budget Database*, IBP [2015]).

A review of recent policy initiatives shows good examples of achieving results in public service delivery, but this must be built on moving forward

The objective of this section is to review successful policy initiatives and related governance strategies recently adopted in Africa. The initiatives of interest can be divided into the following areas:

- provision of public goods and services through the effective management and optimisation of financial resources
- regulatory reforms addressing priority needs for business development.

The purpose of highlighting such cases is to model success and to demonstrate what can be achieved when political commitments and public sector effectiveness converge. This should be taken as a set of good examples rather than best practices. The replication of policy successes in different countries is unrealistic when they are not adapted to the mechanisms of change within the countries in question. The wide heterogeneity of African governments, societies and policy arenas makes it more likely that policies developed in one country are unsuitable for others.

Policy reforms and digital innovations are improving the effective use of public resources

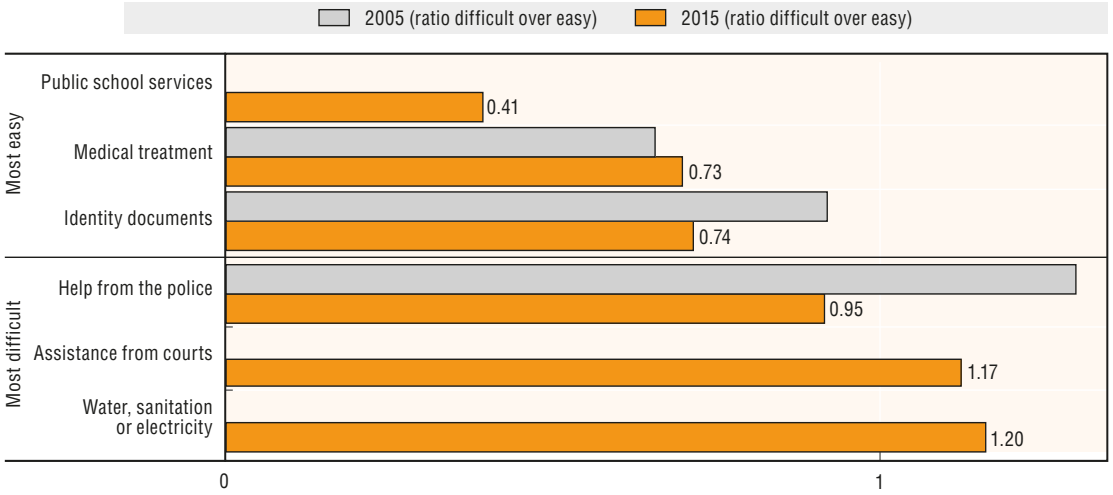
Many public administrations across Africa have improved service delivery. Afrobarometer respondents were asked how easy or difficult it was for them to obtain

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services they had sought from their governments over the previous 12 months. Education services were reported as the easiest to access in the period 2014/15, followed by access to medical treatment and identity documents. On the other hand, getting assistance from courts or accessing water, sanitation and electricity were more often considered difficult than easy.

Figure 5.9. **Ease or difficulty accessing public services according to African citizens, 2005 and 2015**

Ratio of number of respondents replying "easy" to those replying "difficult"



Notes: The questions asked in 2005 were, "Based on your experience, how easy or difficult is to obtain the following services? Or do you never try and get these services from government?". The questions posed in 2014/15 were, "In the past 12 months have you _____? How easy or difficult was it to obtain _____?"

Source: Adapted from Afrobarometer (2016), www.afrobarometer.org/.

StatLink http://dx.doi.org/10.1787/888933475379

E-government mechanisms are taking root within public administrations in Africa

In recent years, new technological approaches have been used to enhance the efficiency and effectiveness of public services. Several African countries have launched e-government projects to overcome limited capacity in the public sector and facilitate the accessibility of their services (UNDP/PIWA, 2009; Deloitte, 2012; World Bank, 2016b). The first African countries to launch successful digital strategies were Cabo Verde, Kenya, Morocco and Rwanda.

The E-Fez project in Morocco automatised local government services

In 2004, the municipality of Fez in Morocco launched E-Fez, an e-government project automating 12 out of the 33 local government offices for the delivery of municipal services. The Canadian government, through the International Development Research Centre, funded the setup of information and communication technologies (ICTs) in local government offices. A web portal for citizens was created and adapted for illiterate users (IDRC, 2016). This initiative sped up the quality of delivery procedures for frequently used services such as school registration and birth, marriage and death certificates. In 2009, a survey revealed that E-Fez decreased the error rates of government offices while increasing their productivity, from 689 certificates delivered daily to 828 on average after the project (Kettani and El Mahidi, 2009). It also increased the transparency and accountability of the municipalities. However, the requirement for IT equipment and skills created bottlenecks.

After E-Fez was running, the country launched a national strategy in 2009, known as *plan Maroc Numeric 2013* aiming to increase the automation of public administration. As with the E-Fez project, the government has inaugurated websites like service-public.ma. These platforms operate as an electronic counter and delivery system for administrative documents and procedures in Morocco.

The Huduma Centres in Kenya constitute a citizen-centric approach to decentralisation policies

Kenya is the first African country to launch a comprehensive open government data strategy. The initiative started with the new constitution of 2010, with Article 35 stating the citizens' right to government information. To operationalise this new article, the government launched the Kenya Open Data Initiative in partnership with the World Bank, Google and Ushaidi. Its aim is to enhance public integrity, transparency and accountability, while improving delivery of public services (Centre for Public Impact, 2016). In 2013, the government decided to replace the previous system of administration and transferred key functions and the financing of public services to the 47 counties. The devolution to the counties constitutes an entirely new level of sub-national government (AfDB/OECD/UNDP, 2016: 250-254).

The Huduma Centres programme was introduced by the Ministry of Devolution and Planning in 2013 as a key pillar of this ambitious decentralisation policy. The idea is to deploy decentralised services across the country through one-stop shops called Huduma Centres and through integrated online platforms. The centres are now available in most counties and pledge to promote accountability and foster national unity. Services provided include applying for student loans, birth certificates, marriage certificates, business permits, insurance and driving licences (Dalberg, 2015).

Cabo Verde launched a citizens' centre, known as Casa do Cidadao or Maison du Citoyen

The project launched in 2008 in the town of Praia on the island of Sal and made new administrative services, such as online forms, available to citizens. People in both the public and private sectors now benefit from a unique data portal for their administrative needs (e.g. certificates delivery, electronic tax payments and registering a new enterprise). This initiative reduced the time taken for administrative procedures, facilitated citizens' interaction with government and made information more accurate (AfDB/OECD/UNDP/UNECA, 2011; Deloitte, 2012). The portal provides convenient and easy access to government services, particularly for the Cabo Verdean diaspora, which represents about 50% of the population.

Several countries have undertaken measures to enhance the provision and reliability of electricity

Connectivity to the electrical network is improving, and countries like Morocco are leading the way. The global rural electrification programme (*Programme d'électrification rurale global* [PERG]) was launched in 1996, with the aim of supplying electricity to all the rural areas of Morocco, increasing the electricity transmission rate to 80.0% by 2010. This goal was attained ahead of schedule in 2005. By 2009, PERG had succeeded in transmitting electricity to 30 086 villages, with a transmission rate of 97.2% (ONE, 2016) and reached 99.1% by the end of July 2015. The programme has contributed to bridging the infrastructure gap between rural and urban areas and has also led to a higher quality of life in rural areas (AFD, 2012). The transmission of electricity to rural areas improved economic opportunities by encouraging the establishment of new industries, slowing down emigration by 5.0% and increasing the rate of returning emigrants by 1.5% (ONE, 2005).

In 2000, South Africa launched the integrated national electrification programme to increase electricity access, especially in rural areas. The programme became fully operational in 2002 with the aim of implementing the policy directives in South Africa's

1998 energy white paper and the National Energy Act, 2008 (Act No. 34). The share of South Africa's households connected to electricity increased to 90% in 2016 from 34% in 1994 (Republic of South Africa, 2016a). Though this programme has yet to achieve its main target of providing basic electricity to all households, the South African government is trying alternative options like hybrid mini-grids and non-grid technologies in the rural areas (Azimoh et al., 2016; Republic of South Africa, 2016b).

Several African countries are currently laying out big investments in power generation, with a special focus on rural electrification:

- Côte d'Ivoire plans to double power generation, and a dedicated rural electrification plan (PRONER adopted in July 2013) aims to connect all villages to the network by 2020.
- Since 2010, Ethiopia has been actively developing its power generation through several large projects, including the Grand Ethiopian Renaissance Dam, Gilgel Gibe III and Gilgel Gibe IV, which collectively have a capacity of 9.4 GW (IEA, 2014). Under its Growth and Transformation Plan II the country wants to increase capacity to 17 GW by 2020 (Republic of Ethiopia, 2016).
- In Tanzania, the government's power system master plan aims to increase the installed capacity from 1.6 GW in 2014 to 10 GW by 2025 and expand access for the rural population (OBG, 2017).

Kenya is leveraging digital technologies and satellite imaging systems to enhance the maintenance of its energy network. A geographic information system was also initiated in 2011. Piloted by the national electricity company, KPLC, geographic information about power lines, sub-stations, transformers and metres was digitised in 2015. These details were put onto a map with satellite images, which help monitor and resolve disturbances in the system more quickly. Companies can also obtain quotes through a streamlined approval process. They simply need to send the requested documents via the online platform to receive their quotes. This system considerably reduced the time and administrative procedures needed to access electricity.

In addition to these national plans, several international initiatives are currently addressing Africa's energy challenges. The AfDB's New Deal on Energy in Africa is one of the most ambitious programmes recently activated. Its aspirational goal is to achieve universal access to energy in Africa through a massive investment plan of USD 12 billion by 2025 (Table 5.4).

Table 5.4. **Selected list of international initiatives for energy in Africa**

Name of the programme	Funders	Time period	Targeted countries	Key objectives	Budget
The New Deal on Energy in Africa	AfDB	2015-25	Entire African continent	✓ Increase on-grid generation to add 160 GW of new capacity ✓ Increase on-grid transmission and grid connections that will create 130 million new connections ✓ Increase off-grid generation to add 75 million connections ✓ Increase access to clean cooking energy for 130 million households	USD 12 billion from the AfDB
Africa-EU Renewable Energy Cooperation Programme	Multi-donor programme*	2007-20	Africa in general	✓ Improve energy security ✓ Increase use of renewable energy ✓ Improve access to modern and sustainable energy	n.a.
Africa Renewable Energy Initiative	Under the mandate of the African Union	Two phases: 2016-20 2020-30	Entire African continent	✓ Achieve 10 GW of new and additional renewable energy generation capacity by 2020 ✓ Mobilise the African potential to generate 300 GW by 2030 ✓ Make use of all types renewable energy technologies	n.a.

Table 5.4. **Selected list of international initiatives for energy in Africa** *(cont.)*

Name of the programme	Funders	Time period	Targeted countries	Key objectives	Budget
SE4ALL Africa Hub	African Union Commission, New Partnership for Africa's Development (NEPAD), AfDB, UNDP	2011-30	44 African countries	✓ Ensure universal access to modern energy services ✓ Double the global rate of improvement in energy efficiency ✓ Double the share of renewable energy in the global energy mix	n.a.
Akon Lighting Africa	International Partners and Banks**	2014	15 African countries	✓ Bring clean, renewable and affordable energy solutions primarily to rural and off-grid areas in Africa through solar energy	USD 1 billion for launch
Energy Africa Campaign	UK Department for International Development	2015-30	14 African countries	✓ Boost electricity in Africa by expanding the rural household solar market	USD 46 million
Power Africa	US government through USAID	2013-18	For phase1 (2013-18): Ethiopia, Ghana, Kenya, Liberia, Nigeria and Tanzania	✓ Double access to electricity by 2018 ✓ Reach 60 million new electricity connections by 2030 ✓ Add 30 000 megawatts of new and cleaner power generation	USD 7 billion of public funds
Energies pour l'Afrique	Public-private partnership: EDF, AFD (France), Schneider Electric and others	2014-25	Entire African continent	✓ Create a support fund for electrification in Africa, with the aim of it being a co-ordination tool ✓ Connect 600 million of people to electricity by 2025	
Lighting Africa	Multi-donor programme*** managed by the World Bank Group	2007-30	Burkina Faso, DRC, Ethiopia, Kenya, Liberia, Mali, Nigeria, Rwanda, Senegal, Tanzania and Uganda	✓ Connect 250 million of people to electricity with off-grid solar energy	

Notes: * European Commission, Austrian Development Cooperation, Ministry of Foreign Affairs of Finland, German Federal Ministry for Economy Cooperation and Development, Italian Ministry of Foreign Affairs and International Cooperation, Ministry of Foreign Affairs of the Netherlands and Swedish International Development Cooperation Agency (Sida). ** China Jiangsu International Group, Solektra International, Nari Group and others. *** The World Bank Group in partnership with the International Finance Corporation, Energy Sector Management Assistance Programme, Global Environment Facility, Australia, Austria, Canada, Denmark, Finland, France, Germany, Hungary, Iceland, Italy, Lithuania, the Netherlands, Norway, Sweden, the United Kingdom and the United States.

Sources: The New Deal on Energy for Africa (AfDB, 2016b), www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/Brochure_New_Deal_-vf.pdf; Africa-EU Renewable Energy Cooperation Programme (EUEI, 2012), www.euei-pdf.org/sites/default/files/field_publication_file/RECPstrategy2020en_lowres_0.pdf; Africa Renewable Energy Initiative (2016), www.arei.org/wp-content/uploads/2016/09/AREI-Summary-english_web.pdf; SE4ALL Africa Hub: the United Nations, www.se4all.org/sites/default/files/l/2014/02/French.pdf; Akon Lighting Africa (2017), akonlightingafrica.com/; Energy Africa Campaign (UK Government, 2015), www.gov.uk/government/news/energy-africa-campaign; Power Africa (USAID, 2017), www.usaid.gov/powerafrica; Energies pour l'Afrique (L'Energie en questions, 2015), www.lenergieenquestions.fr/la-fondation-borloo-pour-lenergie-en-afrique-entame-sa-quete-de-financements; Lighting Africa (World Bank, 2017c), www.lightingafrica.org/.

Regulatory reforms are at aimed at addressing business development priorities

African countries are among the top reformers in the World Bank's *Doing Business* report

African governments have been highly engaged in policy reforms meant to reduce the time and cost of interactions between businesses and governments. Many initiatives have taken the form of regulatory reforms to make starting or running a business easier and use digital technologies to reduce time spent on and the cost of bureaucracy.

Since 2010, African countries have regularly been among the ten best reformers globally (Table 5.5). Every year the World Bank compiles a set of indicators on the quality of business laws and regulations in countries around the world and publishes them in a report called *Doing Business* (World Bank, 2016c). There are indicators on ten aspects: starting a business, dealing with construction permits, obtaining electricity, registering property, obtaining credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.

Table 5.5. **Top ten reformer countries worldwide in *Doing Business*, 2010-16**

Order	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16
1	Kazakhstan	**Morocco**	Poland	Ukraine	Tajikistan	Costa Rica	Brunei Darussalem
2	**Rwanda**	Moldova	Sri Lanka	**Rwanda**	**Benin**	**Uganda**	Kazakhstan
3	Peru	Former Yugoslav Republic of Macedonia	Ukraine	Russian Federation	**Togo**	**Kenya**	**Kenya**
4	Viet Nam	**Sao Tome and Principe**	Uzbekistan	Philippines	**Côte d'Ivoire**	Cyprus	Belarus
5	**Cabo Verde**	Latvia	**Burundi**	Kosovo	**Senegal**	**Mauritania**	Indonesia
6	Tajikistan	**Cabo Verde**	Costa Rica	**Djibouti**	Trinidad and Tobago	Uzbekistan	Serbia
7	**Zambia**	**Sierra Leone**	Mongolia	**Côte d'Ivoire**	**Congo, Dem. Rep.**	Kazakhstan	Georgia
8	Hungary	**Burundi**	Greece	**Burundi**	Azerbaijan	Jamaica	Pakistan
9	Grenada	Solomon Islands	Serbia	Former Yugoslav Republic of Macedonia	Ireland	**Senegal**	United Arab Emirates
10	Brunei Darussalam	Korea	Kazakhstan	Guatemala	United Arab Emirates	**Benin**	Bahrain
African countries	3	2	1	4	5	5	1

Note by Turkey: The information in this document with reference to « Cyprus » relates to the southern part of the Island. There is no single authority representing both Turkish and Greek Cypriot people on the Island. Turkey recognises the Turkish Republic of Northern Cyprus (TRNC). Until a lasting and equitable solution is found within the context of the United Nations, Turkey shall preserve its position concerning the "Cyprus issue".

Note by all the European Union Member States of the OECD and the European Union: The Republic of Cyprus is recognised by all members of the United Nations with the exception of Turkey. The information in this document relates to the area under the effective control of the Government of the Republic of Cyprus.

Source: Adapted from the World Bank's *Doing Business* reports from 2010 to 2016, www.doingbusiness.org/.

In the 2017 edition of the *Doing Business* report, 41 African countries improved their scores, while 13 saw a decline. Typical reforms included improvements for procedural simplification or reduced fees for public services. For instance, over the period 2015-16, 17 African countries were cited for implementing a simplified legal framework for conciliation procedures, dispute resolution processes or debt clearance procedures for small companies in financial difficulties (World Bank, 2016c). Some other countries introduced new technological innovations:

- Kenya is specifically flagged among the top ten reformers worldwide. The country implemented reforms in five separate categories of economic policy, including by removing stamp duty fees for certain articles, improving electricity provision and streamlining administrative procedures.
- Tanzania saw the largest increase in its score in 2015/16, largely due to an improvement to its credit registry system. It established new credit bureaus, which signed agreements with retailers and merchants to create a common credit registry of their customers. This system's borrower coverage has expanded to 6.48% from 4.97% of the adult population.

- Mauritania upgraded to the Automated SYstem for CUstoms Data (ASYCUDA) world Electronic Data Interchange (EDI) system, which reduced the time for preparation and submission of customs declarations for both exports and imports to improve cross-border trade.
- Mauritius digitised its land records.
- Morocco introduced an online platform to reserve company names.
- Rwanda made starting a business easier by improving the online registration and streamlining post-registration procedures. It also set up an online one-stop shop for company registration.
- South Africa started an online portal for company name searches.

Even though the cost of administrative procedures has decreased in many countries, African countries still have relatively low scores in *Doing Business* compared to the rest of the world. In 2016, 6 countries out of 54 in Africa were above the global median value for this score, while 26 out of 37 of the countries in the bottom quintile were African. The highest-ranked African country was Mauritius, in 50th place out of 190 countries covered around the world.

New initiatives tackle the issue of guarantee instruments in finance

Some African countries have started implementing reforms or launching programmes to improve the efficiency of their finance and banking sectors. At least seven countries created initiatives to increase access to credit and financial services in 2015/16. These included reinforcing the legal framework and creating systems to register property and share credit information (World Bank, 2016c). Such policy efforts to increase access to financial tools available to entrepreneurs may bear fruits for greater business development. Evidence shows that opening access to credit through safe systems increases competition in financial services, in particular when non-banking institutions can also offer secured loans. As a result of a safer financial environment, banks are more willing to make credit available to more businesses (UNIDO/GTZ, 2008). This enhances public support for investment, in turn increasing the development of industries and market competition (Alvarez de la Campa, 2014).

Ghana's Collateral Registry System

The Collateral Registry System (CRS) established in Ghana in 2010 under the Borrowers and Lenders Act 2008 was the first of its kind in sub-Saharan Africa (Ouedraogo et al., 2012). As of late 2016, central banks of Ghana, Liberia, Malawi and Nigeria were using this system. The programme was put in place by the Bank of Ghana and the International Finance Corporation to set up a regulatory framework according to the international standards of Secured Transactions and Collateral Registries. The system was developed by a Ghanaian ICT firm (Bsystems Limited). It allows the borrowers to prove their creditworthiness, reducing the risk of non-repayments and increasing transparency and the transaction framework. Around 63% of banks and financial institutions use the registry (Ghana Trade, 2017).

The CRS initiative has increased access to loans and financial services for SMEs in Ghana. As of December 2012, 9 000 SMEs and 30 000 micro businesses had received loans of more than USD 6.0 billion, secured with movable property recorded on the registry. Using movable assets as collateral, USD 1.3 billion was issued to finance small enterprises and a total of USD 12 billion to finance the business sector (World Bank, 2016c). Such a secured transaction system reduces the management cost of the loans and enables financial institutions to increase the level of credit accessibility for small entrepreneurs (Making Finance Work for Africa, 2017). About 20% of the businesses that benefited from

the access to credit are owned by women (IFC/World Bank/MIGA, 2013). However, reaching out to rural regions and community banks remains a challenge (Oppong-Adusah, 2012).

The Credit Reference System in Tanzania

In 2012, Tanzania launched a Credit Reference System to promote access to finance. Under the Bank of Tanzania Act 2006, regulations were published in 2012, and two private companies received the license to operate as Credit Reference Bureaus (CRBs): Bradstreet Credit Bureau Tanzania Limited and Credit Info Tanzania. The CRBs collect and compile information coming from banks and non-bank financial institutions, including Tanzania's micro-finance sector. This includes information on clients' indebtedness, payment behaviours and credit activities (Bank of Tanzania, 2012). This system makes credit operations less risky and faster (Clyde & Co, 2013). To ensure safe credit business, the central bank controls the databank. It is also useful for internal controls in the banking system.

Other initiatives are taking root across the continent. Mozambique passed legislation allowing the establishment of a credit bureau. Burkina Faso and Togo also passed the uniform law of the West African Economic and Monetary Union, facilitating the organisation of activities of credit bureaus. This law already existed in Côte d'Ivoire, Mali, Niger and Senegal. The credit bureaus in Senegal opened in February 2016.

The post-loan mentorship programme in Namibia

In order to promote access to credit for SMEs in Namibia, two major commercial banks – Development Bank of Namibia and Bank Windhoek – created SMEs branches respectively in 2004 and 2005. Through this initiative, they provide credit access and business development services for SMEs. This includes mentorship and a post-loan assistance programme to improve entrepreneurs' business management skills and lower the risk of loan defaults. The Emerging Small and Medium-Sized Enterprises branch of Bank Windhoek has a 12-month mentorship programme, and the lending periods range from 3 to 5 years (Nakusera et al. 2008; UNIDO/GTZ, 2008). The Special Development Fund within Namibia's Development Bank also offers training, mentoring and monitoring programmes for SMEs (SME Finance Forum, 2015).

Stronger accountability and oversight processes will be crucial for the future

While much progress has been achieved in the way of improving governance in Africa, current literature suggests that a more strategic and multidimensional approach to implementing reforms is required. Governance reforms need to go beyond the traditional approach of focusing on technical criteria (Brinkerhoff, 2017). Examples of the pitfalls of the old approach have been documented (Andrews, Pritchett and Woolcock, 2013; Brinkerhoff and Brinkerhoff, 2015). For instance, decentralisation strategies initiated through a standardised framework rather than through an approach carefully adapted to the political and socio-economic context have led to mediocre performances (AfDB/OECD/UNDP, 2015: 189-194; Smoke, 2015). Some management tasks are likely similar in all countries, but the impacts of reforms on subnational governments can lead to disparate results, particularly at the local level. Bringing about positive reforms requires the careful accumulation and application of knowledge, especially with regards to understanding relationships between different political actors in the country beyond the government, including relations with civil society (OECD, 2014; Chapter 7).

It is particularly important for countries to ensure that public institutions are capable of establishing and setting policies, delivering on those policy commitments and doing so in an inclusive way. The Sustainable Development Goal 16, which emphasises building "effective, accountable institutions", is essential for development. The quality and

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legitimacy of a country's institutional arrangement determines a government's ability to deliver services and the way in which it performs in terms of effectiveness and stability. A deeper understanding of China's development outcomes – almost four decades of double-digit growth rates, with more than 700 million people lifted out of poverty – shows they were facilitated by deep changes with respect to mechanisms of accountability and collective leadership throughout the policy-making process (World Bank, 2017b: 3).

E-governments can be a great tool to enhance the proximity and the quality of public service delivery but should not be a substitute for making accountability systems better – in particular oversight, separation of powers and procurement systems – improving basic infrastructure and increasing human resources capacity. The content communicated using IT tools needs to fit the priorities of the population, including those with low ICT-literacy skills. IT systems also have minimum requirements in terms of reliable electricity supply. E-government projects in Africa have had to deal with inadequate staffing of IT centres and the limited capacity of online application systems (Kettani and El Mahidi, 2009; Chêne and Hodess, 2009; Mutuku and Mahihu, 2014; Abdalla et al., 2015; Open Data Research Symposium, 2015).

Furthermore, to upgrade the performance of public administrations, governments would benefit from promoting merit-based management systems, together with greater transparency. There is a clear demand for a public sector that is more accountable and responsive to citizens' priority needs (Bratton, 2012; Okeke-Uzodike and Chitakunye, 2014; Kilelo, 2015). Public administrations are invariably more efficient with skilled human resources. Training must be adapted to new challenges and to individual needs. A focus on skills also means that compensation and career advancement in the public sector should be based on merit to a greater extent. There is also a call for involving civil society in setting the agenda and making decisions, especially at the local level.

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PART II
Entrepreneurship and industrialisation



Chapter 6

Improving entrepreneurship for industrialisation in Africa

This chapter situates Africa with regard to industrialisation. First, it demonstrates the presence of Africa's industrialisation on policy agendas and discusses the main reasons why Africa has yet to industrialise. Second, the chapter examines the role of manufacturing and the potential of other economic sectors in the Fourth Industrial Revolution. Finally, it looks at the continent's entrepreneurial landscape and identifies the types of entrepreneurs that can foster industrialisation. It examines specifically the prevalence of early-stage, rural, female and opportunity-driven entrepreneurs in Africa.

IN BRIEF

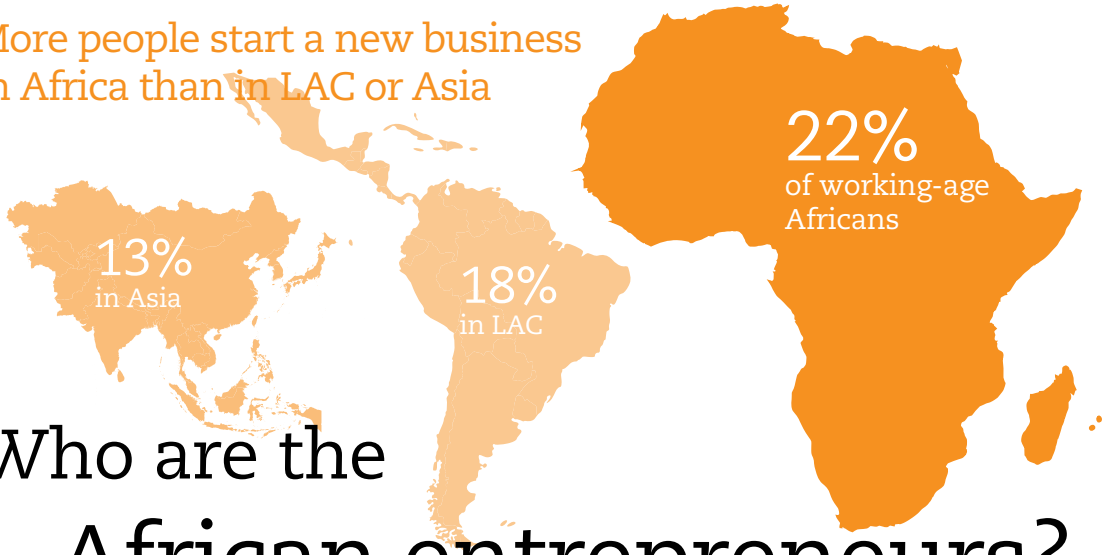
Promoting industrialisation ranks high on African governments' policy agendas. Their objective is mainly to create new labour-intensive industries. African countries have tried to industrialise in the past but often with little success. New industrialisation strategies are therefore needed. They must take stock of past mistakes while addressing new opportunities and challenges brought about by the Fourth Industrial Revolution and today's global economic environment. While continuing to tap the potential of manufacturing, industrialisation strategies should also target other sectors where African economies show latent comparative advantages. Even more importantly, industrialisation strategies should also consider how to promote high-growth entrepreneurship. The majority of early-stage entrepreneurs operate in low productivity sectors that typically require low skill levels and offer few barriers to entry. While small young firms tend to create the most jobs, few grow fast. Entrepreneurs who are more skilled and highly motivated have more potential to grow and contribute to this new wave of industrialisation than other types.

Did you know?

- Every year between 2015 and 2030, 29 million new entrants will join Africa's labour force.
- 22% of Africa's working-age population are starting new businesses, the highest rate in the world.
- Firms with fewer than 20 employees and less than 5 years' experience provide the most jobs in Africa's formal sector.
- 44% of African entrepreneurs start businesses to exploit opportunities in the market, while 33% do so because they cannot find other jobs.

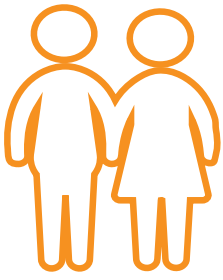
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More people start a new business in Africa than in LAC or Asia



Who are the African entrepreneurs?

Young



36 in Asia

35 in LAC

31 years old on average in Africa

African **women** are twice as likely to start a business than women elsewhere



Mostly in services

Top early-stage entrepreneurs:



Trade, hotels and restaurants



Agriculture, forestry and fishing



Manufacturing

Innovative



20%
of new African entrepreneurs are introducing a new product or service

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Industrialisation is back on Africa's economic policy agenda

Many African governments are embracing industrialisation, which calls for new economic strategies. At least 26 African countries have industrialisation strategies in place in 2017. While past efforts to industrialise Africa were often unsuccessful, the current industrial revolution and today's global environment offer new opportunities, along with challenges. Three strategies are essential for the continent to industrialise: promote a competitive private sector, target economic sectors with high-growth potential including non-manufacturing and better harness the potential of entrepreneurs.

The main objective for African governments is to create the conditions for their economies to return to a higher, more inclusive and sustainable growth path. Africa's gross domestic product (GDP) grew over 5% a year between 2001 and 2014, but poverty remains high (see Chapter 4). While high economic growth is necessary, more is required to improve living standards for the whole population. Africa will need more and better jobs: between 2015 and 2030, every year 29 million new entrants will enter the labour force in Africa. Countries need to offer mass employment opportunities that are relatively accessible to Africa's large population of unskilled workers. Today's weak global economy and lower commodity prices have again increased the risks for African economies (see Chapter 1).

Economic transformation will not be possible without industrialisation. Industrialisation is necessary for Africa to transform its economies by reallocating resources from low-productivity sectors to higher ones. Only industrialisation can bring about unconditional convergence with the more advanced economies.

Industrialisation is a catalyst for job creation, higher productivity and innovation. The continent's regional market has demand constraints but its growth provides opportunities for tradable manufactured goods, modern services and processed agricultural products. In turn, more exports can open countries to technology spill-overs from abroad. Industrialisation can increase access to capital, technological innovation and learning (Lin and Monga, 2013).

Box 6.1. **Support for Africa's industrialisation**

African governments, the United Nations and the G20 support industrialisation as a means to achieve the continent's goals:

- Industrialisation is essential to realise the goal of the African Union (AU)'s Agenda 2063 for "A Prosperous Africa Based on Inclusive Growth and Sustainable Development" (AUC, 2015a). Industrialisation features prominently in the AU's First Ten-Year Implementation Plan (2014-2023) (AUC, 2015b) and earlier in the AU's "Action Plan for Accelerated Industrial Development of Africa" (AU, 2007).
- African governments endorsed the African Development Bank's (AfDB) *Industrialisation Strategy for Africa 2016-2025* in July 2016 (AfDB, 2016). It identifies "competitive talents, capabilities and entrepreneurship" as a key driver of the strategy. The AfDB's fourth flagship programme aims to realise the strategy's objectives by focusing on "Promoting and Driving Enterprise Development", particularly small and medium-sized enterprises (SMEs).
- The New Partnership for Africa's Development (NEPAD) identifies "Industrialisation, Science, Technology and Innovation" as one of its four main work streams. NEPAD's *Science, Technology and Innovation Strategy for Africa 2024* (AU, 2014) highlights the importance of entrepreneurs as agents of innovation.

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Box 6.1. **Support for Africa's industrialisation** *(cont.)*

- The United Nations Economic Commission for Africa actively supports the continent's industrialisation, notably through its Industrialisation and Infrastructure Section. Its *Economic Reports on Africa* have long been dedicated to industrialisation, most visibly since 2013.
- The UN General Assembly gave renewed support to the continent's industrial aspirations. In July 2016, it adopted a resolution proclaiming Africa's Third Industrial Development Decade, which will run until 2025 (UN General Assembly, 2016). The resolution calls for renewed international co-operation as well as a clear mandate for the UN International Development Organisation to collaborate with the AU to achieve the objectives of the 2030 Agenda for Sustainable Development.
- African industrialisation was an important topic of the Sixth Tokyo International Conference on African Development (TICAD-VI) in August 2016.
- Under China's leadership, the G20 agreed in September 2016 in Hangzhou to support Africa's industrialisation as part of its Action Plan on the 2030 Agenda for Sustainable Development.

New industrialisation strategies can benefit from past mistakes

Past African governments that worked to industrialise their countries often had little success. Following their independence, many young African governments sought industrialisation to avoid economic dependence on their former colonists. Their industrial policies rested on large state-owned enterprises (SOEs) and targeted capital-intensive manufacturing, using import substitution to protect them. As a result, between 1960 and 1975, manufacturing grew rapidly.

However, strategies failed for a number of reasons (see Box 6.2). In particular, many of these strategies focused on capital- and knowledge-intensive industries that did not match countries' comparative advantages. Weak accountability and incentive schemes caused large deficits for the SOEs. Yet removing these enterprises was difficult. They employed a large share of labour, and the industrial elites running them were politically powerful. Letting the SOEs collapse would be an admission of policy failure. The subsequent period of structural adjustment programmes led to the dismantling of SOEs after 1975. With it, manufacturing sectors declined.

Since the mid-1990s, economic policies in African countries have largely followed the "Washington consensus". Governments have focused mostly on improving the business environment. While these policies have had positive impacts, progress has been slow. Their generic policy prescriptions have overlooked countries' specificities. In addition, they have often called for a capacity beyond that of African governments. Without the support of industrialisation strategies, the manufacturing sector faced a number of cross-cutting challenges:

1. infrastructure bottlenecks (Newman et al., 2016; Dethier, 2015; Noman and Stiglitz, 2015)
2. insufficient productive capabilities (Bhorat et al., 2016)
3. the dearth of skilled workers (Lawrence, 2005)
4. underdeveloped financial markets (Kodongo and Ojah, 2016)
5. high levels of income inequality (Okojie and Shimeles, 2006).

Box 6.2. **Africa's past industrialisation strategies**

New industrialisation strategies need to learn from past successes and failures. Only a few African countries have succeeded in their industrialisation strategies while others failed. For example, Mauritius and Tunisia created special economic zones and attracted foreign direct investment for exporting industries (see the country notes for Mauritius and Tunisia). These strategies lifted Mauritius and Tunisia to middle-income countries' status.

Past industrialisation strategies failed for a number of reasons:

- Strategies either overlooked the importance of comparative advantages or failed to give the right incentives to entrepreneurs. Trade protection led to an increase in the price of imports and import-substituting goods relative to world prices. Markets became fragmented, and competition from foreign firms decreased (Lin, 2012; Newman et al., 2016). Overvalued exchange rates reduced the competiveness of local entrepreneurs in domestic and export markets (Okojie and Shimeles, 2006).
- Poorly performing institutions exacerbated corruption, burdensome bureaucracy, lack of formal property rights and a weak rule of law. The mismanagement of resource rents in many natural resources-based countries weakened already fragile institutions. This led to a risky business environment that discouraged productive investment and entrepreneurship (Eifert, 2009).
- Africa's attempts to industrialise also suffered from East Asian exports to African and international markets at prices defying global competition. Consumption rather than domestic investment led to rising imports, while growth remained low.
- Small domestic markets of many African countries prevented economies of scale, particularly in the smaller or landlocked countries. Slow regional integration led to multiple constraints related to different standards, protection measures and other policies reducing the market size for industrialisation.

Africa's industrialisation calls for innovative strategies

Twenty-first century industrialisation strategies call for innovative approaches. African countries must harness new opportunities and challenges, which other regions did not have to face. These include *i)* the new industrial revolution enhancing automation in industrial production, *ii)* the changing economic environment characterised by the slow-down in global growth and by the end of the commodity super-cycle (see Chapter 1), and *iii)* the rising labour costs in East Asia. Innovative approaches are also needed to take advantage of the latent comparative advantages in Africa's diverse countries, their geographic specificities and their unique cultural heritages. Simply replicating industrialisation strategies that have worked since the 1970s in North-East Asia will not suffice.

Manufacturing remains the central sector on which Africa's industrialisation policies can rest, however high-growth opportunities also exist in other sectors. For certain tradable services and farming activities such as horticulture and the agro-industry, production methods have become comparable to those of conventional manufacturing. These activities produce higher quantities of goods at lower marginal costs. These goods can then be exported, increasing competition and productivity. Investing all resources only in manufacturing may not always prove efficient, nor reflect the comparative advantages of all African countries.

Different pathways to industrialisation exist. Experience shows that the share of manufacturing in GDP does not necessarily grow with higher income levels. Other sectors

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can also significantly contribute to economic growth. The potential of non-manufacturing sectors for industrialisation may become more and more important in the context of the Fourth Industrial Revolution, where robots tend to replace low-skilled workers in manufacturing activities.

Innovative industrialisation strategies could better target high-potential entrepreneurial activities to accelerate industrialisation. Entrepreneurs play an essential role in bringing innovation to an economy, notably new technologies and production methods. High-potential entrepreneurs also experiment with new products in local markets. They offer fresh ideas and exchange information with other local producers, potentially increasing competitiveness by shifting resources to higher-productivity activities.

Africa's manufacturing sector has room for growth

The manufacturing sector is currently relatively small in Africa compared to other developing regions (Table 6.1). Manufacturing accounts for 11% of GDP, lower than comparable ratios for other developing regions such as East Asia and the Pacific (23%), South Asia (16%), and Latin America and the Caribbean (14%). Africa's share of manufacturing in GDP is comparable to that of the European Union (15%) and North America (12%). However, the latter are more developed regions that have completed the process of structural transformation where labour moved from agriculture into manufacturing and then into services. There, agriculture accounts for a much smaller share of GDP, and manufacturing has higher labour productivity.

Table 6.1. **Sector shares of gross domestic product in world regions, 2014/15**

(%)

	Agriculture	Manufacturing	Services
Africa	16	11	54
European Union	2	15	74
East Asia and the Pacific	5	23	60
South Asia	18	16	53
Latin America and the Caribbean	5	14	67
North America	1	12	80

Note: The sector shares do not add up to 100% as several sectors are not included in the table (quarrying and mining including oil, construction, electricity, gas, and water).
Sources: AfDB Statistics Department; World Bank (2017).

Africa's manufacturing has been facing difficulties since the mid-1990s, although it has recently picked up a little. Africa's manufacturing share of GDP almost halved from around 17% in the early 1990s to around 9% in 2008 (Figure 6.1). That decline led to what Dani Rodrik (2016) called with concern Africa's "premature de-industrialisation". In recent years, manufacturing has slightly increased to around 11%.

Extractive industries in Africa have expanded quickly since 2000 thanks to higher commodity prices. Their value added share of GDP (together with the smaller shares of construction, electricity, gas and water) increased during the commodity boom after 2000, reaching a peak of 32% in 2008, and gradually declined to around 20% in 2015. While often highly productive, extractive industries are capital intensive and do not create many jobs. In 2010, labour productivity was 28 times higher in mining than in manufacturing (87 times higher than in agriculture). But mining employs less than 1% of the labour force.[1]

Figure 6.1. **Evolution of value added of manufacturing and total industry in Africa, 1990-2015**



Note: Shares of sectors' value added as % of GDP. Total industry includes manufacturing, extractive industries (quarrying and mining, including oil), construction, electricity, gas and water.
Source: AfDB Statistics Department.
StatLink http://dx.doi.org/10.1787/888933475389

Such continental averages hide diverse trends, however. For instance, the manufacturing share of GDP has remained broadly the same or increased in recent years in several countries, including Côte d'Ivoire, the Democratic Republic of the Congo and Swaziland (see Annex 6.A1). Moreover, several African countries with large textile sectors are also recovering from an unfavourable change in international trade policies. Phasing out the Multi Fibre Agreement in 2005 exposed African textile firms to low-cost competition from Asia. As a result, manufacturing shares of GDP declined. This affected Egypt, Lesotho, Mauritius, Morocco and Tunisia. After an adjustment period, however, in most of these countries manufacturing sectors stabilised or increased.[2]

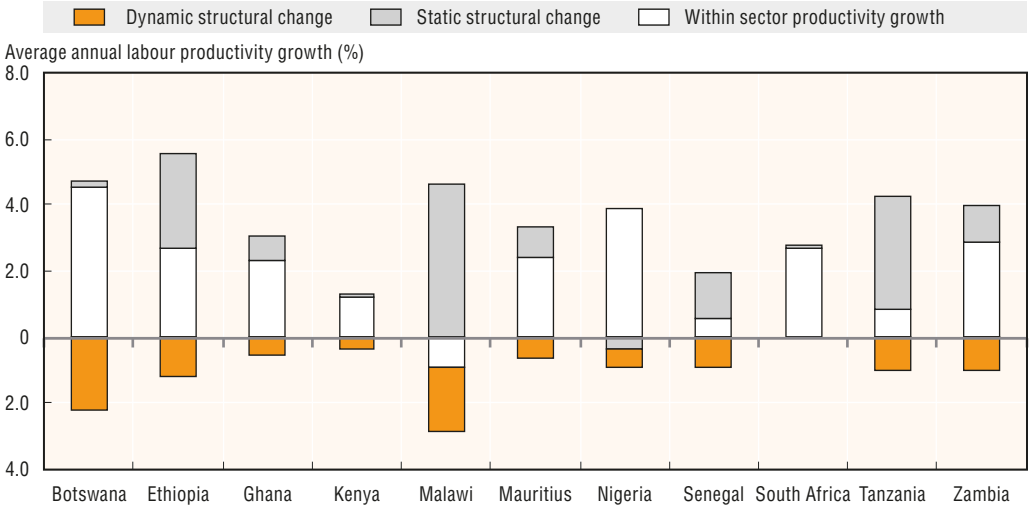
With the end of the commodity price boom, some resource-rich countries are diversifying their economies although they tend to have smaller manufacturing sectors than resource-poor countries. For instance, Nigeria's manufacturing share of GDP increased to 9.5% in 2015, up from 2.8% in 2005. Strong performance from sub-sectors such as textile, apparel and footwear activities and basic metals, iron and steel contributed to the growth of the industrial sector during this period (Nigerian National Bureau of Statistics, 2014).

Assessing industry dynamics only by looking at GDP shares of manufacturing, as the literature usually does, can underestimate the trends underway. For example, in Ethiopia the manufacturing share of GDP in 2015 was similar to that of 2005 (only 4.8%). But as Ethiopia's real GDP increased on average by around 10% during this period, the manufacturing real value added increased at the same rate so that its level in 2015 was 2.5 times higher than ten years earlier. This indicates thriving manufacturing activity.[3] Indeed, Ethiopia's manufacturing has become an attractive location for foreign investors, and other countries in the region have also improved policies to attract more FDI in this sector (see Chapter 2). A similar trend took place in Mozambique, where real value added of manufacturing was around 25% higher in 2015 than in 2010, although its manufacturing share of GDP declined from above 11% to 10%.

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Africa has so far managed to absorb its surplus labour from agriculture, but most workers have relocated into retail trade services that have low productivity (AfDB/OECD/UNDP/UNECA, 2013; McMillan, Rodrik and Verduzco-Gallo, 2014; Timmer, De Vries and De Vries, 2014; UNECA/AU, 2013; Rodrik, 2016). Between 2000 and 2010, improving methods of production within sectors was the main or only source of productivity growth in Botswana, Ghana, Mauritius, Nigeria, South Africa and Zambia. But Ethiopia, Malawi and Tanzania achieved significant static productivity gains by moving workers from low to higher productivity sectors (Figure 6.2). However, none of these countries moved labour to sectors with both high productivity levels and productivity growth, which would have led to dynamic productivity gains. Labour movements between sectors were mainly from agriculture to retail trade and personal services where productivity levels were somewhat higher than agriculture. This led to static productivity gains but with dynamic productivity losses, because productivity growth in the services sector declined as its employment increased faster than its output.[4] African countries should now support labour-absorbing sectors with higher levels of both growth and productivity.

Figure 6.2. **Labour productivity growth for 11 African countries, 2000-10**



Note: Static structural change refers to productivity growth by reallocating labour from low productivity sectors to high productivity ones. Dynamic structural change refers to the change in the sectoral productivity level due to this labour reallocation. Within productivity growth refers to improvements within sectors.

Source: Adapted from Table 2 of De Vries, Timmer and De Vries (2015).

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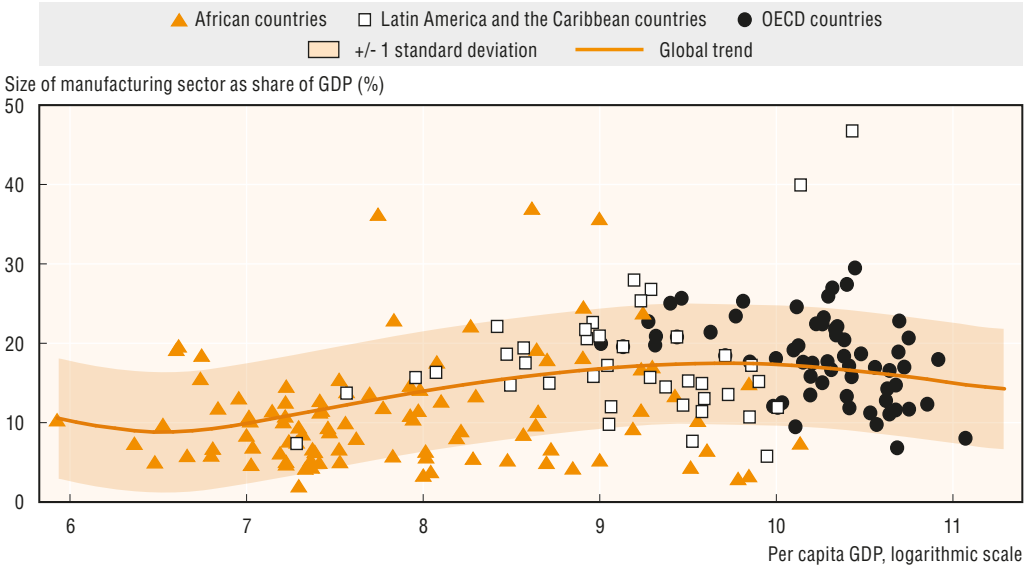
McMillan and Harttgen (2015) argue that "lamenting about de-industrialisation" overshadows a "quiet revolution" now underway. The share of the labour force engaged in agriculture has substantially declined and the share working in professional service jobs risen. The number of rural children in secondary school is higher than ever. Africa's unprecedented demographic growth is underpinned by increases in farming productivity that are not always visible in official statistics. Significant improvements in governance, living standards and human capital have accompanied this "quiet revolution".

Industrialisation in the 21st century is not only about manufacturing

Multiple paths exist for industrialisation. Increasing the share of manufacturing is generally associated with the beginnings of industrialisation and with economic catching up. This is illustrated by the upward sloped trend of manufacturing shares of GDP for

low- to middle-income countries in Figure 6.3. It includes a large number of countries at different income levels over a period of 25 years. However, countries can increase their income per capita with very different levels of manufacturing, as the large deviations from this global trend illustrate.

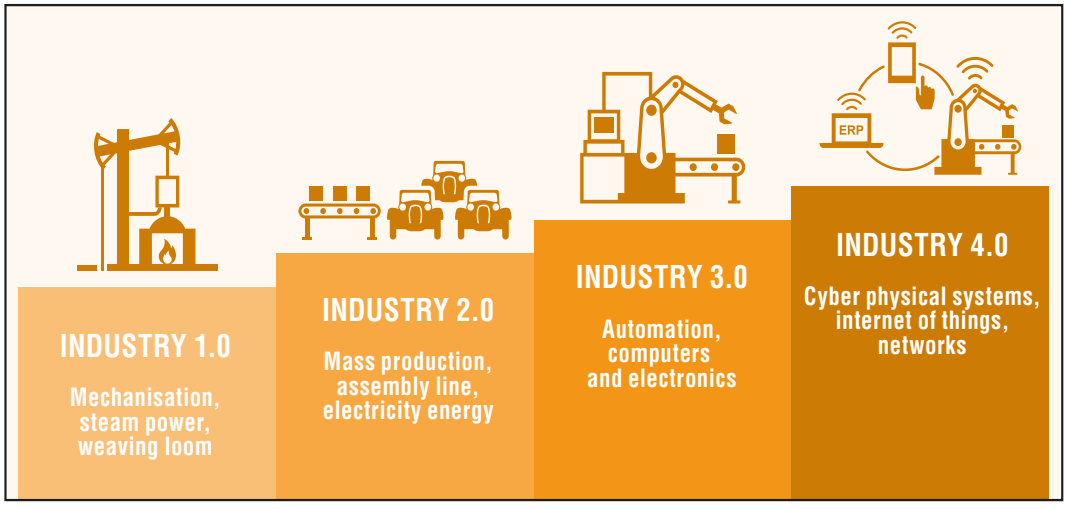
Figure 6.3. **Share of manufacturing by per capita income, 1990-2015**



Note: Data cover 132 countries. Except for Canada, each country has one data point for 1990 (or next available year) and one for 2015 (or most recent year).
Source: Adapted from *World Development Indicators* (World Bank, 2017).
StatLink http://dx.doi.org/10.1787/888933475406

Figure 6.4 shows the lead-up to the Fourth Industrial Revolution. The steam engine led the First Industrial Revolution, in the 18th century. That revolution facilitated machine-based manufacturing, bringing the production of industrial products to a global scale. The Second Industrial Revolution consisted in mass-manufacturing using Fordist production systems. In the late 20th century, new technical innovations in computing systems and automation led to a Third Industrial Revolution.

Figure 6.4. **The four industrial revolutions**



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The current industrial revolution is impacting Africa's industrialisation through three major technologies: *i)* robotics, automation and artificial intelligence; *ii)* additive manufacturing (e.g. 3D-printing) and *iii)* the Industrial Internet and data analytics (Naudé, forthcoming). This Fourth Industrial Revolution gives more importance to services and promotes industrialisation based on shifting resources into more sectors than manufacturing alone. It differs from previous industrial breakthroughs in that information and communications technology (ICT) tends to replace medium and low skilled workers and require more highly skilled workers (Naudé, forthcoming).

Within this context, services offer great potential for growth. Global trade in services is growing even faster than trade in goods (Ghani and Kharas, 2010). Africa's trade in services has expanded from about USD 140 billion in 2005 to more than USD 240 billion in 2015 (Chapter 3). Compared to manufacturing, the services sector offers numerous advantages:

- Trade in services can largely bypass logistical and customs barriers.
- Technological changes increasingly facilitate trade in services.
- Services complement manufacturing. For example, large manufacturing firms often offer support services.
- Services are compatible with greener, inclusive and more gender-friendly growth (UNECA, 2016).

Strategies targeting service growth require investing in several areas. These include physical infrastructure, especially in communication and transport, human capital (e.g. skills and education), entrepreneurship and trade connectivity (Ghani and O'Connell, 2014).

Traditional sectors other than services can also become more productive through applying new technologies and methods of production. This is the case of agriculture, for example (see e.g. Dorosh and Mellor, 2013).

New technologies can help Africa industrialise

New technologies open up possibilities for new sectors to emerge. Cape Town, Lagos and Nairobi are emerging as hubs for global start-ups, especially in sectors such as financial technology and renewable energies. These sectors are likely to grow thanks to Africa's demography and urbanisation. New technologies, with appropriate policies, could also help reduce pressure on the environment for instance by promoting "green industrialisation" (see Box 6.3).

New technologies facilitate small-scale manufacturing. Additive manufacturing allows firms to cut down on production, by reducing the cost of customisation. It enables creative firms to compete thanks to their knowledge of local needs. New business models based on the collaborative economy allow small firms to take advantage of under-utilised resources such as computing power, transportation vehicles and office space. They permit small firms to become more competitive and improve the efficiency of environmental resource use.

New communication technologies can help firms participate in global trade. Using Internet, companies can reach markets beyond their geographical location. According to the World Bank, "a 10-percent increase in internet use in the exporting country is found to increase the number of products traded between two countries by 0.4 percent" (World Bank, 2016).

New technologies also offer ways to fill Africa's infrastructure gap. Digital technologies allow governments to reach citizens, particularly disadvantaged populations. Tax

management and online payment services facilitate administration and transparency. Many governments already deliver certain public services through e-government systems. Rwanda and Uganda figure among the top low-income countries with administrative e-government systems.

Africa has already made a head start in several areas. Kenya and Nigeria are more advanced in mobile banking than many OECD countries. Sub-Saharan Africa has over 222 million mobile money accounts, more than all other developing regions combined (GSMA, 2015). In South Africa, the company Lonmin uses smart machinery in its largest platinum smelter.

New technologies decrease the demand for low-cost labour in manufacturing and increase the need for skills. Ethiopia risks losing around 44% of current jobs across sectors to automation (Frey, Osborne and Holmes, 2016). In addition, technology can reduce the incentive for multinational companies to offshore production to countries with low-cost labour. Investment in technical skills and in science, technology, engineering and mathematics will be necessary to develop African robot engineers, industrial engineers, data analysts, cloud architects, software developers, security analysts and health workers (Frey, Osborne and Holmes, 2016).

However, most African countries are not yet equipped to transition to a Fourth Industrial Revolution economy. Even the most tech-savvy countries remain behind in adopting ICT technologies (AfDB/WB/WEF, forthcoming). In addition, management and technical skills are often lacking. A global Chief Executive Officer (CEO) survey found that skills are the most important driver of manufacturing competitiveness (Deloitte, 2016). A survey by PwC (2017) revealed that 90% of CEOs of large South African companies are concerned about the impact that the lack of relevant skills has on their organisations' performance; these include creativity, innovation, and leadership and problem-solving skills.

Box 6.3. **"Green industrialisation", the environment and energy demands**

Africa can industrialise while preserving the environment. Appropriate policies can help the continent progress on three closely linked objectives: achieving robust long-term growth; promoting rapid poverty reduction and social inclusion; and reducing climate risk. New opportunities are emerging for Africa's "green industrialisation" such as in financial technologies and renewable energies. A number of technological and market changes can promote industrialisation with lower environmental costs (Brahmbhatt, Haddaoui and Page, forthcoming). Green industrialisation policies can help avoid the environmental degradation caused by industrialisation processes (UNECA, 2016).

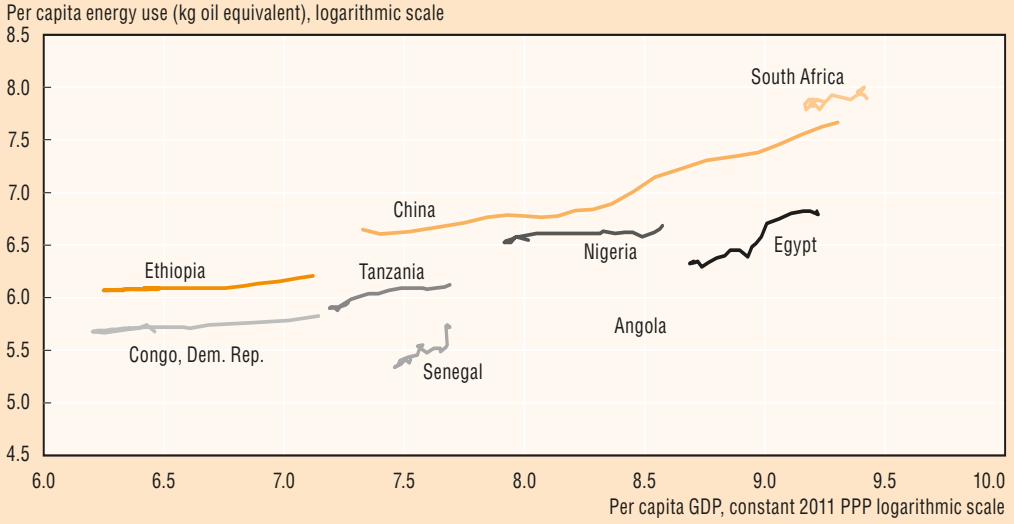
The development agenda must strengthen resilience and adapt to the impacts of a deteriorating natural environment. The continent's natural assets are under increasing stress from deforestation, land degradation, water scarcity and rising pollution. Africa is already experiencing significant climate variability. The region is warming faster than the world as a whole, with climate impacts varying greatly by location and felt disproportionally by the poor.

Many African countries are now moving into the middle-income stage demanding more energy, following a historical trend. The shift to modern energy often means a rapid reliance on electricity and on fossil fuels, resulting in higher CO_2 emissions and other types of harmful air pollutants. But the relationship between growth and energy use also depends on economic structures, technologies and policies (Figure 6.5). To meet their new demands, African countries should privilege sectors that respect environmental goals and increase energy supply while managing the negative impacts on the environment.

A corrigendum has been issued for this page. See http://www.oecd.org/about/publishing/Corrigendum_AEO_2017_ENG.pdf

Box 6.3. **"Green industrialisation", the environment and energy demands** *(cont.)*

Figure 6.5. **Gross domestic product and energy use per capita for selected African countries and China, 1990-12**



Source: Brahmbhatt, Haddaoui and Page (forthcoming).
StatLink http://dx.doi.org/10.1787/888933475417

African entrepreneurs offer high but untapped potential for industrialisation

Innovative industrialisation strategies for African countries should target Africa's high-potential entrepreneurs. This section identifies those entrepreneurs who are best placed to contribute to industrialising African economies. First it explains the role of entrepreneurs as agents of industrialisation. It then shows that while Africa's entrepreneurial potential is high, its contribution to industrialisation has so far been limited. It analyses the entrepreneurial landscape in Africa: who are the entrepreneurs, in which sectors they operate and which types of entrepreneurs are best able to boost industrialisation.

New industrialisation strategies should extend beyond large companies to better harness Africa's vast entrepreneurial base. Large companies, whether state-owned or private, are of course essential to industrialisation efforts. Nonetheless, promoting only a few large companies can encourage rent-seeking and decrease competition. As most entrepreneurs work in the informal economy, African countries have a high entrepreneurial potential that remains untapped.

Entrepreneurs are essential agents of industrialisation

Economic theory has long highlighted the role of entrepreneurship in industrialisation (Cantillion, 1730; Knight, 1921; Schumpeter, 1942). Joseph Schumpeter said that "the inventor produces ideas, the entrepreneur 'gets things done'". In imperfect markets, entrepreneurs overcome obstacles such as weak physical and soft infrastructure, finance shortages, and skill gaps to provide goods and services (Nelson and Pack, 1999). They create jobs, increase demand for educated labour, bring goods and services to market and contribute to the government tax base.

Entrepreneurs' tolerance for risk makes them bearers of innovation. Introducing new products, markets and organisational processes raises their firms' productivity. To survive, new firms tend to be more productive than existing ones. Entrepreneurship also increases aggregate productivity through the process of "churning". New innovative firms put pressure on older firms to innovate. Those that cannot catch up eventually exit the market. This constant process is the essence of what Schumpeter (1942) called "creative destruction".

Entrepreneurship encourages diversification into new economic sectors and adapts foreign technologies to local markets. Entrepreneurs fulfil a "cost-discovery" function by experimenting to find out whether goods established in global markets can be produced at home at lower cost (Romer, 1990; Hausmann and Rodrik, 2003; Van Praag and Van Stel, 2013). They generate information on the viability of their activities, from which other economic agents can learn. Entrepreneurship accelerates industrialisation by efficiently shifting resources away from traditional sectors into more modern ones.

Entrepreneurs can also have a positive impact on government functioning. In a fast-changing environment where global rules may constrain the policy space of governments, entrepreneurs are essential analysts of new information. Often where governments have left a gap providing public services, entrepreneurs have stepped in to offer solutions (Landes, Mokyr and Baumol, 2012).

Entrepreneurship and its environment matter for firms' performance and industrial upgrading (see CAF, 2013, for a review of the literature). A firm's performance improves when the entrepreneur:

- is better educated (Eifert, Gelb and Ramachandran, 2005; Mead and Liedholm, 1998)
- is highly motivated and takes risks (De Mel, McKenzie and Woodruff, 2008; Naudé and Nagler, 2016)
- is willing to invest in human resource development, research and development, and market research (Eifert, Gelb and Ramachandran, 2005; Mead and Liedholm, 1998)
- has access to family finance (Hampel-Milagrosa, Loewe and Reeg, 2015).

Box 6.4. **Defining entrepreneurship and entrepreneurs**

This report aims for a balance between the notion of entrepreneurship in the theoretical literature and its practical measurement. Entrepreneurship is considered here as the use of perceived opportunities to provide a service or product in local or global markets. Entrepreneurship can pursue profit or provide solutions to social problems.

Entrepreneurs can thus be either own-account workers with no employees (self-employed) or employers paying employees. The International Labour Organization estimates that 42.6% of Africa's labour force in 2015 were own-account workers and 2.6% were employers.

No consensus exists on the definitions of entrepreneurship and entrepreneurs. The empirical literature often takes a bottom-up approach to define entrepreneurship. It equates entrepreneurship with a specific empirical measure such as self-employment or the level of involvement in nascent businesses. Ahmad and Seymour (2008) provide an extensive review of definitions of entrepreneurship particularly in OECD countries. In contrast, the theoretical literature has often taken a top-down approach to define entrepreneurs by their functions of risk-taking, co-ordinating and innovating. However, these characteristics are often based on ex-post characteristics of entrepreneurs and make practical measurements difficult.

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Box 6.4. **Defining entrepreneurship and entrepreneurs** *(cont.)*

Examining entrepreneurship and firm dynamics in Africa poses a data problem. Several statistics on entrepreneurs exist from official and unofficial sources. Yet, often they are not consistent, nor do they provide a full, coherent picture. The prevalence of the informal sector in Africa also limits the use of popular data sources such as the World Bank's Enterprise Surveys. These survey only formal (registered) companies with five or more employees.

This report also presents data on young firms using the Total Early-stage Entrepreneurial Activity indicator (TEA) based on the Global Entrepreneurship Monitor's "Adult Population Survey".[5] TEA is defined as the percentage of the 18-64 year-old population who are either nascent entrepreneurs or owner-managers of a business no older than 3.5 years. This indicator sheds light on various characteristics of entrepreneurs who are in the process of starting new businesses and owner-managers of young businesses. The focus on the early stages of entrepreneurial activity allows a closer look into the state and challenges of business formation, including informal entrepreneurship.

Africa's entrepreneurial potential is considerable

Entrepreneurship can tap into the growing pool of Africa's youth, who are increasingly skilled and competitive. The *African Economic Outlook 2015* estimated that approximately 29 million young people would enter the African labour market every year until 2030 (AfDB/OECD/UNDP, 2015). Absorbing this expanding labour force into productive activities will be crucial for reaping this demographic dividend (AfDB/WB/WEF, forthcoming).

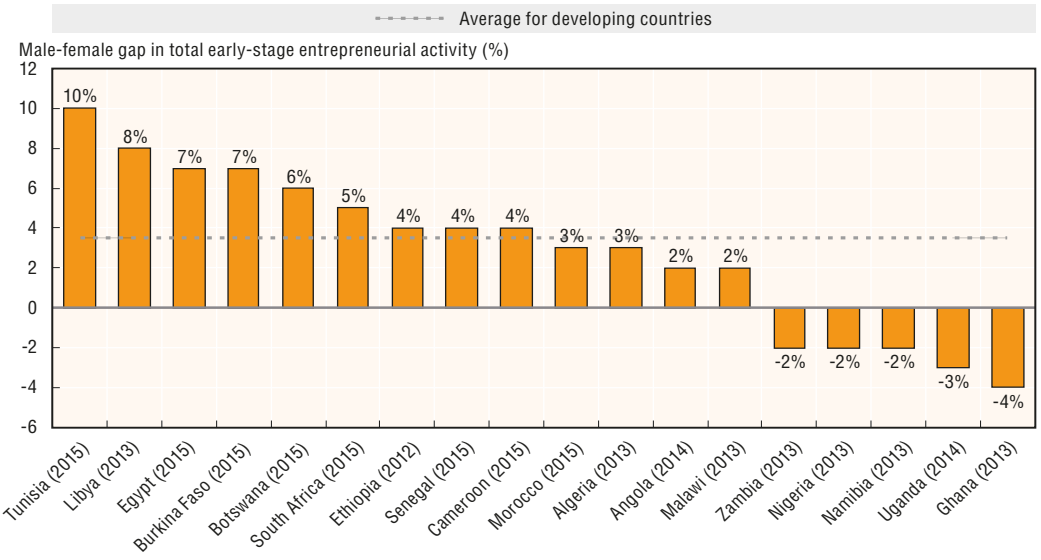
Africa has the highest share in the world of adults in the process of starting or running new businesses, as measured by the TEA indicator (see Box 6.4). The TEA rate for the 18 African countries included in the indicator is 22%. This is higher than the equivalent for Latin American countries (19%) and for developing countries in Asia (13%). Of course great heterogeneity exists among African countries: the share of the working-age population involved in early-stage business ranges from as low as 7% in South Africa to 39% in Senegal during the 2011-16 period.

Entrepreneurs in Africa are younger than in other developing regions. The median age of Africa's entrepreneurs is 31, much younger than their counterparts in East Asia (36 years old) and Latin America (35 years old). In particular, the 25-34 age bracket accounts for 38% of entrepreneurs in Africa, followed by the 18-24 and 35-44 age groups that each account for 23% of the working-age population. This reflects Africa's demography with its young population.

African women are much more likely to start businesses than women elsewhere. In Nigeria and Zambia, 40% of women start businesses, compared with 10% or less in industrial countries. Starting businesses permits women to engage in income generating activities and diversify their households' sources of income. It also allows for the flexibility in working hours that they need to assume other responsibilities (Lain, 2016).

African women are 3% less likely to engage in early-stage entrepreneurial activity than their male counterparts. This gender gap is similar to the global median (Figure 6.6). The gender gap varies across African countries. It is highest in Tunisia, Libya, Egypt and Burkina Faso, in that order.

Figure 6.6. **Gender gaps in entrepreneurship in 18 African countries, 2012-15**

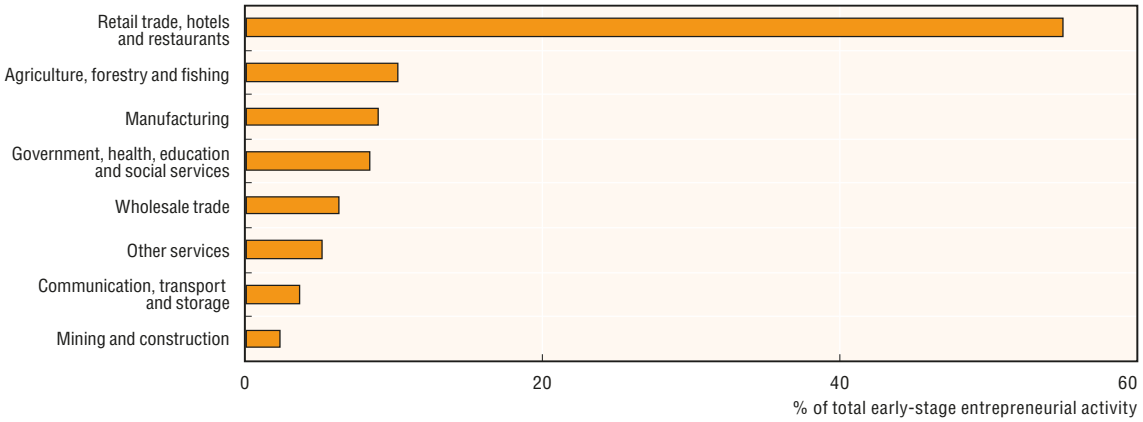


Source: Adapted from GEM (2017).
StatLink http://dx.doi.org/10.1787/888933475429

The sectors for early-stage, rural and female entrepreneurs vary

The majority (55%) of early-stage entrepreneurs in Africa operate in retail trade, hotels and restaurants (Figure 6.7). The second most-popular sector is agriculture, forestry and fishing (10%), followed by manufacturing (8%). However, the sectoral composition varies widely across countries. The share of early-stage entrepreneurs in retail trade, hotels and restaurants ranges from 27% in Cameroon to 81% in Malawi. This sector typically requires a lower level of skills and fewer barriers to entry. It also has a relatively quick turnover and does not require long-term investments. In contrast, nearly half of the entrepreneurs in high-income countries start their businesses in technology and service industries such as information and communication, finance, professional services, health and education (Herrington and Kew, 2017).

Figure 6.7. **Sectoral composition of early-stage entrepreneurship in Africa, 2012-16**

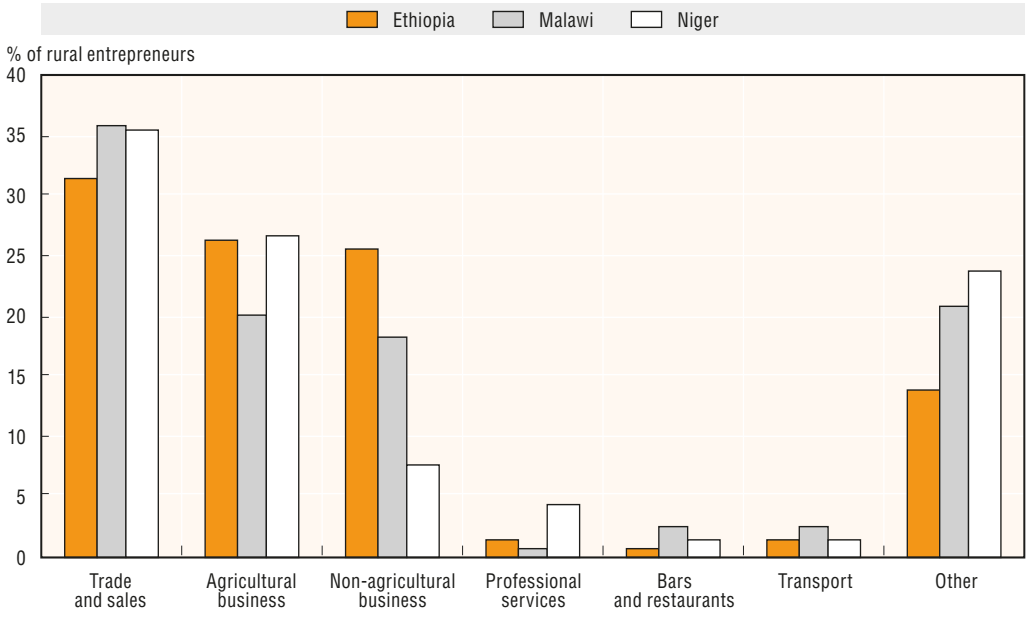


Source: Average weighted by working-age population of 18 African countries available in the GEM's dataset (GEM, 2017), based on the latest data available for each country (see Annex 6.A2). Other services include personal/consumer service activities, financial intermediation, real estate activities, administrative services, information and communication, and other professional services.
StatLink http://dx.doi.org/10.1787/888933475434

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Non-farm entrepreneurship can benefit rural households. It can diversify their income sources with additional work during the agricultural low-season. It also enables households to generate extra income that they can invest in agricultural inputs and machineries (Reardon et al., 2013). A review of entrepreneurs in Ethiopia, Malawi, Niger, Nigeria, Tanzania and Uganda showed that almost 42% of rural households operate an enterprise (Naudé and Nagler, 2016). The largest share of rural household enterprises operates in sales and trade, which require lower starting costs and less educational investment than transport services or professional services (Figure 6.8). The second largest share is based on agricultural production. Agribusinesses account for 20-27% of enterprises in Ethiopia, Malawi, Niger, Nigeria, Tanzania and Uganda.

Figure 6.8. **Types of business activity by rural entrepreneurs in Ethiopia, Malawi and Niger, 2005-13**



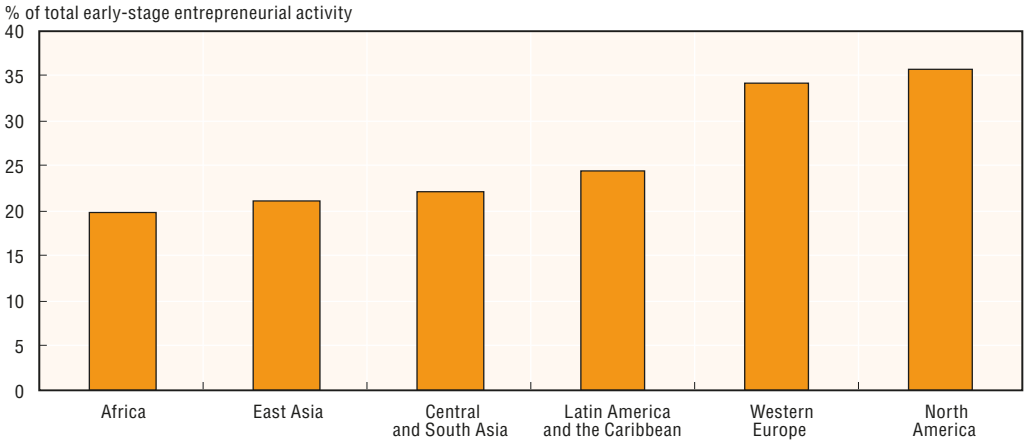
Source: Adapted from Table 2 in Naudé and Nagler (2016).
StatLink http://dx.doi.org/10.1787/888933475444

In Africa, female entrepreneurs are much more likely to work in non-tradable services than male entrepreneurs. Sixty-three percent of Africa's female entrepreneurs work in retail trade, hotels and restaurants, compared to 46% of male entrepreneurs. They are also more likely to work in government, health, education and social services than their male counterparts. In contrast, male entrepreneurs are more likely to operate in agriculture, forestry and fishing (13%) and manufacturing (10%) than females (8% of female entrepreneurs work in each of these sectors).

Entrepreneurs could be more innovative and competitive while continuing to create jobs

Few African entrepreneurs are innovative. Less than one-fifth of African early-stage entrepreneurs offer new products or services to the market (Figure 6.9). This share is the lowest among the regions considered.

Figure 6.9. **Share of early-stage entrepreneurs that introduced a new product or service, 2011-16 average**

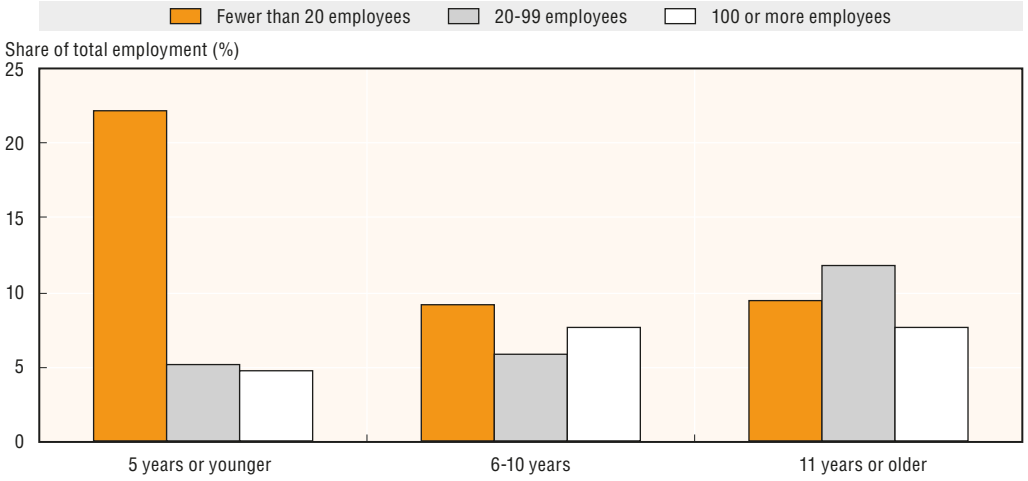


Note: The percentage of total early-stage entrepreneurial activity represents those who indicated that their product or service was new to at least some customers and that few or no businesses offered the same product.
Source: Adapted from GEM (2017).
StatLink http://dx.doi.org/10.1787/888933475454

This lack of innovation has been attributed to smaller market sizes and markets' weak functioning (Szirmai, Naudé and Goedhuys, 2013). Fragmented and small markets reduce the return on investment. At the same time, infrastructural and institutional bottlenecks hinder the dissemination of innovations and increase the costs of doing business. Insufficient property rights, weak contract enforcement and policy uncertainty make innovation even riskier, reducing its expected returns.

New entrepreneurs could put more competitive pressure on existing ones. Even if many African economies are open to imports, large formal firms in Kenya, Mozambique and Tanzania have been less active in introducing new products as they do not feel competitive pressure (Yoshino et al., 2013; Newman et al., 2016). Empirical evidence in Ghana, Kenya, South Africa and Tanzania suggests that increasing competitive pressure on these firms could boost their productivity (Soderbom, Teal and Harding, 2006; Aghion, Braun and Fedderke, 2008).

Figure 6.10. **Sizes and ages of formal enterprises in 38 African countries**



Source: Ayyagari, Demirguc-Kunt and Maksimovic (2014).
StatLink http://dx.doi.org/10.1787/888933475469

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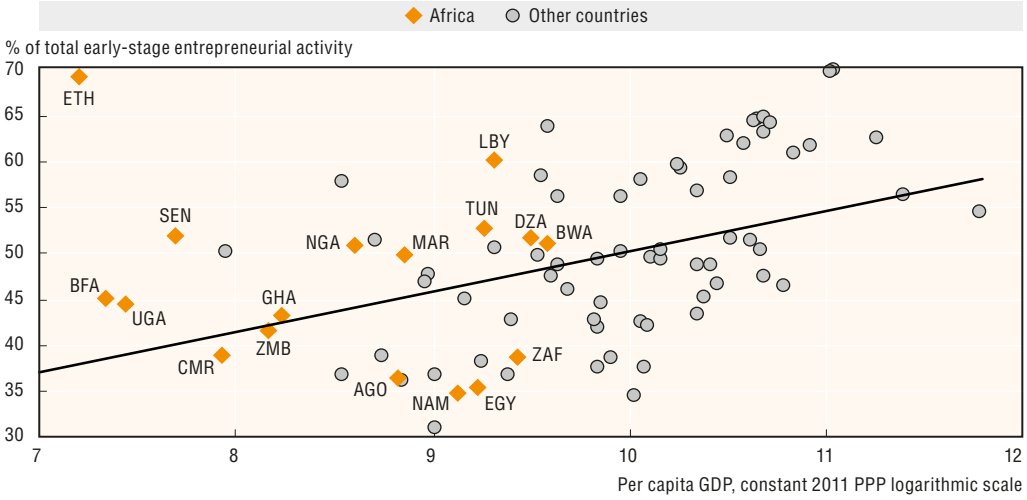
Entrepreneurship has proven successful in providing employment. Analysis of formal enterprises in the World Bank's Enterprise Surveys shows that small young firms with fewer than 20 employees and less than 5 years of experience account for the largest share of net job creation, at 22% (Figure 6.10). In total, young firms (no older than 5 years) account for one-third of net job creation, compared to 23% for 6-10 year-old firms and 29% for firms older than 10 years. Small firms face larger growth constraints and have less access to formal sources of external finance, which potentially explains the lack of SMEs' contribution to growth and the so-called missing middle.

Opportunity-driven entrepreneurs have the greatest potential for contributing to industrialisation

Certain types of entrepreneurs increase growth more than others. Opportunity-driven entrepreneurs are the most productive. They are motivated by a desire for self-realisation or by a wish to exploit a business opportunity. Rent-seeking entrepreneurs, on the other hand, can be highly unproductive (Baumol, 1990) and engage in illegal or market-capturing behaviour (Landes, Mokyr and Baumol, 2012).

Africa needs to unlock the potential of opportunity-driven entrepreneurs for industrialisation. They account for 11% of the working-age population and 44% of all early-stage entrepreneurial activity. Yet, they are more common in lower-income sub-Saharan African countries than in the rest of the continent. Opportunity-driven entrepreneurs have great potential for higher productivity, industrial upgrading and innovation (Hampel-Milagrosa, Loewe and Reeg, 2015; Naudé and Nagler, 2016).

Figure 6.11. **Prevalence of opportunity-driven entrepreneurs and income level in 15 African countries and 69 other countries, 2011-15 average**



Note: Trend line indicates linear fit.
Source: Adapted from GEM (2017).
StatLink http://dx.doi.org/10.1787/888933475473

In the more advanced African economies where its levels are low, entrepreneurship holds great potential thanks to favourable starting conditions. This is the case of Algeria, Morocco, South Africa and Tunisia. Supporting opportunity-driven entrepreneurs can boost the economy by providing renewed competition to established sectors and creating new activity. Policies encouraging high-potential entrepreneurship are urgently needed, in particular for the youth who face a high risk of unemployment. In these urbanised countries, cities can offer economies of scale and a favourable environment where innovation, creativity and learning can take place (Duranton and Puga, 2001).

Survival entrepreneurs would contribute more to growth if they were in the formal labour market. They are pushed into entrepreneurship because all other options for work are absent or unsatisfactory. On average, 7% of Africa's working-age population belong to this group, albeit with great diversity across countries.[6] Survival entrepreneurs need to be transitioned into the formal labour market for several reasons:

- Survival entrepreneurs have limited potential for growth. They face various external constraints and lack the characteristics of high-potential entrepreneurs such as creativity, risk tolerance and autonomy (CAF, 2013).
- The knowledge that they gain as entrepreneurs depreciates quickly because their activities require low skills (Bassi et al., 2012).
- The prevalence of survival entrepreneurs reduces the number of capable workers and diverts resources that more productive entrepreneurs could exploit.
- Survival entrepreneurs can send out wrong signals about the potential returns on education. Young people may perceive self-employment as the only option for more educated workers, thus reducing their educational aspirations.

Releasing the potential of entrepreneurship for industrialisation requires a dual approach:

- Governments need to create a supportive environment for opportunity-driven entrepreneurs to grow in sectors aligned with their countries' comparative advantages. Policies should support efficient market dynamics rather than individual entrepreneurs. Developing high-growth firms can help move the under-utilised labour market participants into formal employment.
- Policies should refrain from subsidising unproductive entrepreneurs. Instead, they should focus on improving their skills and access to the labour market, so that they can find waged employment.

The following chapters will discuss how to empower African entrepreneurs to boost industrialisation. Chapter 7 analyses current industrialisation strategies in Africa and explores how they address the specific roles of firms with high-growth potential. Chapter 8 then presents their main constraints along with policies to remove them.

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Annex 6.A1. Evolution of value added of total industry and of manufacturing in selected African countries, 1990-2015

Table 6.A1.1. **Evolution of value added of total industry and of manufacturing in selected African countries, 1990-2015**

	1990		2000		2005		2010		2015 (a)	
	Industry	of which Manufacturing	Industry	of which Manufacturing	Industry	of which Manufacturing	Industry	of which Manufacturing	Industry	of which Manufacturing
Central Africa										
Cameroon	29.5	14.5	36	20.8	30.6	29.9	29.9	16.2	28.5	14
Central African Republic	19.7	11.3	14.6	6.2	14.1	6.1	13.8	6.7	15.1	7.8
Congo, Dem. Rep.	29	11.2	30.8	20.3	33	17	40.9	17.1	45.1	18.5
Congo	42	8.6	73.9	3.6	73.4	4.1	78.1	3.6	57.0	6.5
Gabon	51.4	6.4	60.4	4.4	63.4	4.8	60.3	4.9	52.8	6.9
Equatorial Guinea	10.6	1.6	87.7	0.2	95.2	0.1	95.1	0.2	88.6	0.3
East Africa										
Burundi	19	11.7	18.8	13.1	18.4	12.9	17	11.3	14.9	10.2
Ethiopia	11.4	6.4	12.4	5.5	13	4.8	10.5	4.1	17.7	4.8
Kenya	19.1	11.8	17.5	11.6	19.1	11.8	20.8	12.6	19.5	11.4
Rwanda	24.6	18.3	13.4	7	12.5	6	13.8	5.8	15	5.1
Sudan	9.4	4.3	18.4	6.9	22.4	8.7	28.6	13.2	20.2	10.3
Tanzania	17.7	9.3	19.2	9.4	22.7	8.7	22	7.4	26.4	5.7
Uganda	11.1	5.7	22.7	7.6	24.8	7.4	20.3	10.1	20.0	8.9
North Africa										
Algeria	45.8	11.0	58.2	6.2	61.3	4.8	53.9	4.5	38.9	4.7
Egypt	27.6	17.8	33.1	19.4	36.9	18.3	37.5	16.9	36.3	16.6
Libya	48	44.7	54.4	4.7	74	5.1	84.0	4.8	80.6	3.4
Mauritania	30.4	10.3	28	11.4	33.2	9.2	41.6	7.6	25.9	8.6
Morocco	35.5	23.6	29.1	18.3	28.2	16.6	27.3	17.5	29.2	18
Tunisia	29.8	16.9	30.4	18.5	29.2	17.3	31.5	18	28.2	16.9
Southern Africa										
Angola	40.7	5		3.7	56.5	3.9	52.7	4.6	42.6	5.4
Botswana	61.2	5.2	49.7	6	47.6	5.5	35.7	7.1	33.3	6.4
Lesotho	33	14	30	13.4	33.4	22.6	32.7	13.3	32.0	10.7
Madagascar	14.3	10.9	16.1	12.3	18.8	14.5	19.8	14.5	19.2	14.4
Malawi	28.9	19.5	14.5	4.8	16.8	11.6	16.4	10.7	14.0	7.8
Mauritius	32.8	24.4	29.6	22.5	26.6	19.2	26.6	17	21.7	14.7
Mozambique	18.4	10.2	24.5	12.2	25.3	15.5	18.9	11.3	21.5	10
Namibia	37.8	17.7	28.0	12.8	29.4	13.6	30.2	13.5	31.0	9.1
South Africa	40.1	23.6	31.8	19	30.3	18.1	30.2	14.4	28.9	13.2
Swaziland	42.1	34.8	43.9	38.7	44.7	38.9	41.9	35.2	42.5	35.5
Zambia	51.3	36.1	26.3	10.7	29.7	10.9	34.0	8	35.4	7.9
Zimbabwe	33.1	22.8	20.4	14.4	45.8	24	30.8	13.9	29.4	11.9
West Africa										
Côte d'Ivoire	23.1	14.3	23.4	17.6	25.5	16.1	24.7	15.0	28.9	16.6
Burkina Faso	21.2	14.4	21.5	13.2	18	11.7	20.5	7.5	20.2	6.5
Ghana	22.5	9.6	28.4	10.1	27.5	9.5	19.8	7	26.3	5
Nigeria	45.3	5.5	52.2	3.7	43.5	2.8	25.3	6.6	20.4	9.5
Senegal	22.2	15.3	23.2	14.7	23.7	15.1	23.4	13.7	23.4	13.2

Note: (a) Or latest year available. Total industry includes manufacturing, extractive industries (quarrying and mining, including oil), construction, electricity, gas and water.
Source: AfDB Statistics Department.

Annex 6.A2. Availability of the Global Entrepreneurship Monitor database for African countries, 2011-16

Table 6.A2.1 indicates the availability of the Global Entrepreneurship Monitor's "Adult Population Survey" (APS) for African countries between 2011 and 2016. The APS was used to compute averages for this report. The simple average was taken for each country across the years with data available. Then the average for Africa was weighted by the size of the working-age population and the absolute size of the Total Early-stage Entrepreneurial Activity in each country (depending on the specific indicator).

Table 6.A2.1. **Availability of the Global Entrepreneurship Monitor's "Adult Population Survey" for African countries, 2011-16**

Country	2011	2012	2013	2014	2015	2016	Latest year
Algeria	x	x	x				2013
Angola		x	x	x			2014
Botswana		x	x	x	x		2015
Burkina Faso				x	x	x	2016
Cameroon				x	x	x	2016
Egypt		x			x	x	2016
Ethiopia		x					2012
Ghana		x	x				2013
Malawi		x	x				2013
Morocco					x	x	2016
Namibia		x	x				2013
Nigeria	x	x	x				2013
Senegal					x		2015
South Africa	x	x	x	x	x	x	2016
Tunisia		x			x		2015
Uganda		x	x	x			2014
Zambia		x	x				2013

Source: GEM (2017).

Notes

1. The sample includes 13 African countries: Botswana, Egypt, Ethiopia, Ghana, Kenya, Malawi, Mauritius, Morocco, Nigeria, Senegal, South Africa, Tanzania and Zambia. The year 2010 is the latest with the most comprehensive data coverage for African countries. The data are based on De Vries, Timmer and De Vries (2015).
2. In Lesotho, this trend continued until 2015, and the share of manufacturing in GDP fell below the African average. Though affected by the removal of the Multi Fibre Agreement, Morocco's manufacturing share was higher in 2015 than in 2005, and this sector continues to benefit from foreign direct investment in the automotive industry (see Chapter 2). Egypt's manufacturing share declined until 2010 and then stabilised.
3. This assumes similar changes in the deflators of GDP and of manufacturing value added.
4. Other studies found similar results (AfDB/OECD/UNDP/UNECA, 2013; McMillan, Rodrik and Verduzco-Gallo, 2014; Timmer, De Vries and De Vries, 2014; UNECA/AU, 2013; Rodrik, 2016).
5. The Global Entrepreneurship Monitor (GEM) database collects a wealth of primary data on entrepreneurship through the "Adult Population Survey" (APS) and the "National Expert Survey". The APS interviews working-age adults on their attitudes towards entrepreneurship, their pre-start-up activities and their work at different stages of their firms. The NES interviews national experts on entrepreneurship to assess specific national conditions in several dimensions: finance, skills, policy and regulations, physical infrastructure, and social norms. Initiated in 1997, the project is conducted in nearly 100 countries. Between 2001 and 2016, NES covered 18 African countries, albeit at varying frequencies. It is used by the OECD, the World Bank, the World Economic Forum and the United Nations, among other organisations.
6. The sum of improvement-driven and necessity-driven TEAs does not always add up 100% of all TEAs, because entrepreneurs' motivations are derived from large survey questionnaires that include some missing responses.

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Chapter 7

Designing, carrying out and assessing Africa's industrialisation strategies

This chapter analyses the existing national industrialisation strategies in Africa. It first looks at designing the continent's industrialisation strategies, the role of industrial policies and the extent to which they support entrepreneurship. It then discusses implementation by co-ordinating the work of national and sub-national governments and by improving government capabilities. Finally, the chapter examines the need for policy monitoring and impact evaluation for successful industrialisation strategies.

IN BRIEF

African countries are making significant efforts to develop a vision for industrialisation. At present, about half of African countries have an industrialisation strategy, many of which aim to improve entrepreneurship. But few address the role of firms with high-growth potential effectively, in particular young small and medium-sized enterprises. Strategies need to better target such firms, which are important for industrialisation. In designing strategies, governments should consider certain industrial policies and draw lessons from past experience.

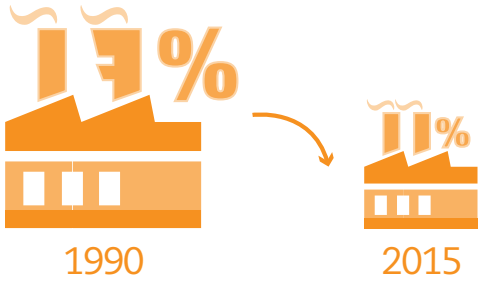
Carrying out industrialisation strategies remains a challenge for many countries. Successful strategies require strong political leadership and the full commitment of all levels of government. Sub-national governments' participation can help tailor policies that better suit firms' local needs, provided the governments have the necessary capabilities and can ensure transparency. Co-ordination between government bodies and private sector involvement in policy making can help implement industrialisation strategies more effectively.

Finally, policy monitoring and impact evaluation are crucial to make industrialisation strategies more efficient. Such assessments can serve to reward well-performing institutions and to revise policies, but reliable data is needed.

Did you know?

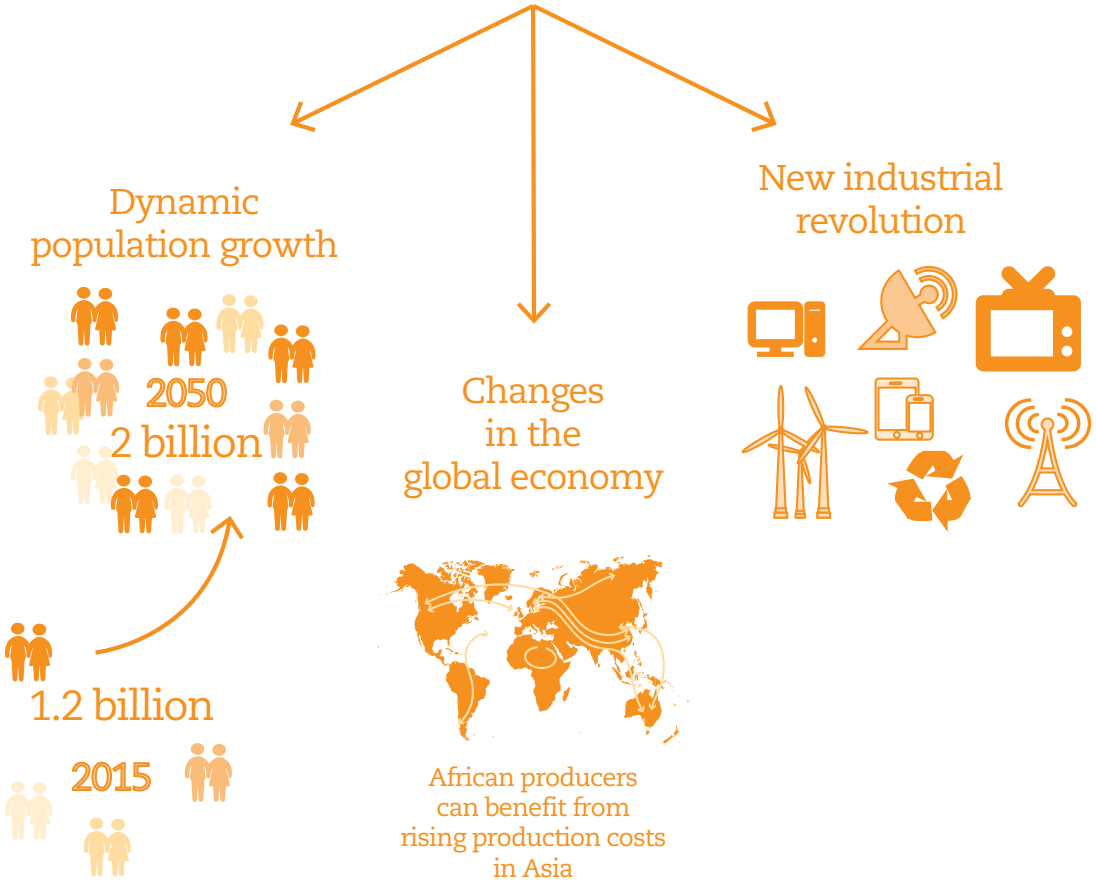
- 26 African countries have a national strategy on industrial development, and 19 of those target light manufacturing.
- Premature death from ambient air pollution cost Africa a third of its GDP, although the continent has not yet industrialised.
- Botswana, Ghana, Mauritius and South Africa rank higher in their capability to implement industrial policies than some Asian competitors.
- In Ethiopia, federal and regional agencies work together with municipalities to provide management training and facilitate financing for SMEs.

Despite impressive economic growth, the share of manufacturing in Africa's GDP has declined



A new look at industrialisation in Africa

Looking ahead, new opportunities are emerging for Africa's industrialisation



AFRICAN ECONOMIC OUTLOOK © AfDB, OECD, UNDP 2017

Governments can design industrialisation strategies to promote entrepreneurship

How can African countries put their visions of industrialisation into action? The main prerequisite for adopting industrialisation strategies is strong political leadership. Implementing strategies also requires many attributes that some countries have yet to develop: strong domestic capabilities and institutions, efficient policies and co-ordination among agencies, and regular monitoring and revisions of policies. However, governments can learn by doing.

Industrialisation is imperative for Africa to catch up with high-income regions and calls for strategic action. Chapter 6 showed that innovative industrialisation strategies have three main characteristics: they should avoid past mistakes, harness sectors with high-growth potential, and empower all economic agents, in particular opportunity-driven African entrepreneurs.

An industrialisation strategy aims to transform society. It is a public good requiring public support. It connects policy making with long-term visions of the future shared by citizens. To fulfil those visions, a strategy defines development priorities, which serve to co-ordinate mid-term policy objectives and assess their achievement. Those priorities are context-specific and differ between the diverse African countries. An industrialisation strategy guides thinking and long-term investments in a context of uncertainty.

Strategies provide an overarching framework for co-ordinating policies by defining:

12. **Long-term objectives** for development.
13. **Mid-term priorities** guiding policies and investments. These priorities can be adjusted as risks evolve. Achieving mid-term priorities may require structural reforms, including multi-level governance reforms.
14. **Short-term goals** that allow for measuring performance, notably of individual government institutions. Performance can be rewarded and policies revised accordingly.

Innovative industrialisation strategies should be participative, multi-sectoral and place-based. Different levels of government can fulfil distinct functions to carry out industrial policies. Participative strategies can unlock the potential of African economic agents, including entrepreneurs, and secure the population's ownership. Strategies should be more than a collection of sectoral policies; they should provide an overarching framework for balancing sectoral policies, macroeconomic policies and place-based policies. Strategies should take a close look at the potential of different places and regions including at sub-national and cross-border levels (AfDB/OECD/UNDP, 2015: 206; AfDB/OECD/UNDP, 2016: 236-237).

Many African countries have already designed industrialisation strategies

At least 26 African countries currently have a national strategy for industrial development but their objectives vary widely (Table 7.1). Many countries aim to create new labour-intensive industries to generate employment. Others look to industrial policy to increase their competitiveness and technological capacity. Some strategies attempt to create more linkages between existing industries, especially through improving backward linkages (i.e. connecting companies with suppliers) to mining and resource extraction sector, or through improving forward linkages (i.e. connecting producers or suppliers with customers) to targeted retail sectors. Natural resources-based countries often consider industrial development as a means to diversify their economies and exports and to broaden the government tax base. Trade is an important component where many strategies aim to increase exports to sub-regional and international markets.

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Table 7.1. **National industrialisation strategies in Africa**

Country	National strategy	Timeframe
Algeria	New Economic Growth Model	2016-20
Angola	National Development Plan, within Vision 2025	2013-17
Botswana	Industrial Development Policy for Botswana	2014
Cameroon	Plan directeur d'industrialisation, within Vision 2035	2010-35
Cabo Verde	Growth and Poverty Reduction Strategy	2008-11
Côte d'Ivoire	National Development Plan	2016-20
Egypt	Industrial Development Strategy	2010-25
Equatorial Guinea	Plan Ecuatoguineano de Industrialización 2020	2011-20
Ethiopia	Industry Development Strategy	2002
Gabon	Stratégie Nationale d'Industrialisation, within the Plan Stratégique Gabon émergent 2025	2013
Ghana	Ghana Industrial Policy	2020
Kenya	Kenya National Industrial Policy Framework	2010
Malawi	National Industrial Policy	2016
Mauritania	Stratégie pour le développement du secteur industriel en Mauritanie	2015-19
Morocco	Industrial Acceleration Plan 2014-2020	2014-20
Mozambique	National Development Plan	2013-33
Namibia	Industrial Policy Implementation and Strategic Framework	2012-30
Nigeria	Nigeria Industrial Revolution Plan	2014-19
Rwanda	Rwanda Industrial Master Plan	2009-20
Senegal	Accelerated Growth Strategy	2005
South Africa	Industrial Policy Action Plan	2014-17
Tanzania	Integrated Industrial Development Strategy	2011-25
Tunisia	National Industrial Strategy	2011-16
Uganda	Integrated Industrial Policy for Sustainable Industrial Development and Competitiveness	
Zambia	Industry Strategy for Engineering Products	2012-17
Zimbabwe	Industrial Development policy	2012-16

Source: AEO 2017 experts' survey of 42 countries and desk research.

Most of Africa's industrialisation strategies target specific economic sectors. A survey and desk research conducted for this report show that this is the case for 24 of the 26 strategies listed in Table 7.1:

- 19 strategies have identified light manufacturing as the key area for development, particularly agro-processing, wood products, clothing, textiles, leather and footwear.
- 16 strategies address aspects of environmental sustainability, such as renewable energy use and water conservation.
- 15 strategies target agriculture, including livestock, forestry and fishery products.
- 13 strategies relate to tourism and high-tech services.
- 11 focus on mining and resource extraction sectors such as copper, oil and gas.
- 8 give priority to energy and 5 to construction.

Some African industrialisation strategies prioritise private sector development, including entrepreneurship (see Chapter 6; AfDB, 2016a). For instance, Ethiopia's Industry Development Strategy identifies small and medium-sized enterprises (SMEs) as an important sector for domestic entrepreneurs and for employment creation. The strategy dedicates federal and regional agencies who work with municipalities to support SMEs. Through close consultation with the private sector, these agencies provide management training and strengthen SME financing via sources such as Capital Goods Leasing companies. Mozambique's National Development Plan also aims to encourage the private sector to invest in and develop SMEs.

Strategies guide the co-ordination of industrial policies across areas

Industrial policies can be defined generally as the "active promotion of structural change and new economic activities of high potential in all sectors" (McMillan et al., 2016: 8). National industrialisation strategies co-ordinate policies that cut across areas such as "human capital and skills, infrastructure, finance, trade and science and technology" (OECD, 2013: 104). Their success depends on the specific country, its development stage and the global context (OECD, 2013: 104; Lin and Monga, 2013:20).

Industrial policies can correct market failures and guide economic activities to achieve strategic policy objectives. Market incentives can lock countries into less sophisticated activities such as exporting raw commodities (OECD, 2013). Also, information asymmetry can discourage investment in innovative economic activities that are often risky. Industrial policies can promote learning about new practices and business failures. Many projects require simultaneous, large-scale investments to become viable, which can surpass market dynamics and the co-ordination capacity of a single entrepreneur (Rodrik, 2004).

Industrial policies can help a country diversify its economy and upgrade its industrial capability. Policies targeting certain sectors can foster new economic activity by improving linkages between industries. For example, Botswana established the Diamond Trading Company in 2006 to link diamond mining with jewellery manufacturing. It created domestic forward linkages and additional jobs cutting and polishing diamonds and making jewellery. Jewellery is now the country's single largest industrial export (see Botswana country note).

Promoting foreign direct investment (FDI) is an important policy for industrialisation. Governments can use FDI to improve the knowledge of entrepreneurs, upgrade infrastructure and develop local businesses. In addition, FDI policies can help channel finance to risky and long-term projects that market-based financing schemes would be reluctant to support. They can also encourage businesses and universities to carry out research.

When designing industrial policies, governments should consider their key features and lessons from the past

How countries design their industrial policies varies greatly. As Table 7.2 shows, industrial policies can comprise different governance structures, development objectives and economic priorities and can mix several policy areas. While priorities differ for each country, promoting access to finance, skills development and business clusters are critical for supporting entrepreneurs (see Chapter 8).

Table 7.2. **Key features of industrial policies**

Governance structures	Centralised: Sub-national governments have limited responsibilities and decision-making power (e.g. Côte d'Ivoire). Mixed: National and regional initiatives co-exist with local ones (e.g. Ethiopia). Devolved: Sub-national governments have more responsibilities than in centralised governance and are more involved in decision making (e.g. Rwanda).
Development objectives	Growth Job creation International competitiveness Spatial inclusion and regional competitiveness Social cohesion Sustainable development
Economic priorities	Diversification (i.e. entry into new sectors and types of specialisation and upgrading of existing ones) A dense production system (i.e. increased entrepreneurship and linkages)
Policy mix	Direct and indirect incentives for firms Macroeconomy (i.e. exchange and interest-rate management) Trade and FDI Competition Skills development Infrastructure building and upgrading Financing (i.e. development banks) Science and technology

Source: Adapted from OECD (2013: 109).

Lessons drawn from past industrial policies' successes and failures show that governments should avoid the following when designing policies (OECD, 2013: 107):

- **Indiscriminate subsidies.** Granting subsidies without clear conditions increases the risk of a poor selection of beneficiaries and the development of assistance-dependent behaviour among firms.
- **Never-ending support.** Subsidies without sunset clauses reduce firms' incentive to increase productivity.
- **"Cathedrals in the desert".** Factories and research laboratories established in remote locations are less productive unless backward and forward linkages are created simultaneously.
- **Preventing competition.** If new economic activity and industries are not gradually exposed to internal and external competition, they remain less productive.
- **Capture by incumbents.** Consultations with the private sector should not only include existing firms but also new ones to prevent policy capture by older firms that might disregard the interests of new firms.
- **Low critical mass for investments.** If government investment is small, it will not be able to "crowd in" funds from the private sector.
- **Short-term horizon and annual budgeting.** Promoting science and innovation requires medium-term rather than annual budgeting to be efficient, as they have a longer time horizon.
- **Lack of monitoring and evaluation mechanisms.** Regularly monitoring and evaluating industrial policies makes them more effective and allows for improvements through trial and error.

Industrial policies should respect the environment. Although the continent has not yet industrialised, in 2013 air pollution already cost Africa USD 447 billion, a third of its GDP (Roy, 2016). It also causes premature death. To save lives and reduce economic costs, governments should avoid subsidising fossil fuels and other polluting sectors. Low-carbon energy solutions, such as wind, solar and hydropower as well as off-grid and mini-grid systems, can help countries expand their capacity to generate electricity (Brahmbhatt, Haddaoui and Page, forthcoming). Investing in low-carbon technologies would allow African countries to avoid considerable costs endured by OECD countries, including retrofitting costs and damage to people's health, the economy and the environment. Policies should also help develop industrial parks and special economic zones (see also Chapter 8) without exacerbating their environmental impact. Governments should adopt "green" policies targeting specific areas of industrial development in parks, such as transport and logistics, energy efficiency, and water and sanitation.

Countries can reduce the environmental impact of industrialisation by adopting clean technologies, renewable energies and appropriate waste management. For example, in July 2000, Kenya's government and the United Nations Industrial Development Organization created the National Cleaner Production Centre. Their activities include training, project implementation, and policy advice for increased enterprise productivity and sound environmental management. So far, the centre has audited 90 enterprises in resource efficiency and cleaner production, covering more than 20 industrial sectors and helping them reduce pollutants and energy and water use by an average of 20% (KNCPC, 2017).

Box 7.1. **Recent experiences in industrial policy: Morocco and South Africa**

African countries are adopting different policy packages depending on their specific needs. In **Morocco**, the Industrial Acceleration Plan 2014-2020 (PAI) aims to increase industry's contribution to 23% of GDP by 2020 and create 500 000 new jobs. It builds on the strengths of sectors such as automotives and aeronautics that were previously priorities under the National Pact for Industrial Emergence 2009-2015.

PAI employs a number of instruments to foster growth and competitiveness, particularly the massive development of infrastructure in industrial clusters. PAI has created a USD 2.2 billion fund to identify and fill in the financing gap in industrial development. The government also attracts FDI into supporting industries to gradually reduce manufacturing's reliance on imported input goods and to acquire the knowledge and expertise that domestic companies need (El Mokri, 2016). At the same time, PAI provides targeted support for domestic enterprises to grow and transition from the informal to the formal sector.

In **South Africa**, Industrial Policy Action Plans (IPAPs) serve to diversify the economy beyond the mining sector. They prioritise sectors that are medium to high value added and labour-intensive such as agro-processing, vehicles, textiles and green energy. On top of promoting trade and attracting FDI, the IPAPs provide incentives and co-ordinate actions to strengthen skills and industrial and scientific capabilities (Zalk, 2012). These policies have enhanced co-operation and discussion among government ministries, the national development bank, private-sector stakeholders, civil society and universities (Baloy, 2012).

Source: OECD (2013); Oxford Business Group (2015); El Mokri (2016); OECD (forthcoming).

An important gap persists between entrepreneurship and industrialisation strategies

Many African countries have strategies for entrepreneurship, yet they mainly focus on alleviating poverty and creating jobs rather than on industrialising (Table 7.3). According to a survey of 42 African countries and research conducted for this report, national entrepreneurship strategies often aim to reduce poverty by stabilising income for survivalist micro enterprises.[1] They rarely aim to increase waged employment and productivity necessary for industrialisation. Most strategies targeted at micro, small and medium-sized enterprises have managed to promote self-employment, rather than increase waged employment (Grimm and Paffhausena, 2015). Many entrepreneurship programmes in Africa have limited potential to scale up employment opportunities (Annex 7.1; AfDB, 2016b).

Several African governments have effectively integrated entrepreneurship development into their industrialisation strategies. One example is Morocco's Industrial Acceleration Plan 2014-2020 (see Box 7.1). It lays out special measures to support entrepreneurship growth through five pillars: creation of self-employment status, social security, financing, taxation and direct support to entrepreneurs. Direct support includes entrepreneurship coaching, personalised coaching, financing and digitalisation.

Another example is Côte d'Ivoire's development plan for the ICT sector. It promotes the creation of new firms by reducing start-up costs, investing in infrastructure

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and improving the legal framework. This initiative helped the country climb to 142nd position in the Doing Business 2017 ranking, 35 positions ahead of its 2013 ranking (World Bank, 2016).

Table 7.3. **Strategies and initiatives to foster entrepreneurship in African countries**

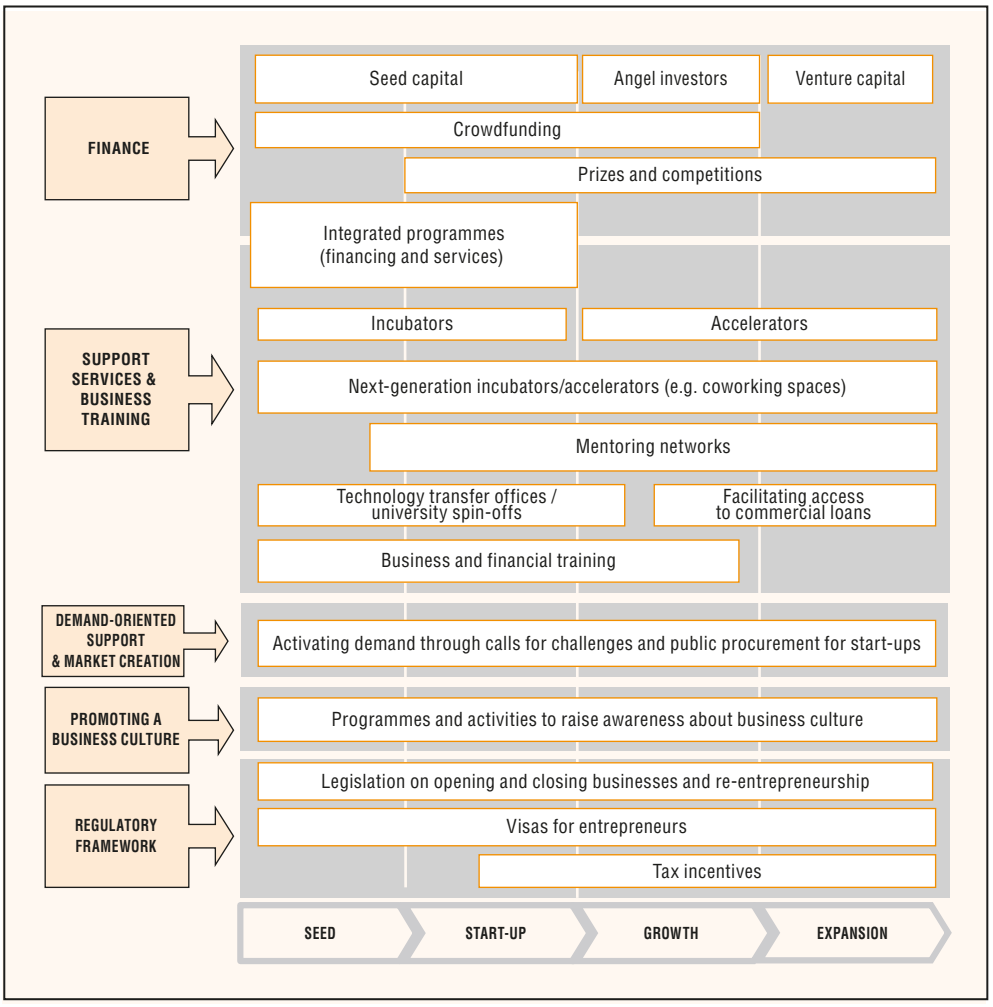
Country	Strategies and initiatives
Algeria	National Agency for Investment Development, National Agency for SME Development
Botswana	Citizen Entrepreneurial Development Agency, Entrepreneurship Development Policy for Botswana (development ongoing)
Burkina Faso	National Strategy for the Promotion of Women's Entrepreneurship
Cabo Verde	Technology Innovation and Entrepreneurship Strategy 2011-2014
Cameroon	Strategy for the Development of SMEs and the Social and Artisanal Economy
Egypt	Technology innovation and entrepreneurship strategy 2011-2014, Social Fund for Development (for micro and small enterprises), General Authority for Investment (for small and medium enterprises)
Ethiopia	Micro and Small Enterprises Development Strategy (2011), Ethiopian Entrepreneurs Development Centre
Gabon	Legal Framework of Support for Enterprises
Ghana	Yes Initiative, Graduate Entrepreneurial Business Support Scheme, Youth Employment Agency
Kenya	Micro and Small Enterprises Act 2012, Fund for Inclusion of the Informal Sector 2011
Malawi	Enabling Enterprise Growth in Malawi, Buy Malawi Strategy, Small and Medium Enterprise Development Institute
Morocco	Law 114-13 on self-employment status 2015
Nigeria	National Policy on Micro, Small and Medium Enterprises
Rwanda	Small and Medium Enterprises Development Policy
Senegal	Charter for the Small and Medium Enterprises
South Africa	National Small Business Act, Small Enterprise Development Agency, Black Industrialists Policy 2015, Broad-Based Black Economic Empowerment, Youth Enterprise Development Strategy
Tanzania	Small and Medium Enterprise Development Policy
Tunisia	State Bank for SME Financing, Agency for the Promotion of Industry and Innovation (without a specific mandate for SMEs)
Uganda	Micro, Small and Medium Enterprise (MSME) Policy
Zambia	Micro, Small and Medium Enterprise Development Policy

Source: Adapted from the AEO experts' survey for 42 countries and desk research.

While no single formula exists for promoting entrepreneurship (AfDB, 2013), four development stages of business tend to guide effective policies (Figure 7.1). Each country must develop its own policy mix based on its resources, development vision, technological capability and production systems. However, all policies should follow the development stages of business: from seed to start-up, growth and expansion.

Across the development stages of business, governments can employ a mix of policy tools. The tools serve different areas such as financing, services and training, demand, the business culture, and the regulatory framework. Recent experience from Latin American countries shows that combining multiple policy tools, such as financing and training services, makes new programmes more efficient (OECD, 2016a). Governments can also direct firms towards "greener" activities, by tailoring support to entrepreneurs whose business plans or operations meet certain criteria (Brahmbhatt, Haddaoui and Page, forthcoming).

Figure 7.1. **Policy mix to support entrepreneurship**



Source: OECD (2016a).

Carrying out and assessing industrialisation strategies remain challenges

In putting their industrialisation strategies into action, African countries can benefit from a broad range of international experiences. Evaluating current African strategies in detail goes beyond the scope of this chapter, however an experts' survey conducted for this report shows that much room for improvement still exists. According to the experts surveyed, only six strategies have been carried out effectively. A large body of literature exists on appropriately implementing industrialisation strategies.[2]

Several factors are essential for industrialisation strategies that promote entrepreneurship:

- Senior political leaders must fully commit to industrialisation and recognise entrepreneurs as key agents.
- Governments must identify *i)* the obstacles preventing firms from upgrading and *ii)* the barriers to firms' entry into high-growth industries (Stiglitz, Lin and Patel, 2013).
- Governments must strongly engage with the private sector in planning, designing, implementing, monitoring and evaluating industrial policies. The establishment

of Small Business Acts can help structure consultations with private companies.[3] Parliamentary hearings can also provide a platform for exchanges.

- The design of incentives must allow decision makers to make policy choices without succumbing to political pressure and private interests. This requires a clear delegation of responsibilities, regular reporting of outcomes and transparency throughout the process.
- Effective co-ordination among agencies must be ensured, notably through designing simple administrative procedures.[4]
- Policy makers should set up continuous capacity building processes and reporting mechanisms to learn from past experience (Greenwald and Stiglitz, 2013; Oqubay, 2015).

In addition to these factors, industrialisation strategies can be implemented more effectively by *i)* involving sub-national governments in certain industrial policies, *ii)* eliciting policies that fit governments' capacities, and *iii)* monitoring industrial policies and evaluating their impact.

Involving sub-national governments makes industrialisation strategies more efficient

Sub-national governments can help carry out industrialisation strategies, assuming that they are empowered with responsibilities and resources and that transparency is ensured. Regional and local governments can provide essential public goods and business-friendly services, such as vocational education and training (see Chapter 8). They can streamline bureaucracy and develop transparent local tax regimes. They can set up business clusters and promote linkages between them and other parts of the local economy. They can ensure the safety of people and property and identify infrastructure needs. They can also design place-based policies to address implementation challenges that central governments face.

At the level of programme delivery, local intermediary organisations can help tailor policies to the local context and use available resources such as trained mentors, platforms to exchange ideas and training. For instance, locating several services for entrepreneurs in a single facility can improve co-ordination, coaching and the fertilisation of ideas, reduce administration costs and result in a better experience for the users (OECD, 2016b).

Several positive examples exist of involving sub-national governments in national industrial policies in Africa. National-level reforms can be more effective when local authorities have more autonomy, as the case of Ethiopia suggests. The country introduced a nationwide value-added tax in 2003; the importing firms in cities with greater autonomy have benefited more from this reform than those in cities with less autonomy (Chaurey and Mukim, 2015). In South Africa, the eThekwini Municipality acted on the central government's behalf to engage more directly with firms in creating the Durban Auto Cluster. The municipality facilitated bringing the firms together into an industrial association and contributed 50% of its budget (Morris, Staritz and Barnes, 2011). Rwanda has begun successfully decentralising SME support (Box 7.2).

Sub-national governments can also spearhead policy experimentation and changes. In South Africa, the City of Johannesburg developed a Youth Entrepreneurship Strategy and Policy Framework in 2009. It plans to transform South Africa into the developing world's leading country in entrepreneurship by 2025. The policy framework aligns with the central government's priority to tackle high rates of youth unemployment. In Kenya, Nairobi's municipal authorities have worked with UN-Habitat to develop one-stop Youth Resources Centres since 2003. Their main objective is to train young people in ICT, entrepreneurship, business incubation, financial literacy and employment generation. After the first centre was created in Nairobi, five more centres were set up in Kigali (Rwanda), Mogadishu (Somalia), Dar-es-Salaam (Tanzania), Arua and Kampala (Uganda).

Box 7.2. **Rwanda's Business Development Fund**

In Rwanda, decentralising business services helps to promote rural areas. The Business Development Fund (BDF) is a public limited company with 55% of its shares owned by the government and 45% owned by the Development Bank of Rwanda. Established in 2011, BDF is one of the main institutions implementing the national Entrepreneurship and Business Development objectives. Among other activities, BDF assists, coaches and trains entrepreneurs pursuing new business ideas and supports bankable business proposals from micro, small and medium-sized enterprises to access finance.

After a year in operation and based on feedback from rural citizens, BDF realised that their office in the capital was unable to provide services in rural areas. The national government decided to decentralise the fund and open BDF branches across the country. There are now 30 Business Development Centres located at district level. These branches work in collaboration with district governments that help BDF attract, administratively support and monitor beneficiaries.

To date, 827 business development advisors have been trained and assigned to different districts countrywide, and over 17 000 entrepreneurs have benefited from their business development services. The range of business services is broad, from preparing and reviewing business plans to providing technical support to raise capital. Of the beneficiaries, more than 14 000 received financing from BDF and other financial institutions. Overall, more than 28 000 new jobs have been created.

Sub-national governments could be more involved in Africa's industrial policies. The experts' survey conducted for this report shows that among the 26 countries with national entrepreneurship strategies, only 3 effectively engage with local governments. An additional 18 countries involve local governments in these strategies but in more limited and ineffective ways.

Accountability and weak capacity of local governments are among the main impediments to further devolution. Lower levels of government usually have less capacity than central governments; in addition, there are large differences in capacity among regions and provinces within countries. Multi-level governance arrangements can increase the capacity of Africa's regions to carry out industrial policies. Investing in institutional capabilities is necessary for regions to meet their production potential (OECD, 2013: 134; AfDB/OECD/UNDP, 2015).

Vertical co-ordination between national, regional and local governments can fill policy gaps. Rwanda's central government, for example, monitors and rewards local government performance. Some countries use statutory co-ordination bodies to prevent policy gaps. While local governments cannot substitute for national ones, they can provide the conditions for local businesses to grow, even in countries without strong national strategies. In an environment of fragility or conflict, for instance, local authorities can often address certain basic needs of the private sector more directly than national agencies.

Some countries are developing "functional regions" through multi-level governance structures. These improve co-ordination in addressing challenges shared across administrative boundaries, particularly for metropolitan areas. For example, Côte d'Ivoire has developed the Grand Abidjan metropolitan region; Ghana is developing an integrated metropolitan planning system across jurisdictions around Accra; Morocco created the new region of Casablanca-Settat in 2015; and Togo has established the Grand Lomé area.

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South Africa's Gauteng region co-ordinates the urban areas around Johannesburg, Pretoria and Midrand. It uses co-funding arrangements and has developed common projects such as the Gautrain Rapid Rail Link, the Dinokeng Tourism Area and the City Deep Logistics Hub (Ronderos, 2016). However, several of these cases of horizontal co-operation are new and can be further improved.

Regional development can bolster industrial policy. For example, in South Africa local governments can mobilise industrial and innovation policies, notably by raising local revenues. In Ethiopia, the local government districts (*woredas*) provide education, healthcare, a justice system, a police force and infrastructure such as roads and drainage, though their resources largely depend on grants from the federal government. Morocco has used SEZs to industrialise certain regions. Experience from Latin American countries shows that sub-national governments can promote start-ups (Box 7.3).

Box 7.3. **Promoting start-ups and regional development: Examples from Latin America**

Countries in Latin America have recently promoted start-ups by: *i)* strengthening the institutional framework for supporting them; *ii)* giving priority to social and regional inclusion beyond the capital city in their pro-start-up policies; and *iii)* modernising support instruments and tailored interventions across all development stages of business (i.e. seed, start-up, growth and expansion).

Since the launch of Start-Up Chile in 2010, **Chile** has integrated entrepreneurship into its national production-transformation strategy, giving priority to retaining talent and businesses. Chile has also promoted the creation of start-ups in the regions outside Santiago and of firms that offer innovative solutions to social problems in the country's strategic sectors (e.g. smart mining, the food industry and engineering). The country has introduced more flexible mechanisms tailored to start-ups, such as collaborative workspaces and mentoring networks. It has also simplified regulations so that registering a business requires only one day.

In 2012, **Colombia** set up a special agency, iNNpulsa Colombia, to support start-ups. Today, Colombia is introducing a voucher scheme to give new businesses access to financing and services by accredited intermediary organisations. The government encourages financial institutions to invest in start-ups at all stages of their development, and local governments promote the founding of start-ups through public-private partnerships. The cities of Bogotá and Medellín have seen rapid growth in start-up numbers.

Source: OECD (2016a).

Regional integration is another form of co-operation between governments which can support industrialisation under the right conditions. The Southern Africa Power Pool, which accounts for the majority of electricity trade in sub-Saharan Africa, and the Senegal River Basin Development Authority are examples of regional co-operation in the energy sector. Regional infrastructure projects can also complement national industrial policies, such as the Maputo Development Corridor linking South Africa's Gauteng region to Mozambique's deep-water port in Maputo. However, regional integration can come with side-effects such as excessive competitive pressure on certain regions. Policies should plan and manage negative side-effects in concertation with local actors (AfDB/OECD/UNDP, 2015: 180-181).

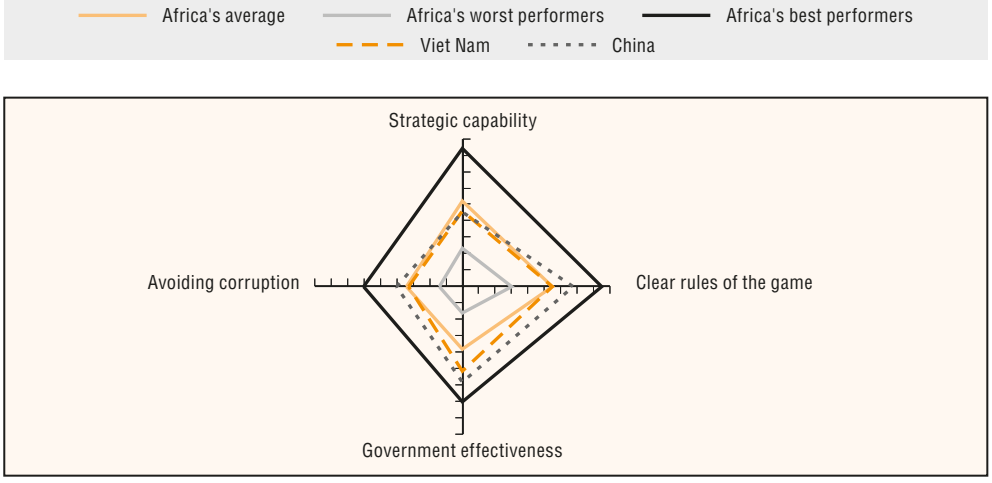
Effective industrial policies depend on government capabilities

Governments require certain capabilities to effectively manage industrial policies (Altenburg and Lütkenhorst, 2015: 52-53):

1. **Strategic capability**: to design policies conducive to sustainable and inclusive productivity growth
2. **Capability to establish clear rules**: to set up transparent rules for market-based competition that *i*) facilitate contract enforcement for firms and their easy entry into or exit from the market and *ii*) provide safeguards against monopolies and cartels
3. **Capability to deliver services effectively**: to identify and deliver in a transparent and systematic manner the necessary services that market fails to provide
4. **Capability to avoid corruption:** to remove protection which only helps special interest groups but are not in the interest of the general public, to uphold the incentive systems and to ensure accountability.

Figure 7.2 shows the performance of African governments based on these policy management capabilities, compared to China and Viet Nam. Overall, African countries rank more favourably in their strategic capability and in setting up "clear rules of the game", i.e. market-based rules. Middle-income African countries such as Botswana, Ghana, Mauritius and South Africa rank highly on all four dimensions, even better than the two Asian competitors. These countries appear well-equipped for carrying out industrial policies. In countries lacking these capabilities, industrial policies may result in misallocating resources and strengthening the power of rent-seeking groups (Altenburg and Lütkenhorst, 2015: 96).

Figure 7.2. **Industrial policy management capabilities for Africa, China and Viet Nam, 2015**



Note: Indicators are rescaled to fit on a scale from 0 (worst performance) to 10 (best performance). Africa's average includes the 36 African countries which have data available in all four dimensions.

Source: Adapted from Bertelsmann Stiftung (2016) *Transformation Index* for the indices on "Strategic capability" and "Clear rules of the game"; World Bank (2015) *World Bank Worldwide Governance Indicators* for the index on "Government effectiveness"; Transparency International (2016) *Corruption Perception Index* for the index on "Avoiding corruption".

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Governments can gradually upgrade their capabilities by facilitating learning, as South Korea and Taiwan demonstrate. These two countries began their industrialisation efforts, in the 1960s, with weak capacities and imperfect governance (Chang, 2007). Nevertheless,

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the governments focused on building capabilities progressively and kept their check and balance systems in place. Throughout the process of implementing industrial policies, they facilitated governmental "learning by doing" to accumulate relevant knowledge and organisational capabilities. They also improved the "soft" competencies of policy makers such as the abilities to learn, manage complex projects and maintain organisational coherence (UNECA, 2016).

Some African countries have made good progress while recognising problems with implementation. For example, Tanzania has recently developed effective industrial strategies (Balchin et al., 2016). Although the government acknowledges numerous problems hindering progress since 2010 (Government of Tanzania, 2016), recognising shortcomings helps to address them and improve policies. Many other African governments are using digitalisation and new technologies to upgrade their capabilities, identify bottlenecks and improve service delivery performance (see Chapter 5).

Policy monitoring and impact evaluation make for successful industrialisation strategies

Assessing industrial policies is crucial to improving policy effectiveness (Newman et al., 2016a; Stiglitz, Lin and Monga, 2013). Monitoring policies and evaluating their impact are essential to correct possible mismatches between complementary policies, including those related to innovation, skills, finance and infrastructure. Countries can strengthen their institutional capabilities for monitoring and evaluation by improving the visibility and traceability of their strategies. For example, in South Africa the Department of Trade and Industry (DTI) must present mid-term implementation reviews, which include quantitative and qualitative achievements. The reviews assess the status of strategic and sectoral targets such as the number of beneficiary firms, the number of jobs created, allocation of government support and changes in the legal framework. The DTI is also required to report to parliament annually on the progress of the Industrial Policy Action Plan, reassessing strategic priorities and explaining potential new challenges.

Policy evaluation can be improved in many African countries. Few have developed measurable, simple and meaningful performance indicators for policy evaluation. In addition, countries face difficulties in evaluating industrial policies because their impact often extends beyond the scope measured by indicators. The high costs of conducting surveys and analyses, a lack of understanding of the usefulness of designing more effective policies, and a lack of political commitment can prevent governments from evaluating the impact of policies. The capacity to access and exchange the information generated by different governmental bodies is crucial to assess impact (OECD, 2013: 139-40).

New data are being collected to inform Africa's policy choices. Data on firm dynamics, on the various types of entrepreneurs and on their potential contribution to development, as described in Chapter 6, could serve to assess industrial policies. Ethiopia, Kenya, Morocco, South Africa and Tanzania have carried out surveys to increase understanding of production and innovation dynamics.

Firm-level surveys can show the heterogeneity in the behaviour of firms and better target policies (Mayer and Ottaviano, 2007; Criscuolo et al., 2012). Ghana, South Africa and Tunisia increasingly collect and analyse firm-level data. The availability of firm-level data is still limited in Africa, as in the majority of developing economies.

Building countries' statistical infrastructure is essential for tackling this data challenge durably. Producing high-quality statistics provides the information necessary for effective policy making. National statistical agencies can play a key role as data producers, in co-ordination with administrative offices. Business surveys can offer information needed

for policy design but can be costly. Statistics on the structure of firms and on their dynamics are also useful. Business and investment registries can produce such data, and administrative data and regular surveys can complete them. Various international initiatives, such as the Partnership in Statistics for Development in the 21st Century (PARIS21) and the UN Working Group on Big Data for sustainable development, are underway to improve the statistical base for assessing developing countries.

Finally, while successful industrial policies must be country-specific, they share common requirements for implementation:

- strong domestic institutional capabilities, at the national and regional levels
- data and the capacity to process it, in order to diagnose domestic and foreign trends
- resources to carry out policies and the capacity to co-ordinate them across several fields
- dialogue with the private sector to build partnerships and create investment synergies (OECD, 2013: 240).

Chapter 8 will examine constraints that bind entrepreneurs and will show how targeting policies on skills, business clusters and financing can promote effective entrepreneurship for Africa's industrialisation.

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Annex 7.A1. Impacts of entrepreneurship programmes in Africa

The table below compiles evidence from the literature on the impacts of various entrepreneurship programmes in Africa. Data were selected from two meta-analyses which included 78 quantitative studies on entrepreneurship in developing countries (Grimm and Paffhausen, 2015; Honorati and Cho, 2013). Only studies that evaluate impacts based on experimental or quasi-experimental design were selected.

Table 7.A1.1. **Impacts of entrepreneurship programmes in Africa**

Country	Programme	Target	Women targeted	Programme impacts	Source
Ethiopia (rural)	Joint-liability micro-credit, combined with a family planning programme	Micro-entrepreneurs	No	Business creation: insignificant	Tarozzi, Desai and Johnson (2015)
Ethiopia (urban Dire Dawa)	Enabling of legal framework and streamlining of regulatory conditions as well as support services	Micro-entrepreneurs	No	Employment: positive	Eshetu, Ketema and Kassa (2013)
Ghana	Cash grant or in-kind subsidies	Microenterprise owners	Yes	Subsistence enterprises: None Larger businesses: increased profits	Fafchamps et al. (2014)
Ghana	Business training	Microenterprise owners	No	Profits, management practice and revenue: positive	Mano et al. (2011)
Kenya	Access to non-interest bearing bank accounts	Market vendors (women) and bicycle-taxi drivers (men)	Yes	Savings, investment and expenditure: positive Hours worked: None	Dupas and Robinson (2013)
Madagascar (urban)	1-year individual-liability loans averaging EUR 500 for urban micro-businesses and 2-3 year loans averaging EUR 8 000 for SMEs	Micro-entrepreneurs	No	Employment: insignificant	Gubert and Roubaud (2011)
Malawi	Access to banking: ordinary vs. account with restricted withdrawal policy	Small holder farmers	No	Saving and investment: positive	Brune et al. (2016)
Malawi	Provision of credit for adopting technology	Farmers	No	Take up of loans: positive	Gine and Yang (2009)
Malawi (national)	Vocational apprenticeship combined with entrepreneurial support and life skills training and, in some cases, start-up capital	Micro-entrepreneurs	No	Business creation: insignificant	Cho et al. (2012)
Morocco (rural/semi-urban)	Micro-credit, joint-liability as well as individual-liability	Existing micro-entrepreneurs	No	Employment: insignificant Business creation: insignificant	Crepón et al. (2015)
South Africa	Expansion of access to consumer credits	Marginally rejected loan applicants	Yes	Labour market activities, income, consumption, well-being: positive	Karlan and Zinman (2010)
Tanzania	Business training and grants (cash)	Microfinance clients	No	Sales: positive	Berge et al. (2011)
Tanzania	Business training	Microfinance clients and microenterprise owners	No	Business knowledge: positive	Bjorvatn and Tungodden (2010)
Tunisia (national)	Entrepreneurship education for university graduates	Youth	No	Business creation: positive	Premand et al. (2012)
Uganda (Northern Region)	Nearly unconditional, unsupervised group cash transfers to pay for vocational training, tools and business start-up costs	Poor and underemployed youth who are micro-entrepreneurs	No	Employment among males: significant Employment among females: negative	Blattman, Fiala and Martinez (2014)
Uganda (rural, urban and semi-urban)	Business training and information on sex, reproduction and marriage	Girls aged 14-20 who are micro-entrepreneurs	Yes	Business creation: positive	Bandiera et al. (2015)
Zimbabwe (urban)	Joint-liability micro-credit, accompanied by an orientation session on sound business management practices and management advice from loan officers	Micro-entrepreneurs	No	Employment: significant	Barnes (2001)

Source: Adapted from Grimm and Paffhausen (2015); Honorati and Cho (2013).

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Notes

1. The AEO experts' survey collects responses by country economists of the AfDB, OECD and UNDP in country offices in Africa about trends they monitor. Responses are clustered to one per country.
2. See in particular Lin and Stiglitz, 2013; Lin, 2012; Noman and Stiglitz, 2015; Newman et al., 2016a; UNECA, 2016; Altenburg and Lütkenhorst, 2015; Oqubay, 2015; Newman et al., 2016b; McMillan et al., 2016.
3. For instance, since 2003, Tanzania's SME Development Policy has enabled the government to identify limits met by small businesses and to offer remedies (Severino and Hajdenberg, 2016: 229-232).
4. Performance contracts in the civil service can help, as shown in Kenya in the 2000s and in Rwanda currently.

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Chapter 8

Policies to promote entrepreneurship for Africa's industrialisation

This chapter identifies the most binding constraints that African entrepreneurs face and focuses on three important policy areas to help entrepreneurs contribute to industrialisation. To strengthen Africa's firms, governments should develop entrepreneurs' skills, improve infrastructure, notably for business clusters, and facilitate financing. First, this chapter discusses how to promote education and professional training for entrepreneurs and wage workers. Second, it examines how clusters can kick-start industrialisation by providing enabling conditions for African firms to grow. Third, it explores ways to finance small and medium-sized enterprises, including high-potential firms. It also proposes ways for governments to co-operate with the private sector in designing and implementing the necessary policies.

IN BRIEF

A holistic policy approach is needed to strengthen entrepreneurship for Africa's industrialisation and tackle the multitude of constraints. This chapter focuses on three policy areas of particular importance. The first is improving skills of entrepreneurs and of workers in general and aligning them with labour market needs. While governments can promote learning, engaging the private sector is necessary. The second policy area relates to grouping firms in business clusters, such as industrial parks and special economic zones. Clustering can support start-ups and increase existing firms' productivity and growth, assuming adequate infrastructure is available. The third important policy area is improving firms' access to funds. Financial markets should be able to grant affordable loans and provide more diverse and innovative financing instruments to Africa's firms, including its small and medium-sized enterprises.

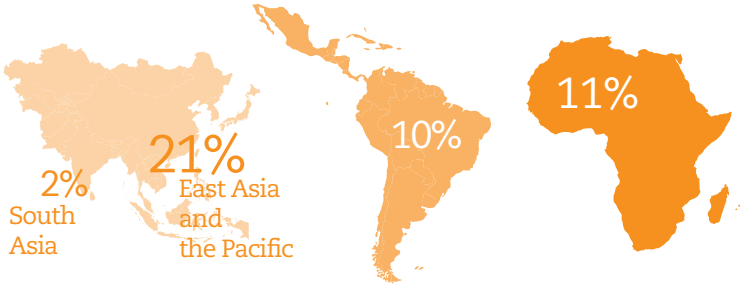
Did you know?

- Credit providers will need to increase their lending by at least USD 135 billion in order to meet demand by African MSMEs.
- Each US dollar that multilateral institutions invest in African entrepreneurs can generate up to USD 5 in additional private sector investment.
- African firms are 19% less likely to obtain a bank loan than firms in other developing regions.
- In Uganda, 28% of women own land compared to 53% of men, and only 10% can use it as collateral compared to 95% of the men.

Improving Africa's entrepreneurship for its industrialisation

Improving skills

Share of students in secondary education enrolled in vocational programmes:



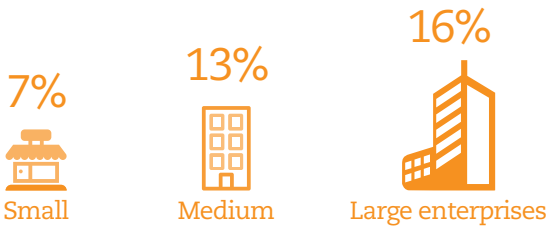
Grouping business clusters

Benefits:



Improving access to funds

Proportion of working capital financed by banks in Africa:



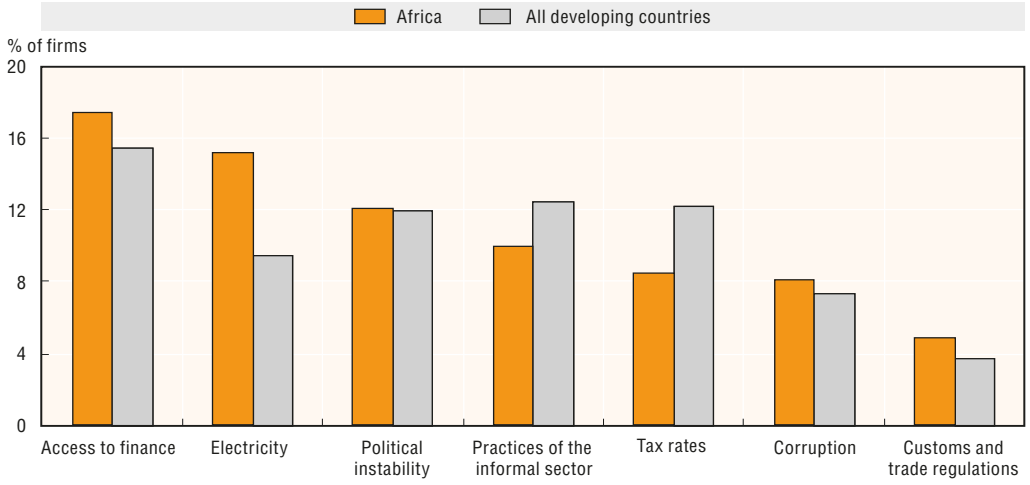
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Policies that facilitate business for entrepreneurs are crucial for Africa's industrialisation

For Africa to industrialise, its entrepreneurs need government policies that help their firms grow. Identifying binding constraints to growth is a key step before designing policies (Lin and Monga, 2013). The constraints that entrepreneurs face when starting firms or upgrading their operations relate particularly to skills, infrastructure and the business environment, and financing. Upgrading skills is particularly important to better use the opportunities of new technologies for industrialisation. African firms' cite infrastructure, notably an unreliable electricity supply, and access to finance as their most common operating constraints (Figure 8.1).

Numerous policy areas can impact enterprise performance and their contributions to industrialisation. These include improving general economic conditions through sound fiscal and monetary policies and appropriate exchange rates, boosting the business environment, enforcing stable regulatory frameworks and ensuring fair trade relations. Reducing trade barriers will increase the size of markets that African entrepreneurs can tap (see Chapter 3). However, implementing such policies at the macroeconomic level alone is not sufficient. Policies need to be tailored to the specific conditions, needs and capabilities of individual countries (see also Bhorat et al., 2016). In that way, they can nurture entrepreneurship, firm survival and growth, which are critical ingredients for rapid and sustained industrialisation (see Chapters 6 and 7).

Figure 8.1. **African firms' most common operating constraints, 2015 or most recent year**



Source: Adapted from Enterprise Surveys, www.enterprisesurveys.org.
StatLink http://dx.doi.org/10.1787/888933475494

Entrepreneurs need better infrastructure and a more supportive business environment

Infrastructure gaps reduce the growth potential of entrepreneurs, and electricity in particular stands out as a major problem (Omidyar Network/Monitor Group, 2013). Infrastructure is a key component in promoting industrialisation, raising incomes, accumulating human capital and facilitating access to markets (Lin, 2012). High-tech entrepreneurs, for example, suffer from unreliable electricity supplies and are often too small to afford efficient generators for themselves.

Weak physical and soft logistical infrastructure limits the catchment area of new entrants to their immediate surroundings. For example, entrepreneurs in the agro-food

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sector face difficulties in bringing produce from rural areas to processors and consumers in urban markets due to the nascent development of cold chain logistics.

Young firms face more difficulties in an unfavourable business environment than more experienced firms. Young firms can be too small to negotiate better terms with the government yet too visible to avoid a disproportionate share of taxes and cumbersome bureaucracy. They therefore often remain in the informal sector to avoid burdensome regulations for formal enterprises. But informality restricts their productivity (Box 8.1). Weak property rights and weak contract enforcement mechanisms reduce the return on otherwise successful ventures and discourage entrepreneurs from innovating. A non-transparent regulatory environment in labour market rules, taxation, red tape procedures, property rights and bankruptcy laws are particularly harmful to firms' growth in developing countries (Quatraro and Vivarelli, 2014).

Removing these constraints would significantly boost firms' productivity and allow African entrepreneurs to compete with other global players (Harrison, Lin and Xu, 2012; Dinh and Clarke, 2012). After accounting for their more challenging environment, Africa's manufacturing firms tend to perform better than those in other regions of the world at similar income levels (Dinh and Clarke, 2012).

Box 8.1. **Policies to upgrade firms from the informal to the formal sector**

Informal firms represent over half of Africa's economic activity (La Porta and Schleifer, 2011). Micro, small and medium-sized firms and sometimes even larger firms operate in the informal sector. Informal firms tend to produce less than formal ones, due in part to lower levels of skills, a smaller size, which prevents exploiting scale economies, and a restricted use of government services and bank financing. Hence, bringing more firms into the formal sector could increase productivity and promote growth.

Policy makers should consider the reasons why various types of firms operate in the informal sector and should assess their ability to upgrade to the formal sector. Simply forcing informal firms to register and comply with the rules for formal firms could be counterproductive, reducing employment and increasing poverty (Jütting and de Laiglesia, 2009). Better policies to cope with informal firms include the following:

- help micro firms increase productivity and income via microfinance programmes and education
- validate skills acquired in the informal sector through certification (see the examples of Benin, Ethiopia, Mali, Senegal and South Africa in AfDB/OECD, 2008)
- improve access to finance, property rights, regulations on bankruptcy, energy market reforms and infrastructure.

Credit constraints prevent firms from growing

Africa's micro, small and medium-sized enterprises (MSMEs) in the formal sector lack financing. They face a credit gap on the order of USD 136 billion (Figure 8.2).[1] The reasons are fivefold:

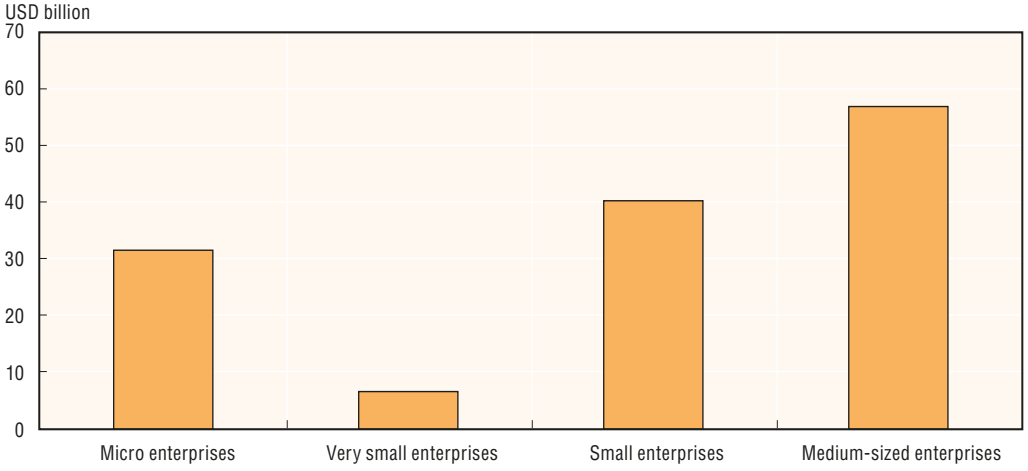
1. Most entrepreneurs rely on personal savings and their immediate personal network for start-up capital (Beck et al., 2011). Bank lending and venture capital play a limited role in financing entrepreneurs, at least in the start-up stage.
2. For women, gender-based legal restrictions may prevent them from owning property, making it harder to obtain loans (Dupas and Robinson, 2013; Box 8.2).
3. Entrepreneurs often believe supply of capital is limited, while financers claim that entrepreneurial projects are not fundable (Omidyar Network/Monitor Group, 2013).

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4. Mid-range financing for entrepreneurs is limited. Government programmes and non-profit institutions provide primarily small scale, micro-lending schemes, and the formal banking system offers large-scale funding.
5. Long-term borrowing and equity financing is rare. Almost 60% of loans in Africa are for less than one year, and less than 2% of loans are for more than ten years (Beck et al., 2011).

Financial literacy and business training can help African entrepreneurs present their business cases to lenders. Financial education can include identifying ways to fund start-ups using existing resources or external finance (OECD, 2015a).

Figure 8.2. **Total credit gap for formal micro, very small, small and medium-sized enterprises in Africa, 2011**



Note: Formal micro, small and medium-sized enterprises are classified into 4 groups: micro (1-4 employees), very small (5-9 employees), small (10-49 employees) and medium (50-250 employees).
Source: Adapted from IFC's Enterprise Finance Gap (2014).
StatLink http://dx.doi.org/10.1787/888933475501

The consequences of constraints to private sector development often fall disproportionately on new entrepreneurs. Start-ups are more subject to credit constraints and are less resilient. In OECD countries, policies that aim to lower risks, e.g. improving access to finance, tend to improve the entry and growth performance of start-ups. It is also crucial to tackle policy failures that increase the costs of risks, e.g. poor contract enforcement (Calvino, Criscuolo and Menon, 2016).

Box 8.2. **African women and entrepreneurship**

Helping women entrepreneurs develop viable and productive firms requires an integrated strategy. Many African countries need to improve women's rights to make decisions about their own lives and enterprises with adequate, flexible and affordable financial services and business education. Many women entrepreneurs find financial services inaccessible due to high interest-rates and inflexible repayment schemes. They have difficulty complying with collateral requirements for credit and loans due to gender biases in land ownership (Vossenberg, 2016).

Women entrepreneurs face additional constraints which affect their firms more than those of men. Often women endure harassment and discrimination in the market place and from government and financial institutions. In Uganda, 28% of women own land compared to 53% of men; but only 10% of female landowners can use land as collateral compared to 95% of male

Box 8.2. **African women and entrepreneurship** *(cont.)*

landowners (OECD, 2015b). Furthermore, women experience inequalities in intra-household decision making and bargaining over how financial resources are allocated and tasks divided. Social pressure related to what is considered appropriate behaviour for women has an impact on their entrepreneurship. Also the types of tasks and duties that some African societies expect women, rather than men, to perform limit their access to and control over resources for running a profitable business.

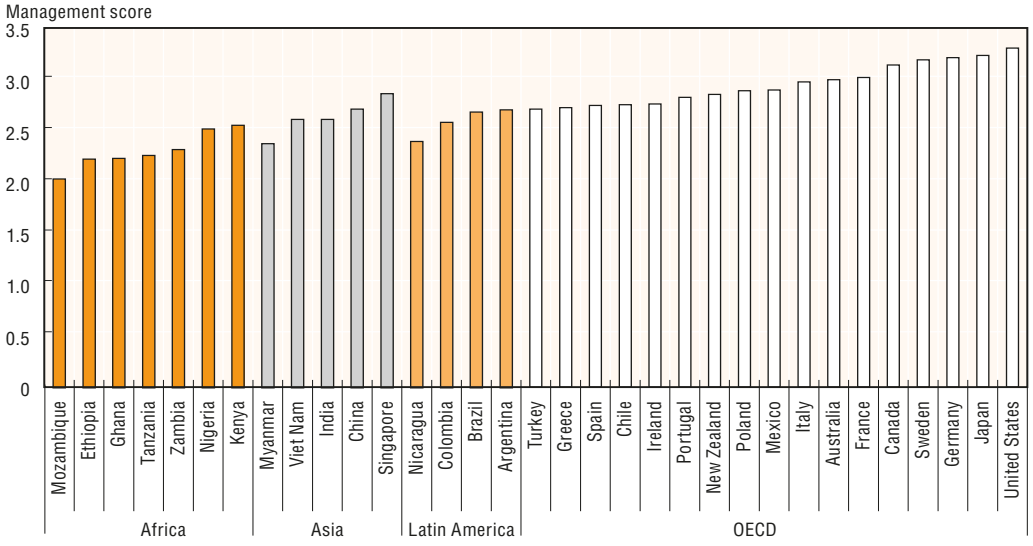
Governments, companies, financial institutions and other key actors in the business environment should respect women's rights to access and control resources. Africa's Grow Movement is a successful example of an organisation that offers innovative, inclusive and empowering business education services to women entrepreneurs (Vossenberg, 2016).

A lack of managerial skills inhibits growth

A lack of managerial skills is one of the main constraints to successful entrepreneurship in Africa. Together with inadequate worker skills, it hampers Africa's productivity and competitiveness and holds back industrialisation (AfDB, 2016; AfDB/OECD/UNDP, 2014). The quality of management in African countries trails behind that in other developing countries (Figure 8.3). A survey of medium-sized manufacturing firms in 34 countries shows that the 7 African countries included in the sample are at the bottom of the management quality ranking. A similar review of light manufacturing shows that a lack of basic managerial skills is one of the four main impediments to the industry in Africa (Dinh et al., 2012).

Research points to insufficient managerial skills and experience as a key factor in the failure of new business ventures (Martin and Staines, 1994). South Africa is a case in point. Herrington and Kew (2016) linked the country's low levels of entrepreneurial activity and management capabilities with ineffective entrepreneurial education and inadequate mathematics and science teaching at primary and secondary school levels. This may also explain the high failure rate of new firms in South Africa.

Figure 8.3. **Average management scores of medium-sized manufacturing firms by country, 2004-14**

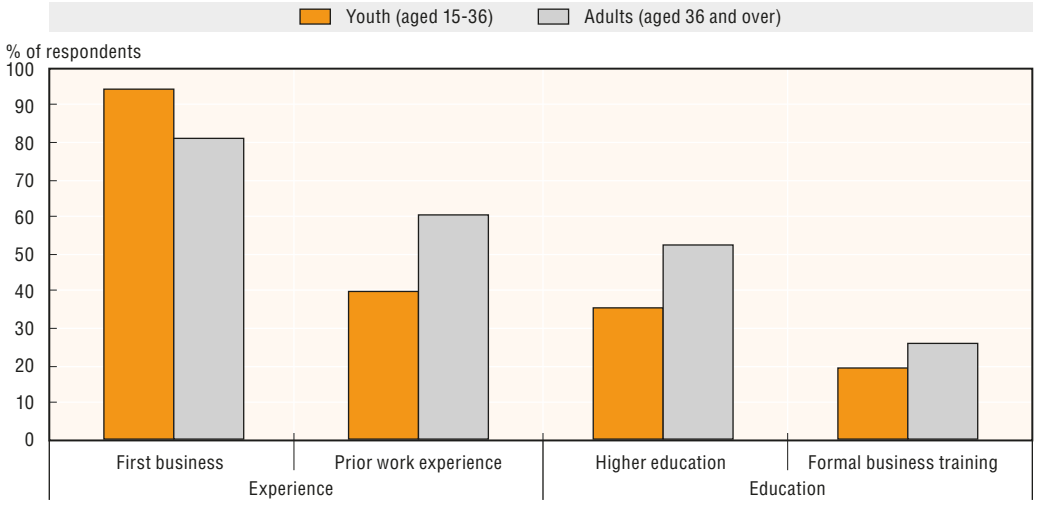


Source: Bloom et al. (2016).

StatLink http://dx.doi.org/10.1787/888933475518

A lack of skills is particularly relevant for African youth. The shortage of entrepreneurial skills lowers the ability of potential young entrepreneurs to find business opportunities and reduces the rate of youth start-ups. For instance, the 2013 UN Swaziland survey of 640 small and medium-sized enterprises (SMEs) in six Swaziland cities revealed a large gap in experience and skills between young entrepreneurs (aged 15-35) and adult entrepreneurs (aged 36 and over) (Figure 8.4). Only 40% of young entrepreneurs had prior work experience, relative to 61% of adults. While a third of young entrepreneurs had higher education, more than half of the adults did. Similarly, less than 20% of young entrepreneurs received formal business training, and over 25% of adults were trained.

Figure 8.4. **Experience and education of young versus adult entrepreneurs in Swaziland, 2012**



Source: Adapted from Table 1 in Brixiová, Ncube and Bicaba (2015).
StatLink http://dx.doi.org/10.1787/888933475528

Policies to tackle these issues will have to be holistic and context-dependent. Since Africa's constraints are interdependent, lifting them in one dimension while others are still binding may prove ineffective. The following sections will examine policies to improve skills, business clusters and financing to strengthen the existing entrepreneurial base for Africa's industrialisation.

Improving skills is essential to strengthen Africa's entrepreneurial capacity

Prioritising education systems can prepare entrepreneurs for the new industrial revolution

Africa will have to prioritise education and massively upscale its investments in the quality of its workforce in order to partake in the new industrial revolution (see Chapter 6). Education outcomes and systems in Africa currently perform poorly compared to global averages. Improved school systems are necessary to equip entrepreneurs and workers with the skills needed to boost the competitiveness of firms and modernise the economy (Shimeles, 2016). Research shows that the mind-sets and skills closely tied to entrepreneurship are transmittable when education and training systems incorporate creative and entrepreneurial skills into teaching (Banerji et al., 2010).

Formal education in Africa could better integrate entrepreneurship training. Entrepreneurship education is still rare. Making entrepreneurial education available to the majority of students will require great efforts from all stakeholders (Lackéus, 2015).

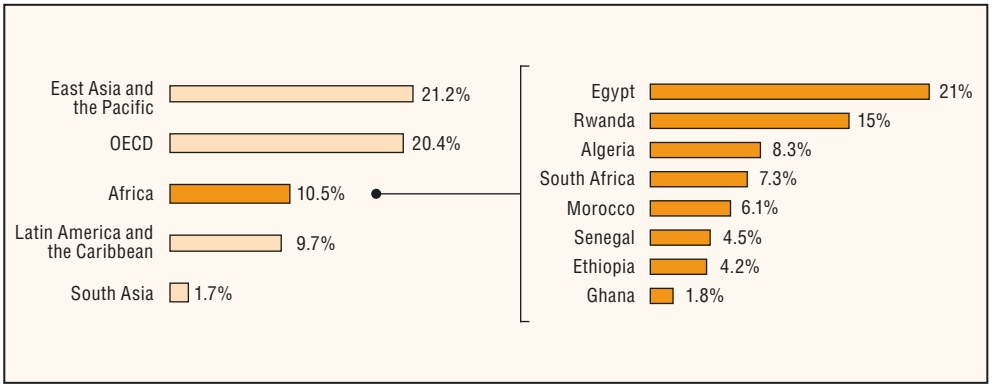
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Some countries have already integrated entrepreneurship into their education systems. With youth making up more than 75% of its population, Uganda has remodelled its education system which now includes entrepreneurship as one of the subjects of instruction in secondary schools and colleges.[2] In partnership with universities of six African countries, the E4Impact Foundation has trained some 600 entrepreneurs. It offers courses on creating bankable business plans, developing managerial skills, and establishing business networks with potential partners and investors.

Policies to develop skills should build on the local context. An assessment of a national entrepreneurship education programme in South Africa shows that the programme's implementation suffered when not taking local conditions into account (Isaacs et al., 2007). Continuous evaluation of education and training programmes is essential.

While vocational training can contribute to productivity gains, it is currently an underutilised tool. World Bank data show that the average rate of vocational training enrolment by secondary school students in Africa is only 10% (Figure 8.5). Such low enrolment signals insufficient public training capacity relative to the continent's population growth.

Figure 8.5. **Share of students in secondary school enrolled in vocational programmes, 2013 or most recent year**



Source: Adapted from World Bank (2017).
StatLink http://dx.doi.org/10.1787/888933475537

Despite the importance given to skills development by many governments, the training system in Africa is largely underfinanced. On average, only 2-6% of educational budgets are devoted to skills development. In many countries, funding is mainly channelled towards formal technical and vocational training (AfDB/OECD, 2008).

Training programmes and apprenticeships help provide the necessary skills

African countries need more institutions and programmes that can actively bridge the gap between industry needs and education, notably by focusing on management and problem-solving skills. Business schools and colleges for technical and vocational skills development (TVSD) could develop stronger links to the commercial sector and focus on apprenticeships, management support and lifelong learning for entrepreneurs of small firms. TVSD refers to the acquisition of knowledge, practical competencies, know-how and attitudes necessary to perform a certain trade or occupation in the labour market. TVSD encompasses formal learning – in public and private educational institutions or on the job – and non-formal learning within or outside the work place, "aiming to ensure that all members of the community have access to lifelong learning. TVSD includes both initial vocational training undertaken by young people prior to entering the labour market and continuing vocational training for adults" (AfDB/OECD, 2008).

Given the multitude of constraints affecting entrepreneurs, a combination of skills development, provision of capital and business mentoring may be most effective to help them (Honorati and Cho, 2013). The increased automation in industry brought about by the new industrial revolution will require entrepreneurs and wage workers to focus on developing skills that can allow them to complement the role of machines (see Chapter 6). Today's entrepreneurs and wage workers need a broader coverage of social and creative skills geared towards solving concrete problems (Naudé, forthcoming). Specific skills that deserve attention include management, leadership, marketing and sales, and communications.

Informal apprenticeships can build skills for those with no education or formal job prospects. The majority of young people in Africa lack the general qualifications to enrol in TVSD programmes, since these require at least some secondary schooling (Filmer et al., 2014). As a result, informal apprenticeships are widespread in Africa, particularly in West Africa (i.e. Benin, Côte d'Ivoire and Ghana). They represent the principal means of acquiring skills in urban areas. In Ghana, informal apprenticeships represent up to 90% of basic skills training (Atchoarena and Delluc, 2001). Almost 25% of the working population are apprentices (Palmer, 2009).

The choice between formal TVSD and informal apprenticeships often determines the labour market outcome of individuals (Filmer et al., 2014). Apprentices tend to become self-employed, while TVSD graduates opt for wage employment. In Ghana, apprenticeships have allowed self-employed individuals to earn 49% more than wage workers.

Applied training can help established small firms expand their business, particularly when they are located in clusters. A randomised experiment in Ghana's Suame Magazine cluster found initial managerial skills to be poor. In the period that followed, some entrepreneurs were randomly selected to receive basic managerial training, which included bookkeeping, marketing and production management. Entrepreneurs in manufacturing activities who received the training benefited from higher gross profits compared to those who did not receive any training and whose managerial skills remained low (Iddrissu, Mano and Sonobe, 2012). In a Tanzanian cluster, on-site training on management practices led to increased productivity, value added and gross profits (Sonobe, Suzuki and Otsuka, 2011).

At the same time, apprenticeships can carry risks, such as limited skill transfers or prolonged and underpaid employment. In order to counter such risks, the International Labour Organization proposes formalising and standardising apprenticeships as well as training craftsmen following a "train the trainer" approach. Several African countries where apprenticeships contribute to the national skills base are already implementing such policies (ILO, 2011). Many African countries "have enacted formal apprenticeship laws. [These laws regulate] among others, official registration of contracts; access to apprenticeships such as educational or age requirements; training duration; and skills assessment and certification procedures" (AfDB/OECD, 2008). However, only a small number of mostly medium-sized and large enterprises have been able to apply these rules. Therefore, only a small share of young people in Africa have benefited from formal apprenticeship.

Private sector engagement is a centrepiece of skills development policies

Strengthening the dialogue with the private sector can increase the relevance of training (see also Chapter 7). Partnerships with enterprises, business, industry, craft associations, unions, and other formal and informal stakeholders can make training more relevant to the labour market. The private sector can contribute to the design and delivery of training programmes, particularly through offering internships, providing on-the-job training, financing training institutions and giving advice on curriculum reforms

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(Bughin et al., 2016; Naudé, forthcoming). Increasing the role of the private sector can help develop more demand-driven training systems. In particular, private companies tend to provide more training in "the tertiary sector of the economy, e.g. business, commerce and information and communication technologies" (AfDB/OECD, 2008). Trade associations can help certify informal apprenticeships by defining the content of necessary skills and competencies.

Training by the private sector correlates positively with programme success (Honorati and Cho, 2013). In Morocco's Tangier automotive cluster, the government established two training facilities and subsidised 20% of the cost of training courses provided by the private sector. These courses mainly target factory workers and aim to enhance skills on the factory floor. Local universities created partnerships to train technicians and engineers, while one of the cluster's training centres also provides management courses (Benabdejlil, Lung and Piveteau, 2016). More generally, Morocco's *Plan Emergence* (2008-15) launched eight sector-specific training centres built by the state but run by industry associations. While some programmes are privately funded and managed but also receive public funds, others are entirely run by the private sector. One such example is the Office Chérifien des Phosphates (OCP) Group's sectoral competency centres, which are located in OCP production regions and provide general skills as well as more specialised training linked to OCP activities.

Local manufacturing firms and African governments can engage with foreign enterprises or institutions in technical assistance partnerships (Dinh et al., 2012). These partnerships can develop the technical skills of the local workforce, ultimately raising firms' productivity. Beyond Africa, Chile's Framework for Mining Qualifications provides an example of involvement of the private sector. Guided by private sector demand, this initiative informs training institutions of which skills should be offered and advises workers on the skills they should build (OECD/CAF/ECLAC, 2015). Box 8.3 gives an African example.

Box 8.3. **AfDB Skills Enhancement Zones**

The AfDB launched a Skills Enhancement Zones (SEZs) programme in 2016. It aims to develop young entrepreneurs and enhance the skills of youth to meet private sector needs, as part of its Jobs for Youth in Africa Strategy. Rather than the traditional two to three years approach used in vocational schools, the SEZ programme promotes a faster response to economic opportunities through six-month training. It targets specific, on-demand skillsets. Established in industrial parks, SEZ training centres give trainees direct access to on-the-job training. The programme involves employers across several countries to strengthen industrial collaboration at the regional level.

Policies need to better incentivise training by private companies. Often, firms do not recognise the value of employee training. They tend to lack awareness of how training can increase productivity or fear that other firms poach trained workers. Policies to address these concerns include sharing the costs of training with private companies; offering tax reductions to participating firms; better representing specific industries' interests in training; and communicating the benefits of TVSD programmes more widely to private actors (AfDB/OECD, 2008).

The local level context can be decisive in determining policy outcomes. For this reason, involving sub-national governments in policy design, implementation and evaluation is advisable. Decentralising the management of TVSD can enable training centres to diversify their sources of finance, improve the partnership between enterprises and

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training institutions, and offer training that better responds to local demand and promotes local assets. For instance, Tunisia's decentralisation of vocational education and training institutions has led to improved partnership between training institutions and private companies, although private sector participation remains uneven (AfDB/OECD, 2008). However, the responsibilities of sub-national governments and local training centres must depend on their administrative, managerial and pedagogical capacity as well as on transparency requirements (Chapter 7). Measuring and rewarding schools' educational and financial performance can help address transparency and capacity challenges, as shown in Mozambique.

Increasing the funding to scale up TVSDs will be necessary. Possible measures have been discussed in the AEO 2008. These include increasing government budget allocations for TVSDs; improving training centres' capacity to manage their budgets; introducing equitable cost sharing schemes targeting specific groups of trainees or students; promoting private training providers; and working with donors' agencies that promote skills development.

In formulating policies, priority actions differ according to the skill level in a country and the proportion of survival entrepreneurs, i.e. those who are pushed into entrepreneurship when other options for work are not available (see Chapter 6).

1. Countries with lower skills profiles and a higher proportion of survival entrepreneurs could
   - encourage survival entrepreneurs to shift to wage employment by providing on-the-job or applied training programmes, notably in priority sectors with lower educational requirements. Skills development for poor people can be integrated into poverty reduction programmes. Community involvement can help illiterate poor people upgrade their skills and participate in more sustainable economic activities. Pre-vocational training for children who have left school but are not old enough to start an apprenticeship could strengthen their academic credentials while introducing them to a potential occupation (AfDB/OECD, 2008).
   - identify opportunity-driven entrepreneurs and target short, demand-driven training that will enable them to develop their firms. Such training needs to be complemented with experienced mentoring, post-training support and finance mechanisms to accompany those entrepreneurs. On a longer policy horizon, more opportunity-driven entrepreneurs will need better access to business schools and technical vocational colleges with a strong link to the commercial sector and lifelong learning.
2. Countries with higher skills profiles and a smaller population of survival entrepreneurs could
   - promote on-the-job learning, notably through formalisation and recognition of training in the informal sector. Certificates, for example, could officially recognise training and qualifications. Experienced mentoring should complement on-the-job learning. Educational facilities and infrastructure for education could be further improved, notably in targeted business clusters. Enhanced co-operation with foreign companies could also promote the transfer of specialised skills to local workers.
   - develop complementary long-term solutions such as introducing entrepreneurial education into school and university curricula and creating national and regional centres of excellence. Such centres would help harmonise training programmes and provide platforms for scientific and technological research and exchanges with non-African institutions.

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Business clusters can help African firms grow

Business clusters in Africa can help overcome growth constraints that are still common for many firms (McCormick, 1999), thus acting as catalysts for industrialisation. Clusters enable resource-constrained governments to prioritise and address multiple constraints holistically. For budget-constrained countries, clusters can help focus resources in "pockets" of infrastructure. Such areas can foster industrialisation more quickly, providing an environment that enhances firm survival. Clusters enable interaction and linkages between companies, suppliers, service providers and associated institutions (UNECA/AU, 2014).

Business clusters are long recognised as a means to industrialise. In 1890, Alfred Marshall argued that for certain industries, smaller firms grouped in the same location could achieve productive efficiency. Rather than in large, vertically integrated firms, production can take place through "external economies", i.e. the specialisation of labour and firms in specific tasks and the existence of highly specialised suppliers. More recently, clusters have been defined as "a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities" (Porter, 1998).

Clustering offers four broad benefits. First, the proximity of firms enables the transfer of knowledge, ideas and technology, which can lead to innovation and growth (AfDB/OECD/UNDP, 2016). Second, clustering allows firms to benefit from common infrastructure and shared services, lowering overhead costs. Third, it creates a pool of labour, raw materials, suppliers, etc. which allows firms to focus on tasks in which they hold a comparative advantage. Fourth, clustering enables firms to tap into large markets (Zeng et al., 2008; Otsuka and Sonobe, 2011).

Clustering can help firms achieve greater productivity and efficiency. In Ethiopia, manufacturing firms located in clusters tend to become more productive when competitors enter the cluster. Total factor productivity increases by 0.92% for every additional competitor firm in the cluster (Siba et al., 2012), though the effect relates strictly to the entrance of firms producing the same products. On efficiency gains, a firm-level survey in three Tanzanian cities (Arusha, Dar es Salaam and Mbeya) and one in Uganda (Kampala) found that a 10% increase in the number of firms within the same sector reduces firm costs by 0.3-0.4% (Iimi, Humphrey and Melibaeva, 2015).

Urban areas are conducive to clusters because of the higher density of people, ideas, infrastructure and services (AfDB/OECD/UNDP, 2016). Cities in countries at all levels of development host a higher proportion of manufacturing and service firms (Newman et al., 2016). A study of South African SMEs in the clothing industry shows the importance of cities as marketplaces. By clustering in urban areas, firms benefit from information sharing, production linkages and access to a larger customer base (Rogerson, 2000).

Clusters can provide fertile ground for foreign direct investment (FDI) thanks to economies of scale. Clusters can attract FDI inflows by increasing returns to investment (Yehoue, 2009). Yehoue states that "a dense network of domestic firms can compensate for policy-induced distortions" and factor misallocation, thus attracting foreign investment. Ketels and Memedovic (2008) also argue that clusters can enhance the attractiveness of a country as an FDI destination.

Industrial parks and special economic zones are clusters established by the state for industrial development. Their purpose is to attract businesses in delimited areas by providing public goods and preferential regulations. Both types of clusters are widespread in Africa. These zones can serve as testing grounds for public policy, given their delimited administrative borders. The relatively higher density of firms can lead to higher spill-overs and knowledge transfers, which in turn can increase policy impact. Despite a lack

of comprehensive data and information, Newman and Page (2017) identified 29 cases of successful SEZs in 27 African countries. Many of these zones have high capacity utilisation rates and have created jobs, although not enough for all new entrants to the labour market. Notable features of these SEZs include providing business support services, facilitating employment with long-term visas and work permits, and introducing flexible recruitment laws.

Ethiopia hosts a number of industrial parks and is creating more. Currently the parks operate at high capacity, target domestic and foreign manufacturers and comprise a mix of publicly and privately built facilities (IPDC, n.d.; Ethiopia EU, 2016). A pilot country programme in collaboration with international stakeholders underscored the need for a holistic approach to inclusive industrialisation. As a result, Ethiopia is building Integrated Agro-Industrial Parks (IAIPs) in four regions of the country (Ethiopia Country Note, AEO 2017).

In Kenya, investments are underway for industrial parks in the logistics and leather sectors. The projects benefit from the strategic importance of Mombasa's port, the abundance of cattle providing raw material and low labour costs (World Bank, 2015a).

Some SEZs could perform better. According to a survey of 91 SEZs in 20 sub-Saharan African countries, SEZs account for only 0.2% of national employment (Farole 2011; Kingombe and te Velde, 2015). Some SEZs have created a "race to the bottom" between neighbouring countries, relying solely on tax incentives to attract industries and investments rather than aiming to improve the general business climate. SEZs have also underperformed for other reasons which governments should try to avoid when promoting SEZ-based industrialisation in the future:

1. limited linkages and knowledge transfers with the domestic economy (Newman et al., 2016)
2. inconsistency with a country's comparative advantage and inefficient location choices (Monga, 2011)
3. crowding-out of private investors (as in Tanzania)
4. bottlenecks from limited policy co-ordination (as in Lesotho) (AfDB/OECD/UNDP, 2015)
5. cumbersome customs clearance procedures and inadequate infrastructure (e.g. unreliable electricity provision) (Farole, 2011).

Additionally, many clusters in Africa are static and do not go beyond their survivalist nature (Morris and Kaplinsky, 2015). Low rates of innovation in such clusters can be ascribed to the overlap of strong social ties with business networks and adherence to sub-optimal transactional and organisational models (Taura and Watkins, 2014). Further, many clusters in Africa have emerged spontaneously and with little policy support. This means that the quality of infrastructure and public goods can be extremely low, hampering the growth of African firms.

Clusters need public goods to thrive

The effectiveness of clusters depends on many conditions. Adequate infrastructure and services must be available to ensure proximity to customers and markets. The firms' products must be in line with the clusters' latent comparative advantages. Finally, linkages between firms of the cluster and the surrounding local economy must be strong.

Clusters without adequate infrastructure and public goods may suffer from congestion and can increase firms' costs. In Ghana, the high demand for the Suame Magazine cluster's services increased the number of its firms. However, due to congestion from a lack of public goods and infrastructure, sales revenues decreased (Iddrisu, Mano and

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Sonobe, 2012). Congestion can also deter firms from locating in a specific cluster, as in the case of Tunisia's industrial sector. While a higher number of firms in the cluster increased competitiveness and had positive effects on firm performance, congestion resulted in approximately 4% fewer new entrants in the same cluster (Ayadi and Mattoussi, 2014). Firms in Nigeria's Nnewi cluster had to invest in roads, water and electricity on their own. This increased the firms' overhead costs and reduced their ability to invest in research and development (R&D), skills, and technical upgrading (Morris and Kaplinsky, 2015).

The road network can affect firms' location decisions and determine cluster success. An analysis of road quality and formal manufacturing firms with at least ten workers found that towns in Ethiopia with an improved road network attracted a larger number of firms. Specifically, reducing travel time to a given town by 1% led to a 1.2% net increase in the number of manufacturing firms established in that town. Enterprises tended to relocate from more established manufacturing clusters, which saw their share of manufacturing firms decrease from 77% in 1997 to 55% in 2009 (Shiferaw et al., 2015). In the furniture cluster in Arusha (Tanzania), output growth was highest along a major traffic route connecting Arusha to Dar es Salaam and Nairobi (Kenya) (Muto, Chung and Shimokoshi, 2011).

Clusters can also help informal firms transition into the formal economy

Industrialisation strategies need to empower even informal clusters. Most of the clusters reviewed for this section are informal agglomerations of MSMEs. In many cases, firms may interact with one another on the basis of trust and kinship rather than contracts. In the Nnewi automotive cluster, kinship provides a guarantee of loan repayments (Brautigam, 1997). The Suame Magazine Industrial Development Organization (SMIDO) was created to address the lack of government support to the cluster and the provision of welfare to its entrepreneurs and workers (Gatune 2016). In Addis Ababa (Ethiopia), the requirement for evidence of tax compliance and loan repayment history excluded most MSMEs from a public programme which included financial support and business mentorship (Ali, 2012).

The Otigba ICT cluster in Nigeria provides an example of a first step towards bringing clusters into the formal sector. The cluster emerged spontaneously as an informal agglomeration of small enterprises in a residential district in Lagos. Generally, the Lagos State Government had tried to deter the establishment of informal firms rather than incite them to enter the formal sector (World Bank, 2016a). The government, however, now recognises the existence of the cluster, dialogues with the umbrella organisation representing its firms and collects taxes from them (Oyelaran-Oyeyinka, 2014).

Linkages with educational facilities can boost clusters. A renowned public university established a training facility near Suame Magazine in Ghana which guaranteed the cluster's survival amid growing competition from imported products. Training, exchanging ideas and transferring technology with foreign experts and practitioners has led to innovation by entrepreneurs and increased workforce specialisation in Tangier (Morocco) (Gatune, 2016). Similarly, the provincial government in Tangier is heavily involved in setting up skills training centres and facilitating exchange between local universities and the FDI firms in the Tangier-Med clusters (Cech et al., 2015).[3]

Access to markets can generate opportunities for entrepreneurs. Lesotho's apparel sector thrived and upgraded to regional and global value chains because of the country's preferential access to South Africa and the United States (Morris and Staritz, 2016). The sector achieved more stability following investments from South Africa. These investments were due to an existing cluster, around Lesotho's capital, which had been set up to exploit the country's duty-free access to the US market. Thanks to these inflows,

the cluster reached an employment peak of 53 000 in 2004 (Morris, Barnes and Kao, 2016).[4] Other successful clusters such as Otigba in Nigeria have strong linkages both within the cluster and with external firms, domestically and in the region (Zeng et al., 2008).

Box 8.4. **Nigeria's online movie entrepreneur Jason Njoku**

As part of Nigeria's growing film and music industry,[5] in 2010 the 32-year-old entrepreneur Jason Njoku founded the company Iroko Partners. He created it in response to the inaccessibility of Nollywood films and other media content online.

In early 2011, the company had secured online rights to 500 movies from 100 different one-man production houses. Following a content partnership with YouTube (the first of its kind in Africa), Iroko Partners provided full-length Nollywood movies online. The following year, Iroko Partners launched its own platform, iROKOtv and in less than 6 months reached 500 000 registered users. Within a year the platform counted 152 million views, 90% of which originated from abroad.

After different international media outlets interviewed Jason Njoku, his business came into the spotlight. It raised USD 8 million in venture capital. Currently, the company is Africa's largest distributor of Nigerian movies and provides jobs to 91 workers based in England, Nigeria and the United States.

Source: Moudio (2013); Nsehe, (2012); African Business Central (2015).

Clusters are providing a growing range of services for start-ups

A growing range of spaces with support services is available for start-ups. Africa counts over 300 business incubators, accelerators, seed capital hubs, tech hubs, impact hubs and start-up academies.[6] These co-working spaces provide resource-constrained entrepreneurs with the essential services needed to carry out their work. They offer work space, Internet, technical support, business planning and advisory services, market linkages, and help to obtain financial support. The services vary in quality and are concentrated in urban centres.

Business incubators and accelerators play a key role in bringing together firms and providing training and infrastructure funding. Incubators and accelerators assist early-stage firms (see Figure 7.1 in Chapter 7) until they acquire sufficient resources and market momentum to function autonomously. Evidence from a number of OECD countries shows that the impact of business incubators on firm survival has been generally positive (OECD, 1999). An evaluation of nine incubators in Central Asia and Europe indicated that incubators stimulate sector and cluster development as well as increase firm survival rates (80% after one year) (World Bank, 2014).

Firms need better public services. A Monitor Group survey shows that only 30% of entrepreneurs in Kenya and less than 25% in five other countries surveyed believe that business support services are sufficient to meet the needs of new firms (Omidyar Network/Monitor Group, 2013). Since 2010, Africa has witnessed a high turnover in incubators and start-ups. Nevertheless, they have grown by about 15% since the start of 2014. In general, such spaces supported by a variety of stakeholders perform better than those by government, the private sector or academia alone (World Bank, 2016b). The table in Annex 8.A1 offers an overview of the incubators that are active throughout the continent.

Policies need to build on economic strengths

Governments can support entrepreneurs through well-targeted policies. This will increase countries' competitiveness, both domestically and globally, as well as bring higher returns on capital investment. In the context of industrial development, governments

should focus on providing market information, co-ordinating investments made in the same industry, reducing first-mover risk to promote innovation, and fostering new industries through FDI promotion and firm incubation (Lin, 2011).

Adopting new technologies would allow countries to jump-start their industrialisation in sectors that are already at least partially developed (Naudé, forthcoming). This approach is not equal to "picking winners" or even creating them. Rather, governments can focus on sectors with high levels of competition or linkages to the rest of the economy that may offer important returns on policy (Rodríguez-Clare, 2004). Additionally, governments could assess whether to give the status of SEZs to established clusters (e.g. Centre for Development and Enterprise, 2016). Governments could thus apply preferential tax regimes and streamlined procedures for infrastructure investment to boost industrialisation (Gatune, 2016).

Clusters can offer both firms and governments a favourable environment for successful entrepreneurship and industrialisation. Gains from agglomeration economies and strategic localisation can benefit firms, while focused interventions based on existing economic and market strengths can increase the effectiveness of public policy. Research points to the need for governments to follow the competitive advantages of the domestic economy. In particular, there is scope for government intervention in providing enabling infrastructure, in developing skills and in establishing business networks and market linkages, including through engagement with local administrations.

Promoting existing clusters may be more effective than establishing new ones

The role of policy is to build on existing industrial strengths rather than establish clusters from scratch (Enright and Ffowes-Williams, 2000; Benner, 2012). Successful African clusters have typically emerged spontaneously as a result of direct entrepreneurial decisions rather than state planning (Benner 2012; Otsuka and Sonobe, 2011). Some research proposes that cluster development be led by the private sector, with the government providing policy support and public goods as a facilitating mechanism (Lin, 2012; Otsuka and Sonobe, 2011; AfDB/OECD/UNDP, 2016).

Governments play a part in establishing private business networks. The South African government was instrumental in bringing firms together in industrial associations in the apparel and automotive sectors that were precursors to fully developed clusters. It did this mainly by funding official associations, which led to information exchanges and cost-saving synergies, for example in training workers (Morris and Barnes, 2007). Local governments can be in a better position to engage with enterprises and support their growth. In the case of South Africa's Durban Automotive Cluster, the eThekwini Municipality acted on behalf of the central government and benefited from a closer interaction with firms located in the cluster. This resulted in a more sustained and effective dialogue, and in the implementation of pro-business policies which contributed to the growth of the cluster (Morris and Barnes, 2007).

Priority actions differ depending on the type of country:

- **Natural resources-based countries** could use commodity revenues to provide public goods (particularly infrastructure) to clusters with the potential to diversify the economy, foster domestic linkages, attract FDI and increase employment. These countries could also build on their rapid urbanisation to support clusters catering to urban-based consumers and thus promote economic diversification.
- **Fragile states** could benefit from foreign investment and donor support to provide basic infrastructure and public goods to clusters. Business clusters could favour the

growth of vibrant entrepreneurial activity despite the fragile business environment. Multiple levels of governments, private actors and the international community could co-operate to design context-specific policies in those clusters. There is a risk, however, that such clusters become isolated from the surrounding area.

- **Low-income countries** could promote clusters that connect them to the international economy. Reducing the costs of doing business in a country is one way to promote such clusters. Making clusters more efficient via public goods and infrastructure (e.g. roads and electricity) could improve competitiveness and incentivise firms to participate in public procurement tenders and other contracts. As they attract more companies, such clusters could upgrade their activities and become more sophisticated. Developing backward and forward linkages with other economic sectors and regions will likely fuel their growth.
- **Middle-income countries** could upgrade certain clusters into industrial parks and SEZs to develop activities with more value added. Where the population has special skills, clusters can attract foreign investment and can transfer knowledge and capital to the local economy. Locating such areas next to logistical hubs can attract diverse activities.

Diversified financing solutions can channel resources to African entrepreneurs

Developing financial markets can enable the private sector to invest more. Private firms face high borrowing costs which hamper their growth. One reason is that in underdeveloped financial markets, credit providers may prefer lending to governments, which is seen as less risky (AfDB/WB/WEF, forthcoming).

Worsening macro-economic and banking sector conditions widen financing gaps, increasing the need for new solutions (AfDB/WB/WEF, forthcoming). The AfDB (2013) argues for a holistic approach that targets several levels: from improving the business environment to enhancing the market functioning of financial services and increasing their variety, to direct financing of high-growth firms. Adopting such an approach entails improving the investment climate and financial infrastructure and supporting financial institutions. It also means working directly with entrepreneurs to improve their creditworthiness, financial literacy and growth potential.

Entrepreneurs starting a new business need seed capital. As these young firms are often risky, equity finance can meet their needs. In OECD countries, research shows that young firms often face a credit crunch 12 to 24 months after their creation. At this point, the entrepreneurs have exhausted their personal resources, and their firms may be too small to qualify for formal banking loans.

Regulatory frameworks can encourage a variety of loan organisations

To promote lending to firms, regulatory frameworks should acknowledge the different types of funding institutions. Legal frameworks need to differentiate between banking, co-operatives, microfinance institutions and other financial organisations (Akande, Abu and Obekpa, 2016). Competition and credit provision can increase when non-banking institutions also offer secured loans (see Chapter 5). A clear regulatory framework can foster asset-based services, such as factoring and leasing (Klapper, 2006). In particular, specific regulatory interventions can include the following:

- Timely bankruptcy procedures and strong contract enforcement to reduce down-side risks for entrepreneurs (Calvino, Criscuolo and Menon, 2016).

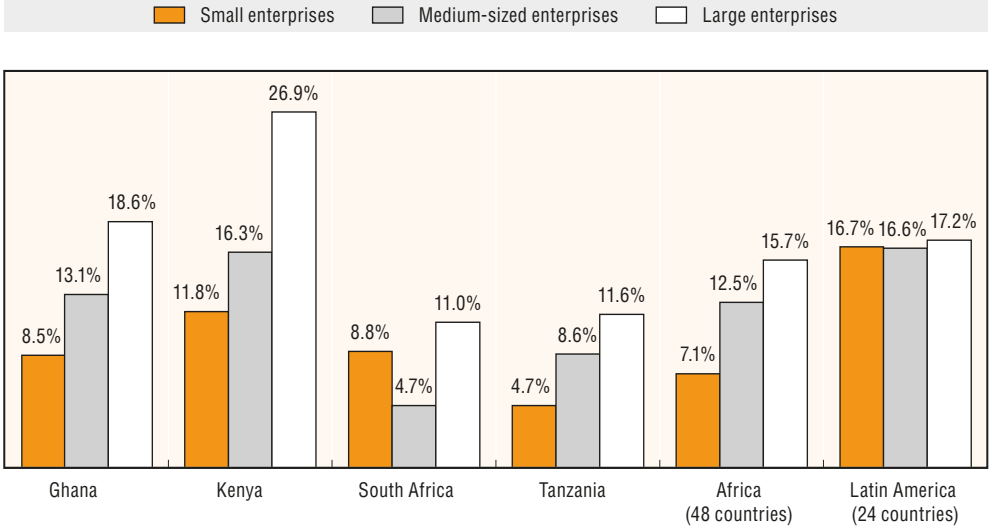
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- A streamlined and tailored tax system to ease the compliance burden for young firms and encourage them to formalise, thus giving them access to formal credit (Stern and Loeprick, 2007).[7]
- More developed information systems. Credit information bureaus and registries can ease constraints faced by SMEs (Stein, Bilandzic and Hommes, 2013). Several African countries have already implemented reforms such as creating systems to register property and to share credit information (see Chapter 5).
- Institutional frameworks specifically targeting SMEs. A dedicated SME authority and business associations could facilitate SMEs' relations with credit providers (Nahamya et al., 2013).
- Government investments or other financial incentives in R&D, particularly for innovation-led enterprises. This would at least partially absorb firms' costs (Arvanitis, 2015).

Traditional financing institutions may need support to increase lending to firms

Traditional financial service providers have overly avoided taking risks in financing SMEs and innovative firms (Arvanitis, 2015). In general, African firms are 19% less likely to have a bank loan, even after controlling for firm characteristics. Small enterprises are 30% less likely to obtain bank loans than large ones, and medium-sized enterprises are 13% less likely (Beck and Cull, 2014). In a survey of over 3 000 SMEs and 18 commercial banks in Nigeria, KPMG/EDC (2014) found that two-thirds of the banks had rejected over 50% of loan applications submitted by SMEs.

Figure 8.6. **Proportion of working capital financed by banks in selected African countries and Latin America, 2015 or most recent year**



Source: Adapted from Enterprise Surveys, www.enterprisesurveys.org.
StatLink http://dx.doi.org/10.1787/888933475544

Credit guarantee schemes (CGSs) could encourage banks to lend more to firms. CGSs are examples of successful co-operation between entrepreneurs and commercial banks, donors, governments and non-governmental organisations. A global comparison of different lending schemes found that CGSs are less likely to generate market distortions and are more consistent with a well-functioning banking system (IFC, 2010). However, for CGSs to flourish, the banking sector and the overall economy must host the necessary conditions (Benett, Doran and Billington, 2005).

Stakeholders in CGSs developed 16 key principles for an effective design. Among these, noteworthy principles for policy makers include:

- establishing CGS providers as independent legal entities
- adopting clear and transparent eligibility criteria for SMEs
- supervising and evaluating CGSs' effectiveness by independent entities
- ensuring that the claim management process of CGSs is efficient, clearly documented and transparent, so as not to discourage credit providers from seeking to recover losses (World Bank/FIRST, 2015).

The success of CGSs highly depends on their design. Effective CGS providers tend to disburse funds immediately or deposit the guarantee funds in the participating bank in advance; this reduces the operation costs for banks and increases utilisation rates (Dalberg/AFD, 2012). CGSs also need a non-disclosure clause for the borrower to limit the risk of moral hazard (AFR, 2015).[8] Many local banks would benefit from capacity training to improve their credit risk assessment procedures for small and young firms. Credit guarantee providers can combine financial support with giving advice. This is the case of the AfDB that supports the Bank of Industry in Nigeria to promote lending to SMEs.[9]

Box 8.5. **The African Guarantee Fund**

The African Guarantee Fund for Small and Medium-sized Enterprises (AGF) provides a successful example of the financial viability of a credit guarantee scheme. AGF was set up in 2011 by the AfDB, the Danish international development agency (Danida) and the Spanish Agency for International Development Cooperation; the Agence Française de Développement (AFD) joined more recently. By the end of 2015, USD 230 million worth of guarantees had been signed. Commercial banks increased this amount, by leveraging the USD 230 million in guarantees to lend out USD 460 million to SMEs.

The credit guarantee scheme has benefited more than 1 300 SMEs, generating over 11 000 jobs. The fund operates in 35 African countries, with 54% of the credit guarantee capacity spent in West Africa and 22% in East Africa. After only three years of activity, the fund became profitable and reached break-even point. Revenues quadrupled between 2013 and 2015, from USD 2 billion to USD 9.1 billion.

Source: AGF (2015).

New financing instruments for private investment need to be developed

Multiple new types of financial instruments can contribute to diversifying the financial solutions available to African entrepreneurs. These instruments include asset-based lending, various types of private equity funds and listings, and social investment funds. Other such investments are "profit with a purpose" funds, multiple types of debt instruments, micro-finance for SMEs, crowd-funding, various solutions provided by development financial institutions, and philanthropic finance targeting SMEs and entrepreneurs.

Asset-based lending such as factoring and leasing can bolster a firm's cash flow while removing the stringent requirements associated with traditional credit. Factoring refers to a firm selling its accounts receivable to a financial intermediary for immediate cash. Factoring can alleviate firms' problems with limited cash flow while doing away with collateral requirements. Burkina Faso has a successful programme that uses a mix of private capital and donor contributions (Nakusera, Kadhikwa and Mushendami, 2008). As for leasing, firms can acquire machinery and equipment without making large investments or providing collateral.

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Private equity is increasingly bringing funds to entrepreneurs. Private equity (PE) encompasses venture capital, angel investments, mezzanine finance and other private financial solutions. PE funds can improve an enterprise's performance. AVCA (2016) figures show that despite still playing a limited role, PE investments in Africa are growing. The increase is attributable to steady policy reforms and an improved investment climate since the 2000s (Babarinde, 2012). From 2010 to June 2016, the value of total PE deals in Africa reached USD 22.7 billion. In South Africa, PE funds reached 0.2% of GDP in 2015, a level similar to South Korea and higher than Brazil and Poland (SAVCA/KPMG, 2016). Investors are expanding into Kenya and Nigeria, and the positive effects of this interest are expected to be visible in the next five to ten years (Ernst and Young, 2014).

For SMEs in countries with deep capital markets, equity listings can constitute an alternative source of finance. Listing requirements are usually less stringent and costs are lower compared to those for larger companies. Africa has 14 equity exchanges for SMEs,[10] with over 200 firms listed (Minney, 2016). The Johannesburg Stock Exchange (JSE) established the first SME-tailored trading platform in 2003. As of 2016, a total of over 120 firms were listed, a quarter of which "graduated" to the JSE Main Board. The challenges with SME equity listings are information asymmetries for investors and a lack of know-how and expertise by entrepreneurs and managers. If enforced, the existing transparency requirements would address the first issue. Certain equity exchanges solve the second by appointing advisors to guide SMEs through all the steps leading to the listing (Minney, 2016).

There are also multiple non-profit social investment funds and "profit with a purpose" funds that offer capital at affordable rates. The individual fund size ranges from USD 4 million to USD 150 million, with an average size of USD 29 million (UNDP, 2014). Many of these investment packages combine capital and business development services, which can minimise investment risks. The majority of funds have at least one development finance institution as a limited partner. Additional sources of capital come from private individuals and companies, foundations, pension funds, insurance companies, and commercial banks.

Donors and philanthropic actors are increasingly moving towards more innovative financial solutions, including impact investing, although often as a complement to existing sources of finance. An investor survey shows that global impact investors are allocating the largest portion of their portfolio to sub-Saharan Africa and plan to further increase this share (GIIN and J.P. Morgan, 2014). According to the UK Department for International Development, impact investment in sub-Saharan Africa surpassed USD 11.6 billion in 2014 alone, accounting for 22% of global impact investment (DfID, 2015). Egypt, Kenya, Morocco, Nigeria and South Africa are leading the way. Investment is also increasing in other countries such as Ghana, Mozambique, Tanzania and Zambia.

Debt instruments can help firms and governments tap financial markets. Despite low capitalisation and limited investor pools, African debt and equity markets can potentially support the continent's industrialisation (UNECA/AU, 2013). Corporate and sovereign debt instruments can help make up for the lack of long-term finance needed for private and public investments. Governments in particular can opt for infrastructure bonds, diaspora bonds or remittance bonds (Adeoye, 2014).

Microfinance loans, though controversial, can support SMEs. By and large, microfinance has had mixed results in improving living conditions and business performance (Stewart et al., 2010). Microfinance is intended to provide loans to individuals who are not served by the banking sector. Some people consider microfinance as "anti-developmental" (Bateman and Chang, 2012) as its high interest rates can exacerbate entrepreneurs' financial difficulties (Karnani, 2007). African microfinance institutions

(MFIs) generally suffer from weak governance, poor portfolio management, unskilled employees and unsustainable lending. Moreover, support services are rarely offered and often lack quality (UN, 2013). On the upside, all respondents in a survey of Nigerian SMEs recorded increased market share and improved competitiveness from microfinance. Another survey, this time of Ugandan SMEs, found that microfinance loans are used to increase merchandise stock and employ more people. Specifically, an increase in their loan size led to a 1.3% rise in the firms' employment levels and an inventory growth of 141.5% (Nahamya et al., 2013).

While still a niche solution, crowd-funding can help entrepreneurs. Crowd-funding is a way of seeking financial means through the Internet from the general public (the "crowd") instead of approaching financial investors such as banks, business angels or venture capital funds. It allows entrepreneurs to tap into their networks and have access to capital located anywhere in the world. Africa still represents a small fraction of the global crowd-funding market. Estimates for 2015 put the value of the African crowd-funding market at 21% of emerging market volumes and 0.5% of global activity (World Bank, 2015b). The low uptake in crowd-funding activities in Africa can be attributed to a combination of practical and regulatory barriers. These include limited Internet and social media usage compared to other world regions, high costs of transferring money to and within Africa, and a lack of regulation and standards on new payment technologies, on cross-border electronic payments and on the transfer of equity ownership (Berndt, 2016).

A noteworthy example is that of Togolese entrepreneur Afate Gnikou. He used crowd-funding to raise the capital for a prototype 3D printer from recycled electronic waste in Togo. The printer, which sells for less than USD 100, won Gnikou an international prize for manufacturing (Scott, 2015).

Development financial institutions (DFIs) can help foster stable and sustainable economic activity (Ferraz et al., 2013). In Africa, public DFIs can complement long-term finance, especially for SMEs. DFIs have historically contributed to economic development by taking higher risks than the industry average (Calice, 2013).

However, African DFIs have a mixed track record. A global survey of 90 institutions from 61 countries found that most DFIs perform poorly in terms of governance and risk management. They also remain vulnerable to political interference and capture by interest groups (De Luna-Martínez and Vicente, 2012). In addition, their lending activities are relatively inefficient and ineffective. Nevertheless, DFIs equipped with strong governance structures and the right incentives can expand financial access and support industrialisation (Calice, 2013).

Direct financing and support can help high-growth firms realise their potential

Providing capital directly to entrepreneurs increases their growth and creates more jobs. While it is almost impossible to identify which firms will grow quickly in the future, it is possible to identify those with a high potential for growth (McKenzie et al., 2017; Nanda, 2016). A large-scale national business plan competition in Nigeria provides evidence of this approach. Each winning entrepreneur was awarded approximately USD 50 000. Surveys tracking applicants over three years showed that winning led to greater firm creation and survival rates. The winners' firms enjoyed higher profits and sales than the others and an increase of over 20 percentage points in the likelihood of employing 10 or more workers (Mckenzie, 2015).

Development partners can directly support entrepreneurs through co-financing and advisory services. For example, the AfDB's Souk At-Tanmia initiative provides

entrepreneurs financial support as well as technical assistance in the form of coaching and mentoring. The initiative involves partners from both public and private sectors. In its two editions (July 2012 and April 2014), Souk At-Tanmia assisted 161 entrepreneurial projects, disbursed around USD 2.7 million in grants and mobilised USD 5 million in additional resources. The initiative expects to create over 1 300 jobs. Private philanthropies, such as the Tony Elumelu Foundation, provide seed capital and mentoring to over 200 technology start-ups and conventional firms that could adopt industrial production methods across Africa.

Remittances and return migration can boost investment

Migrants can foster entrepreneurship in their countries of origin by funding firms with their remittances or becoming entrepreneurs themselves on their return (see also Chapter 2). Remittances contribute to establishing firms, as shown in the cases of Côte d'Ivoire and Ghana (Black and Costaldo, 2009), Egypt (McCormick and Wahba, 2001), and Tunisia (Mesnard, 2004). Moreover, these expatriated savings help overcome domestic credit constraints (Naudé, Siegel and Marchand, 2015). Work experience accumulated abroad can have an even stronger effect on entrepreneurship than remittances (Black and Costaldo, 2009; McCormick and Wahba, 2001).

Migrants returning to their home countries may have a double advantage as entrepreneurs. In many cases, migrants are exposed to competitive environments abroad and bring home new skills and ideas (Severino and Hajdenberg, 2016). At the same time, their emotional links with their home countries and their indigenous knowledge help them move into the market more efficiently than non-native investors (Wolff and Opoku-Owusu, 2016). Evidence from Egypt suggests that the migration experience increases survival rates of newly founded enterprises (Marchetta, 2012).

However, three factors can affect the success of these diaspora entrepreneurs:

1. Migrants face a trade-off between accumulating financial and human capital and losing their social networks, which are important for new entrepreneurs (Wahba and Zenou, 2012).
2. The productive advantage of migrant entrepreneurs tends to be higher only for those individuals returning from countries where they can gain more skills or wealth, as in the case of migrants returning from OECD countries to West Africa (De Vreyer, Gubert and Robilliard, 2010).
3. After setting up their enterprises, returning migrants, like any other entrepreneur, still face many of the challenges typical of environments that are not conducive to business. For example, returning entrepreneurs in Algeria, Morocco and Tunisia still cited capital constraints as a major obstacle (Gubert and Nordman, 2011).

Governments can strengthen the nexus between migration and entrepreneurship by improving the business environment. This includes streamlining regulatory procedures for small and medium-sized entrepreneurs and establishing one-stop shops that provide information on opportunities for migrants' investments. The Ghana Investment Promotion Centre, for instance, offers a one-stop shop for diaspora members who wish to invest in the country (see also Chapter 2).

In addition, governments can improve the technical skills of diaspora entrepreneurs. In particular, they can provide coaching and mentoring services to women- and youth-led start-ups and social enterprises. Governments can also target financial products to these groups (Wolff and Opoku-Owusu, 2016).

Co-operation between governments, development partners and the private sector is key to increase entrepreneurs' access to finance

The potential for private investment in developing countries is substantial. Globally available finance is estimated at USD 120 trillion (Woetzel et al., 2016). Official development finance (ODF) amounts to about USD 2 billion per year, while developing countries across the globe need an estimated USD 2.5 trillion per year to achieve the Sustainable Development Goals.

Development partners therefore increasingly use ODF to build up private investment for development. For instance, multilateral development banks claim that for every USD 1 they extend directly to the private sector, USD 2-5 of additional private sector investment are mobilised (AfDB et al., 2015: 2). Initiatives such as Boost Africa, jointly launched by the AfDB, the European Investment Bank and the European Commission, allow mobilising private capital through initial public investments. In this case, the EUR 150 million that the three institutions contributed are expected to generate EUR 1 billion in additional investments.

In addition, development partners provide financial assistance to governments and national development banks to on-lend to private companies. This can also generate considerable resources. For example, a study shows that USD 1.4 billion in financing from the Clean Technology Fund to the public sector has mobilised about USD 5 billion of private co-finance (CTF, 2013).

Other approaches include project preparation facilities and facilitation platforms. Project preparation facilities serve to design well-structured bankable projects. Project facilitation platforms match the interests of public and private financiers in carrying out joint projects. Examples include Grow Africa, an initiative of the African Union Commission, the New Partnership for Africa's Development and the World Economic Forum. Grow Africa provides a platform for governments and companies to promote business models that engage smallholder farmers and facilitates value-chain linkages. It focuses specifically on women and youth.

Prioritising specific policy interventions depends on countries' resources and capacities. The conditions differ between countries, based on their natural resources' endowment, their fragility and their income levels:

- **Natural resources-based countries** may wish to create funds with the profits from natural resource extraction, transformation and export to promote entrepreneurship. Governments could also foster financial sector development through laws and regulations. Donors could assist governments in managing the funds or in designing related regulations, as in the case of the multi-stakeholder Managing Natural Resource Wealth Trust Fund (IMF, 2016).
- **Fragile states** may wish to seek private sector investment and donor assistance to build government capacity and engage with entrepreneurs.
- **Low-income countries** could seek donor assistance to build government and private sector capacity and to develop financial markets through guarantees and funding. In countries where remittances are important, tailored regulation and policies could attempt to tap their potential.
- **Middle-income countries** could diversify their market environment with holistic financial sector laws and regulations as well as supervision that targets different agents and instruments. These countries could likewise request donor support to increase government and private sector capacity and market development, particularly through credit guarantees or by tapping domestic and international financial markets.

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Annex 8.A1. Active start-up incubators in Africa

Country	Hub
Algeria	Pépinières d'entreprises (under the Ministry of Industry and Mines)
Angola	National SME Support Institute
Benin	e-TRILABS, Jokkolabs Cotonou
Botswana	Botswana Innovation Hub, First Steps Venture Center
Burkina Faso	Yam Pukri, Jokkolabs Ouagadougou
Cameroon	ActivSpaces
Congo	BantuHub
Côte d'Ivoire	Jokkolabs Abidjan, W Hub, Akendewa
Congo, Dem. Rep.	Mwasi Tech Hub, Imani Hub
Egypt	Cairo Hackspace, The District, Flat6Labs
Ethiopia	IceAddis, xHub Addis
Gambia	Jokkolabs Banjul
Ghana	mFriday, Meltwater Entrepreneurial School of Technology, gSpace
Kenya	iHub, mLab East Africa, GrowthAfrica
Liberia	iLab Liberia
Madagascar	I-Hub Malagasy, Habaka, INCUBONS, Centre d'Excellence en Entrepreneuriat (CEENTRE), Century Reliable Partners (CRP)
Mali	Jokkolabs Bamako
Malawi	mHub, Malawi
Mauritius	Ebene Accelerator
Morocco	Jokkolabs Casablanca, New Work Lab, Espace Bidaya, Pitch Lab, Dare Inc
Mozambique	MICTI Technology and Business Centre
Namibia	Namibia Business Innovation Centre (NBIC), Fablab Namibia
Nigeria	L5 Lab, Co-creation Hub, Wennovation Hub
Rwanda	kLab, The Office, 42Kura
Senegal	Jokkolabs Dakar, CTIC Dakar, Africa Living Lab; E-Cover
Seychelles	Providence Industrial Estate (includes the micro-enterprise complex "Leve Debrouye")
Sierra Leone	AFFORD Sierra Leone
South Africa	Jozihub, Capetown Garage, Black Girls Code, Shanduka Black Umbrellas, Raizcorp, The Innovation Hub
Sudan	Family Bank has a consortium with Sudan University of Science and Technology (two locations), Graduate Employment Fund (two locations) and Agricultural Research Corporation (two locations)
Tanzania	Kinu Innovation and Co-Creation Space, TANZICT
Togo	Woe Lab, Ecohub, Innov'Up
Tunisia	Wiki Start-Up
Uganda	HIVE colab, @TheHub Kampala, The Outbox Hub
Zambia	Bongohive Zambia
Zimbabwe	Muzinda Hub, Emerging Ideas, Neolab, Moto Republik

Source: Adapted from World Bank (2016b) and contributions by AfDB country economists.

Notes

1. Adapted from IFC's *Enterprise Finance Gap Database*.
2. A review of Integrated Entrepreneurship Education (IEE) teaching in secondary schools in Botswana, Kenya and Uganda did not find any conclusive evidence of positive effects on entrepreneurial activity. While TVSD students were on average more inclined to start a business than general secondary students, it is unclear whether this was attributable to IEE courses (Farstad, 2002).
3. Outside of Africa, the success of the Porto Digital IT cluster in Recife (Brazil) hinged on the presence of academic and training institutions in addition to ICT incubators. The business ecosystem developed around these centres of knowledge in the early 2000s and created a cluster of 260 firms employing over 8 000 workers and with combined revenues of over USD 400 million (Felipe, 2016).
4. Subsequently, the sector and cluster suffered from the phasing out of the Multi Fibre Agreement (MFA) in 2005 (see Chapter 6), with employment decreasing to 39 000 workers in 2012.
5. The Nigerian film and music industry has become one of the country's largest employment-absorbing sectors. It accounts for approximately 1.4% of GDP (Omanufeme, 2016).
6. These spaces can constitute a first step towards agglomeration as in the case of Chile, which aims to turn three secondary cities into innovation hubs (OECD, 2016).
7. Morocco created a legal status for own-account workers (*auto-entrepreneurs*) and simplified the legal procedures for these entrepreneurs.
8. Access to Finance Rwanda cited this feature as an important success factor of its Agricultural Credit Guarantee Scheme.
9. https://www.afdb.org/en/news-and-events/article/afdb-approves-a-financial-package-of-usd-500-million-for-the-bank-of-industry-nigeria-8045/ (accessed 20 January 2017).
10. www.africastrictlybusiness.com/lists/stock-exchanges-small-and-medium-enterprises, (accessed 19 January 2017).

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PART III
Country notes

ALGERIA

- **In 2016, real GDP grew by 3.5% down from 3.8% recorded the previous year on account of lower oil price.**
- **In July 2016, the government adopted a new economic growth plan (2016-30) focusing on the private sector and a three year budget stabilisation strategy.**
- **The non-oil and gas industry accounted for no more than 5% of GDP in 2016, compared with 35% at the end of the 1980s, so the authorities are looking towards a re-industrialisation of the country.**

Algeria's economic performance continues to be affected by the fall in the price of oil, down from an average of USD 99 per barrel in 2014 to USD 53 the following year and then USD 45 in 2016. Coupled with the strong appreciation of the US dollar (USD), this external shock resulted in a deepening of the budget and external account deficits, as in 2015, while the impact on the real sector remains limited.

Real gross domestic product (GDP) growth in 2016 was 3.5%, compared with 3.8% in 2015 following recovery in the hydrocarbons sector based on increases in production, refining and liquefaction activities.

Inflation rose to 6.4% in 2016, compared with 4.8% in 2015, after two consecutive years (2013 and 2014) in which it fell. The rise was due to increases of 9.9% in the price of manufactured goods and 7.4% in the cost of services. It can be attributed in particular to restrictions on imports, a 30% rise in the price of fuel in 2016 and anticipation of the rises in value-added tax (VAT) planned for 2017.

The public finances saw more than 60% of the resources of the revenue regulation fund (*fonds de régulation des recettes* [FRR]) vanish. Its legal limit floor of DZD 740 billion (Algerian dinars) will be removed in 2017. The fund has served among other things to finance the general budget deficit which amounted in 2016 to 13.2% of GDP after a record amount of 15.3% in 2015.

The current account showed a deficit of 13.5% of GDP in 2016, compared with a deficit of 16.60% in 2015 while official exchange reserves fell by 20% to USD 114 billion at the end of 2016. This outcome results from the trade balance deficits of 10.8% in 2016 and 8.4% in 2015, a year in which the trade balance turned negative for the first time in 16 years, another direct result of the fall in the price of oil.

Over the last 30 years Algeria has de-industrialised. In 2015 manufacturing industry, excluding hydrocarbons, accounted for no more than 5% of GDP, compared with 35% at the end of the 1980s. The private sector is predominant in leather and footwear (90%); textiles (87%); agrifood (87%); chemicals, rubber and plastics (78% including pharmaceuticals); and construction materials (52%). The country has almost 2.7 million entrepreneurs, of whom 16% work in industry. Entrepreneurs have become indispensable partners of the state, which consults them in the setting of the Tripartite, a national discussion forum where the main government policy orientations and decisions are debated.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.8	3.5	3.9	3.7
Real GDP per capital growth	2.0	1.7	2.1	1.9
CPI inflation	4.8	6.4	4.0	4.0
Budget balance % GDP	-15.3	-13.2	-6.4	-3.7
Current account % GDP	-16.0	-13.5	-7.7	-4.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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ANGOLA

- **Angola's economy grew by 1.1% in 2016 but is expected to pick up to 2.3% in 2017, and further to 3.2% in 2018, owing to planned increase in public spending and improved terms-of-trade as oil price recovers.**
- **Angola needs to increase investment in human capital, pursue economic diversification to reduce economic vulnerability in order to graduate to middle-income status by 2021.**
- **Development of local industries and strengthening of entrepreneurship skills is critical to strengthen economic recovery and foster inclusive growth.**

The sharp and long-lasting decline in oil prices has derailed Angola's economic performance. GDP growth slowed to 1.1% in 2016, driven by a slowdown in non-oil activity as the industrial, construction, and services sectors adjusted to cuts in private consumption and public investment amid more limited availability of foreign exchange. This has highlighted the need to more forcefully address the dependence on oil, diversify the economy, and reduce vulnerabilities. In 2017 and 2018, GDP growth is projected to rise to 2.3% and 3.2%, respectively, mainly due to planned increases in public spending and improved terms of trade.

The government has taken steps to mitigate the impact of the oil price shock on the economy, and these included: the rationalisation of public expenditure through the elimination of fuel subsidies, significant increase in mobilising non-oil revenues, and allowing the exchange rate to depreciate to preserve export competitiveness and reduce the imports trend of the country. However, additional policy actions are needed to stabilise macroeconomic conditions, enhance equitable distribution of wealth and better service delivery. One priority will be to invest in human capital, accelerate economic diversification and reduce economic vulnerability as the country graduates from Less Developed Country (LDC) status in 2021. Regarding human capital, higher investments in health and education are crucial. Investment in agricultural transformation and value chains is needed to diversify exports in order to increase revenue sources and reduce dependence on oil. The expansion of economic infrastructure and more importantly electricity access, roads and transportation, water supply and sanitation and skills development is critical to improve the business environment and enhance the private sector's role in economic growth. The country should also foster regional integration in order to unlock the potential of local manufacturing and boost trade.

Angola should enhance its support to entrepreneurship and industrialisation. Angolan industry is at an early stage, with food and beverages as key sectors. The National Industrialisation Programme 2013-17 defines seven key sub-sectors, e.g. textiles and clothing, chemical and paper products, and ornamental rocks. Nevertheless, the share of manufacturing value added in GDP in Angola remains low at 8.6%. The entrepreneurial activity rate also stands low at 21.5%, hindered by infrastructure deficiencies, difficulties in access to credit, low managerial skills and lack of integrated strategies to foster entrepreneurship. Addressing these structural bottlenecks is critical if economic diversification and wellbeing are to be achieved.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.0	1.1	2.3	3.2
Real GDP per capital growth	0.7	-1.1	0.1	1.0
CPI inflation	10.2	30.2	21.8	19.7
Budget balance % GDP	-3.3	-5.5	-4.0	-2.3
Current account % GDP	-10.0	-11.2	-7.5	-5.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BENIN

- **The economy slowed down to an estimated 4.0% from 5.2% in 2015 mainly due to electoral activity and lower growth in neighbouring Nigeria.**
- **Growth is projected to pick up in 2017 to 5.5% and 6.2% in 2018 with the start of the government's 2016-21 action programme, which aims to double investment over the period.**
- **Supporting entrepreneurship for processing agricultural products and transitioning towards the formal sector can particularly help to industrialise the economy and ensure sustainable and more inclusive growth.**

Economic growth was estimated at 4.0% in 2016, a further decline from 5.2% in 2015 and 6.5% in 2014, caused by electoral activity, power shortages and an economic slowdown in neighbouring Nigeria. Inflation remained low because of lower world oil prices and depreciation of the naira, the Nigerian currency. The budget deficit, which had increased between 2013 and 2015, fell to 6.2% of gross domestic product (GDP) in 2016 thanks to cuts in operating costs by the new government that came to power in April that year.

The government's 2016-21 action programme, Programme d'action du gouvernement (PAG), known as "Bénin révélé" (Benin revealed) is expected to boost the economy by 5.5% in 2017 and 6.2% in 2018, with investment rising from 18.8% of GDP in 2016 to an annual average of 34.0% through to 2021. The public deficit, projected as 9.4% of GDP in 2017, should ease in the next few years. The government needs to keep debt sustainable and improve the country's absorption capacity to ensure a proper implementation of its investment plan. The outlook for 2017 and 2018 is also part of the country's sustainable development goals as set out in its Agenda 2030 development plan. The PAG aims to consolidate social progress and significantly reduce poverty, which has been on the rise.

Boosting sustainable and inclusive growth requires a particular focus on industry and entrepreneurship. The country's industrial structure is small and not very diverse, so the government should strengthen it through greater use of the nation's agricultural potential and Benin's position as a transit country and neighbour of Nigeria.

Entrepreneurship needs more support, especially in agro-processing. The PAG's development model, including more public-private partnerships (PPPs) as well as promoting self-employment and entrepreneurship, is part of this dynamic.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.2	4.0	5.5	6.2
Real GDP per capital growth	2.9	1.7	3.2	3.9
CPI inflation	0.4	0.2	2.1	2.6
Budget balance % GDP	-6.5	-6.2	-9.4	-6.9
Current account % GDP	-6.5	-7.1	-8.8	-10.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BOTSWANA

- **The economy recovered in 2016 to 2.9%, driven by the rebound in the global diamond market.**
- **Growth prospects remain favourable but crucially depend on continued rebound in the global diamond market, improved reliability in electricity and water supply, as well as reforms.**
- **Reducing vulnerability to adverse shocks will require accelerating the pace of reforms aimed at enhancing competitiveness and improving the business climate to promote industrialisation and entrepreneurship.**

Botswana has experienced boom-bust cycles, two of which have occurred since the turn of this century. The economy recovered in 2016, after it suffered another setback when economic growth contracted in 2015 because of weak demand for diamond exports and persistent electricity and water supply shortages. Domestic growth was boosted in 2016 by both the expansion of mining activity, reflecting the recovery in diamond industry, and a sound performance of non-mining sectors.

Botswana's growth prospects for the medium term remain favourable. Medium-term growth is forecast to rise moderately. The continued recovery depends crucially on a continued rebound in the global diamond market, the expansion in construction activities in the context of the government's Economic Stimulus Programme (ESP), improved reliability in electricity and water supply, and reforms to further improve the business environment. Downside risks remain elevated stemming from the sluggish recovery of the global economy and its impact on diamond demand.

The fiscal situation has weakened. After three consecutive years of surpluses, the fiscal position swung into a deficit in the 2015/16 financial year and another deficit is expected in FY 2016/17, reflecting lower mining revenues, a decline in revenues from the volatile South African Customs Union (SACU) and the continued use of fiscal stimulus. The government remains committed to returning the budget to surplus in the near term.

Inflationary pressures have eased sharply. Annual inflation closed below the lower end of the Bank of Botswana's medium-term objective range of 3% to 6% in 2016. Key factors that have helped to drive down inflation include the drop in international fuel prices and the government's commitment to prudent monetary policy. Inflation is expected to remain within the target range in the medium term, owing to low domestic demand and subdued foreign price developments.

To achieve economic diversification, Botswana needs to promote industrialisation by accelerating economic transformation from the primary sector to advanced manufacturing and services. Over the past four decades, the government has put in place appropriate policies and initiatives in support of industrial development and entrepreneurship. It has also stepped up efforts aimed at addressing various challenges investors and entrepreneurs face by pursuing measures aimed at reducing the cost of doing business and increasing competitiveness, as well as enhancing skills development.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-0.3	2.9	4.2	4.5
Real GDP per capital growth	-2.2	1.1	2.5	2.8
CPI inflation	3.1	2.8	3.5	3.7
Budget balance % GDP	-4.7	-0.7	-1.4	-0.8
Current account % GDP	7.8	3.6	7.1	7.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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BURKINA FASO

- **After a period of social and political unrest, the economy is expected to bounce back strongly in 2017 with growth of 8.4%, driven by extractive industries and public investment.**
- **The country needs to underpin this revival by improving its ability to absorb investment costs and control the threat of jihadist violence.**
- **Economic reforms under the 2011-20 plan for the industry, commerce and small producers sector have created more entrepreneurs, but new industrial sector firms are in extractive industries rather than agro-food.**

After a drought-affected harvest and social and political problems slowed real GDP growth to 4% in 2014 and 2015, prospects are quite good for 2017, with the economy forecast to expand by 8.4% (up from 5.4% in 2016). The recovery is based on a vigorous mining sector (two new mines coming into production) and the start of major public investment in energy, hydro-agricultural facilities, roads and telecommunications under the 2016-20 PNDES national economic and social development plan adopted in July 2016. Continuing good prices for the country's main commodity exports, gold and cotton, should also help the chances of a substantial revival of economic growth.

Inflation should be no more than 2.1% in 2017 thanks to 2016/17 harvest surpluses and reasonable prices of oil and other imports. Public finances remain tight due to the effects of social and political unrest and militant attacks. Reduced economic activity has meant less tax revenue as well as higher spending on security and meeting social demands. This in turn sharply cut investment spending, from 13.7% of GDP in 2013 to 8.6% in 2015, with a slight rise to 10.7% in 2016. The overall budget deficit (commitment basis) was 3.1% of GDP in 2016. The government plans similar strictness in 2017 and has extended for nine months the programme backed by the IMF's Extended Credit Facility (ECF), with release of funds at its end. The budget deficit is forecast as 3% of GDP.

Entrepreneurs are thriving due to rigorous application of economic reforms as part of the 2011-20 policy of the industry, commerce and small producers sector (Posica), including programmes to encourage entrepreneurs. An average 6 500 firms a year were set up between 2011 and 2015, nearly all very small and mainly in the services sector. New small firms in the industry sector are recent and especially in the extractive sector, with few in agro-food or manufacturing. Those classified as "other modern manufacturing industries" fell from 1.5% of GDP in 2011 to only 1.1% in 2016.

To advance industrialisation, Posica 2011-20 has to create good conditions for industrial development and strengthen support infrastructure, especially energy, transport, technology and better training.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.0	5.4	8.4	8.1
Real GDP per capital growth	1.0	2.5	5.5	5.2
CPI inflation	0.9	1.8	2.1	1.5
Budget balance % GDP	-2.2	-3.1	-3.0	-4.0
Current account % GDP	-7.0	-4.3	-3.4	-3.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

BURUNDI

- **After a recession in 2015 that saw GDP contract by 3.9%, economic growth resumed in Burundi in 2016, but too slowly (0.9%) to improve the living conditions of the population.**
- **The socio-political crisis related expenditure led to a widening of the fiscal deficit to 6.7% of GDP in 2016 and caused excessive reliance on domestic debt, while a freeze on aid by international donors is affecting social expenditure.**
- **Burundi's economy is dominated by the informal sector, with multiple micro and small agri-food businesses geared towards the local market.**

The socio-political crisis embroiling Burundi since 2015 has caused a sharp decrease in economic activity and worsened living conditions for the population. In January 2016, the International Monetary Fund suspended its evaluation of the Extended Credit Facility arrangement, and in March 2016 the country's main donors (the European Union, Belgium, the Netherlands, Germany and the United States) suspended part of their direct aid.

Gross domestic product (GDP) growth, which stood at 4.5% in 2014 contracted to -3.9% but recovered modestly to 0.9% in 2016. The sectors most affected were hotels, tourism, construction and infrastructure.

The decline in economic activity caused a 10% drop in public revenues and sharply widened the fiscal deficit, which stood at 6.7% of GDP in 2016, compared with 3.2% in 2014 and 8.6% in 2015. The government covered the shortfall through systematic recourse to advances from the Central Bank. Domestic debt rose to 26% of GDP in 2016, up from 12.4% in 2014, while the national debt reached 42% of GDP.

Spending in 2016 was 25% lower than in 2015. The government froze the salaries of civil servants and suspended recruitment in all ministries except Education and Health. This caused a considerable decline in the availability of services in 2016, leading to: i) a lack of medicine and vaccines; ii) insufficient school material; iii) the non-admission of 80 000 pupils who had been due to begin secondary education; and iv) pockets of famine in certain regions.

The Central Bank's policy rate dropped from 12.5% in 2013 to 7.5% in October 2016, while the loan rate of commercial banks remained unchanged at around 16.5%. Official reserves fell by 30.1%, or 1.4 months of import cover. The drop in net foreign assets and government debt led to a 6% decline in official exchange rates between 2015 and 2016 (USD 1 = BIF 1 687 [Burundi francs]), while the dollar fetched more than BIF 2 600 on the parallel market. Inflation stood at 5.5% in 2016. The authorities are projecting 2.0% growth in 2017, while the 2017 budget law projects a 5.2% increase in public expenditure and a fiscal deficit of close to 3.8% of GDP. These projections appear unrealistic, however, given the economic situation and the challenges experienced since 2015. A re-engagement of political stakeholders depends on a political solution to the current tensions that would make it possible to prevent an even more serious deterioration of the socio-political situation.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-3.9	0.9	2.0	2.1
Real GDP per capital growth	-7.3	-2.4	-1.3	-1.2
CPI inflation	5.5	5.5	6.7	6.6
Budget balance % GDP	-8.6	-6.7	-3.8	-3.4
Current account % GDP	-19.1	-18.7	-15.4	-14.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CABO VERDE

- **After experiencing low growth due to the impact of the European and global financial crises, the economy recovered in 2016 to 3.2%, and is expected to continue along the same trajectory in 2017 and 2018, with GDP growth rates of 3.7% and 4.1%, respectively.**
- **Cabo Verde is at a crossroads: following five years of counter-cyclical fiscal policy to offset a low-growth period and rapid debt accumulation, a paradigm change is now required to make the private sector the growth engine.**
- **Well-coordinated sector-based policies, an improved business environment and a focus on regional integration are required to remove current binding constraints to industrialisation such as limited market access, high energy costs and a lack of inter-island transportation.**

Real GDP growth in the country has been sluggish over the past years. Between 2000 and 2008, the country recorded an average growth rate of 6.6% before hitting a recession in 2009 on the back of the European crisis. Thereafter, in spite of a counter-cyclical policy with high investment spending, Cabo Verde only managed to grow by an average of 1.3% over the 2010-15 period. As a consequence of high investment spending, the debt level increased drastically, from 71.9% of GDP in 2010 to 125.9% in 2015. In 2016, however, the economy showed some positive signs of recovery. Albeit still at overall low levels, credit to the private sector increased by 2.1% in the first eight months of 2016. Similarly, a trend inversion was noted in economic confidence indicators. On the fiscal side, after having presented an expansionary fiscal stance, the new government revised its plans to settle for a deficit of 3.3% of GDP, 1.9 percentage points below what was initially approved. GDP growth in 2016 reached an estimated 3.2%, against 1.5% in 2015. For 2017 and 2018, growth should reach 3.7% and 4.1% respectively, driven by continued increase in confidence, strength in agricultural output and tourism, as well as government efforts to stay on the reform path.

On the policy front, Cabo Verde's main issues in 2016 are likely to carry over to 2017 and 2018. They include control of the country's fiscal stance, and in particular, the drain on the budget of some state-owned enterprises (SOEs). Considering that Cabo Verde is importing monetary policy through its euro peg, it only has fiscal policy to face any shocks. However, with public debt at 125.9% of GDP (excluding contingent liabilities) and rising, there is little room for manoeuvre. For 2017 and 2018, the Medium-Term Expenditure Framework (MTEF) should ensure some built-in flexibility to weather potential shocks. On the debt side, while underlying sustainability indicators are under IMF thresholds, it is important to take urgent action to stem the debt generating process.

Considering the debt level, the government is seeking to change the underlying growth paradigm in the country, which has up to now been based to a large extent on the public sector. This requires enforcing a credible and far-reaching engagement to further improve the business environment, with efforts to promote industrialisation and entrepreneurship. However, further improving the business environment depends on removing – through well-coordinated sector-based policies – current binding constraints such as limited market access, high-energy costs and a lack of inter-island transportation.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.5	3.2	3.7	4.1
Real GDP per capital growth	0.2	2.0	2.5	2.9
CPI inflation	0.1	-1.6	0.8	1.6
Budget balance % GDP	-4.1	-3.3	-3.0	-1.9
Current account % GDP	-4.3	-7.2	-8.8	-8.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

CAMEROON

- **Growth stood at 4.7% in 2016, down 1 percentage point from 2015 due to a decline in the secondary sector, especially the extractive industries.**
- **A policy further diversifying the economy's primary sector and rationalising infrastructure investment has mitigated budgetary and current-account imbalances.**
- **As part of industrialisation efforts, the development of agricultural, forestry and pastoral production and the efficient use of mining, mineral and energy resources will lead to a rise in the value chain, subject to sector reforms and a better business environment.**

The international and regional situation influenced Cameroon's economic performance in 2016. Several events have had an impact on economic activity and trade in goods and services: the oil crisis, the regional security crisis in the far north of the country, and the competitive devaluations of the Nigerian currency. Nevertheless, the economy has been resilient. Growth was an estimated 4.7% in 2016, down from close to 6% in 2014 and 2015. Fiscal policy was moderately expansionary, with major infrastructure projects continuing. The budget deficit grew to 3.3% of GDP in 2016, up from 2.5% the previous year. Cameroon continued to diversify its economy through agricultural and forestry value chains.

In line with the direction of fiscal policy, monetary policy remained somewhat expansionary, as it had been in previous years, leading to a 9.2% increase in the money supply, which reached XAF 3.97 trillion (CFA Franc BEAC) in August 2016, up from XAF 3.64 trillion a year earlier. France, Germany, Nigeria and the People's Republic of China account for 80.4% of Cameroon's external trade, so their slow economic recoveries affected Cameroon's current-account balance, with the deficit reaching an estimated 4.8% of GDP in 2016, compared with 4.2% in 2015. Net foreign assets stood at XAF 1.54 trillion in August 2016 (equal to around five months of imports), down 5.5% from XAF 1.62 trillion a year earlier. Inflation fell from 2.7% to 2.2%, and is expected to remain below the 3.0% convergence threshold of the Central African Economic and Monetary Community (CEMAC) in the medium term. Cameroon's medium-term growth prospects remain good, with projections of 4% to 5%. Growth will be driven by the non-oil sector and will enjoy the benefits of economic diversification policies and investment incentives. The country's economic performance in recent years is reducing poverty. The poverty rate fell by 2.4 points between 2007 and 2014.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.8	4.7	4.4	4.3
Real GDP per capital growth	3.3	2.2	1.9	1.8
CPI inflation	2.7	2.2	2.3	2.3
Budget balance % GDP	-2.5	-3.3	-2.3	-1.8
Current account % GDP	-4.2	-4.8	-4.2	-3.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

CENTRAL AFRICAN REPUBLIC

- **Despite a downward revision, real GDP in 2016 was estimated to have increased by 5.1%, buoyed by recovery in extractive industries.**
- **The country is experiencing a degree of macroeconomic stability and taking measures to implement structural reforms, but the authorities still do not have control of the entire territory and people still fall victim to violence.**
- **Due to recurring political crises, the development of entrepreneurship, industry and the private sector is extremely risky and unattractive, even for Central Africans.**

The tentative economic recovery that began in 2014 is strengthening gradually, with a real GDP growth rate that should reach 5.1 % in 2016. This improvement is rooted in the recovery of the extractive sector, which surged by 22.8% after the partial suspension of the Kimberley process was lifted. Inflationary pressures, which were strong during the crisis, should lessen in 2017 and 2018 due to the recovery of transport in the Douala-Bangui corridor, and notably thanks to improved food supply.

The country is still facing violence among the former factions of the Seleka, notably over control of mining zones. Roadblockers and other armed individuals also set up illegal barriers to collect taxes from merchants or steal farmers' livestock. Non-governmental organisations are not spared, even though they are aiding the population. The situation can only be calmed once appropriate policies are in place, along with the programme for the disarmament, demobilisation and reintegration (DDR) of former fighters. The Central African Republic (CAR) has nonetheless maintained a degree of macroeconomic stability and made progress in implementing structural reforms. With the support of development partners, it has produced a national plan for recovery and peace-building – *plan national de relèvement et de consolidation de la paix* – with a budget of USD 3.16 billion, which it presented to the international community on 17 November 2016 in Brussels. It made its case successfully and received resource commitments, essentially from its traditional funders.

The recurring crises in CAR are preventing development of the private sector and undermining the foundations of the country's industrialisation and development. They have created such a high-risk environment that even citizens are refraining from investing. This negative context has tended to encourage the expansion of "destructive" entrepreneurial activities against a backdrop of trafficking and fraud, notably in natural resource sectors like mining and forestry. Beyond the prospect of its businesses disappearing, the CAR faces deindustrialisation and the impoverishment of its population. The process can be reversed only through a return to sustainable security and the implementation of appropriate reforms.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.8	5.1	5.4	5.6
Real GDP per capital growth	2.8	3.1	3.4	3.6
CPI inflation	4.5	4.1	3.6	3.0
Budget balance % GDP	-0.6	-3.5	-4.0	-4.3
Current account % GDP	-9.1	-7.8	-4.6	-4.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

CHAD

- **The costs involved in combatting jihadi movements and the continuing low world price of oil mean that economic growth, which was already negative in 2016, will again be so in 2017.**
- **The economic, financial and security environments are particularly difficult, and the extension of structural reforms seems essential if macroeconomic stability is to be maintained in 2017.**
- **Encouraging an entrepreneurial economy could contribute to greater economic resilience because of the greater diversity of sources of growth, income and jobs that it might generate.**

Chad's economy depends heavily on oil and continues to be hit by the worldwide drop in its price and the security risks to production resulting from the activities of jihadist movements and the Boko Haram sect. These continuing sources of instability have further weakened the country's budgetary situation, its external position and short-term growth prospects. The financial costs of its military commitment and care of refugees continue to weigh upon the public purse. The lessening of activity recorded in 2016 could therefore continue in 2017, in particular because of a marked drop in activity in both the oil and non-oil sectors.

Although the economic and financial context is anything but favourable, implementation of the programme supported by the Extended Credit Facility (ECF) has made satisfactory progress. Approval of the conclusions of the Third and Fourth Reviews of the programme enabled the country to benefit from financial help in November 2016. This budgetary assistance supplements help provided the same year by the African Development Bank, the European Union, France and the World Bank. Confronted by the drastic fall in state revenues and the resulting financial crisis, the government also adopted a set of measures to strengthen fiscal consolidation and streamlining, in particular through an ongoing effort in the collection of non-oil receipts and their greater safeguarding. Trade unions are however maintaining their opposition to this governmental emergency plan and condemn the negative effects on people's well-being. In this uncertain economic and financial climate, prudent management of the debt appears essential to keeping it viable in the light of present acute volatility of the price of oil.

Chad depends heavily on the exploitation of limited natural resources and has to look to diversify its sources of growth and income. It envisages implementing three successive national development plans, which will allow it to fall under the "emerging" category by 2030. Accordingly, industrialisation is essential to this strategy, which will enable moving progressively into sectoral transformation and diversification. At the same time it will promote social integration and greater capital accumulation thanks to the development of an entrepreneurial culture, in particular amongst women and young people. For this strategy to succeed the country will need to have considerable financial resources available, though these will be hard to assemble under present conditions.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.8	-3.4	-0.2	4.4
Real GDP per capital growth	-1.5	-6.7	-3.5	1.2
CPI inflation	3.7	-1.9	0.2	3.1
Budget balance % GDP	-4.9	-5.6	-6.2	-6.5
Current account % GDP	-12.1	-8.6	-8.3	-6.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

COMOROS

- **Economic growth was 2.1% in 2016 due to the ongoing electricity crisis, but thanks to the new government's efforts to resolve and clean up public finances, growth is projected to reach 3.4% in 2017 and 4.1% in 2018.**
- **The 2016 elections led to political change: the new President of the Union and the three island governors were all elected from the opposition.**
- **With a narrow economic base and a predominantly informal economy, the islands remain under-industrialised (10% of GDP), and the country is looking to adopt a regional strategy to address this issue.**

Growth recovered slightly in 2016, at 2.1% (up from 1.0% in 2015), but was below the rate of population growth (2.4%). It is projected to rise to 3.4% in 2017 and 4.1% in 2018 thanks to efforts by the new government to sort out the electricity crisis and improve public finance management. The country made the electricity sector a priority in June 2016, improving the production capacity of the national water and electricity company MAMWE. The industrial sector is the main driver of growth, followed by services and agriculture. The most dynamic sub-sectors include fisheries, energy, information and communication technologies, and other services. The economic outlook is promising for 2017 and 2018 for two reasons. First, a second telephone company (Telma) began operating in December 2016 and, most importantly, the government officially opened a new power station in February 2017 to deal with the electricity crisis once and for all.

Since taking office in June 2016, the new government has also shown that it is determined to clean up public finances. It has taken strict measures to reduce the size of the civil service and improve domestic tax collection to finance its public investment policy. The 2017 Finance Act seeks to double the tax burden from 11.1% to 22.1%. Investment spending for 2017 is projected at 33.0% of GDP, up from 14.6% two years earlier. Budgetary difficulties in recent years caused the Public Investment Programme to contract from 26% to 14.6% of GDP between 2012 and 2015.

The industrial sector is still at the embryonic stage, contributing less than 10% to GDP. In 2013, the authorities launched a strategy to improve the business environment by strengthening the rights and remedies of investors and creditors, creating structured public-private dialogue and training entrepreneurs in management software by Business Edge. Despite these efforts, investment is low and viable entrepreneurial initiatives are rare, indicating that many other obstacles remain, especially at the institutional level. Other hurdles include the high cost of production factors, difficult market access, weak economic governance and the state's role in economic activity.

Aware that the private sector can create jobs and make growth more inclusive, the government is continuing its efforts in to improve the business environment in order to encourage structural transformation and diversification of the economy.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.0	2.1	3.4	4.1
Real GDP per capital growth	-1.4	-0.3	1.0	1.7
CPI inflation	2.0	2.1	2.0	2.0
Budget balance % GDP	4.4	-6.4	-5.8	-3.8
Current account % GDP	-1.6	-8.5	-10.0	-10.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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CONGO

- **The economy shrank by 2.4% in 2016 (after expanding by 2.6% the previous year), amid difficult conditions worldwide, in particular a sharp drop in oil prices, and is expected to grow by 0.5% in 2017.**
- **The proportion of the population living in poverty fell from 50.2% to 37% between 2005 and 2011, but social indicators remain mixed, and some are incompatible with Congo's status as a middle-income country (MIC).**
- **Despite its major potential, industry has not developed to become the engine to drive the economy and structural transformation.**

Lower world oil prices continued seriously to affect the economy in 2016, which shrank by 2.4% in 2016 (after growing by 2.6% in 2015). The fall in the oil price reduced oil sector activity and growth slowed in the non-oil sector, which was itself hit by a decline in public investment. The great dependence on oil underlines the efforts needed to diversify the economy and make it more resilient. Inflation was 4.3% in 2016 and is expected in 2017 and 2018 to remain slightly above the 3% convergence criterion set by the Central African Economic and Monetary Community (CEMAC) for 2017-18. The sharp fall in oil sector revenues produced an overall budget deficit of 15.9% of gross domestic product (GDP) in 2016, despite budget cutbacks, as well as a bigger current account deficit, which grew from 20% to 24.2% of GDP between 2015 and 2016.

The economy should expand by 0.5% in 2017 and then 3.3% in 2018, thanks to a greater output of oil as new wells come on stream, and to better agricultural and cement output. But oil price uncertainty, the government's narrower margin of manoeuvre in supporting growth, as well as less macroeconomic stability, are major risks. Prospects will also depend on the ability to make orderly and sufficient adjustments to emerge from the crisis, along with speeding up structural reforms to diversify the economy.

Though progress has been made, social indicators are still lower than in other African countries of a similar income level. The United Nations Development Programme (UNDP) Human Development Index ranked Congo 136th out of 188 countries in 2016 with a score of 0.591, slightly better than in 2015. Poverty fell from 50.2% of the population in 2005 to 37% in 2011 but is still higher than the average in similar middle-income countries (MIC). With a Gini inequality coefficient of 0.465, it comes 90th out of 105 countries worldwide, so income inequality and distribution remain big challenges. Unemployment is a major challenge, with 30% of the workforce between 15 and 29 and 19% of women having no job.

Industrialisation has not yet made significant progress in spite of the efforts made over the past decade. The fall in the price of oil reduced its contribution to GDP but it remains the driver of the economy (40% of GDP), with the secondary sector accounting for only 7%. Industry is very undiversified and its exports are composed of only three kinds of products, which made up only 6.5% of total exports in 2016. To boost the growth of industry and entrepreneurship, the government has an ambitious diversification and industrialisation strategy, the 2012-16 national development programme (PND) and the national industrialisation policy paper. The PND includes measures that aim to create good conditions for entrepreneurs and private investment. But results are still poor, and the government must speed up the building of a diversified and more resilient economy.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.6	-2.4	0.5	3.3
Real GDP per capital growth	0.0	-5.0	-2.2	0.7
CPI inflation	0.9	4.3	3.6	3.3
Budget balance % GDP	-16.9	-15.9	-7.9	0.2
Current account % GDP	-20.0	-24.2	-18.5	-18.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

CONGO, DEM. REP.

- **The growth rate of the Congolese economy fell from 6.9% in 2015 to 2.5% in 2016, but could rebound to 4.0% in 2017 and 5.2% in 2018, given the expected rise in prices of the country's raw materials.**
- **The DRC made some progress in terms of human development in 2016, but that progress remains fragile.**
- **Significant efforts will be required to operationalise the country's strategic frameworks for entrepreneurship and industrialisation.**

The Congolese economy was harmed in 2016 by the decline in world prices of its main exports and by a volatile political and security climate. Growth, propelled by the manufacturing industries, trade, agriculture and transport and telecommunications, fell from 6.9% in 2015 to 2.5% in 2016. The economic slowdown and the drop in exports reduced the country's fiscal leeway in a context of rigidity of expenditure. Foreign exchange reserves fell, leading to a one-year depreciation of the Congolese franc (CDF) by 26% and a worrying rise in inflation, which reached 11.24% at the end of 2016. If the recent upswing in the price of copper continues, economic growth could reach 4.0% in 2017 and 5.2% in 2018. To consolidate these figures, a stable political and security climate is essential, along with a firm commitment from the authorities to implement measures adopted in January 2016 for economic stabilisation and stimulus, in particular those aimed at increasing domestic revenue and economic diversification.

The Democratic Republic of Congo (DRC) did make some progress in the field of human development in 2016 despite the fragile politico-security context. The government adopted new sectoral programmes for health and education in connection with its National Strategic Development Plan (PNSD), which is currently being adopted. Following the gradual extension of free primary education and the development of the school-building programme, school enrolment, literacy and completion rates rose slightly in 2016, although the quality of teaching is not yet satisfactory. The public health situation, however, did not improve in 2016. The progress made, while insufficient, did allow the DRC to improve its Human Development Index (HDI) ranking which, according to raw data from the Core Welfare Indicators Questionnaire survey (CWIQ), should rise from 0.443 in 2014 to 0.464 in 2016, an improvement of 4.7% in two years. The social situation could worsen in 2017 if there is significant deterioration of the country's economic and financial situation, in a context where elections are at the forefront of the agenda.

There is a real political will to promote entrepreneurship and industrialisation in the DRC, which has adopted a national development strategy for small and medium-sized enterprises (SMEs), an industrial policies and strategies paper and a national incubator programme to help generate jobs through the training and mentoring of small and medium-sized private operators. Nevertheless, the implementation of these strategies and programmes remains limited, notably due to a lack of financial resources. Additional efforts are needed to: i) strengthen entrepreneurship through education and skills development; ii) facilitate exchanges of technology and innovation; iii) improve access to finance for entrepreneurs; iv) improve the regulatory climate for entrepreneurship; v) establish links between national SMEs and foreign companies; and vi) strengthen the public-private dialogue.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.9	2.5	4.0	5.2
Real GDP per capital growth	3.7	-0.7	0.8	2.0
CPI inflation	1.0	6.9	2.6	2.1
Budget balance % GDP	-0.1	-1.6	-3.1	-2.7
Current account % GDP	-3.7	-5.7	-4.8	-4.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

CÔTE D'IVOIRE

- **Economic growth remains strong but still relies on exporting raw materials, especially crops, which are subject to variations in global prices and climate risks.**
- **Significant progress has been made in access to health care, education and social protection, but the past five years' growth does not cover the strong social demand.**
- **Major political reforms were undertaken in 2016 in a context still marked by a weak opposition and large protests.**

In a context marked by a slowdown in agricultural output, the Ivoirian economy grew strongly for the fifth straight year at 8.4% in 2016 (African Development Bank estimate). Growth is projected to slow to 7.3% in 2017 as agricultural exports decline, even though domestic demand remains high, but the outlook remains good until 2020. The steady pace of growth in 2016 was supported by public and private investments, as well as by robust consumption. Although strong, economic growth still relies on exporting raw materials with little local processing of output. The economy thus remains vulnerable to external shocks, such as in 2016 when the global prices of the main export products (cocoa and oil) fell and agricultural output was affected by unfavourable climate conditions.

The government is implementing a new development plan *(Plan national de développement 2016-20* – PND), which emphasises diversifying production by capitalising on comparative advantages, especially the improved share of processed raw materials and the full value chains that have been developed in the agricultural sector. The cost of the PND is estimated at XOF 30 trillion (CFA Franc BCEAO), or USD 60 billion, 62% of which will be financed by private investments, mainly in the form of public-private partnerships, and 38% by national and international public resources. The 2016-20 PND has been strongly backed by Côte d'Ivoire's development partners, which committed USD 15 billion in financial support at the May 2016 advisory group meeting in Paris.

An increase in expenditure in favour of the poor, though substantial, still does not meet the strong social demand for better living conditions for government officials. There have been continuous improvements to the business climate. The political context is marked by major reforms: a new constitution has been adopted, a vice-president has been appointed and a senate has been created. Elections have been held according to plan, with legislative elections, a new national assembly and a new government. The major challenges for the current five-year term will be: i) to pursue reconciliation efforts in the political community, where the opposition has been weakened by internal divisions; ii) to provide appropriate responses to strong and pressing social demands; iii) to step up efforts in the area of justice, which is still perceived as non-impartial by part of the population; and iv) to settle longstanding conflicts in the areas of nationality and land ownership. Reinforcing security also remains a challenge in a regional and national context marred by terrorist attacks due mainly to causes exogenous to the country.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	8.9	8.4	7.3	8.1
Real GDP per capital growth	6.5	5.9	4.8	5.7
CPI inflation	1.2	1.1	1.5	2.0
Budget balance % GDP	-2.8	-3.8	-4.0	-4.0
Current account % GDP	-0.8	-2.0	-4.9	-3.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

DJIBOUTI

- **Driven by large investment projects, growth remained buoyant at 6.3% in 2016 and is projected to rise to 6.7% in 2017 and 6.8% in 2018.**
- **After widening for two consecutive years, the budget deficit improved in 2016, but debt remained critical, with an economy focused on services, transport in particular.**
- **To reach its potential, the economy will require structural change to improve the low density of the country's economic fabric and its low level of diversification.**

The Republic of Djibouti has experienced continuous economic expansion that has kept growth above 5% for several years, thanks mainly to investment in railway, port (the multi-purpose Port of Doraleh and the Port of Tadjourah) and hydroelectric infrastructure. The government plans to continue its ambitious infrastructure programme on the back of foreign investments, particularly from China. Chinese firms are engaged in the launching of a large industrial and commercial customs-free zone, in exploiting natural resources (fish, salt and energy) and in developing tourism. These investments may change the structure of the economy, which so far has focused on transport and related services, taking advantage of the country's geostrategic position by the Gulf of Aden at the intersection of key corridors for shipping goods and oil. The government wishes to bolster this comparative advantage over its neighbouring countries by turning the country into a regional platform and hub for logistic, trading and financial services.

Driven by these large investment projects, growth increased to an estimated 6.3% in 2016 from 6.5% in 2015, and is projected to move on to 6.7% in 2017 and 6.8% in 2018. Despite this upturn, extreme poverty and unemployment remain endemic. Around 23% of the 1 million people in Djibouti live in extreme poverty, and this poverty rate has not fallen since 2002, while more than 48% of the working-age population are unemployed. Moreover, debt is becoming increasingly critical. The many public investments in infrastructure are financed partly by large non-concessional loans. The debt level rose to an estimated 79.6% of gross domestic product (GDP) in 2016 and is projected to top 81.5% in 2017, putting the country at high risk of over-indebtedness.

In March 2014, to put structural change of the economy on track and foster entrepreneurship, the government adopted a long-term strategic framework, Vision Djibouti 2035. The first medium-term product of this framework was the Scape strategy (*Stratégie de croissance accélérée et de promotion de l'emploi*), a launched in 2015. In the long run, the strategic framework aims to move Djibouti to the status of an emerging country by 2035, and in the short run, the Scape strategy aims to accelerate growth and create jobs.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.5	6.3	6.7	6.8
Real GDP per capital growth	5.2	5.0	5.4	5.5
CPI inflation	2.1	3.1	3.6	3.6
Budget balance % GDP	-15.7	-12.9	-13.2	-15.1
Current account % GDP	-30.7	-27.9	-27.1	-29.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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EGYPT

- **The economic outlook for 2017 remains cautiously optimistic largely based on the government's ability to maintain the policy and structural reform agenda as well as successfully implement the sustainable development strategy.**
- **Assuming economic policy and structural reform implementation, growth is expected to accelerate as confidence returns and investment increases, although some domestic issues and global economic headwinds will remain challenges.**
- **Overall, Egypt can reverse the major and long-standing trend of low and non-inclusive growth along with weak employment prospects on the basis of the potential of the industrial and entrepreneurial sectors.**

The formal "political roadmap" has been completed and attention is now focused on management of the reform programme and how this will support growth in 2017 and beyond. With foreign exchange now more readily available after the Central Bank of Egypt (CBE) liberalised the exchange rate in November 2016, the outlook for 2017 is more optimistic. Assuming reforms continue to be implemented, growth should pick up slightly because of positive developments in the gas, manufacturing and real estate sectors, alongside recovery in the tourism sector from recent security-related issues. However, managing to contain the large fiscal and current account deficits in an environment of high inflation will be a challenge in the remainder of 2017 and beyond.

Success in stabilising the economy and boosting growth will be demonstrated by lowering the fiscal deficit while: increasing pro-poor spending; managing price stability in a context of exchange-rate flexibility; increasing employment; enhancing the business environment; strengthening security; and improving social justice. Fiscal consolidation efforts will be continued through the 2017/18 budget supported by expenditure enhancements contained in the Civil Service Law (approved in early October 2016), and revenue strengthening provided via the introduction of the VAT law in mid-2016. Other revenue- and expenditure-management tools will also be utilised, such as the August 2016 tax disputes resolution law, and there will be further efforts to reduce energy subsidies with savings directed towards social safety nets. A new investment law is under discussion in parliament, which should help strengthen the business environment, support the private sector and boost employment. With the exchange rate now liberalised, the CBE will be able to strike a better balance between curbing inflationary pressures and boosting growth without simultaneously having to focus on keeping the exchange rate steady.

The economy is relatively well diversified but despite large-scale industrialisation, investment has not delivered a vibrant economy with high employment. The reforms are designed to help improve productivity and efficiency in order to boost employment and move away from the "informality trap". Yet increased industrialisation and entrepreneurship depends not only on a strong and supportive policy environment, but also on access to more natural resources, capital, improved technology and higher skilled labour.

Macroeconomic indicators

	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Real GDP growth	4.2	4.3	3.9	4.6
Real GDP per capital growth	2.0	2.2	1.8	2.5
CPI inflation	11.0	10.1	16.9	12.9
Budget balance % GDP	-11.4	-12.8	-11.5	-9.7
Current account % GDP	-3.7	-5.9	-5.2	-5.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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EQUATORIAL GUINEA

- **Real GDP contracted by 8.2% in 2016 and is expected to shrink further by 5.9% in 2017. This recession is related to lower production in the oil and gas sectors.**
- **Large hydrocarbon revenues made it possible in 2016 to continue major structural changes underway for over 20 years, both in infrastructure and human development.**
- **One of the major challenges in stimulating entrepreneurship is the opening up of the market, in particular the improvement of the business climate and better regional integration.**

In 2016, the economy of Equatorial Guinea was still dominated by the petroleum sector, which accounted for 85% of gross domestic product (GDP) and more than 94% of exports in 2015, according to the International Monetary Fund (IMF). Other relatively important sectors are construction (7% of GDP in 2015), agriculture, forestry and fisheries (2% of GDP), and trade (1.6%). Although these sectors are improving, relative to the petroleum sector, change has been very marginal since 2013. Economic diversification is slow to materialise but remains an important objective for economic growth and stability in the medium and long term. Over the past three years, the fall in oil prices has severely affected the development effort.

This fall in oil prices has immediate and lasting consequences for Equatorial Guinea's budget, especially as it is accompanied by a decline in production, which only reached an estimated 155 000 barrels of oil equivalent per day in 2015, and amounted to a fall of 5% in volume per year over the last 10 years. This also affects the structure of the balance of payments, due to lower export earnings. The fall in government revenues has a direct impact on the rest of the economy, given the importance of public procurement in stimulating non-petroleum sectors. It should be noted that the capital expenditure reflected in the Finance Act 2015 (XAF 1 951 billion) corresponds to 85% of the forecast revenue. The 2016 Finance Act, against a background of recession, indicates that the authorities have chosen to maintain a high level of investment while maintaining a strategic balance.

The private sector in Equatorial Guinea is similar to that of many other developing countries, despite having its own local character. Large companies exploit raw materials and are almost exclusively foreign-owned, compared with small, local businesses that are disadvantaged by the poor business climate. Reforms have been started but progress is slow, and the establishment of a local class of entrepreneurs requires time and political commitment. This is the challenge to be faced in the coming decades. Equatorial Guinea has significant assets conducive to entrepreneurship and industrialisation. The country's infrastructure is world-class, including roads, ports and energy. Another major advantage for the country's development of entrepreneurship lies in the cultural diversity of its population and the return of a well-trained diaspora willing to invest in the country. This part of the population consists mainly of young people who speak several languages, valuable for the entrepreneurship and innovation needed to revive the economy.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-8.3	-8.2	-5.9	-2.7
Real GDP per capital growth	-11.3	-11.1	-8.7	-5.5
CPI inflation	1.7	1.5	1.4	1.5
Budget balance % GDP	-3.2	-5.4	-5.3	-5.0
Current account % GDP	-16.8	-11.6	-6.6	-5.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

ERITREA

- **Real GDP growth slowed down to 3.8% in 2016 from 4.8% in 2015, reflecting challenges in the business and investment environment and capacity gaps in government institutions**
- **The government's decision to access supplemental-support resources from the AfDB's Transition Support Facility (TSF) to scale up investments in agriculture should strengthen resilience and improve livelihoods for the majority of the rural population.**
- **Eritrea's rich entrepreneurial tradition, despite constraints including the energy-supply deficit, skills mismatch and poor telecommunication infrastructure, provides opportunities for private-sector growth and industrialisation.**

Real gross domestic product (GDP) growth is projected to decline slightly from 4.8% in 2015 to 3.8% in 2016 reflecting weak capacity in government institutions and a weak export sector. Growth will reduce also in 2017 to 3.4%. Over the medium term, the government sees further prospects in improved trade with Middle-Eastern and Asian countries, additional mining activities, growth in food production and fisheries development. Eritrea remains a country of immense economic potential but economic and policy reforms are necessary for growth to rebound. The GDP is heavily based on services (59%), with a very small manufacturing sector (5.9%). Agriculture, hunting, forestry and fisheries constitute 17.2% of GDP.

The budget deficit declined slightly to 13.9% of GDP in 2015/16 from 14.2% in 2014/15. This trend will continue to 12.7% in 2016/17 because of access to more grants and concessional resources, increasing revenue from mining projects and control of unproductive expenditures. Inflation remained at 8.9% in 2016 mainly because of food-supply insufficiency and scarce foreign currency to finance imports of essential goods. Although no official statistics have been provided, food-crop production in 2016 would appear to be slightly above its 2015 level. Depressed commodity and oil prices in 2015 and 2016 should also contribute to keeping 2015/16 inflation at an annual average of 12%. In spite of adverse conditions, the authorities have endeavoured to protect the most vulnerable segments of the population and to implement their long-term development policies. They maintain an extensive social safety net, and are investing in three priority areas: i) food security and agricultural production; ii) infrastructure development; and iii) human-resources development.

The growth of exports in 2015/16 is expected to have been driven by the expansion of mineral production at the Asmara Mining project and gold extraction by the Zara Mining Share Company. The current account deficit is forecast to decline to 0.1% of GDP in 2016 from 2.2% of GDP in 2015 and will become a slight surplus in 2017 despite the slowdown in export growth, reduced remittances and a drop in revenue from the 2% tax, commonly referred to as "development and recovery tax", levied on Eritreans in the diaspora. Supplemental-support resources under Pillar 1 of the AfDB's Transitional Support Facility (TSF) will support increasing agricultural productivity and improving food security through implementation of the government's minimum integrated agricultural programme designed to benefit the rural population and, especially, female-headed households. This programme will also generate socio-economic data on welfare levels of the population. The government has concluded a strategic partnership co-operation framework with the United Nations that will run from 2017 until 2021. The framework has four pillars: basic social services; resilience and disaster-risk management; public-sector capacity development; and food security and sustainable livelihoods. These interventions will strengthen resilience, improve the export base and strengthen food security.

In addition to its efforts to strengthen food security, the AfDB has provided resources to support the Ministry of Lands, Water and Environment through a ground-water assessment and

mapping project. This project will lead to the design of others that will help mitigate the effects of climate change and promote resilience in the rural economy. The AfDB-funded Public Financial Management and Statistics Project is under implementation and will introduce efficiency and effectiveness into Treasury management and budgeting, while generating fiscal data vital for the overall planning and budgeting process. Technical support and training from the IMF is being co-ordinated with other stakeholders and delivered through a dedicated multi-year, fiscal and financial capacity-building programme. Support under this programme is expected to focus particularly on the macroeconomic framework, fiscal management, revenue administration, public financial management, monetary operations, risk-based banking supervision and macroeconomic statistics. The industrial sector in Eritrea is still small and entrepreneurship is stagnant because of lack of basic infrastructure and an unconducive business and investment environment. Going forward, the government should work to provide the necessary infrastructure and undertake major institutional reforms to attract foreign capital flows.

Macroeconomic indicators

	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Real GDP growth	4.8	3.8	3.4	3.7
Real GDP per capital growth	2.5	1.5	1.1	1.4
CPI inflation	9.0	8.9	8.4	9.4
Budget balance % GDP	-14.2	-13.9	-12.7	-12.5
Current account % GDP	-2.2	-0.1	0.5	0.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

ETHIOPIA

- **Real GDP growth slowed to 8.0% in 2015/16[1] from 10.4% last year and is projected to remain stable at 8.1% in 2016/17 and 2017/18.**
- **Public protests disrupted the nation in 2016 in the Oromia and Amhara regions, with the protestors citing concerns about political and economic marginalisation. The authorities declared a six-month state of emergency in October 2016, enacting a variety of measures to restore peace.**
- **Ethiopia's national development plans place emphasis on promoting export-led industrialisation with a focus on light manufacturing. However, the contribution of the industrial sector to GDP, employment and exports remains low.**

Real GDP grew by 8.0% in 2015/16, a slowdown from the 10.4% registered in 2014/15. The services and industry sectors led growth during this period. Growth in the agriculture sector was negatively affected by the El Niño induced drought. For 2016/17 and 2017/18, investments in energy and transport infrastructure; on-going reforms to spur industrialisation, such as the development of industrial parks; and continued progression in services are expected to lead growth. Agriculture is projected to rebound and grow steadily.

Headline inflation is projected to remain consistent with the central bank's (National Bank of Ethiopia's [NBE]) price stability objective of single digit inflation in 2016/17. Inflationary pressures are expected to fall due to subdued food prices. Import-intensive public infrastructure investments are expected to continue in the near term as the government sustains the implementation of energy and road transport infrastructure projects to improve the business-enabling environment. The current account deficit is projected to remain in double digits in the short term as export earnings continue to account for about 30% of imports. Uncertainty about international commodity prices and weak global demand are key downside risks.

The 2004 Industrial Development Strategy guides Ethiopia's ambition of achieving agricultural- and export-led industrialisation. However, the share of the industrial sector in GDP remains low, averaging 12.2% between 2006/07 and 2015/16. The expansion in industry has been led by construction, while the contribution of manufacturing to GDP remains small at 5.4% in 2015/16. The second Growth and Transformation Plans (GTP II) 2015/16–2019/20 prioritises export-led industrialisation. The approach to promoting industrialisation under GTP II is consistent with the Inclusive and Sustainable Industrial Development (ISID) framework. Ethiopia, as one of the three pilot countries under this framework, has developed a Programme for Country Partnership (PCP) in collaboration with other partners, including the United Nations Industrial Development Organization (UNIDO). The PCP is a vehicle for implementing the ISID framework. The Micro and Small Enterprises Development Strategy (2011) was developed to increase the contribution of Ethiopia's entrepreneurs to the country's industrialisation ambitions. This strategy focuses on improving the business-enabling environment, access to finance and market linkages. Measures to promote private sector development have also been implemented such as privatisation of state-owned enterprises, business regulatory reforms and infrastructure development.

Macroeconomic indicators

	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Real GDP growth	10.4	8.0	8.1	8.1
Real GDP per capital growth	7.9	5.5	5.7	5.7
CPI inflation	10.1	6.9	8.4	11.6
Budget balance % GDP	-1.9	-2.4	-3.7	-3.3
Current account % GDP	-10.4	-10.6	-11.3	-11.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

1. Ethiopia's fiscal year runs from 8 July to 7 July.

GABON

- **Real GDP growth declined to 2.9% in 2016 from 4% the previous year, mainly due to the lower price of oil.**
- **Economic diversification should take account of high unemployment levels, notably among youth (46% of those under 25 are jobless), and a 34.3% poverty rate.**
- **In order to encourage entrepreneurship and industrialisation, the government is focusing on developing vocational skills among youth.**

Gabon had a difficult year in 2016 due to a negative economic environment linked to the low price of oil. A barrel of Brent averaged USD 42.6 over the year. This low price had a negative impact on tax revenue from oil and from other sectors of the economy. The public investment programme, which depends on oil revenues, is a driver of economic diversification. Fewer public commissions therefore adversely affect implementation of the Strategic Plan for Emerging Gabon (PSGE). At the same time, the presidential election of 27 August 2016 led some economic operators to adopt a wait-and-see attitude. Nonetheless, certain drivers of growth are strengthening, as shown by the relative growth of agriculture as a share of GDP. Recent projections indicate that the non-oil sector is experiencing stronger growth than oil and gas. Since the price of a barrel is not expected to surpass USD 60 over the next few years, economic diversification will be all the more crucial as a foundation for growth.

Despite this difficult context, the authorities continued implementing major reforms to improve public finances, stimulate the economy and ensure provision of the social benefits envisaged under the country's human investment strategy. The main efforts involved controlling payroll expenditure, rationalising operating expenses and making major budgetary trade-offs to protect social spending and public investment. In addition, almost all public subsidies for petrol prices at the pump were eliminated in early 2016. A large share of public investment went towards organising the Africa Cup of Nations football tournament held in January-February 2017, and this should stimulate economic growth. Still, the short- and medium-term priority will be to clear arrears to the domestic private sector, which are estimated at XAF 600 billion (CFA Franc BEAC) and which handicap growth and economic diversification. Gabon has thus expressed interest in reinforcing its co-operation with the International Monetary Fund (IMF), beginning in 2017.

Development of entrepreneurship is struggling, particularly among youth and women, notably due to: i) the low level of entrepreneurial culture (young would-be entrepreneurs face a socio-economic environment that does not support entrepreneurial spirit); ii) difficult access to adequate, long-term finance; and iii) a shortage of skilled manpower for business management. Aware of these challenges, the Gabonese authorities drew up the PSGE, a roadmap for economic emergence and diversification. One of its objectives is progressively to reduce dependence on oil resources, notably through economic diversification. Another very short-term objective is to increase the share of agriculture in the national wealth. Although Gabon has undertaken an ambitious reform programme to cope with the drop in oil prices, further significant action is needed to promote inclusive growth, structural transformation and economic diversification.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.0	2.9	4.0	4.7
Real GDP per capital growth	1.8	0.7	1.9	2.6
CPI inflation	2.3	2.6	2.5	2.5
Budget balance % GDP	-0.3	-2.8	-0.6	0.5
Current account % GDP	-2.3	-8.2	-3.0	-0.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GAMBIA

- **Growth declined to 2.1% in 2016 due to policy slippages and electoral uncertainty, but is expected to rebound to 3.5% in 2017 and 4.8% in 2018 following a peaceful political transition.**
- **The outlook depends on the ability of the new administration to carry out a smooth and fast transition in order to make needed reforms and set the basis for structural transformation.**
- **Industrial policy suffers from a lack of core infrastructure, technological innovation and the lack of regional integration needed for the economy to reap the benefits of a much larger market.**

As a small and open economy relying on agriculture and tourism, Gambia remains highly vulnerable to climate change and external shocks. Policy inconsistencies, high spending and unfavourable weather conditions in recent years have negatively affected economic potential and fiscal performance. In addition, Gambia is characterised by high debt and high interest rates. Growth for 2016 is estimated at 2.1%, down from 4.4% in 2015. This is mainly explained by policy slippage on reforms, the crowding out of private investment, an average agricultural season and a year-end political scenario that tamed the tourism season. The outlook for 2017 and 2018 looks positive, with growth rates projected at 3.5% and 4.8% on the back of a peaceful political transition.

The election of President Adama Barrow in December 2016 led to Gambia's first democratic executive change since independence. After the incumbent initially declined to leave power, mediation and military pressure from fellow West African countries led to his peaceful departure. The outlook for the country is thus greatly dependent upon the ability of the new administration to carry out a smooth and fast transition, shore up finances, regain the confidence of partners, stabilise the country to bring back tourists and set the basis for economic transformation. On the fiscal side, rebuilding fiscal buffers should become a top priority, notably through improved wage bill management, tightened control of spending, review and restructuring of public-sector enterprises and control of domestic borrowing.

Although Gambia has witnessed a degree of structural transformation over the past ten years, the country has not significantly increased the industrial sector's share in the economy (15% in 2013, up from 12% in 2004), nor has it increased manufacturing value added. Hurdles to industrialisation include poor regional integration, the absence of reliable and cheap energy, and sub-optimal infrastructure and training. Similarly, entrepreneurship has yet to take off. Barriers include a shortage of entrepreneurial skills and structural gaps in the business environment including difficult access to finance and land, high taxes and sub-optimal administrative procedures.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.4	2.1	3.5	4.8
Real GDP per capital growth	1.1	-1.2	0.3	1.5
CPI inflation	6.8	8.3	7.7	5.1
Budget balance % GDP	-6.5	-7.3	-6.7	-3.2
Current account % GDP	-10.6	-11.4	-11.9	-12.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GHANA

- **Real GDP growth is estimated to have slowed for the fifth consecutive year due to tightened monetary and fiscal policies, among other factors, but is projected to recover in 2017 and 2018 if the non-oil economy improves and as new hydrocarbon wells come on stream.**
- **The December 2016 elections resulted in the transition of political power to the opposition political party and some changes are to be expected in policy direction, including emphasis on measures to unleash private sector development.**
- **While industry is the second largest contributor to Ghana's GDP, its performance could be strengthened if industrial support policies and programmes were better targeted and measures to improve access to finance and tackle constraints related to skills and infrastructure could be prioritised.**

Gross domestic product (GDP) growth is estimated to have slowed for the fifth consecutive year, from 3.9% in 2015 to 3.3% in 2016 as a result of the implementation of tight fiscal and monetary policies in the context of the International Monetary Fund (IMF) Extended Credit Facility (ECF) programme, and technical issues related to oil production. Growth is projected to recover to 7.1% and 8.0% in 2017 and 2018 respectively assuming restoration of energy supply, new hydrocarbon wells coming on stream and the timely resolution of technical issues that led to disruptions in the Jubilee oil and gas field in 2016. The growth is expected to be stronger if macroeconomic fundamentals improve, and impact positively on the non-oil economy.

The authorities successfully concluded the fourth review of the IMF ECF despite some delays in meeting some of its performance criteria. However, provisional estimates indicated Ghana would miss its year-end fiscal deficit target with the deficit estimated at 8.7% of GDP, above the target of 5.3%. This raises concerns about Ghana retrogressing on its fiscal adjustment programme. The main policy priorities in 2017 will be to ensure that the fiscal consolidation programme is on track, policies and measures to foster a revival of private sector investment and foreign direct investment (FDI) are adopted, and that the supply and governance issues affecting the energy sector are speedily addressed.

Ghana's December 2016 elections led to the transfer of political power to the opposition political party, the New Patriotic Party, which won the presidential election with 53.9% of the vote while the incumbent National Democratic Congress obtained 44.4%. The transfer of power after one term of the incumbent appears to be a divergence from the pattern, under which a change occurs after two four-year terms, which has been the case since the initiation of the 4th Republic in 1992.

Ghana's industrial policy dates from 2011. In 2016, a "Made in Ghana" policy was launched. The 2017 budget of the new government also includes a number of policy proposals and initiatives including a strengthened focus on local content, a new National Industrial Revitalisation Programme with a stimulus package for industry, a National Entrepreneurship and Innovation Plan (NEIP) and a "One District, One Factory" proposal to promote industrialisation from the ground up. The implementation of the 2011 industrial policy via the Industrial Sector Support Programme (ISSP, 2011-2015) was affected by the long-standing public sector resource crunch, the high cost of credit and limited access to start-up financing, and land and energy challenges. The new programme proposals seek to tackle many of these issues. To date, Ghana's exports have also been heavily dominated by a few commodities which are vulnerable to developments in the world market, while value addition in mineral and agricultural value chains remained subject to various constraints. However, a dynamic entrepreneurial tech sector has been emerging. This could get a further boost from the NEIP when it is implemented. The NEIP is expected to serve

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as the primary vehicle for providing integrated support for early stage (start-ups and small) businesses, focusing on the provision of business development services, business incubators, and funding for youth-owned businesses. The government's medium-term objectives also include developing high-quality education, entrepreneurship and job skills, which is to be welcomed.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.9	3.3	7.1	8.0
Real GDP per capital growth	1.5	1.0	4.8	5.8
CPI inflation	17.2	17.0	10.5	7.2
Budget balance % GDP	-4.7	-8.7	-6.5	-5.2
Current account % GDP	-7.8	-3.9	-4.6	-5.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GUINEA

- **In 2016, growth bounced back to 4.9% thanks to political appeasement and good performance in mining and agriculture after two years of weak growth (1.1% in 2014 and 0.1% in 2015) mainly due to the Ebola epidemic.**
- **Social cohesion and reducing inequalities have remained pressing challenges in a context of endemic poverty, which is worse in rural areas.**
- **Turning the authorities' vision for change into economic and social progress is encumbered by a systemic shortage in the administration's capacities and piecemeal, poorly co-ordinated implementation of decisions and actions.**

In 2016, the end of the Ebola epidemic brought the country out of isolation and broadened its export opportunities. National dialogue in October 2016 resulted in a political agreement, easing the general climate. The 2012 macroeconomic programme supported by the International Monetary Fund (IMF) Extended Credit Facility (ECF) and backed by the country's other partners reached a satisfactory conclusion. For the first time in its history, the country was able to conclude a programme with the IMF.

The slowdown in activity that had marked the three previous years was reversed. In 2016, growth stood at an estimated 4.9%, up from 0.1% in 2015. The national economic and social development plan (PNDES) 2016-20 is focused on governance, transforming the economy, developing human capital and sustainable management of the country's resources. The PNDES projects median growth at 6.5% for 2016-20, driven by recovery in the industrial sector (23.6% of gross domestic product [GDP]) through revitalised activity in the mining sub-sector (12.3%).

Reforms were pursued, though at a slower pace due to the human and financial effort needed to fight Ebola. This covered the organic law relating to finance (*Loi organique relative aux lois de finances*) and the legal frameworks for financial and public sector governance, plus the regulatory framework of public-private partnership (PPP) projects. An audit of public procurement confirmed the existence of poor practices in infrastructure investment expenditure (e.g. on roads, energy, etc.) in 2014 and 2016, showing that less than 14% of public procurement had complied with the rules governing it. Along with the implementation of measures to strengthen public procurement procedures, a more careful and rigorous oversight of expenditure in 2016 has helped to streamline infrastructure spending.

The PNDES has placed infrastructure insufficiency and deterioration, as well as its financing, at the core of policy discussions. The government has asked its partners to increase their concessional funding of infrastructure, but as potential financing is expected to be limited, it has also stressed stepping up reforms aimed at mobilising domestic resources and resorting to more non-concessional loans. As regards the latter, it has been generally agreed that the spiral of over-indebtedness must be avoided. Before an advisory group is set up in the last quarter of 2017 on the funding of the PNDES 2016-20, the government plans to negotiate a new programme backed by the IMF and its other partners, which would include more non-concessional debt to finance the ambitious PNDES infrastructure programme.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	0.1	4.9	4.6	5.5
Real GDP per capital growth	-2.6	2.2	1.9	2.8
CPI inflation	8.2	8.1	6.5	4.8
Budget balance % GDP	-8.9	-1.5	-1.8	-1.4
Current account % GDP	-12.9	-6.0	-3.4	-1.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

GUINEA-BISSAU

- **Projected real GDP growth of about 5% in 2017 and 2018 is expected to strengthen the post-transition recovery but political uncertainty remains an obstacle to a tangible economic take-off.**
- **Economic and social prospects remain fragile because they depend strongly on the cashew sector, on the continuity of reforms undertaken and on the political environment.**
- **The industrialisation of Guinea-Bissau requires basic infrastructures to be rebuilt, especially for transport and energy, which cannot currently support the blossoming secondary sector; it also requires an improved business climate and stronger human capital.**

During the year that followed the return to constitutional order in 2014, Guinea-Bissau experienced positive momentum. Since then, however, it has gone through a period of uncertainty. Between June 2015 and December 2016, four prime ministers were dismissed. The ensuing institutional deadlock prevented parliament from meeting in 2016. Despite the delicate political context, gross domestic product (GDP) grew by an estimated 4.9% in 2016, driven by a good agricultural season. Economic performance thus remains strongly exposed to exogenous shocks.

The recovery that began following the return to constitutional order is continuing, aided by an exceptional year for cashew sales and a notable expansion in the harvest of food crops (8.9%). Political uncertainty has harmed growth potential, however. The government has in fact contributed negatively to GDP (-0.5%). Furthermore, the political climate does not favour investment, which has also had a negative impact on the potential for growth and the quality thereof. Additionally, 2016 saw a freeze on budgetary support from donors due to a secretive bank rescue by the authorities in 2015, at a cost of XOF 34.2 billion (CFA Franc BCEAO), or 5.6% of the GDP. Budgetary support is expected to be available again in 2017, based on commitments made by the authorities to undo the bank rescue. Growth forecasts for 2017 and 2018 are 4.8% and 5.0% respectively, assuming that current political tensions are resolved, rainfall is equal to that of 2016, cashew prices hold up, investment in phosphates begins (production is due to commence in 2019) and reforms continue in the right direction.

Certain measures implemented in 2014-15 to reform public finance management have continued to bear fruit, particularly in the fiscal sector. In 2017 and 2018, planned reforms regarding revenue, such as a new single invoice with a tax identification number, should strengthen prospects and create additional revenue. Expenditure, meanwhile, was higher than in 2015, due in particular to domestic debt repayments. The tax-GDP ratio stalled at 9.6%. The budget balance was -4.0% of GDP and the primary balance -3.3%. Finally, against the backdrop of recovering demand, inflation was an estimated 2.6%.

The social and human development context have not changed significantly since last year and the overall situation remains worrying. Guinea-Bissau has one of the lowest human development indicators (HDI). Significant weaknesses still exist, especially as regards women and the rural population. No budget was approved for 2016, so no efficient plans could be made for social sectors. Because of fiscal difficulties, chronic underinvestment is expected to continue, preventing any meaningful improvements in terms of human development.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.8	4.9	4.8	5.0
Real GDP per capital growth	3.3	2.5	2.4	2.7
CPI inflation	1.5	2.6	2.7	2.6
Budget balance % GDP	-2.4	-4.0	-1.9	-1.4
Current account % GDP	-1.0	-2.2	-3.0	-3.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

KENYA

- **Real GDP growth increased to an estimated 6.0% in 2016, up from 5.6% in 2015, with the expansion projected to continue in 2017 and 2018, supported by large investments and growth in the service sector.**
- **A stable macroeconomic environment with single-digit inflation (averaging 6% in 2016) prevailed as political campaigning for the August 2017 general elections got underway.**
- **Kenya has sophisticated entrepreneurship by regional standards but could increase its global footprint through increased investments in information technology.**

GDP growth improved to 6.0% in 2016, up from 5.6% in 2015, driven by construction, manufacturing, finance and insurance, information and communication technology (ICT), and wholesale and retail trade. The outlook is positive, with growth projected at 6.1% in 2017 and 6.5% in 2018. Consumer Price Index (CPI) inflation projections remain slightly above 5% over the same period. Projections for the short to medium term are based on the following assumptions: increased rainfall to enhance agricultural production; a stable macroeconomic environment; continued low international oil prices; continued stability of the Kenya shilling (KES); improved security as a boost to tourism; and continued reforms in governance and justice.

Political activity in 2016 was marked by campaigning for the August 2017 general elections. Two coalitions emerged, one centered around the ruling Jubilee Party and the other around the main opposition grouping, the National Super Alliance (NASA). The opposition parties led a spirited campaign calling for overhaul of the electoral infrastructure. As a result, electoral legislation was amended to provide for a revised voter register and new electoral timelines and funding arrangements. All commissioners on the Independent Electoral and Boundaries Commission were replaced in January 2017.

Kenya has sophisticated entrepreneurship by regional standards but could increase its global footprint through increased investments in information technology (IT). The country aims to have a robust, diversified and competitive manufacturing sector to help its transformation into an industrialised middle-income economy by 2030. The overall goal for the industrial sector is to increase its contribution to GDP by at least 10% per annum and propel the country towards becoming Africa's industrial hub.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.6	6.0	6.1	6.5
Real GDP per capital growth	3.0	3.4	3.5	3.9
CPI inflation	6.6	6.3	5.5	5.1
Budget balance % GDP	-8.2	-7.8	-7.5	-4.3
Current account % GDP	-8.7	-6.0	-6.2	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

LESOTHO

- **The economy is on a recovery trajectory with 2016 GDP growth estimated at 3.1%, largely driven by a booming tertiary sector and mining investment, while the outlook is for higher growth in 2017 and 2018.**
- **In spite of the boost in economic growth, high unemployment and inequality have intensified poverty to 56.2% of the population, calling for a more aggressive response to realise more inclusive development outcomes.**
- **The existing policy linking entrepreneurship and industrialisation, a key instrument to create jobs, could be supported by a multitude of factors including technological entrepreneurship that is central to the whole process of meaningful structural transformation.**

Lesotho's gross domestic product (GDP) growth, at 3.1% in 2016 relative to 2.8% in the past year, is showing signs of recovery as a result of the booming tertiary sector, ongoing investment in mining and steady growth in the electricity and water sector. In the medium term, growth is expected to further improve to 3.5% and 4.6% in 2017 and 2018, respectively.

However, poverty, inequality, and unemployment remain major development challenges facing Lesotho in spite of high literacy rates and high investment in social sectors over the years. The national poverty head count ratio, at purchasing power parity (PPP) USD 1.25 a day, has increased and currently stands at close to 56.2%. Rural areas harbour the majority of the poor. Over 50% of the population remains unemployed and inequality, as measured by a GINI co-efficient of 0.5, is considered unacceptably high.

The participation of the private sector and building entrepreneurship meant to spur industrialisation has been enshrined in the country's National Strategic Development Plan (2012-2017). Its objective is to transform the skills development institutions and to improve the skills and innovation base of the economy. In spite of the existing policy link between entrepreneurship and the industrialisation framework, enhancing this relationship is still challenged by a multitude of factors. These factors include among others: skills' mismatch; lack of skills transfer by foreign entrepreneurs for fears of domestic entrepreneurs imitating their products; lack of entrepreneurship skills to diversify products; low technological entrepreneurship that is central to the whole process of meaningful structural transformation; and the lack of opportunities fostered through access to finance, information flows and infrastructure.

This AEO report highlights the need to aggressively tackle unemployment, poverty and inequality through the adoption of more inclusive growth policies. It also proposes that the government's National Strategic Development Plan (NSDP) framework, which seeks to enhance the skills base, technology adoption and foundation for innovation, may provide incentives to lead companies to strengthen chain linkages with local, emerging entrepreneurs to bolster supply. It also proposes more dialogue with existing entrepreneurs on how to enhance skills development and transfer between foreign and local entrepreneurs.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.8	3.1	3.5	4.6
Real GDP per capital growth	1.6	1.9	2.4	3.5
CPI inflation	3.1	6.6	6.7	6.0
Budget balance % GDP	0.6	-3.1	-8.6	-13.1
Current account % GDP	-9.8	-14.8	-14.6	-15.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

LIBERIA

- **Weak commodity prices continue to weigh on Liberia's economy, which contracted by an estimated 0.5% in 2016. Economic growth is expected to strengthen in the medium term, reaching around 4% in 2017.**
- **The government faces the challenge of staying focused on development priorities during an election year, while also contending with weak growth weighing on revenues, limited borrowing capacity, and added expenditure pressures linked to security and the election.**
- **The government is pursuing a number of measures to help diversify the economy, increase productivity and entrepreneurship, and encourage value addition and investment in the agriculture sector.**

Liberia continues to grapple with lower commodity prices, which have led to a third straight year of near-zero growth in 2016. The economy contracted by an estimated 0.5% in 2016. With limited growth expected in the iron ore and rubber sectors in the coming years, the government seeks to diversify the economy by increasing productivity in the agriculture sector. The economy can expect an uptick in growth to around 4.0% in 2017, largely due to increased production of gold and iron ore, investment projects, and agriculture expansion. Nonetheless, growth is expected to remain below previous levels into the medium term.

Fiscal policy continues to be strained by low growth and is facing further pressures due to election and security expenditure. With the withdrawal of the United Nations peacekeeping force, the government is taking on full security responsibilities. Combined with the elections in October 2017, this could increase uncertainty. Growth in public revenue has been low and borrowing space has tightened, so the government faces a delicate task, in an election year, in balancing expenditure and borrowing with development priorities. It is also critical to maintain momentum in public financial management (PFM) reforms into a new administration.

Investments in power generation and electricity access are gradually coming online, which should begin to gradually alleviate a significant constraint to the business environment. However, increasing capacity in the energy sector will be critical for sustainability and further improvements. Moreover, several key transportation corridors have been paved. These improvements notwithstanding, the business environment, which ranks very low in international comparisons, continues to impede competition, productivity and growth. The government has started work on addressing business environment constraints, attracting investment, and improving value addition in key agricultural value chains. Further efforts will be needed to raise incomes and address Liberia's 54% poverty rate.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	0.0	-0.5	4.0	4.4
Real GDP per capital growth	-2.4	-2.9	1.5	1.9
CPI inflation	8.0	12.5	10.0	8.6
Budget balance % GDP	-8.4	-2.2	-6.2	-7.0
Current account % GDP	-29.2	-28.5	-22.5	-18.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

LIBYA

- **Real GDP growth was -8.1% in 2016, against -10.1% the previous year, due to a slight improvement in oil production, which is expected to recover to -4.9% in 2017 following exemption from OPEC's supply cap, the recapture of eastern ports and reopening of oil.**
- **A persistent struggle for power has prevented the rival governments from converging towards common ground.**
- **Political instability, humanitarian crisis and security issues continue to hinder efforts to re-establish control over the economy and most national strategies, including those related to industrialisation and entrepreneurship, have remained on hold.**

Economic growth contracted by 8.1% in 2016. However, the projected real GDP growth rate is estimated at -4.9% and -3.0% in 2017 and 2018, respectively, due to the projected rise in oil prices and the anticipated recovery of the crude-oil production to around 900 000 barrels per day (bpd) in 2017 and 2018 from under 400 000 bpd in 2016.

In mid-December 2015, the Libyan Political Agreement (LPA) was signed in an attempt to end the political crisis that has been dragging on since the summer of 2014. The LPA led to the formation of a Presidential Council (PC) at the head of an interim Government of National Accord (GNA) in Tripoli. However, the cabinet proposed by the GNA failed to be approved in the House of Representatives (HoR), based in Tobruk. Consequently, political and security instability in Libya have continued to affect the economy. A considerable decrease in oil production and a high degree of volatility in oil prices have affected both the current account and budget revenue. Contrary to previous years, the 2016 budget was not approved. According to recent updates, the GNA and the Central Bank of Libya (CBL) agreed on a 2017 emergency budget that has, however, been rejected by the HoR. Yet, to control expenditure amidst reduced oil revenues, the CBL continues to disburse funds only for wages and essential subsidies, while unemployment remains high, reaching 19.2 % in 2016.

Plans to implement industrial and entrepreneurship strategies have failed. Limited institutional co-ordination within the Libyan public sector and a fall in oil revenues have negatively affected government revenue collection, hampered budget revenues and fiscal management and delayed efforts and projects to diversify the economy away from the oil sector towards more general industrialisation.

The economic outlook in 2017 and 2018 largely depends on political unity and the extent of improvements in security. On the assumption that progress will be achieved, the economy will recover slowly, especially in the oil sector. Prospects also hinge on the outcome of efforts to diversify the economy. Significant reform programmes, enhanced ability to mobilise external resources and diversification of the economy could – if conditions allow – release growth potential and produce important economic changes for Libya.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-10.1	-8.1	-4.9	-3.0
Real GDP per capital growth	-9.8	-7.3	-2.7	-1.5
CPI inflation	9.8	25.7	12.9	10.1
Budget balance % GDP	-52.5	-53.8	-51.5	-51.1
Current account % GDP	-41.8	-37.8	-28.4	-21.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MADAGASCAR

- **The economy expanded by 4.0% in 2016 with 4.5% predicted for 2017 after five years of sluggish growth.**
- **This growth will depend on political stability and enactment of structural reforms.**
- **To speed up industrialisation and promote inclusive growth, the government must push ahead with creating special economic zones (SEZ) and helping micro enterprises to flourish via a financial sector adapted to the needs of start-ups.**

Economic prospects are favourable with growth at 4.0% in 2016 and a projection of 4.5% in 2017 driven by timber, agro-industry, construction, tourism and agriculture.

Results will depend on macroeconomic stability efforts, an improved business climate to attract private investment and better governance, especially in the state water and electricity company Jirama (*Jiro sy rano malagasy*). Economic progress also depends on the ability of the government and others to create political stability. Medium-term risks include recurrent climate shocks (drought in the south, floods in the north). Annual inflation should remain steady at around 7.0% as long as world oil prices hold up and the central bank's new statute helps it to be more independent in monetary policy and financial strategy.

Social conditions are still marred by poverty, malnutrition and growing inequality, stoked by an annual 2.8% population growth. The population is quite young, with 76.2% under 35. The labour market is characterised by under-employment and by precarious or low-paid jobs (four out of five workers). Some 400 000 youths join the labour market each year.

Industry provides 14.8% of GDP, much less than in many other African states, but the country is teeming with micro and small enterprises, mostly in the informal sector. To achieve the structural transformation required for more inclusive economic growth, the government needs to combine its policy of setting up special economic zones (SEZs) with encouraging entrepreneurs, especially young ones. This calls for an institutional and regulatory framework to support micro enterprises along with productivity incentives, especially appropriate and accessible financial services, as well as the encouragement of innovation to strengthen ties between firms and industrialisation, especially through funding facilities adapted to the needs of start-ups.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.1	4.0	4.5	4.8
Real GDP per capital growth	0.3	1.2	1.7	2.0
CPI inflation	7.4	7.1	7.0	6.5
Budget balance % GDP	-3.2	-3.2	-4.3	-3.7
Current account % GDP	-1.9	-2.3	-3.2	-3.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MALAWI

- **Economic growth in 2016 remained sluggish at 2.7% due largely to the El Niño induced drought, but is projected to improve to 4.0% in 2017 and further accelerate to 5% in 2018.**
- **Malawi was amongst countries in the Southern African Region worst affected by the drought, with 36% of the population requiring food relief. It is crucial for Malawi to build resilience to weather-related shocks to attain food security and to achieve sustainable development.**
- **Coherent national policy efforts to promote and nurture entrepreneurship are necessary to create enabling conditions for industrialisation. This will require multi-pronged efforts to improve the business environment, develop skills, and strengthen provision of business development services to micro, small and medium-sized entreprises (MSMEs).**

In 2016, Malawi's economy continued to face challenges emanating from adverse weather conditions. The drought reduced output of maize, the main staple crop, by 14%, necessitating maize imports to meet the supply gap, at significant cost.

The drought also had a negative impact on power supply, constraining economic activities in sectors such as manufacturing, which experienced low capacity utilisation. The economic challenges were exacerbated by poor tobacco earnings, a rapidly depreciating kwacha, high inflation and high interest rates dampening consumer and business confidence.

Average annual headline inflation in 2016 stood at 22.6%, slightly lower than the 2015 figure of 21.0%, with rising food inflation as the main driver. The monetary policy stance in 2016 remained tight with a view to containing inflation. Inflation is projected to fall to 16% by the end of 2017 and decelerate further to 9.7% in 2018 assuming normalisation of food supply, improved fiscal discipline and stabilisation of the kwacha. Nonetheless, upside risks to inflation remain elevated in view of the expected increase in international oil prices and persistent domestic borrowing pressures. The Reserve Bank of Malawi (RMB) is, therefore, likely to maintain a cautious approach and allow the policy rate to decline only when inflationary expectations are reduced.

Fiscal policy management in FY 2015/16 was challenged by revenue shortfalls, non-availability of donor budget support, spending pressures from domestic debt servicing costs and the high costs of fertiliser subsidies. Despite fiscal policy tightening, net domestic borrowing increased beyond the budget by 1% of GDP due to the need to respond to the food crisis through additional financing. Fiscal consolidation efforts were deepened in the context of FY 2016/17 budget through reforms to the Farm Input Subsidy Programme (FISP) and restrained public sector wage growth.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.9	2.7	4.0	5.0
Real GDP per capital growth	-0.2	-0.4	0.9	1.9
CPI inflation	21.0	22.6	16.0	9.7
Budget balance % GDP	-6.5	-6.1	-5.6	-3.4
Current account % GDP	-8.2	-13.9	-10.7	-10.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MALI

- **Economic growth was a robust 5.3% in 2016, and is expected to remain so in 2017 based on strong domestic demand.**
- **Despite the signing of a peace and national reconciliation agreement in June 2015, the security situation was a cause for concern in 2016, with unrelenting rebel attacks against United Nations forces and the national army, plus mutually destructive fighting.**
- **The modest entrepreneurial sector, concentrated around the capital Bamako, has real investment opportunities but must overcome significant obstacles that the authorities are trying to remove.**

The economy of Mali suffered badly from the 2012 crisis, but its recovery strengthened in 2016. Growth estimates for 2016 (5.3%), continued financial support from the international community and measures envisaged by the government as part of its programme of economic and financial reforms offer the hope of a return to the growth rates of 2000-10 (5.7% on average).[1]

As two-thirds of Malian exports are comprised of gold, with cotton making up a smaller proportion, they are subject to fluctuations in world prices and to climatic variability. The two commodities accounted for 70% and 10% of exports respectively in 2016. The country is also facing the challenge of high population growth (3% per year), which means that a doubling of per capita income – USD 790 in 2016 – will take 35 years based on the 2016 growth rate.

The security situation remains unstable. There were kidnappings, armed fighting within rebel groups, and between rebel groups and the Malian and UN armed forces, not only in the north of the country, but also in the centre, in particular in Bamako where there were terrorist attacks. This insecurity affects political and institutional stability as well as socio-economic prosperity. It is closely linked to weak state authority in the Sahel area, which has encouraged the proliferation and prosperity of illegal activities and organised crime. However, the authorities' willingness to put an end to these troubles and the increased mobilisation of the international community suggest the medium term prospects are optimistic.

Due to the recovery since 2013, economic growth is expected to remain above its trend rate of around 4.5% until the end of 2018, at 5.4% in 2017 and 5.0% in 2018, before dropping back down. The inflation rate is expected to fall well below the West African Economic and Monetary Union (UEMOA) ceiling of 3.0%, with a rate of 0.9% in 2017 and 1.6% 2018. These optimistic prospects are subject to several risks, however. First, setbacks in restoring security could negatively affect consumer confidence, donors and investors, as well as increase spending on security at the expense of social programmes. Second, the economy's high dependence on exports of gold and cotton exposes the balance of payments – and to a lesser extent public finances – to fluctuations in international commodity prices. Finally, poor management of public finances could also affect consumer confidence, businesses and international financiers, and thus slow growth. Otherwise, public management should be guided by a prudent fiscal policy that maintains sustainable deficits and by a debt policy in line with the current risk of moderate over-indebtedness.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.0	5.3	5.4	5.0
Real GDP per capital growth	3.0	2.3	2.4	2.0
CPI inflation	1.4	0.3	0.9	1.6
Budget balance % GDP	-1.8	-4.2	-4.0	-3.4
Current account % GDP	-7.4	-6.7	-6.9	-5.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

1. In 2012, the country experienced a recession (GDP growth rate of -0.8%), after growing 2.7% in 2011. The recovery began in 2013, with a growth rate of 2.3%, and continued in 2014 and 2015, with rates of 7.0% and 6.0% respectively.

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MAURITANIA

- **The economy grew by an estimated 3.1% up from 2% in 2015 despite a sharp fall in the price of iron ore.**
- **The economic outlook is more favourable in the short and medium term, thanks to higher projected industrial and mining output, good performances in agriculture and fisheries and continuing structural reform.**
- **An improved business climate is vital for the emergence of a true local entrepreneurial class that can speed up industrialisation and create decent jobs thereby reducing poverty and social inequality.**

The economy grew by an estimated 3.1% in 2016 (after slowing to 2% in 2015), driven by the primary sector and a recovery in mining, with the primary sector contributing a bigger share (29.1%) of gross domestic product (GDP) (slightly up on the previous year's 28.6%). Mining accounted for 5.6% of real GDP (up from 4.9%), mainly thanks to the opening of the Guelb II iron mine and promotion of the country's geological and mining potential. Manufacturing's GDP share rose by 0.2 percentage points to 6.7%, but this was still below the 10% or so it contributed before 2005. The tertiary (services) sector continued to grow and was the biggest part of real GDP (35%).

The economic outlook is fairly good in the short and medium term, thanks to higher output by the SNIM, good performances in the irrigated agriculture sub-sector (because of new farmlands) and fisheries, ongoing investment in growth-promoting infrastructure and in human capital, and continuing structural reform.

Macroeconomic gains were consolidated in 2016, with inflation still low (1.9%) mainly the result of only slightly higher food prices and control of the money supply. The budget remained in good shape, with a manageable overall deficit of about 3.3% of GDP (3.5% in 2015). Official reserves remained satisfactory at the end of 2016, at the equivalent of some 6.6 months of imports. The current account deficit continued improving, to 15.8% (down from 20% in 2015).

But the country is still vulnerable through its dependence on raw materials and from a persistently inadequate business climate. Greater efforts are needed to diversify the economy and make it more resistant to external shocks, and to improve the business climate, without which more and better private investment cannot be attracted. Further reforming the financial sector and making it more dynamic should produce new opportunities, especially for small and medium-sized enterprises (SME) by improving access to funding and expanding financial services.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.0	3.1	4.1	2.4
Real GDP per capital growth	-0.4	0.6	1.8	0.1
CPI inflation	0.5	1.9	2.2	4.9
Budget balance % GDP	-3.5	-3.3	-3.5	-4.2
Current account % GDP	-20.0	-15.8	-16.8	-16.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MAURITIUS

- **The pace of economic growth was moderate in 2016, with the economy growing by 3.6% compared with 3.4% in 2015 reflecting a slight increase in domestic investment that was offset by weak external demand.**
- **Political stability and sound macroeconomic management continue to promote investor confidence. Higher skills and productivity levels would make the country more competitive and innovative.**
- **The government has demonstrated firm commitment to promoting industrialisation and entrepreneurship, in an effort to boost sustainable economic growth and enhance the competitiveness of the economy.**

Mauritius' economy grew by 3.6% in 2016, following a slight pick-up in private investment but was offset by weak external demand. Economic growth was driven by the information and communications technology and financial and insurance sectors, which grew by 6.3% and 5.6%, respectively. These gains were offset by the poor performance of the construction and agricultural sectors, which contracted by 5.4% and 2.4%, respectively. Mauritius' fiscal deficit was recorded at 3.4% of gross domestic product (GDP), by close of the fiscal year 2015/16, as the government rolled out a number of new social programmes but reduced capital spending. In July 2016, the Monetary Policy Committee (MPC) of the Bank of Mauritius (BoM) cut the key policy rate by 40 basis points to 4.0%, in the light of a benign inflation environment and subdued domestic and external demand. Headline inflation dropped throughout 2016, reaching 1.3% in December 2016. The primary factors underpinning the drop in inflation in 2016 were the decline in food prices (food items account for 27.3% of the Consumer Price Index [CPI] basket) combined with a drop in international oil prices (transport accounts for 15% of the CPI basket in Mauritius). The overall current account deficit narrowed to 3.9% of GDP in 2016 and should shrink further helped by tourism and persistently low oil prices. The country recorded gross international reserves of 4.9 billion US dollars (USD) at 30 November 2016, equivalent to 8.4 months import cover.

Mauritius benefits from political stability and sound macroeconomic management, with increased foreign direct investment (FDI) sustaining growth. Mauritius also benefits from its strategic positioning as a gateway for investments from Europe and Asia into Africa. The government's long-term strategic vision has been set out in the country's long-term policy document, *Achieving the Second Economic Miracle* and Vision 2030, and the short-to-medium term 2015-19 Government Programme which calls for a more diversified and inclusive economy. The *Ocean economy* is also a priority area.

The authorities are exploring innovative approaches to promote direct foreign investments and accelerate diversification and modernisation. The government aims to promote exports by developing closer links with importers and the exploitation of niche and regional markets, particularly in sub-Saharan Africa. Agreements with Ghana, Senegal and Madagascar, establishing Special Economic Zones (SEZ) in these countries to open up niche markets for Mauritius' export industries have been approved. The vision of the current government to make Mauritius a nation of entrepreneurs is clearly set out in the 2016/17 budget speech, in which a series of measures were announced promoting the development and financing of micro, small and medium enterprises.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.4	3.6	3.5	3.8
Real GDP per capital growth	3.1	3.3	3.2	3.5
CPI inflation	1.3	1.3	2.5	2.7
Budget balance % GDP	-3.5	-3.4	-3.6	-3.5
Current account % GDP	-4.8	-3.9	-4.8	-5.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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MOROCCO

- **Morocco's economy grew by an estimated 1.5% in 2016 due to the adverse impact of poor rainfall but the economy is projected to grow by 3.7% in 2017.**
- **Parliamentary elections in October 2016 were won by the right-wing Islamist Justice and Development Party.**
- **COP22, held in Marrakech in November 2016, led to the signing of the Paris Agreement, ratified by 115 countries that produce more than 75% of global greenhouse gas emissions.**

Poor rainfall limited growth to an estimated 1.5% in 2016, but growth is projected at 3.7% in 2017. Major public policies are starting to bear fruit, with agriculture gradually diversifying and industry, driven by the automotive sector, on an upward trend. Thanks to the country's stability, its exceptionally improved business climate (with its ranking by the World Bank report *Doing Business* up ten spots since 2008) and the sustained development of its infrastructure (particularly ports and railways in 2016), Morocco has attracted remarkable levels of foreign direct investment compared with the rest of the sub-region and the continent. The main macroeconomic aggregates have also improved, with the budget deficit projected to be 3% in 2017.

Two key public policy trends emerged in 2016. First, Morocco's hosting of the Conference of the Parties (COP 22) on climate in Marrakech was the culmination of a year strongly focused on environmental issues. The first power station in the Noor complex in Ouarzazate opened in February 2016, and work commenced on the second and third power stations. The "Zéro-Mika" operation led to the complete prohibition of plastic bags thanks to awareness raising and the introduction of alternatives. The second key trend has been the active strengthening of Morocco's ties with Africa. At the 27th African Union summit in July 2016, King Mohammed VI announced his desire to see Morocco re-join the Union, and the country was admitted in January 2017. Following his announcement in 2016, the king made an official tour of Tanzania, Rwanda, Ethiopia, Madagascar and Nigeria, all less traditional partners than the French-speaking West African countries. As a result, work began on a gas pipeline between Morocco and Nigeria in December, and a EUR 2 billion contract has been signed with Ethiopia to build an industrial site aimed at making Ethiopia self-sufficient in agricultural fertilisers by 2025.

In terms of entrepreneurship and industrialisation, the performances of Morocco's new industries (automotive, aeronautical and electronics) have vastly diversified the country's export basket after a decade of active strategies in this direction, but there are still obstacles to the development of companies. The 2015 Growth Diagnostic conducted by Morocco, the African Development Bank and the Millennium Challenge Corporation (MCC) identified education and certain aspects of the legal framework (taxation, the justice system and land ownership) as major constraints to the development of small and medium-sized enterprises (SMEs). The size of the informal economy has also been regularly blamed. The new "self-entrepreneur" status created in 2015 and the gradual extension of social benefits to the self-employed should allow some of those operating in the informal economy to move into the formal sector.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.5	1.5	3.7	3.6
Real GDP per capital growth	3.2	0.2	2.5	2.4
CPI inflation	1.6	1.6	2.1	1.3
Budget balance % GDP	-4.9	-3.9	-3.0	-2.8
Current account % GDP	-2.5	-3.8	-3.4	-2.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

MOZAMBIQUE

- **GDP growth declined to 4.3% in 2016 due to fiscal tightening, slowdown in foreign direct investment and the "hidden" debt crisis; it is expected to pick up to 5.5%, driven by exports from the extractives sector.**
- **Though the incidence of poverty has declined, the number of poor people remains almost the same, amidst growing inequalities.**
- **A weak manufacturing sector employs just 3.2% of the population, and is made up of small and micro-enterprises (90%).**

Growth in real gross domestic product (GDP) is estimated at 4.3% in 2016 reflecting Mozambique's vulnerabilities. Traditional export earnings dropped due to depressed global demand, and the El Niño drought affected agricultural production while the economy faced logistical constraints related to internal military conflict. Weak foreign-currency inflows – as gas megaprojects were stalled and external partners suspended budget support – have left the economy to its restricted internal financing capacity. Monetary tightening contracted internal demand, and imports were curtailed by further depreciation of the metical (MZN). A pick-up in coal and electricity exports, together with the expected start of an offshore natural-gas project, should help growth to increase to 5.5% in 2017 and 6.8% in 2018.

In the aftermath of the USD 1.4 billion hidden-debt disclosure in 2016, Mozambique became Africa's most indebted country, classified by the International Monetary Fund (IMF) to be in debt distress and by rating agencies in restricted default. With potentially large revenues from liquefied natural gas (LNG) projects still in the future, in the short term the country faces a liquidity crisis to balance its external accounts and finance its fiscal deficits. A credible fiscal tightening stance is crucial to ensure debt sustainability, hinging on the restructuring of its commercial debt. The necessary political resolve will face internal resistance, particularly to addressing governance and accountability issues, and settling the political-military conflict. In the medium term, diversification of the domestic productive base is the pathway to economic resilience and inclusive development. Recent poverty data reveals slow poverty reduction but growing inequalities amongst regions, and between urban and rural populations.

Thanks to large inflows of foreign direct investment (FDI) since 2000, aluminium, coal and gas now constitute the country's industrial backbone, with the natural gas sub-sector poised to become the main industrial cluster. These are mostly export-oriented industries, however, with limited value addition. The rest of the manufacturing sector has mainly stagnated, with the exception of food, drinks, tobacco and cement. Since independence in 1975, traditional industries such as ceramics, tea, cashew, metalworking and textiles have disappeared or become residual. In 2016, the government approved a new industrial strategy aimed at using industry as the main vehicle to prosperity.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.6	4.3	5.5	6.8
Real GDP per capital growth	3.8	1.5	2.7	4.1
CPI inflation	3.6	16.7	15.3	8.2
Budget balance % GDP	-2.2	-2.8	-1.3	-1.1
Current account % GDP	-32.3	-31.1	-30.3	-29.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

NAMIBIA

- **Growth sharply moderated to 1.3% in 2016 but should rebound in 2017 as the agriculture sector recovers and production from new mines accelerates.**
- **On-going fiscal consolidation policy measures to reduce public debt and help address the current account imbalance will need to protect growth-promoting public investments.**
- **The 'Growth at Home' strategy for industrialisation and the policy for promoting micro, small and medium enterprises provide a strong foundation for diversification and job creation but the pace for business environment reforms needs increasing to support entrepreneurship.**

After posting annual growth rates of above 5% since 2010, Namibia's growth momentum sharply moderated in 2016. Gross domestic product (GDP) growth slowed from 5.3% in 2015 to an estimated 1.3% in 2016 as major mining construction projects ended and fiscal consolidation took hold. In 2017 GDP growth is expected to rebound to 2.5% with the recovery of the agriculture sector and the strengthening of production and exports from new mines. The mid-term outlook is positive, albeit with significant downside risks emanating from weak Southern Africa Customs Union (SACU) revenues, fiscal consolidation, soft global commodity prices, and rising housing prices and household credit.

During 2015, a prolonged expansionary fiscal stance, in the context of falling SACU revenues combined to widen the fiscal deficit to 8.7% of GDP and pushed the current account deficit into double digits at 13.7% of GDP. These deficits were financed with the issuance of the eurobond which helped to anchor foreign reserves but increased public debt to its highest levels yet. This prompted leading rating agencies to revise Namibia's sovereign credit rating outlook from stable to negative (Fitch rating BBB; 2 September 2016; www.fitchratings.com/site/pr/1011212) in September 2016. As a result, the government had to change its fiscal policy stance and accelerated fiscal consolidation, proposing expenditure cuts of up to 2.8% of GDP in the mid-term review of the 2016/17 budget.

Inflation picked up from 3.4% in 2015 to 6.7% in 2016 driven by food and administrative price increases. In response to this, monetary policy was tightened to stem strong credit growth also linked to an increase in luxury imports, rising housing prices and household indebtedness. The Bank of Namibia (BoN) raised the repo rate to 7% in April, 2016 to align with the South Africa Reserve Bank (SARB)'s policy rate in the context of the Common Monetary Area. Going forward, the twin deficits are projected to narrow on the back of fiscal consolidation and export revenue growth.

Namibia's policy for industrialisation adopted in 2012 and its implementation strategy the "Growth at Home" launched in 2015, lays a strong foundation for economic diversification and job creation. In its policy for promoting micro, small and medium enterprises adopted in 2016 the government recognises that a vibrant entrepreneurship culture and a conducive business investment climate are key imperatives for competitiveness and successful industrialisation. While some structural transformation has taken place and poverty has significantly declined, the majority of Namibians are still employed in low paid jobs dominated by primary agriculture. Furthermore, unemployment rate at 28.1% and income inequality (Gini coefficient of 0.572) remain high. To harness entrepreneurship that promotes value adding economic activities and creates quality jobs while reducing poverty and inequality, Namibia needs to accelerate implementation of its structural reform programme articulated in the Harambee Prosperity Plan and the National Development Plan in line with the aspirations of the 2030 Vision.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.3	1.3	2.5	3.7
Real GDP per capital growth	3.0	-0.9	0.3	1.6
CPI inflation	3.4	6.7	6.0	5.2
Budget balance % GDP	-8.7	-4.7	-6.4	-4.9
Current account % GDP	-13.7	-9.7	-5.1	-4.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

NIGER

- **Economic growth rebounded to 5.2% in 2016 from 3.5% in 2015, thanks mainly to agricultural production and growth is projected to remain strong at 5.6% in 2017.**
- **Terrorism and security threats from neighbouring countries (Mali, Libya and Nigeria), falling world oil and uranium prices, and slower growth in the Nigerian economy continue to have an impact on Niger's economic situation.**
- **Entrepreneurship in Niger is mainly informal, while industrialisation remains weak and continues to face several challenges, including problems with electricity supply.**

Growth accelerated to 5.2% in 2016 and is projected to continue accelerating in 2017 (5.6%) and 2018 (6.7%). The upturn in 2016 is thanks mainly to the good winter harvest in 2016 and the increase in oil production. The recovery could have been stronger had neighbouring Nigeria's economy not fallen into recession at the end of the third quarter of 2016. Other reasons for the good economic outlook include ongoing work on road infrastructure, the expected relaunch of the open-pit uranium mining project in Imouraren and the start of work to build an oil pipeline to export crude oil. However, this outlook is subject to risks related to climate shocks, oil-price shocks, possible delays to the pipeline and security tensions. Agriculture remains the main driver of growth, despite climate vagaries that make the economy very vulnerable.

Security and humanitarian shocks linked to the surge in Boko Haram attacks have hurt public finance management. These shocks could affect the pace of reforms and the implementation of important development programmes for Niger under the 2017-21 Economic and Social Development Plan (PDES). This situation affected the implementation of the 2016 budget, causing revenue shortfalls and overspending, especially on wages and on investments in the defence and security forces.

Entrepreneurship remains very weak in Niger due to the size of the informal economy, but measures to promote youth entrepreneurship through the National Strategic Framework for the Promotion of Entrepreneurship in Niger (CSNPEN) are reversing that trend, albeit still only slowly. Industry's contribution to GDP averaged 15.1% for the four-year period from 2013 to 2016. Pro-industrialisation measures are hampered by many challenges, especially the longstanding lack of a development policy geared towards processing and the country's limited electricity production. Niger will build its promotion of entrepreneurship and industrialisation around the oil and mining sectors, which have strong potential. By way of example, between the third quarter of 2015 and the third quarter of 2016, the industrial and mining production index grew by 39.5%, driven in particular by mining production (+14.6%) and manufacturing (+160.2%).

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	3.5	5.2	5.6	6.7
Real GDP per capital growth	0.5	2.2	2.6	3.7
CPI inflation	1.0	2.1	1.9	2.1
Budget balance % GDP	-9.1	-6.8	-6.3	-5.5
Current account % GDP	-22.3	-19.4	-20.4	-19.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

NIGERIA

- **In 2016, Nigeria's economy slipped into recession for the first time in more than two decades, reflecting adverse economic shocks, inconsistent economic policies, and security problems in the north east and Delta regions.**
- **The outlook for 2017 is for a moderate economic recovery with real GDP projected to grow at 2.2% spurred by increased infrastructure spending and restoration of oil production to previous levels.**
- **The government has initiated a plan for an integrated framework for development programmes in the north east through implementation of targeted social safety initiatives across the country. Private investments are a key policy priority, aimed at driving economic diversification through entrepreneurship and industrialisation in the lead sectors of agribusiness, manufacturing and mining.**

The Nigerian economy continues to face serious macroeconomic challenges and is in a recession for the first time in decades. Gross domestic product (GDP) growth for 2016 is estimated at -1.5%, with a moderate recovery expected in 2017. This is attributed to a series of shocks, including the continued decline in oil prices, foreign exchange shortages, disruptions in fuel supply and sharp reduction in oil production, power shortages, and insecurity in some parts of the country, as well as low capital budget execution rate (51%). Managers of the economy responded to the recession with a package of monetary, fiscal and exchange rate policies.

The CBN pursued a contractionary monetary policy stance. It increased the monetary policy rate to 14% from 11% in 2015 to attract capital inflow and control upward ticking inflation. To protect priority sectors from the rate hike, the cash reserve requirement was reduced and the amount raised was warehoused to be accessed by priority sectors at a single digit interest rare. The action resulted in an increase in broad money supply which together with cost push factors resulting from fuel, power and foreign exchange shortages contributed to the upward trend in the headline inflation which rose to 15.7% on average in 2016 from 9.1% in the previous year. The fiscal authorities on the other hand pursued an expansionary fiscal policy with the objective of reflating the economy by allocating close to 30% of the budget to capital expenditure. The expansionary budget was planned on the back of existing fiscal consolidation underpinned by domestic resource mobilisation and expenditure rationalisation measures. In addition, the year saw a significant reduction in foreign reserves which fell to USD 25.8 billion as at year-end 2016 from USD 28 billion in the corresponding month of 2015. This was caused by a current account deficit as a result of low oil receipts, rising capital outflow caused by domestic and global financial market conditions and increased use of foreign exchange to defend the naira. A host of administrative measures were introduced to manage foreign exchange demand and an important policy shift was made to a more flexible exchange rate regime.

The 2017 outlook is for a slow economic recovery. Growth is projected at 2.2% as economic policy reforms begin to take hold and a coherent set of policies to address the macroeconomic challenges and structural imbalances is implemented. In this regard, the federal government has developed a framework in the Nigeria Economic Recovery and Growth Plan (2017-20). The plan focuses on five key areas, namely: improving macroeconomic stability; economic growth and diversification; improving competitiveness; fostering social inclusion; and governance and security. Some key reforms have been rolled out, including the conditional cash transfer initiative targeted at the poorest and most vulnerable population, improving capital budget execution, and strengthening public financial management at both state and federal levels.

Security remains a challenge despite gains made in the conflict with Boko Haram in the north east and the intensification of dialogue with militants in the Niger Delta. In addition to a military solution, the federal government is committed to implementing economic recovery and development interventions

aimed at addressing the deepening fragility and vulnerability in the conflict-affected north east and the Niger Delta. The Presidential Committee on the North East Initiative (PCNI) was inaugurated towards the end of 2016 and is charged with co-ordination of all assistance and projects targeted at the most affected states in the region. The federal government has started paying out a monthly stipend of NGN 5 000 to the poorest and most vulnerable through the conditional cash transfer initiative of its social investment programme.

The acceleration of the implementation of the Nigeria Industrial Revolution Plan (NIRP) is a key priority for fostering industrialisation. The priority sectors identified are mining and quarrying, which contributed 7.1% to overall GDP in 2016, and manufacturing, which declined 2.6 % year-on-year due to increased costs in business operations, resulting mainly from foreign exchange restrictions. The manufacturing sector recorded a general decline in 2016, with an estimated 272 firms shutting down and industrial capacity utilisation dropping significantly from 51.4% in 2015 to 35.4% in 2016.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.8	-1.5	2.2	4.8
Real GDP per capital growth	0.1	-4.2	-0.5	2.1
CPI inflation	9.1	15.7	14.3	12.4
Budget balance % GDP	-1.3	-2.3	-2.2	-2.0
Current account % GDP	-3.1	-1.8	0.7	2.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

RWANDA

- **GDP growth slowed to 6.0% in 2016 and headline inflation rose sharply to 7.2%, the highest level since 2012.**
- **Rwanda remains peaceful and stable and preparations for the August 2017 presidential elections have commenced, with the constitution amended to address presidential term limits.**
- **Macroeconomic stability and an increasingly attractive investment climate are creating a favourable environment for business start-ups, entrepreneurs and other private sector actors.**

Real gross domestic product (GDP) growth is estimated to have slowed down to 6.0% in 2016 due to weak external demand and tight monetary policy from 6.9% in 2015 but it is projected to bounce back to 6.2% in 2017 as conditions improve.

Headline inflation increased to an annual average of 7.2% in 2016 from 2.5% in 2015 due to a combination of poor harvests and some limited pass-through effects from foreign exchange rate depreciation. This was the highest level in 20 years and beyond the target ceiling of 5.0% set by the National Bank of Rwanda (NBR). Improved food supply in the new agricultural season and a tight monetary policy are expected to reverse the rise in prices and bring down headline inflation to an average of 5.5% in 2017.

The current account deficit is expected to have widened to 13.2% in 2016 from 13.1% of GDP in 2015. This is largely due to the current drought, which has made food imports necessary and the purchase of two aircrafts by RwandAir. The deficit is expected to increase in the medium term, despite an increase in export diversification.

The fiscal deficit is estimated to have decreased to 3.2% of GDP in 2016 from 5.3% of GDP in 2015 before increasing to 5% in the fiscal year 2017/18. This is due to fiscal containment measures aimed at minimising the impact of external shocks from a decline in aid and export receipts.

With a stable macroeconomic environment and an increasingly attractive investment climate, Rwanda is creating a favourable environment for business start-ups, entrepreneurs and other private sector actors. It has embedded entrepreneurship development into its policy frameworks, such as its employment policy in 2007, small and medium-sized enterprises (SMEs) policy in 2010 and Private Sector Development Strategy (PSDS) in 2013. However, structural challenges continue to constrain the potential of SMEs. These challenges include access to affordable credit, business management, closing the skills gap and integrating the promotion of SMEs with broader efforts, such as urbanisation, infrastructural development and regional integration.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.9	6.0	6.2	6.8
Real GDP per capital growth	4.6	3.6	3.9	4.5
CPI inflation	2.5	7.2	5.5	5.0
Budget balance % GDP	-5.3	-3.2	-5.0	-6.3
Current account % GDP	-13.1	-13.2	-13.6	-13.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SAO TOME AND PRINCIPE

- **Sao Tome and Principe's economy was estimated to have grown by 5% in 2016, led by agricultural investment and tourism, and growth is set to continue in 2017 and 2018 by 5.5% on average.**
- **The country has improved on the Mo-Ibrahim Index of African Governance moving to 11th place in 2016 from 13th in 2015 reflecting efforts to improve good governance.**
- **The economy depends on inputs and technology from abroad and has a very limited industrial ecosystem, yet the government has no industrialisation strategy.**

Real gross domestic product (GDP) growth increased to 5% in 2016, up from 4% in 2015, led by agricultural investment and tourism. Growth is set to reach 5.6% in 2017 and then 5.4% in 2018, driven mainly by foreign direct investment in construction and tourism. The slight projected decline of 0.2 percentage points in 2018 is due to expectations of a slight decrease in funding from donors. The consumer price index (CPI) has continued its downward trend, despite a marginal increase of 0.3% at the end of 2016.

Raising sufficient resources domestically to finance government spending presents a key challenge, underscored by a high stock of public debt, estimated at 75% of GDP in 2015. The government envisages several reforms in 2017 to collect more revenue. The first of these is to establish a 25% tax on locally produced alcoholic beverages. Secondly, the government plans to regulate the billing system. Thirdly, it plans to create a regional taxation tribunal. Finally, the government also plans to update the tax code to include, among other things, a tax on service delivery for non-residents.

The financial sector, meanwhile, faces demand-side constraints. These include capital shortages at the corporate level, a lack of bankable projects, and increasingly restricted foreign-currency reserves. Moreover, the government's fiscal policies are proving challenging for the country's still rather embryonic private sector. Furthermore, the expensiveness of energy, maintenance, and human capital make business costs high. New businesses often find it hard to take off and flourish because of high interest rates, a lack of access to long-term financing, and a weak judicial system.

According to data from the latest census in 2012, unemployment stood at 13.6%, and continued to affect young people and women disproportionately. The problem of unemployment makes new initiatives to foster entrepreneurship all the more desirable.

To foster entrepreneurship, industry, and foreign investment, the government should adopt a range of reforms, including lower taxes, and measures making it easier to get loans.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.0	5.0	5.6	5.4
Real GDP per capital growth	1.9	2.9	3.5	3.3
CPI inflation	5.3	5.6	4.1	2.9
Budget balance % GDP	-6.3	-8.8	-3.7	-3.2
Current account % GDP	-12.9	-8.9	-10.5	-10.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SENEGAL

- **The economy grew by an estimated 6.7% in 2016, with 6.8% expansion predicted for 2017 and 7% in 2018.**
- **The Mo Ibrahim Index of African Governance (IIAG) ranked Senegal 10th out of 54 countries in 2016 and one of the three that improved their position in the four categories of the index.**
- **The country's industrial sector is 92.5% made up of small and medium-sized enterprises (SMEs) but large firms (7.5%) account for 90% of added value.**

Economic growth continues to accelerate and should reach 6.7% in 2016 (up from 6.5% in 2015), mostly driven by agriculture, industry and a revival in the services sector. This expansion should reach 6.8% in 2017 and 7% in 2018, but could be less if reforms are slow to take effect or the weather is a problem, along with security in the sub-region linked to jihadi groups.

The national development plan (*Plan Sénégal émergent* [PSE]) was in its second year in 2016, with major reforms expected to speed up the public investment involved in the plan's projects.

Entrepreneurship and industrialisation are seen as chances to create added value and jobs, especially in manufacturing and agri-food. The government has a strategy to boost entrepreneurs as well as an industrial development policy, but they are not being fully implemented so these sectors are still quite small. The number of big firms only rose from 79 in 2009 to 80 in 2013, with the contribution of modern industries just growing from 9.9% of GDP to 10.3%. Individual entrepreneurs were estimated to number 59.5% of the total by the 2014 national survey of SMEs and this proportion can increase if structural obstacles are reduced and the business climate improves, along with better access to funding. The government is revising its 2005-15 industrial redeployment policy (PRI) to boost industrialisation in provinces with big economic potential through substantially upgrading facilities and infrastructure and setting up special economic zones and industrial parks.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.5	6.7	6.8	7.0
Real GDP per capital growth	3.4	3.7	3.7	4.0
CPI inflation	0.1	1.1	1.9	2.0
Budget balance % GDP	-4.8	-4.2	-3.6	-3.3
Current account % GDP	-6.9	-6.6	-6.3	-7.2

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SEYCHELLES

- **Growth slowed to 4.8% in 2016 from 5.7% in 2015 after a robust period of growth that allowed Seychelles to reach high-income status in 2015.**
- **The medium-term outlook is moderate, with real GDP projected to grow at 3.5% in 2017 and 3.3% in 2018, driven by tourism, ICT and fisheries.**
- **Enhanced attention to entrepreneurship, skills development and improved financial inclusion will help Seychelles achieve a more inclusive and sustainable growth performance with greater diversification.**

The economy of Seychelles continued to grow in 2016, driven primarily by tourism, but the rate of real gross domestic product (GDP) growth slowed to an estimated 4.8% from 5.7% in 2015. The medium-term growth outlook is moderate, with real GDP projected to grow by 3.5% in 2017 and 3.3% in 2018. The country reached high-income status in 2015. The traditional tourism and fisheries sectors are expected to remain the main drivers of growth, along with information and communications technology (ICT). Prudent fiscal and monetary policies, coupled with continued political stability, have helped consolidate macroeconomic stability, and inflation is expected to remain in single digits in 2017.

Challenges facing the country include insufficient economic diversification and vulnerability to external shocks. Growth needs to be made greener and more inclusive to protect Seychelles' fragile natural environment against the adverse impacts of climate change and to ensure that growth benefits all members of the society. The development of the private sector is paramount to achieving a more diversified economy, but it requires a more enabling environment to exploit its potential and expand into new business areas.

Greater attention to entrepreneurship, skills development and improved financial inclusion will help Seychelles achieve a more inclusive and sustainable growth performance with better diversification. Despite its small population and short post-independence history, the country's unique natural resources and the cultural diversity of its immigrant population have provided it with an innovative and entrepreneurial attitude. However, the overall entrepreneurship potential seems to be yet untapped due to a number of challenges, including lack of entrepreneurial drive among youth, lack of training in entrepreneurship and business creation, and a mismatch between the skills level of job seekers and the needs of the private sector. The new government in place since autumn 2016 has created new bodies for entrepreneurship development and industry that aim to support young entrepreneurs in starting businesses.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.7	4.8	3.5	3.3
Real GDP per capital growth	5.1	4.1	2.9	2.8
CPI inflation	4.0	-0.1	2.6	3.8
Budget balance % GDP	3.5	1.0	1.5	1.8
Current account % GDP	-18.4	-14.1	-17.7	-18.0

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SIERRA LEONE

- **The economy recovered from the after effects of the Ebola epidemic, growing by 4.3% in 2016 from -21.1% the year before.**
- **The country has introduced austerity measures in the 2017 budget, and is clearly moving towards a more restrictive trade regime by introducing new tariffs.**
- **To overcome the difficulty of accessing credit for SMEs, the National Strategy for Financial Inclusion (2017-20) was launched in late 2016.**

Sierra Leone has achieved commendable economic growth rates in the post-war period that peaked at 20.7% in 2013 with the launching of the government's Agenda for Prosperity 2013-18 (A4P). The continued double-digit GDP growth resulted from resumption in iron ore production combined with government investment in infrastructure as well as buoyant activities in agriculture, tourism and services. The impressive growth rates were, however, disrupted by the twin-shocks of: i) unprecedented decline in international iron-ore prices starting in late 2013; and ii) the outbreak of Ebola Virus Disease (EVD) in 2014, together culminating in GDP contraction of 21.1% in 2015. Sierra Leone is essentially a supply-constrained mono-cultural economy depending on a few commodities for output and export. Following these shocks, the authorities, in very close partnership with donors and other stakeholders, prioritised the country's immediate strategic interventions in the context of the Post-Ebola Recovery Plan (PERP), which is a refocusing of the A4P as launched in late 2015.

With nominal GDP projected at SLL 22.69 trillion in 2016 (IMF projection of USD 4.289 billion for 2016), Sierra Leone is the 154th economy in the world and 38th in Africa but offering significant business opportunities. The economy is recovering from the twin shocks, and real GDP growth recovered from -21.1% in 2015 to 4.3% in 2016. Much of the recovery comes from the contribution of non-iron ore sectors reflecting improvements in agriculture, construction, electricity and other services. Although there is a modest recovery in iron-ore prices, the impact of the resumption of iron ore mining is yet to become buoyant due to its limited scale.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-21.1	4.3	5.0	5.9
Real GDP per capital growth	-23.3	2.1	2.9	3.8
CPI inflation	8.1	10.4	10.5	10.0
Budget balance % GDP	-4.4	-4.9	-3.8	-3.3
Current account % GDP	-15.5	-16.6	-16.0	-15.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SOMALIA

- **Real GDP growth in Somalia, estimated at 3.7% for 2016, is projected to decelerate to about 2.5% in 2017 because of lower agricultural output but will recover to about 3.5-4.5% in 2018-19.**
- **Creating jobs for the youth, providing social services such as education and health, and building sustainable livelihoods are the immediate key development challenges in Somalia.**
- **Somalia's entrepreneurial private sector is one of the country's main assets and an important partner for development actors.**

Somalia's economy remains fragile as it relies heavily on the agriculture and livestock sectors, remittances and telecommunications, with no apparent manufacturing and industrial sector. The small industry that existed before the civil war has completely vanished and the machinery sold as scrap metal. Very little value is added to agricultural and livestock products before they are either exported or consumed. Dependence on primary commodities as a major source of export earnings is a structural bottleneck and reflects the country's narrow economic base and vulnerability to market dynamics, price fluctuations and environmental shocks.

According to the IMF, real 2017 GDP growth is projected to decelerate to about 2.5%, with inflation forecast at 1-2%. The slower growth rate in 2017 will be a consequence of lower agriculture output due to a weaker rainy season. However, construction, telecommunications and service sectors are projected to continue to register decent growth. The external current account deficit is projected to remain large though remittances and grants are likely to cover this deficit. The Somali Shilling (SOS)/USD exchange rate is expected to remain around 22 200 to 23 000, the range within which it has been since January 2015.

The fiscal framework for 2017 targets a zero-cash balanced budget, underpinned by realistic revenue projections, new revenue measures and prudent expenditures.

The World Bank estimates that the poverty levels in Somalia are extremely high, with about half of the population (51.6%) living below the poverty line. Poverty is aggravated by the lack of a functioning government, widespread insecurity, and natural calamities such as floods and droughts. The World Bank estimates Somalia's per capita income at USD 435, making it the fifth poorest country in the world. About 70% of its population of roughly 12 million are under the age of 30. Living in a country with an estimated youth unemployment rate of 67%, one of the highest in the world, young Somalis see few prospects for the future. High levels of unemployment have increased their vulnerability to militant groups and criminal activities.

Implementing the new National Development Plan (NDP) 2017-19 requires an environment more conducive to sustainable development and robust improvements in the political, security and governance situation of the country. The NDP will also involve a continuous public-private dialogue between government, citizens and the private sector.

The country's private sector is a major asset and Somali entrepreneurs have actually flourished in a stateless conflict-ridden economy. Remittances from the diaspora have funded private sector investment in livestock, trade, money transfer services, transport and telecommunications. As outlined in the NDP 2017-19, the Federal Government aims to strengthen the national economy by putting in place the relevant regulatory frameworks that are needed to support entrepreneurship and a vibrant private sector.

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SOUTH AFRICA

- **Economic growth decelerated to 0.3% in 2016 although it is expected to rebound to 1.1% in 2017 and higher in later years.**
- **Growth prospects will be driven by moderately stronger global growth, more favourable weather conditions, reliable electricity supply, less volatile labour relations, recovering business and consumer confidence, and stabilising commodity prices.**
- **The industrialisation strategy is geared towards promoting entrepreneurship, which will also help to generate employment.**

Economic growth at 0.3% in 2016, is expected to rebound from 2017 onwards as several limiting factors are receding, creating an opportunity for a new growth cycle. Key structural bottlenecks are being addressed including power shortages. Eskom has moved from an electricity shortage of 3 000 MW, which precipitated a series of power outages in 2015, to a surplus of 3 000 MW in 2016. Moreover, the government remains committed to working with the private sector, labour and civil society to promote inclusive growth and economic transformation. Economic growth is expected to increase to 1.1% in 2017.

The real effective exchange rate of the rand appreciated by 23.6% between January and December 2016. Although this resulted in deterioration in the competitiveness of local producers in foreign markets, at its most recent levels the currency was still 9% below its average value of the past 15 years in real terms. Inflation breached the monetary policy target range, reaching 6.4% in 2016. Driven by higher food prices, rising world oil prices, and domestic fuel prices, headline inflation is expected to breach the policy target range again in 2017 reaching 6.1%. Monetary policy has been tightened to curtail inflation and inflationary expectations from rising amid monetary policy tightening by the US Federal Reserve. The monetary authorities increased the policy interest rate to 7% in March 2016. Due to higher interest rates and subdued investor confidence, growth in the demand for credit by the private sector fell to 5.11% in December 2016 from 10.17% in December 2015.

National government revenue increased by 11.6% in fiscal year 2015/16 reaching R1.069 trillion or 26.1% of GDP. The increase was driven by higher receipts in most major tax categories, particularly taxes on property, international trade and transactions, and non-tax revenue.

Unemployment remains a major social challenge with youth unemployment among the highest on the continent. Commendable progress was made in addressing absolute poverty in the past decade primarily through extensive social safety net programmes. Nonetheless, the government continues to face challenges to effectively deliver basic economic and social services in rural areas and the townships.

South Africa's industrialisation and employment-generation strategy aims to encourage entrepreneurship. Nonetheless, success has been limited due to inadequate technical and business management skills; lack of experienced mentoring of entrepreneurs; barriers to business entry, and lack of access to finance.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.3	0.3	1.1	1.6
Real GDP per capital growth	0.3	-0.5	0.2	0.7
CPI inflation	4.6	6.4	6.1	5.6
Budget balance % GDP	-3.7	-3.4	-3.2	-2.9
Current account % GDP	-4.3	-3.9	-3.7	-3.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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SOUTH SUDAN

- **Macroeconomic performance has continued to deteriorate because of the country's fragile situation and continuing low worldwide oil prices while growth fell by 0.2% in 2015 and the fiscal and current account deficits have increased sharply.**
- **On 14 December 2016 the president announced the launch of a national dialogue initiative with the aim of protecting and preserving the unity of the people of South Sudan, ending their suffering, restoring the economy, and focusing on state and nation building.**
- **South Sudan does not have a broad and substantive history of private sector development from which entrepreneurial culture will easily develop.**

Economic performance has continued to deteriorate because of the civil war, the sharp fall in oil production, and the collapse of global oil prices. This has meant that the government is unable to raise the resources required to finance peace-related costs. In fact, financing even the normal 2015/16 budget, as approved by the assembly, remains a daunting challenge. South Sudan is the most oil-dependent country in the world, with oil accounting for almost the totality of exports, around 60% of its gross domestic product (GDP), and over 95% of government revenues in previous fiscal years. Global oil prices fell from USD 110 in 2014 to USD 30 before recovering to about USD 50 per barrel in early 2017. Net oil revenues in 2015/16 are expected to be only 17% of those of the previous year. This has had an adverse impact on economic performance. Real GDP growth fell by 0.2% in 2015. The fiscal budget and current account deficits have risen sharply resulting in a huge drop in foreign reserves, an increase in domestic and external debts, depreciation of the parallel domestic currency exchange rate, and acceleration in consumer inflation. GDP is estimated to have fallen drastically by 13.1% in 2016. The country's economic prospects remain bleak, and will depend on the successful implementation of the peace agreement, a significant recovery in global oil prices, and the implementation of the economic and fiscal measures announced in September 2016.

On 14 December 2016, President Salva Kiir announced the launch of a National Dialogue initiative with the purpose of protecting and preserving the unity of the people of South Sudan, ending their suffering, restoring the economy, and focusing on the state and nation building. It is both a process and a forum through which the people of South Sudan should redefine the basis for their unity as it relates to nationhood, refine citizenship and belonging, restructure the state and renegotiate the social contract, and revitalise their aspirations for development and membership of the world of nations. The national dialogue does not violate the terms of the Agreement on the Resolution of the Conflict in South Sudan (ARCSS). The political situation remains tense. In August 2015 parties to the South Sudan civil conflict signed a peace agreement, led by the Intergovernmental Authority on Development (IGAD). A key step in this peace accord was the formation of a unity government, which was finally announced on 29 April 2016. However, on 7 July 2016 new fighting erupted between the South Sudanese army (SPLA) and the opposition forces of the SPLA-IO. This opened a new wave of violence and since then a precarious calm has prevailed in the country.

The overall humanitarian situation continues to deteriorate sharply. In November 2016 about 1.67 million people remained internally displaced, while over a million had fled to neighbouring countries and 201 997 were seeking United Nations (UN) shelter. UN reports point to a borderline famine situation in many regions, especially in parts of the Unity State. An estimated 4.8 million people are in emergency or crisis level food insecurity. The food crisis and displacement of the populations are expected to worsen if insecurity continues.

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Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	-0.2	-13.1	-6.1	-2.7
Real GDP per capital growth	-4.2	-16.7	-9.3	-5.9
CPI inflation	52.8	476.0	110.7	49.1
Budget balance % GDP	-25.2	-21.8	-11.4	3.1
Current account % GDP	-22.8	-0.4	-7.0	-8.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SUDAN

- **Economic growth slowed in 2016 to an estimated 3% as a result of the decline in oil production and macroeconomic imbalances and is projected at 3.4% in 2017 and 3.6% in 2018 on the back of improved performance in the non-oil sector and temporary lifting of US sanctions.**
- **The government's attempts to expand the democratic space in the context of national dialogue augur well for an improved economic performance and political stability.**
- **The share of Sudan's entrepreneurs outside agriculture is sizeable but the limited number of entrepreneurial programmes, scarce technical training and the challenging business environment call for a coherent national strategy to boost and harness entrepreneurial energy and talent for inclusive growth.**

Sudan's economic growth was adversely affected by a number of factors, including the breakdown of correspondent banking relationships during the period 2014-16, declining oil revenues because of low export prices, ageing oil fields and reduced inflows of oil transit fees from South Sudan. Gross domestic product (GDP) growth is estimated at 3% in 2016, compared to 4.9% the previous year and forecast at 3.4% and 3.6%, respectively, for 2017 and 2018. In the short and medium terms, growth will be determined by developments in the agricultural and mineral sectors, skills development and prudent macroeconomic policies and structural reforms aimed at improving the business climate. Significant downside risks include continuing civil wars in some parts of the country and low global commodity export prices.

The macroeconomic imbalances and the consequent widening of the fiscal deficit by 0.2 percentage points in 2016, continue to constrain growth. Although the current account deficit narrowed by 1.1 percentage points in 2016, it is projected at a higher level in 2017 (4.9% of GDP) and expected to further widen to 5.6% in 2018. Closing the fiscal and current account deficits is a major policy priority especially in the face of low tax revenues and shortfalls in oil export receipts as well as difficulties in accessing concessional financing. However, the partial conditional easing of the US trade sanctions in early 2017 is expected to contribute to economic stability and boost foreign direct investment (FDI) and remittances from Gulf countries to the benefit of the most vulnerable.

During the period 2009-11, the share of Sudan's entrepreneurs outside the agricultural sector declined from 56.8% to 47.3%, whereas the proportion of urban entrepreneurs increased from 46.3% to 49.8% and that of female entrepreneurs rose to 17.3%, up from 14.9%. Thus, there is need to improve the business environment, given that Sudan's overall score on the World Bank's distance from frontier rating has worsened from 49.3 in 2009 to 44.8 in 2017. Generally, entrepreneurship is not encouraged as a professional career and this is reflected in the lack of a national plan for developing entrepreneurship and by the small number of technical secondary schools (98) versus academic secondary schools (3 128).

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	4.9	3.0	3.4	3.6
Real GDP per capital growth	1.8	-0.1	0.3	0.5
CPI inflation	16.9	13.5	15.6	12.1
Budget balance % GDP	-1.6	-1.8	-1.9	-1.8
Current account % GDP	-6.4	-5.3	-4.9	-5.6

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

SWAZILAND

- **Economic growth remains subdued and is estimated to have slowed down in 2016 to -0.6%, mainly due to two factors, severe drought and fiscal pressures; while prospects will be sluggish in 2017 and 2018.**
- **The political scene has continued to be relatively stable since the September 2013 elections, but the country's ranking in participation and human rights remains low.**
- **Swaziland possesses a prominent industrial sector with a limited level of entrepreneurship that can be enhanced through a comprehensive industrial policy to develop local entrepreneurs and create productive employment for the citizens.**

Swaziland's economy continues on a declining trajectory with growth projected to have declined to -0.6% in 2016 from 1.7% in 2015. This reflected a slump in the primary sector as agricultural production declined because of the El Niño-induced drought. Rain-fed crops, particularly maize and cotton, along with irrigated crops, mainly sugar cane, recorded significant declines. In addition, a large decline in revenues from the Southern Africa Customs Union (SACU) put considerable pressure on the fiscal account. Against this backdrop, an expansionary fiscal stance amplified the negative impact of these shocks. Short-term prospects in 2017 and 2018 indicate a sluggish recovery, with growth remaining at 1.4% and 2.3% respectively, mainly predicated on improved agricultural performance due to improved weather conditions, as evidenced by normal to above normal rains in the 2016/17 planting season. The major downside risk emanates from the fiscal front, especially, the trajectory of SACU revenues, underscoring the need to expedite the passing and implementation of the amended Public Finance Management (PFM) bill.

Swaziland continues to face major social challenges, such as high poverty and inequality; high unemployment, especially among youth; gender disparities; and a high rate of HIV/AIDS. Despite its classification as a low middle-income country, around 63% of the population live below the poverty line. Moreover, inequality is substantial; this is reflected in the Gini coefficient of 0.51. Swaziland remains in the low human development category with a Human Development Index (HDI) value unchanging for four straight years of 0.531 from 2011 through 2015, which places it at 150 out of 188 countries. The country's Millennium Development Goal (MDG) achievement record highlights a lack of progress in both the poverty and health-related MDGs. Future human development plans need to integrate the unmet goals of MDGs into the post-2015 United Nations development agenda, which proposes 17 Sustainable Development Goals (SDGs), with clear targets and indicators.

The industrial sector is Swaziland's second largest sector in terms of contribution to GDP with an estimated share of 42% in 2014 after the tertiary sector (51%) and far above agriculture (6%). Manufacturing remains the dominant sub-sector accounting for 36% of GDP, with the main activities comprising commercial agro-processing of sugar (particularly Coca-Cola concentrate), wood pulp, citrus fruit, pineapples, meat and clothing and textiles. In recognition of the linkage between industrialisation and entrepreneurship, the government has put in place various initiatives to develop and promote indigenous Swazi entrepreneurship, particularly in small and medium enterprises (SMEs). However, the 2013/14 Integrated Labour Force Survey shows that there is limited entrepreneurship with the share of self-employment in all activities at only 20% of the labour force. Data on characteristics of entrepreneurs in SMEs reveals that 56% and 44% are owned by men and women, respectively. Also, young entrepreneurs – aged between 22 and 35 – own 33% of the country's small businesses, with the services sector emerging as the leading small business sector. The government recognises that entrepreneurship can help the youth unemployment challenge. Towards this goal, it is focusing on various measures comprising inclusion of entrepreneurship training in the school curriculum, continued support of specific

programmes that offer hands-on experience at the secondary and tertiary levels and revamping the Youth Enterprise Revolving Fund initiative. Swaziland needs a comprehensive industrial policy to support diversification, develop local entrepreneurs and to promote industrialisation across the country.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.7	-0.6	1.4	2.3
Real GDP per capital growth	0.2	-2.0	0.1	1.0
CPI inflation	5.0	7.8	7.0	6.4
Budget balance % GDP	-4.8	-12.3	-8.3	-11.3
Current account % GDP	9.6	9.4	8.1	5.8

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

TANZANIA

- **Growth in real GDP is estimated at 7.2% in 2016 with the same rate projected for 2017, driven mainly by strong performance in industry, construction, services, and information and communication sectors.**
- **Fiscal position has remained healthy and ongoing efforts by the government to improve revenue mobilisation as well as efficiency in public spending will help in maintaining the good performance.**
- **While the level of industrialisation in Tanzania is low, the government's medium-term development programme is focused on nurturing industrialisation as a means of achieving economic transformation, and the government has demonstrated a strong commitment to implement the programme successfully.**

The 2014 growth rate of 7% was maintained in 2015, with an improvement to an estimated rate of 7.2% in 2016. This record makes Tanzania one of the best performing and most stable economies in Africa. The major sources of growth were the services, industry, construction, and information and communication sectors. External development assistance was one of the main sources of finance for development projects. In the medium term, growth is projected to remain strong, driven by the same sectors. The fall in the international price of oil has had a positive impact, reducing the pump price of gasoline and industrial oil. This has also reduced the price of electricity, thereby boosting industrial production.

Growth is projected to stabilise at around 7% in the medium term as the performance of the major sectors are expected to remain stable and reinforced by increasing government investment in infrastructure. The availability of gas for electricity generation from the Mtwara pipeline, completed in 2015, will supply more regular and cheaper power to industries.

Tanzania showed an enviable model of democracy with a peaceful national general election that led to the current government of President John Magufuli and members of the national parliament. The government has launched a five-year development programme that seeks to achieve full industrialisation of the country by 2025. Tanzania ranks permanently among the top half of countries in Africa on governance. The major strengths of governance in Tanzania are in the areas of safety and rule of law, national security, participation, and human rights and gender; its major weaknesses are in human development (health and education) and infrastructure.

In terms of human development, Tanzania ranks 151 out of 188 countries with the Human Development Index (HDI) value of 0.521, as of 2014. This value is still low and positions the country in the low human development category. Caloric availability at the household level has hardly improved since 1997 and chronic malnutrition is estimated to be an underlying cause of over one third of the deaths of under-five year olds (Tanzania Human Development Report, 2014). A major challenge remains in the education sector, as the quality of education is low and characterised by an increasing number of dropouts as well as a lack of competencies and decline in morale and motivation of teachers.

After a long period of stagnation, the poverty headcount declined from 34.4% in 2007 to 28.2% in 2012, while extreme poverty fell from 11.7% to 9.7% (Household Budget Survey of 2011/12). The reduction in poverty appears more substantial if one uses the international poverty line of USD 1.90 per person per day. Based on this measure, the headcount ratio dropped from 59.9% to 48.8% between 2007 and 2012. The favourable performance in economic growth and poverty reduction was accompanied by narrowing inequality: the Gini index declined from around 0.39 to

0.36 between 2007 and 2012. Evidence on the shared prosperity indicator suggests that inequality reductions were mainly driven by a larger increase in the consumption accruing to the bottom quintiles. The government supports poor households through the Tanzania Social Action Fund (TASAF) Productive Social Safety Net Programme (PSSN), conditional cash transfers and public works programme. These programmes are expected to contribute to a reduction in the level of poverty in the medium term.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	7.0	7.2	7.2	6.8
Real GDP per capital growth	3.8	4.1	4.1	3.7
CPI inflation	5.6	5.2	5.1	5.0
Budget balance % GDP	-3.3	-3.5	-4.6	-4.6
Current account % GDP	-9.8	-5.6	-7.5	-7.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

TOGO

- **Togo's economy slowed to 5% growth in 2016 from 5.3% in 2015, due to lower government investment and less port activity.**
- **The government's 2017-19 economic programme aims to reduce public debt from 76% of GDP in 2016 to 56.4% by 2021.**
- **The government is raising money for a 2016-18 industrial programme to boost agro-industry and set up an entrepreneur fund.**

The economy grew by 5% in real terms in 2016, slightly down from 5.3% in 2015 because of lesser public investment and a shift of maritime traffic to other regional ports due to Togo's strict application of West African Economic and Monetary Union (WAEMU) Regulation 14 on axle-load limits. Good rainfall in 2016 allowed agriculture to contribute 1.2 percentage points to overall growth, versus -1.5 points in 2015. The contribution of extractive industries was insignificant, with a negative growth contribution of phosphate production (-0.3 percentage points) and a weak one of clinker production (0.2 points). Despite several programmes to boost entrepreneurship, manufacturing contributed only 0.2 percentage points to GDP growth, down from 0.7 in 2015. Construction accounted for 0.5 percentage points of growth, also down from 0.8 the previous year. The services sector did no better, contributing 0.9 percentage points to overall growth, slightly down from 1.1 in 2015.

The government plans to step up talks with the International Monetary Fund (IMF) in 2017 and start reforms under the IMF's Extended Credit Facility (ECF) in the hope of consolidating GDP growth, expected to be 5.1% in 2017. The primary sector is projected to account for 1.9 percentage points of growth, services 1.7 points and the secondary sector 0.9 points. Thus, in 2017, non-market branches are projected to account for -0.9 percentage points to GDP growth, while VAT revenue should account for 0.8 points and customs duties for 0.7 points.

Major public investment and steady growth marked the 2012-16 five-year periods, but government debt rose from 48.6% of GDP in 2011 to 76.0% in 2016, above the 70% WAEMU limit. The 2017-19 ECF programme aims for long-term viability of the debt. The EFC agreement stipulates that as from January 2017, the government is no longer to contract new non-concessional loans, while concessional loans are regulated and supervised. This new budget policy could reduce public debt to 56.4% of GDP in 2021.

The productive economy is dominated by agriculture. Of the active population, 51% are small farmers, 39% independent non-agricultural workers and 10% employed in the formal sector. In 2016, the formal sector comprised 88 000 jobs, 67% of which in the public sector and 33% in the private sector. Industry in 2016 accounted for only 19.7% of GDP, including 5.5% in manufacturing. Higher education provides few of the skills needed for entrepreneurship.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	5.3	5.0	5.1	5.3
Real GDP per capital growth	2.6	2.4	2.5	2.7
CPI inflation	1.4	1.5	2.2	2.4
Budget balance % GDP	-6.3	-3.2	-4.5	-3.8
Current account % GDP	-11.3	-10.1	-9.6	-9.1

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

TUNISIA

- **Real GDP growth rate of 1.0% was lower than the 2.6% predicted in the 2016 budget but is projected to increase with accelerated implementation of the 2016-20 strategic development (PSD)**
- **The new administration elected on 31 August 2016 called for reforms to be intensified.**
- **Tunisia raised TND 34 billion (Tunisian dinars) in pledged public and private funding at an international conference on investment held in late November to promote the creation of more wealth and jobs.**

Gross domestic product (GDP) growth in Tunisia in 2016 was 1.0%, well below the projection of 2.6% made in the 2016 budget. The previous figure for growth in 2015, of 0.8%, has been revised upwards by the national statistics institute (INS) to 1.1%, since agricultural GDP rose more than foreseen. This means that the economy stagnated in 2016. Economic growth has been affected by security requirements and by an uneasy social climate. As was the case in previous years, growth in 2016 was driven chiefly by the services sector, with internal public and private consumption sustained by pay rises in the public sector still being the main engine of growth in the national economy. The rate of investment remained beneath the "psychological threshold" of 20% because of the dropping back of foreign direct investment (FDI), which fell by 25.4% during the first half of 2016, and financing constraints.

Weak growth, persistent major macroeconomic imbalances in the management of the public finances and delays in the practical implementation of strategic structural reforms (especially in the areas of tax, the public administration, the labour market, and public enterprises) have prevented the country from meeting the main challenge that Tunisia has been facing since 2011, which is the high level of structural unemployment. The average rate of unemployment in 2016 was 15.6% of the working population, compared with 15.1% in 2015, in spite of substantial recruitment in the public sector since 2011. Unemployment is higher for women (23.2%) than for men (12.5%), and it particularly affects those with a higher education qualification (31.9%). In 2016, the overall unemployment rate remained on average 50% higher than the national average in the most disadvantaged regions, in the interior. Nonetheless, growth should recover in 2017 and 2018 as a consequence of the expected acceleration of investment linked to the launch of major projects outlined in the 2016-20 strategic development plan (*Plan de développement stratégique*) and the speeding up of the implementation of structural reforms, especially to the public administration under the programme implemented by the International Monetary Fund (IMF) with the backing of development partners. Even so, the pressures on the public purse should remain significant in 2017 and 2018. Inflation should rise slightly in 2017 before dropping back again in 2018.

In 2016, Tunisia showed all the hallmarks of a "dual economy", with a modern industrial base composed of 5 600 businesses with more than ten employees and a spread of under-capitalised small enterprises, most of them with a single person, and 80% concentrated in the services sector, particularly in commerce, transport and storage.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.1	1.0	1.9	2.8
Real GDP per capital growth	0.0	-0.1	0.8	1.7
CPI inflation	4.9	3.7	4.1	3.8
Budget balance % GDP	-4.4	-5.8	-5.6	-5.2
Current account % GDP	-8.8	-7.7	-7.5	-5.9

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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UGANDA

- **Growth in the Ugandan economy slowed down to 4.8% in 2016 from 5.5% the previous year but is projected to rebound strongly in 2017 to 5.1% and expand further to 5.8% the following year.**
- **Uganda has made limited progress in improving human development but the National Development Plan (NDP II) envisages significant investments that could contribute to increased human capital development.**
- **With a significant share of the active labour force (35.5%) engaged in entrepreneurship, Uganda is one of the world's most entrepreneurial nations but lacks a dedicated strategy or policy and comprehensive programme to support it effectively.**

The Ugandan economy showed remarkable resilience in achieving modest gross domestic product (GDP) growth of 4.8% in 2016 compared to 5.5% growth in 2015. Real GDP projections for 2017 AEO indicate that GDP will grow by 5.1% in 2017 and 5.8% in 2018. Headline inflation is expected to increase slightly from 5.3% in 2017 to 5.9% in 2018, owing to rising food inflation on account of unfavourable weather conditions.

In support of macroeconomic management, the government has continued to implement large infrastructure programmes in 2016 balanced with a cautious but expansionary fiscal policy and a prudent monetary policy aimed at maintaining price, debt sustainability and exchange rate stability. The main focus has been to grow tax-to-GDP by 0.5% per annum to propel growth. However, continued institutional capacity constraints in implementing public investment projects have constrained GDP growth below the 7% full GDP potential.

The current account is expected to deteriorate from 6.5% of GDP in 2015 to 8.4% in 2016 and remain fragile in part due to the importation of inputs for large-scale infrastructure projects and a reduction in global demand for exports. According to the Bank of Uganda (BoU), the stock of foreign exchange reserves at the end of 2016 is equivalent to 4.3 months of import cover.

The country's fiscal deficit is projected to widen slightly from 4.3% of GDP in 2014/15 to 4.8% of GDP in 2015/16 and oscillate within the range of 4.9 to 5.0% of GDP between 2016 and 2018. According to the Bank of Uganda, the low levels of absorption of externally financed development expenditures resulted in a significantly lower fiscal deficit in fiscal year (FY) 2015/16 than the 7% of GDP projected at the time of the FY 2015/16 budget. The low absorption for project grants and loans is estimated at 58% and 73%, respectively.

In a bid to accelerate growth and make it more inclusive, Uganda has made industrial development an integral part of the government's overall development strategy in the NDP II period. Industrial sector development is at a nascent stage in Uganda. During FY 2015/16, the sector accounted for around 18% of GDP. The industrial sector remains largely dominated by manufacturing accounting for an average of 47% of GDP of sector, followed by construction (37%), electricity (6%), water (2%) and mining and quarrying (8%) during the period 2011-15. The relative share of industry and manufacturing has not changed over the last ten years. A large share of the active labour force is engaged in entrepreneurship mainly in the service sector. However, the country has no comprehensive policy or strategy to enhance the sector's growth. Uganda has embedded entrepreneurship development in some of its policy and strategy such as MSME Policy .

Macroeconomic indicators

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	5.5	4.8	5.1	5.8
Real GDP per capital growth	2.2	1.6	2.9	3.6
CPI inflation	4.0	5.2	5.3	5.9
Budget balance % GDP	-4.3	-4.8	-4.9	-5.0
Current account % GDP	-6.5	-8.4	-8.7	-8.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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ZAMBIA

- **Although the next twelve months look more promising, Zambia faced economic challenges in 2016 following another year of low copper prices and crippling electricity supply deficits affecting economic activity.**
- **The new government took office in September 2016 and has started implementing its economic reform programme that aspires to expand growth and restore budget credibility while reducing the fiscal deficit.**
- **Job creation guided by an Industrialisation Strategy is a key priority of the government as Zambia still retains a low formal employment base of just 11% of total employment.**

Despite negligibly higher growth than in 2015, 2016 proved to be challenging for the Zambian economy. Growth remained restrained and insufficient to ensure a positive per capita growth rate. Global growth prospects and demand for copper remained low throughout most of the year affecting the price which averaged USD 4 860 per ton. The lower price affected mining profitability and overall activity in the Copperbelt Province which is the traditional mining area. On the other hand, the mining industry in the North Western Province is buoyed by their lower cost structure. New mining activities initiated in 2016 led to an increase in total copper production by 8.4%. Despite a drought in Southern Africa, late rains resulted in a decent harvest sufficient to ensure food security, but insufficient to contribute to overall growth. Maize output increased by 9.7% to 2.9 million tons while other crops reduced production. Economic performance is expected to improve in the medium term. Copper output is projected to increase by 16% in 2017 and by 8% in 2018. The agriculture season has started with good rains. The projections assume sufficient electricity will be available to increase copper production while weather conditions remain conducive with a limited effect from army worms for a good harvest.

President Edgar Lungu was re-elected in the August 2016 general elections. The first major task of his government was to launch the five point economic recovery programme termed "Zambia Plus". This programme aims at balancing the budget to sustainable levels following the increase in fiscal deficits to about 10% of GDP in 2016. A substantial part of the budget is used for paying non-discretionary expenditures such as salaries and interest payments on domestic and foreign loans, and subsidies. Only one third of the domestic revenues are available for goods and services, transfers and other expenditures. Key policies focus on enhancing domestic resource mobilisation, improving fiscal governance, accountability and transparency, restoring budget credibility and raising the confidence of the private sector.

The government launched its Jobs and Industrialisation Strategy in 2013 as an important initiative to diversify the economy and reduce vulnerability to mining. It is noteworthy that foreign direct investment in manufacturing surpassed mining for the first time in the past decade in 2015. This could be an indication that non-mining investors are looking to Zambia that offers, by regional standards, a stable investor environment.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	2.9	3.0	4.2	4.5
Real GDP per capital growth	-0.2	-0.1	1.1	1.4
CPI inflation	10.0	17.8	8.2	8.0
Budget balance % GDP	-8.7	-10.5	-8.5	-7.6
Current account % GDP	-3.6	-3.7	-3.6	-3.3

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

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ZIMBABWE

- **In 2016, Zimbabwe's growth more than halved to 0.5% from 1.1% in 2015. The government responded to the challenging environment by instituting a raft of measures including a temporary ban on imports, issuance of bond notes and introduction of a command agriculture system.**
- **Zimbabwe's GDP growth is projected to increase by 1.3% in 2017 spurred mainly by agriculture in view of favourable rains, tourism, manufacturing, construction and financial sectors.**
- **Stimulating entrepreneurship and industrialisation will require deep reforms to improve the business environment and promote employment creation.**

Zimbabwe's gross domestic product (GDP) growth declined from 1.1% in 2015 to an estimated 0.5% in 2016. It is projected to increase by 1.3% in 2017 with the agriculture, tourism, manufacturing, construction and financial sectors all expected to improve. In particular, the country received above normal rainfall which is a major boost for the economy. The poor performance of government revenues against a background of high recurrent expenditure led to a large fiscal deficit. The fiscal deficit for 2016 is estimated at USD 1.042 billion (7.3% of GDP), against a target of USD 150 million. The economy also continues to experience shortages in foreign currency required to fund critical inputs in most sectors of the economy and the high cost of production which has eroded competitiveness.

According to the Zimbabwe National Statistics Agency (ZIMSTAT), the annual inflation rate stood at -2.19% in January 2016 and -0.93% at the end of the year. The estimated average annual inflation for 2016 is -1.5%, up from -2.4% in 2015. The removal of some goods from the Open General Import Licence in June 2016 coupled with a decline in agricultural production owing to drought has pushed up prices. Zimbabwe emerged out of deflation in February 2017 with annual monthly inflation at 0.06% after gaining 0.71 percentage points on the January rate. Inflation is expected to remain positive in 2017, hovering between 1% to 2%, on the back of an anticipated increase in international oil prices and economic recovery. The external position is projected to remain under severe pressure in the medium term because of weak exports.

According to the 2017 Monetary Policy Statement, merchandise exports amounted to USD 3 365.8 million in 2016 representing a 6.9% decline from the USD 3 614.2 million recorded in 2015. Exports in 2016 were dominated by minerals (gold, nickel, platinum, and diamonds) and tobacco. Tobacco remains a major source of export earnings with the Tobacco Industry Marketing Board (TIMB) registering sales of 202 million kilograms (kg) of tobacco as at 12 September 2016, up from 198.9 million kg in 2015. Total sales amounted to USD 593 million at an average price of USD 2.94 per kg. In 2015, the total sales were USD 586.4 million, at an average price of USD 3 per kg. The major export destinations are South Africa, United Arab Emirates, Mozambique, Botswana and Zambia.

Merchandise imports on the other hand declined by 11.7% from USD 6 062.3 million in 2015 to USD 5 350.9 million in 2016. This is mainly because of the Statutory Instrument 64 ban on certain commodity imports. Imports were dominated by diesel, unleaded petrol, electrical energy, crude soya bean, rice, non-alcoholic beverages and medicines. Fuel accounted for 27.2% of the total merchandise imports while food accounted for 11.8%. The top source countries included: South Africa, Singapore, China, India, Mozambique, Japan, Botswana and United Arab Emirates.

The external sector still remains a threat to a strong recovery in the near term largely due to weak exports leading to an unsustainable trade deficit, although imports have been coming down.

The lack of fiscal space has undermined development expenditure and social services provision, exacerbating poverty in rural and urban areas. The Zimbabwe Poverty Atlas of 2015 by ZIMSTAT shows that poverty prevalence remains high throughout the country. It was highest in Matabeleland North (85.7%) and least prevalent in Harare (36.4%) and Bulawayo (37.2%). Other provinces had prevalence rates between 65% and 76%. According to ZIMSTAT in 2016, the poverty datum line averaged USD 478.90, slightly down from USD 491.26 in 2015.

The economy has experienced cash shortages owing to rising informality, fiscal revenue underperformance, declining capital inflows and export receipts, a high fiscal deficit and public indebtedness; external imbalances and capital flight. In order to alleviate cash shortages, the government introduced bond notes in November 2016 pegged at par to the US dollar. The introduction of bond notes initially created apprehension but they have been broadly accepted as a medium of exchange. Economic activity in the near term will depend to a large extent on how quickly measures instituted by the government will be implemented.

Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	1.1	0.5	1.3	0.9
Real GDP per capital growth	-1.2	-1.8	-1.0	-1.4
CPI inflation	-2.4	-1.5	1.0	1.7
Budget balance % GDP	-2.7	-7.3	-5.0	-4.1
Current account % GDP	-10.7	-9.2	-10.7	-7.7

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Statistical annex

The *African Economic Outlook* includes a set of statistical tables of indicators related to economic and social development in Africa. The African Development Bank compiled Tables 1-19 and 21 and the OECD Development Centre Tables 20 and 22-26 for the purposes of informing the analyses contained within this volume. What follows is a complete list of indicators contained in each table, as well as some definitions of concepts and explanations of methodologies used to create these data. The aggregate figures for Africa, when reported, do not include countries whose data are unavailable. Figures are reported on a calendar-year basis, except in Table 4 (see below) and except for the macroeconomic indicators for Egypt and Eritrea in Tables 1-6 that are reported for years starting in July and ending in June.

The tables are published online on the *African Economic Outlook* website (www.africaneconomicoutlook.org/en/statistics) and can also be downloaded in Excel® format using the following links.

Table 1	Basic indicators	Table 14	Poverty and income distribution indicators
Table 2	Real GDP growth rates	Table 15	Access to services
Table 3	Demand composition and growth rate	Table 16	Basic health indicators
Table 4	Public finances	Table 17	Major diseases
Table 5	Monetary indicators	Table 18	Basic education indicators
Table 6	Balance of payments indicators	Table 19	School enrolment
Table 7	Exports	Table 20	Employment and remittances
Table 8	Diversification and competitiveness	Table 21	Corruption Perception Index
Table 9	International prices of exports	Table 22	Public protest
Table10	Foreign direct investment	Table 23	Civil violence by non-state actors
Table 11	Aid flows	Table 24	Political hardening
Table 12	External debt indicators	Table 25	Demographic projections
Table 13	Demographic indicators	Table 26	Gender indicators

Detailed table descriptions

Table 1 - Basic indicators

Population (thousands)

Land area (thousands of km2)

Population density (pop. / km2)

GDP based on PPP valuation (USD million): The purchasing power parity (PPP) valuation refers to the adjustment of GDP estimates to eliminate the effect of differences in consumer price levels between countries on the differences in GDP estimates. This creates a theoretical value of GDP in US dollars in each country in the case where a US dollar has the same purchasing power in every country.

GDP per capita (PPP valuation, USD)

Annual real GDP growth (average over several years): Average growth in GDP adjusted for inflation.

Table 2 - Real GDP growth rate

Real GDP growth rate

Table 3 - Demand composition and growth rate

Final consumption (% of GDP) (private vs public)

Gross capital formation (% of GDP) (private vs public)

External sector (exports and imports, total and real percentage growth)

Table 4 - Public finances

Total revenue and grants

Total expenditure and net lending

Overall balance

Where indicated, the figures are reported on a fiscal-year basis. The fiscal year for Egypt, Eritrea, Ethiopia, Kenya, Liberia, Malawi, Rwanda, South Sudan, Tanzania and Uganda begins in July of the previous year and ends in June. For Botswana, Lesotho, Namibia, South Africa and Swaziland, the fiscal year begins in April and ends the following March. In 2015, Mauritius went from reporting its finances on a calendar-year basis to a July-June fiscal year.

Table 5 - Monetary indicators

Inflation (%)

Exchange rate (LCU / USD)

Broad money (LCU billion) (level, % of GDP, growth)

Reserves, excluding gold (USD million) (stock at year-end, equivalent months of imports)

Table 6 - Balance of payments indicators

Trade balance (USD million)

Current account balance (USD million, as a % of GDP)

Table 7 - Exports

Three main exports by country, along with their market shares

Number of products accounting for more than 75% of exports

The table is based on a complete disaggregation of total exports by country in the UN Comtrade dataset at the six-digit level of the commodity codes for the *2002 Harmonised System*.

Table 8 - Diversification and competitiveness

Diversification indicator: measures the extent to which exports are diversified. It is constructed as the inverse of the *Herfindahl-Hirschman Index* (HHI) of exports reported on the UN Comtrade dataset at a four-digit level of disaggregation on the *2002 Harmonised System* commodity code. The HHI is calculated as a sum of the squares of total exports for each product as a percentage of all exports (expressed as fractions). By construction, the diversification indicator is therefore always positive and non-zero and attains its minimum when there is only one export product. A higher index indicates more export diversification.

Annual export growth over previous five years

Competitiveness indicator: has two aspects: the sectoral effect and the global competitivity effect:

1. ***The sectoral effect:*** the growth rate of a country's exports attributed to sectoral market dynamics. This is the average of the differences between the growth rates of each export sector – measured at the global level – and the overall growth of world trade, weighted by each sector's share of the country's total exports.

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2. *The competitiveness effect:* total country export growth rate minus global export growth rate and minus the sectoral effect. This measures the contribution of changes in sectoral market shares to a country's export growth.

Table 9 – International prices of exports, by year

The following global commodity prices are reported in this table:

Aluminium; Bananas (US); Coal (Australia); Cocoa; Coffee (Arabica); Coffee (Robusta); Copper; Cotton; Fish meal; Gold; Groundnut oil; Iron ore; Lead; Logs (Cameroon); Maize; Oil (crude); Palm oil; Phosphate (rock); Rubber (US); Sugar (EU); Sugar (World); Sugar (US); Tea (Average of 3 auctions); Tea (Mombasa) and Tobacco (US import).

Table 10 - Foreign direct investment

Foreign direct investment (FDI) inflows, outflows and as % of gross fixed capital formation (GFCF)

Inward Potential Index: produced by UNCTAD, based on 12 economic and structural variables measured by their respective scores on a range of 0-1 (raw data are available at www.unctad.org/wir). It is the unweighted average of the following scores: GDP per capita, the rate of growth of GDP, the share of exports in GDP, telecom infrastructure (the average number of telephone lines per 1 000 inhabitants and number of mobile phones per 1 000 inhabitants), commercial energy use per capita, share of R&D expenditures in gross national income, share of tertiary students in the population, country risk, exports of natural resources as a percentage of the world total, imports of parts and components of electronics and automobiles as a percentage of the world total, and inward FDI stock as a percentage of the world total.

Table 11 - Aid flows

Official development assistance (ODA) net total (all donors, from DAC countries and multilateral)

The members of the Development Assistance Committee (DAC) of the OECD are Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, The Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, the United Kingdom and the United States.

Table 12 - External debt indicators

Total external debt outstanding, at year end (million USD)

Total external debt outstanding, at year end, as % of total (multilateral, bilateral, private)

Total external debt outstanding (as % of GDP)

Debt service (as % of exports of goods and services)

Table 13 - Demographic indicators

Total population (thousands)

Urban population (% of total)

Sex ratio (males per 100 females)

Population growth rate (%)

Infant mortality rate (per 1 000): the number of child deaths under the age of one for every thousand live births per year.

Total fertility rate (per woman): the projected average number of children per woman.

Mortality under 5 (per 1 000): the probability that a new-born infant will die before the age of five.

Distribution by age (% aged 0-14, 15-64, 65+)

Table 14 - Poverty and income distribution indicators

Population below the poverty line (%) (rural, urban and national): the percentage of the population below the poverty line corresponding to the value of consumption necessary to satisfy minimum subsistence needs. It is set at two-thirds of average consumption.

Population below the International Poverty Line: the number of people below the absolute poverty line, corresponding to a level of income or consumption of USD 1.90 or USD 3.10 per day.

Gini coefficient: an index measuring the intensity of inequality in income or consumption expenditure distribution. Perfect equality leads to a Gini index of zero and maximum inequality to a Gini index of 100.

Share of consumption (%): the share of total consumption by the lowest and the highest deciles of the population, defined by level of consumption.

Table 15 - Access to services

Main telephone lines per 100 inhabitants

Mobile lines per 100 inhabitants

Internet users per 100 inhabitants

Electricity consumption (KWh - millions)

Water supply coverage (%) (total, urban, rural): the percentage of the population with access to improved water supply (household connection, public standpipe, borehole, protected dug well and protected spring or rainwater collection).

Sanitation coverage (%) (total, urban, rural): the percentage of the population with access to improved sanitation technologies (connection to a public sewer, connection to a septic system, pour-flush latrine, simple pit latrine or ventilated improved pit latrine).

Table 16 - Basic health indicators

Life expectancy at birth (years): the average number of years a new-born infant would live under the hypothesis that, during his or her life, the conditions of mortality remain the same as observed at birth.

Life expectancy at birth (years) - with AIDS: the estimated average number of years a new-born infant would live under the hypothesis that, during his or her life, the conditions of mortality remain the same as observed at birth, and that in particular, the current effect of AIDS on mortality are taken into account.

Life expectancy at birth (years) - no-AIDS scenario: is the estimated number of years a new-born infant would live under the hypothesis that he/she does not contract AIDS during his/her life.

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Prevalence of undernourished in total population (%): the proportion of the population that is suffering insufficient food intake to meet dietary energy requirements continuously.

Food availability (Kcal/person/day): the available nutritious food for human consumption expressed in kilo-calories per person per day (note that the recommended daily caloric intake for an active healthy life is 2 100 calories).

Total health expenditure (as % of GDP, USD per capita)

Total health expenditure - Public (%): calculated by defining public health expenditure as current and capital outlays of government, compulsory social security schemes, extra-budgetary funds dedicated to health services delivery or financing, and grants and loans provided by international agencies, other national authorities and commercial banks.

Total health expenditure - Private (%): calculated by defining private expenditure as private insurance schemes and prepaid medical care plans, services delivered or financed by enterprises, outlays by non-governmental organisations and non-profit institutions serving mainly households, out-of-pocket payments, and other privately funded schemes not elsewhere classified, including investment outlays.

Table 17 - Major diseases

Health personnel (per 100 000) (physicians, nurses and midwives)

Healthy life expectancy at birth (years) (total, male, female): the average equivalent number of years in full health a newborn infant would live under the hypothesis that, during his/her life, the conditions of mortality and ill-health remain the same as observed at his/her birth.

People living with HIV/AIDS: the estimated number of people living with HIV/AIDS whether or not they have developed symptoms of AIDS.

Adult prevalence of AIDS (% of population): HIV/AIDS adult prevalence is the estimate of the adult population (aged 15-49) living with HIV/AIDS.

AIDS deaths in adults and children (thousands)

Malaria (number of reported cases): cases of malaria reported from the different local case detection and reporting systems. These figures should be considered with caution because of the diversity of sources and probable underestimation.

Tuberculosis (number of new and relapse cases)

Measles (number of reported cases): the number of new cases of measles reported during the reference year.

Vaccination (%) MCV: percentage of population given the malaria (MCV) vaccination.

Vaccination (%) DTP3: percentage of population given a third dose of the diphtheria, tetanus toxoids and pertussis vaccine.

Table 18 - Basic education indicators

Estimated adult literacy rate, people over 15 (total, male, female)

Estimated youth literacy rate, people between 15 and 24 (total, male, female)

Public expenditure on education (as % of GDP)

Table 19 - School enrolment

Gross enrolment ratio (total, male, female) (primary, secondary school): the population enrolled in a specific level of education, regardless of age, expressed as a percentage of the official school-aged population count.

Primary school, net enrolment ratio (total, male, female) (primary, secondary school): the official school-age population enrolled in a specific level of education expressed as a percentage of the total population enrolled in that level.

Enrolment ratio in technical and vocational programmes (total secondary, lower secondary, upper secondary)

Table 20 - Employment and remittances

Unemployment rate (total, male, female): the proportion of the labour force that does not have a job and is actively looking for work.

Participation rate (aged >15, age 15-24): the measure of the proportion of a country's working-age population that engages actively in the labour market, either by working or looking for work. It provides an indication of the relative size of the supply of labour available to engage in the production of goods and services.

Inactivity rate (aged 15-64) (total, male, female): percentage of the population that is neither working nor seeking work (that is, not in the labour force).

Worker remittances, received (USD million)

Participation rates, unemployment rates and inactivity rates published in this table are projected figures produced by the International Labour Organization (ILO) based on their models of the labour forces. A description of the ILO projection and estimation models can be found at the following link: www.ilo.org/ilostat/content/conn/ILOSTATContentServer/path/Contribution%20Folders/statistics/web_pages/static_pages/EAPEP/EAPEP%20Methodological%20paper%202013.pdf.

Table 21 - Corruption Perception Index

The Corruption Perceptions Index (CPI): a composite indicator based on surveys of business people and assessments of country analysts. A background paper presenting the methodology and validity of the CPI is available on the Transparency International website: www.transparency.org/news/feature/corruption_perceptions_index_2016.

Table 22 - Public protest

Index of public protest: See note on AEO political indicators, below.

Table 23 - Civil violence by non-state actors

Index of violence by non-state actors: See note on AEO political indicators, below.

Table 24 - Political hardening

Index of political hardening: See note on AEO political indicators, below.

Table 25 - Demographic projections

The demographic trends are projected using the medium variant method.

Activity ratio: the ratio between working-age population (15-64 years old) and dependent-age population (less than 15 or at least 65 years old). It is the inverse of the dependency ratio.

Yearly cohort of new labour entrants: the size of the population entering working age (15 years old) each year. It is estimated by taking the population aged 15-24 and dividing by ten.

Total entrance inflow: the number of new entrants into the working-age population. This refers to the population that was less than 15 years old at the beginning of the period and between 15 and 64 at the end of the period.

Active population: the number of people that furnish the supply of labour for the production of goods and services during a given period.

Table 26 - Gender indicators

Africa Gender Equality Index (AfDB GEI) (also includes the following sub-components):

Economic opportunities

Human development

Laws and institutions

Social Institutions and Gender Index (SIGI) (also includes the following sub-components):

Discriminatory family code

Restricted physical integrity

Son bias

Restricted resources and assets

Restricted civil liberties

Gender Inequality Index (GII)

Gender Development Index (GDI)

Please see the note on the gender indicators below for a more detailed explanation of these indicators.

Methodological note: The AEO political indicators (included in Statistical Annex Tables 22-24)

There are three composite political indicators presented in Tables 22 to 24 and discussed in Chapter 5 of this report that reflect three aspects of civil unrest: public protests, civil violence by non-state actors and political hardening. These indicators have been calculated based on a detailed monitoring of newswires from a large network of on-field journalists and correspondents working for reputable press agencies across Africa, mainly Agence France Press (AFP) and Reuters. It takes into account the daily events and decisions that make up the reality of political life and government attitudes in African countries.

The methodology used in this report to calculate the indicators of civil unrest was first proposed by Dessus, Lafay and Morrisson (1998).[1] It involves compiling an exhaustive collection of articles covering all relevant political events in Africa, and then reading the articles in order to count events broken down by day and by country and classified by intensity codes and place, according to a detailed classification system (see details below). This is then used to populate a dataset that contains two sets of intensity codes

1. Dessus, S., J.D. Lafay and C. Morrisson (1998), "A politico-economic model for stabilisation in Africa", *Journal of African Economies*, Vol. 7, Issue 1, pp. 91-119, DOI: doi.org/10.1093/oxfordjournals.jae.a020946.

per variable, per week: 4-value variables (with a scale of 0 to 3: 0= non-occurrence, 1= occurrence but weak intensity, 2= medium intensity and 3= strong intensity) and binary variables with values 0 and 1, with 0 being the non-occurrence of the event and 1 its occurrence. These variables are then combined according to a formula to produce the composite indicators published here:

- Public protests: defined as strikes or any type of demonstration with political, economic or social motives. Each event is weighted by its duration (number of days or weeks) and by an intensity score based on the number of protesters.
- Political violence: defined as violence with political motives, inter-community conflicts and terrorist acts against populations. They are also monitored and reflect escalations of public demands or discontent into violence. Each relevant event is counted and then weighted based on such factors as intensity, duration and number of casualties.
- Incidents of political hardening: defined as an increase in government restrictions on the population's ability to organise or express itself politically (e.g. bans on protests, curfews and states of emergency, arrests, and violence perpetrated by government forces).

The three political indicators were initially assembled in 1996 for 30 African countries,[2] but increased gradually in subsequent years until they now cover all 54 countries of the continent. Initially, the source for the articles was Marchés Tropicaux et Méditerranéens (MTM), but since 2006, the source has mostly been the AFP and Reuters newswires. Combining two sources of data (one Francophone and the other Anglophone) ensures a complete coverage of relevant events better than reliance on a single source.

Despite the changes in data sources, the indicators of civil unrest are designed to form a consistent time series. Data collected before 2006 is adjusted using country-specific coefficients in order to ensure comparability with subsequent years. These coefficients were calculated by comparing the indicators produced using AFP and Reuters with the indicators produced using only MTM for 52 countries in two consecutive years (2006 and 2007) which showed that the number of reported relevant events was higher in AFP, which reports daily, than in the weekly reporting by MTM. The average adjustment for the indicators for the years 1996-2005 was by a factor 1.10 for public protests, 1.04 for civil violence by non-state actors and 1.46 for political hardening.

Further improvements to the methodology have been implemented since 2010. The motivations behind public protests and civil violence across the entire continent have been collected and analysed, allowing for a better understanding of public demands and aspirations as well as governance issues (see Chapter 5). An historic backwards coding exercise has also been undertaken in recent years to expand and complete the series. The entire dataset of the motivations are now available back to 2000 for all 54 countries.

Table 22: Public protest

- Strikes – weights:

  0 = non-occurrence

  1 = low-intensity strike or 1-999 strikers

  2 = medium-intensity strike or 1 000-4 999 strikers

  3 = high-intensity strike or 5 000 or more strikers

2. The following countries were included in the initial sample: Algeria, Benin, Botswana, Burkina Faso, Cabo Verde, Cameroon, Chad, Côte d'Ivoire, Egypt, Equatorial Guinea, Ethiopia, Gabon, Ghana, Kenya, Libya, Malawi, Mali, Mauritius, Morocco, Mozambique, Namibia, Nigeria, Senegal, South Africa, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

- Demonstrations – weights:

  0 = non-occurrence

  1 = low-intensity demonstration or 1-4 999 protesters

  2 = medium-intensity demonstration or 5 000-9 999 protesters

  3 = high-intensity demonstration or 10 000 or more protesters

Table 23: Political violence by non-state actors

- Incidents of political violence – weights:

  0 = none

  1 = 1-9 dead or 1-49 injured

  2 = 10-99 dead or 50-499 injured

  3 = 100 or more dead or 500 or more injured

Table 24: Political hardening

This composite indicator is calculated using an equation taking the following qualitative variables as inputs and using coefficients determined by the results of the principal components analysis described below.

- State of emergency (0 or 1)
- Arrests and incarcerations of opponents (protesters, journalists, opposition actors) or for other political reasons

  0 = non-occurrence

  1 = between 1 and 9

  2 = between 10 and 99

  3 = 100 or more

- Additional means for police repression, judicial harassment, death threats, propaganda or censorship (0 or 1)
- Toughening of the political environment, e.g. dissolution of political parties, new law against democracy, expulsions, dismissals, curfew (0 or 1)
- Violence perpetrated by government forces:

  0 = none

  1 = 1-9 dead or 1-49 injured

  2 = 10-99 dead or 50-499 injured

  3 = 100 or more dead or 500 or more injured

  Extrajudicial prosecutions and executions (0 or 1)

  Bans on strikes and demonstrations (0 or 1)

  Bans on press or public debates (0 or 1)

  Closing of schools for political reasons (0 or 1)

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These variables are combined into a single indicator using a linear formula with coefficients assigned to each variable based on the results of a principal component analysis: each intensity value of police violence is multiplied by 0.261 (if dead), 0.423 (if injured) and 0.402 (if arrested). For dichotomous variables, the coefficients are: state of emergency (0.631), additional resources for the police (0.603), extrajudicial prosecution (0.583), prohibition of strikes (0.383), prohibition of the press (0.292), hardening of the political climate (0.253) and closure of schools (0.092).

Methodological note: Gender indicators (included in Statistical Annex Table 26)

The African Development Bank's Gender Equality Index (AfDB GEI) reflects the status of women in Africa along three dimensions of equality: economic opportunities (business and employment), human development (education and health), and laws and institutions. Each dimension draws on a series of indicators, measuring equality in business and employment, education, health, political representation, and legal and household rights. Countries are scored on a scale from 0 to 100, where 100 indicates perfect gender equality. For more details on computation see the technical note available at www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/African_Gender_Equality_Index_2015-EN.pdf.

The OECD Development Centre's Social Institutions and Gender Index (SIGI) measures discriminatory social institutions, i.e. formal and informal laws, social norms and practices that restrict or exclude women and consequently curtail their access to rights, justice, resources and empowerment opportunities. The SIGI scores 108 countries on 14 indicators grouped into five sub-indices: discriminatory family code, restricted physical integrity, son bias, restricted resources and assets, and restricted civil liberties. The SIGI is an unweighted average of a non-linear function of its five sub-indices. The SIGI and its sub-indices values are between 0 and 1, with 0 indicating very low levels of inequality and 1 indicating very high levels of inequality. For more details on computation see the technical note available at www.genderindex.org.

The United Nations Development Programme's Gender Development Index (GDI) measures gender gaps in human development achievements by accounting for disparities between women and men in three basic dimensions of human development – health, knowledge and living standards – using the same component indicators as in the Human Development Index (HDI). The GDI is the ratio of the HDIs calculated separately for women and men showing the female HDI as a percentage of the male HDI. For more details on computation see the technical note available at http://hdr.undp.org/sites/default/files/hdr2015_technical_notes.pdf.

The United Nations Development Programme's Gender Inequality Index (GII) measures gender inequalities in three important aspects of human development – reproductive health, measured by maternal mortality ratio and adolescent birth rates; empowerment, measured by the proportion of parliamentary seats occupied by females and the proportion of adult females and males aged 25 years and older with at least some secondary education; and economic status, expressed as labour market participation and measured by the labour force participation rate of female and male populations aged 15 years and older. The higher the GII value the more disparities there are between females and males. For more details on computation see the technical note available at http://hdr.undp.org/sites/default/files/hdr2015_technical_notes.pdf.

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