

Insight Report

The Africa Competitiveness Report 2017

Addressing Africa's Demographic Dividend

The Africa Competitiveness Report 2017 is a special project within the framework of the World Economic Forum's Global Competitiveness and Risks Team. It is the result of collaboration between the World Economic Forum, the International Bank for Reconstruction and Development/ the World Bank, and the African Development Bank.

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Preface

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The 2017 edition of *The Africa Competitiveness Report* comes out at a challenging time for the continent. In recent years, growth in several African countries has been subdued after more than a decade of solid expansion. The slowdown is largely due to the protracted low commodity prices as well as the reduced growth in emerging markets such as China, and in advanced economies. However, this situation has also given impetus to reforms and economic diversification. The strong economic performance of a number of African countries demonstrates Africa's resilience and brings optimism about Africa's future growth prospects.

Looking ahead, the continent's young and increasing population presents an unprecedented opportunity to spur rapid development. A growing labor force and a large and emerging consumer market hold the promise of significant growth opportunities. Yet challenges to reaping these potential gains and achieving greater shared prosperity remain. Most economies in the region still need to promote more productive activities that generate quality employment opportunities for their growing populations and contribute to improving the livelihoods of African people. Africa can make this happen, and decisions and actions taken today will determine whether governments and the private sector in the region can meet the growing economic and social aspirations of its population.

Published on a biennial basis, *The Africa Competitiveness Report* highlights areas requiring policy action and investment to ensure that Africa lays a solid foundation for sustained and inclusive growth. The *Report*, which is the result of a long-standing collaboration, leverages the knowledge and expertise of the African Development Bank, the World Bank Group, and the World Economic Forum to present a joint policy vision that can help Africa transform its economies.

By conducting a comprehensive analysis of Africa's most pressing competitiveness challenges, the *Report* discusses the barriers and challenges to putting Africa's economies onto a solid footing and helping them to achieve sustainable, broad-

based growth, taking into account rapid demographic changes. Africa's working-age population is expected to soar by 450 million people, or close to 70 percent, by 2035. The *Report* examines how this population growth can either help to achieve broader shared prosperity and improve the livelihood of African people or become a source of fragility, social tension, and economic hardships. It does so by examining the potential of Africa's fast-growing youth population to catalyze economic development through accelerating rates of job creation. It also discusses the potential of cities to transform, strengthen, and diversify Africa's economies by creating more dynamic urban manufacturing and service sectors. The *Report* emphasizes the importance of ensuring that the youth of today and tomorrow possess the skills they need to build vibrant and inclusive economies. It further delivers detailed competitiveness profiles for 35 African countries, and provides a comprehensive summary of the drivers of productivity and competitiveness within the continent.

We hope that this year's *Report* will stimulate discussion among development stakeholders to bring about sustained growth and shared prosperity in Africa. Well-targeted investments in physical and human capital will be key factors that need to be further reinforced by a sound institutional framework and an enabling business environment. Businesses can advocate for reforms that enhance firm productivity and engage in a dialogue with policymakers about the type of reforms required for firms to prosper. Governments can ensure sustained investments in infrastructure, health, and education; provide the legal and regulatory framework for a sound business environment for trade and investment; and, most importantly, ensure that policies and their implementation are consistent across time and national boundaries.

Africa's growing young population offers the prospect of transforming the continent. The analysis in the 2017 *Africa Competitiveness Report* aims to contribute toward seizing this opportunity for Africa's current and future generations.

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Overview

The 2017 edition of *The Africa Competitiveness Report* comes out at a transitional time for the region. Low commodity prices and reduced growth in emerging markets and advanced economies have contributed to slow growth in the majority of African countries, following a decade of sustained GDP growth (above 5 percent).¹ However, slower GDP growth has also given impetus to reforms and economic diversification in some countries. Such reforms continue to be necessary because of the demographic changes the continent is undergoing. Africa is expected to double its population over the next 25 years, and it is the only region in the world where the working-age population is projected to continue expanding beyond 2035.² Africa is also urbanizing rapidly, and more than half of its population will live in cities over the same period. Such rapid growth of Africa's working-age population has been hailed as a possible boost to regional economic growth. However, there is no teleology leading from population growth to job creation. The incidence of unemployment and underemployment among African youth is high.³ Absent a policy environment that supports rapid job creation, large youth and working-age cohorts can constitute a potential source of social and political vulnerability.

Economists, policymakers, and business leaders largely agree that slow progress in raising competitiveness and productivity are at the heart of the limited ability of African economies to offer better employment opportunities. A significant body of analysis has identified the main bottlenecks to improving these factors. These have also been identified and discussed in previous editions of *The Africa Competitiveness Report*. The 2011 edition focused on how to reinforce managerial skills and higher education, the 2013 edition discussed export diversification, and the 2015 edition examined constraints to structural transformation. This year's *Report* leverages the research and expertise in job creation and urbanization that have been carried out by its partner organizations—the African Development Bank, the World Bank, and the World Economic Forum—to explore what policies need to be implemented to enable Africa to reap its potential demographic dividend.

In this *Report*, *competitiveness* constitutes the factors, institutions, and policies that determine a country's level of productivity. *Productivity*, in turn, sets the sustainable level and path of prosperity that a country can achieve.

Tracking Progress in Africa's Competitiveness

Chapter 1.1 provides an update of Africa's competitiveness performance, based on 2015 and 2016 data. This analysis is conducted at both the aggregate and country levels as assessed by the Global Competitiveness Index (GCI). Trends in Africa's competitiveness remain largely stagnant: the overall Africa GCI score is substantially the same as the one reported in 2015 and has only improved by 5 percent since 2008. Most competitiveness challenges highlighted in the *Africa Competitiveness Report* series since its first publication, almost 10 years ago, persist. These include large infrastructure deficits, significant skill mismatches, slow adoption of new technologies, and weak institutions. These factors, in addition to weak financial sector development and low levels of regional trade and integration, emerge as the main bottlenecks that prevent African economies from offering an environment that facilitates better employment and entrepreneurship opportunities to its citizens as well.⁴

These broad trends notwithstanding, Africa has made significant progress on a number of crucial competitiveness dimensions over the past decade. The positive trends on governance and the business environment, highlighted by the 2015 edition of *The Africa Competitiveness Report*, for the most part, are continuing, especially in areas such as the quality of macroeconomic policy and human capital development. Progress on health and literacy has been particularly remarkable: in a decade, child mortality sharply declined from 83 to 47 percent, and primary school enrollment has grown to above 80 percent. Moreover, a number of countries in Africa are making impressive progress in improving their competitiveness: Côte d'Ivoire, Ethiopia, Rwanda, and Tanzania, for example, have all improved their competitiveness ranking by five places or more since 2015, and their real GDP is forecasted to grow close to or above 7 percent over the next few years. Not surprisingly, these countries are also those that are trying to diversify their economies more, relative to others in the region. Diverging country trajectories reinforce wide regional competitiveness disparities: the most competitive African economy, Mauritius, at 45th globally, is ranked more than 90 places higher than the lowest one, Mauritania, at 137th. Similar patterns are identified across the 12 pillars, looking both at performance level and changes over time.

Jobs in Africa: Designing Better Policies Tailored to Countries' Circumstances

The working-age population in Africa is expected to grow by close to 70 percent, or by approximately 450 million people, between 2015 and 2035. If current trends continue, only about 100 million of them can expect to find stable employment opportunities. Countries that are able to enact policies conducive to job creation are likely to reap significant benefits from this rapid population growth. Those that fail to implement such policies are likely to suffer demographic vulnerabilities resulting from large numbers of unemployed and/or underemployed youth.

New research is providing governments in the region with insights into how they can address the coming rise in the working-age populations. African countries will need to find ways to expand aggregate demand for labor and improve supply-side factors at the same time. Beyond the traditional prescriptions—such as stable macroeconomic policy, a supportive investment climate, and improving the quality of human and physical capital—countries can facilitate more rapid and better job creation as well as accelerate the development of their manufacturing sector by implementing policies suited to their specific circumstances. Since almost all new jobs in Africa today are in agriculture and microenterprises, improving the business environment in these sectors is a high priority. Fragile countries can create jobs as well as promote growth and stability through targeted support to vulnerable regions and/or populations. Open trade policies and developing value chain links to extractive sectors are crucial for encouraging diversification and job creation in resource-rich countries. Finally, policies that foster regional trade and integration can be a major source of new jobs as well as improve firm-level productivity and economic competitiveness.

Competitive African Cities for Better Living Standards

Rapid population growth and urbanization are putting significant pressure on the urban infrastructure of African cities. The demographic transition, characterized by the youth bulge, requires sharp increases in job creation and infrastructure, including affordable housing in urban centers. For cities to play their role as poles of economic growth and providers of quality jobs, they need to become more competitive. This chapter focuses on the constraints and opportunities for creating competitive African cities and eventually improving the living standards of urban dwellers. In other words, it focuses on policy options for improving the livelihood of African people in a context of population and urban growth and highly resonate with the African Development Bank's High 5s.⁵

Comparing African cities along several indicators of economic progress—namely population dynamics, income and growth performance, employment, and the costs of housing and utilities—reveals interesting findings. For instance, over 2000–16, cities in economies dominated by natural resources experienced very fast growth in per capita GDP, yet they were less successful in improving households' disposable incomes. In addition, high employment growth has not necessarily translated into higher household disposable income, indicating a slow growth in wages and/or a fast increase in the number of households. A number of cities witnessed an explosion of slums and large housing backlogs that not only undermines household welfare but also increases matching costs between employers and employees and hinders labor productivity. The negative effects of housing shortages are compounded by

shortages of other urban infrastructure such as electricity, transport networks, and water and sewerage systems. A key factor contributing to those shortages is the outdated and inadequate urban plans that fail to take into account the social, political, economic, and environmental contexts of urban development in Africa.

Beyond the standard recommendations to reduce the infrastructure deficit; improve the business environment through better institutions, governance, and regulatory frameworks; and increase the availability of skills, this chapter makes three specific recommendations to improve competitiveness of African cities. First, governments or city officials need to update their cities' urban plans to reflect local realities. Second, investment in housing construction is critical to reduce the large housing backlogs in various cities and improve the lives of urban dwellers. Finally, creating special economic zones can be an effective tool to jump start manufacturing, increase exports, and create jobs. However, strategic planning with special attention to comparative advantage and linkages with the rest of the economy is necessary for achieving the potential benefits of industrial parks.

The need for faster policy implementation

Echoing the recommendations from the series of consultations that culminated with the "Competitiveness Action Agenda",⁶ following the launch of the 2015 *Africa Competitiveness Report*, the main roadblocks for Africa's economic development remain slow progress in improving education quality, building infrastructure (especially in cities), adopting new technologies, deepening capital markets, and accelerating the rate of structural change.

All these factors, however, require long processes to be modified and will manifest their impact only many years from now, while the need to offer better opportunities to the large and growing cohorts of young African people is imminent. Therefore, this *Report* reinforces the urgency of starting the reform process right away to ensure better prospects for the next generation.

More efforts and emphasis should be put on policy implementation, rather than policy definition, to circumvent one of the main weaknesses of Africa's development programs. Strengthening institutions is therefore a necessary pre-condition to enable faster and incisive policy implementation and to spark private-sector action. Despite progress that has been made in some countries, the average quality of public and private institutions remains low and represents an overarching hindrance to the implementation of reforms. More specifically, as discussed in Chapter 1.2, development programs in Africa in general, and particularly in fragile and conflict-affected states, take a long time to be executed. Against this backdrop, better public and private institutions as well as coordination and dialogue is needed to speed up the reform process.

In addition, the *Report* provides some specific short-term policies recommendations.

First, it proposes adopting sector-specific policies to increase labor demand. Chapters 1.2 and 1.3 emphasize the need to focus on labor-intensive sectors, such as agribusiness and construction, in order to speed up job creation. With improved access to finance, stronger linkages and coordination among actors in their value chains, and training, these sectors have the potential to create a large number of skilled and unskilled jobs. Agribusiness development also will help accelerate the growth of Africa's manufacturing sector.

Moreover, because small and micro-businesses represent the most important source of labor demand, policies tailored to the needs of this segment of the private sector is particularly necessary. Specifically, those firms require better access to finance, capacity building, and linkages to value chains.

Second, it suggests improving the competitiveness of cities through better urban planning. Outdated and inadequate urban plans are preventing African cities from benefiting from rapid urbanization and associated economies of scale. New urban planning should take into account recent economic, demographic, and urban developments. Advanced planning can lower infrastructure costs and increasing density can help address the issue of urban gridlock with its associated productivity costs, and can reduce the urban sprawl that is putting pressure on agricultural land and the environment. Moreover, the creation of special economic zones with better linkages to the rest of the economy can promote job creation and increased productivity through the higher growth of firms. However, the creation of these zones should be an integral part of the urban planning efforts in order to maximize the competitiveness outcomes, including job creation.

Third, it recommends reducing the housing backlog to improve the lives of urban dwellers, create jobs, and enhance productivity. Because of its extensive linkages with manufacturing, financial sector, and other service subsectors, residential housing construction in developing countries is very labor intensive and has high output multiplier effects. To address bottlenecks in the sector, better urban planning with adapted building codes, efficient regulation with reduced procedures and costs, improved governance, and better coordination between stakeholders will be necessary. Moreover, capacity building and financing for small and medium-sized developers can improve their productivity and their ability to deliver large-scale housing programs.

Fourth, it advises reducing the growing skills mismatch through effective technical vocational education and training (TVET) programs and better regional cooperation. Policies, cited above, aimed at increasing labor demand will not be effective at increasing youth employment if the supply of skills is not adequately addressed. There is a growing shortage of technicians, engineers, and other high-skilled workers. This can be addressed through better emphasis and reforms of TVET programs that can supply the skills demanded by the labor market. Moreover, the upcoming increased demand for education services due to larger populations will require more trained teachers. Regional coordination among African countries to adopt common standards and recognition of qualifications, as well as reforms of immigration policies for skilled workers, can help the continent prevent shortages of teachers in the short run.

Following the discussions above, the final section of the *Report* provides detailed competitiveness profiles for the 35 African countries included in the World Economic Forum's Global Competitiveness Index that allow for a detailed assessment country-specific context and unique challenges. These profiles present the detailed rankings that underlie the broader global competitiveness rankings.

Notes

- 1 AfDB 2016.
- 2 UN DESA 2015.
- 3 In Northern Africa unemployment is at 29.3 percent. In sub-Saharan Africa unemployment is at 10.8 percent, but the vast majority of new job creation is in self-employment or in microenterprises. ILO 2016.
- 4 For example, although the use of mobile phones grew to 94 subscriptions per 100 people in 2015, broadband mobile subscriptions are still as low as 26 per 100 people.
- 5 The AfDB five priority areas, referred to as the *High 5s* are: (1) Light up and Power Africa, (2) Feed Africa; (3) Industrialize Africa; (4) Integrate Africa; and (5) Improve the Livelihood of African People.
- 6 World Economic Forum, AfDB, OECD, and World Bank 2016.

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