Overview

The Africa Competitiveness Report 2011 comes out as the world emerges from the most significant financial and economic crisis in generations. While many advanced economies are still struggling to get their economies back on a solid footing, Africa has, for the most part, weathered the storm remarkably well.

Indeed, despite a small dip in growth during the crisis period, Africa has staged a quick and strong comeback. Between 2001 and 2010, growth in gross domestic product (GDP) on the continent averaged 5.2 percent annually, with the *African Economic Outlook* (AEO) projecting 5.2 percent growth in 2011 as well, higher than the global average of 4.2 percent projected by the International Monetary Fund (IMF). The key challenge for the continent is how to turn the ongoing recovery into strong, sustained, and shared growth that will lead to notable improvements in people's lives.

Yet despite its generally solid performance, much needs to be done to ensure that this growth continues into the future. One of the reasons that Africa was less affected by the crisis than some other regions (e.g., emerging Europe) was its limited integration, especially of its financial markets, into the global economy. Although this sheltered African economies over the shorter term, it holds them back in their development over the longer term. Indeed, one of the ingredients for sustained growth identified by the Growth Commission is the ability of a country to seize opportunities from the global economy, or, put differently, to engage with other countries and regions on mutually beneficial terms.[1] In fact, as this *Report* discusses, those regions such as East Africa that have experienced greater trade diversification have demonstrated greater resilience during the crisis.

More generally, African economies must continue to develop economic environments that are based on productivity enhancements to better enable them to ensure solid future economic performance. This means keeping a clear focus on strengthening the institutional, physical, and human capital prerequisites for a strong and competitive private-sector-led development. And it means focusing in particular on policies and interventions that open up opportunities for entrepreneurship and employment for all members of society. The state has an important role to play in this regard—through creating an enabling environment as well as identifying and removing obstacles to high-potential sectors and industries. This will be critical to ensuring that Africa accelerates its progress in the positive direction that it has taken over the past decade.

This year's *Africa Competitiveness Report* is the third in a series within a partnership among three institutions deeply committed to Africa's development. Following on our first joint report in 2007, the World Economic Forum, the World Bank, and the African Development Bank have come together once again to underscore the importance of discussing the challenges of competitiveness in Africa. Each institution approaches the topic in its own way, and together—when combined in this volume—they provide the reader with a rich set of complementary views about how to expand opportunities and increase productivity and growth in Africa (see Boxes 1 and 2). In addition, this year the Africa Commission and the Danish government have also provided their support to the *Report*.

This joint publication looks at different factors that affect competitiveness in Africa. By *competitiveness* we mean all of the factors, institutions, and policies that determine a country's level of productivity. The productivity of an economy, in turn, sets the sustainable level and path of prosperity that a country can achieve. In other words, more competitive economies tend to be able to produce higher levels of income for their citizens. A country's productivity level also determines the rates of return obtained by investment. Because the rates of return are the fundamental drivers of growth rates, a more competitive economy is one that is likely to grow faster over the medium to long term.

In today's globalized world, a country's trade performance and export sophistication and diversification are critical indicators of its competitiveness and are drivers of economic performance. Much research has demonstrated the importance of international integration and a strong export sector to enable small open economies to achieve high growth. In addition to providing an important revenue source, the export sector creates an important feedback loop for improving productivity and reinforcing competitiveness by increasing competition in the home market and providing firms with access to new technologies and techniques.

Box 1: Data used in this *Report*

The Executive Opinion Survey

The Executive Opinion Survey (Survey) conducted annually by the World Economic Forum captures the perceptions of leading business executives on numerous dimensions of the economy from a cross-section of firms representing its main sectors. The Survey compiles data in the following areas: government and public institutions, infrastructure, innovation and technology, education and human capital, financial environment, domestic competition, company operations and strategy, environment, social responsibility, Travel & Tourism, and health. All these areas feed into the 12 pillars of the Global Competitiveness Index.

The Survey gauges the current condition of a given economy's business climate, and the data generated from the Survey comprise the core qualitative ingredient of the Global Competitiveness Index as well as a number of other development-related studies and indexes carried out by the World Economic Forum and other institutions. The most recent Survey data cover a record 139 countries, with responses from more than 13,000 respondents worldwide, including 2,689 senior management respondents in 35 African countries.

In the Survey, business leaders are asked to assess specific aspects of the business environment in the country in which they operate. For each question, respondents are asked to give their opinion about the situation in their country of residence, compared with a global norm. To conduct the Survey in each country, the World Economic Forum relies on a network of over 150 Partner Institutes. Typically, the Partner Institutes are recognized economics departments of national universities, independent research institutes, or business organizations.

More information on the Executive Opinion Survey can be found in Chapter 2.1 of *The Global Competitiveness Report 2010–2011.*

Enterprise Surveys

The World Bank's Enterprise Surveys provide another important source of data for this *Report,* collecting both perception and objective indicators of the business environment in each country. While not carried out in every country in every year, the Enterprise Surveys are made up of larger sample sizes that allow for a nuanced analysis of the results, for example by economic sector and gender of respondent. The data are collected through face-to-face interviews with hundreds of entrepreneurs; hence responses reflect the managers' actual experiences. The data collected span all major investment climate topics, ranging from infrastructure to access to finance and from corruption to crime. Detailed productivity information includes firm finances, costs such as labor and materials, sales, and investment. The breadth and depth of data allow cross-country analysis by firm attributes (size, ownership, industry, etc.), and can probe the relationship between investment climate characteristics and firm productivity. Every year, 15–30 Enterprise Surveys are implemented, with updates planned for each country every three to five years. This reflects the intense nature of administering firm surveys, given that firms are required to respond to many detailed questions. So far over 125 countries have been surveyed, including over 22,000 entrepreneurs, senior managers, and CEOs in over 40 African countries. In 10 countries in Africa, surveys have been conducted more than once; hence panel data are also available to researchers around the globe. For more information, visit www.enterprisesurveys.org.

Doing Business Indicators

The World Bank's Doing Business Indicators are carried out on an annual basis, providing a quantitative measure of a particular aspect relevant to competitiveness: business regulations relevant to the operation of domestic small- to medium-sized enterprises (SMEs) throughout their life cycle. Specifically, they cover the following topics: Starting a Business, Dealing with Construction Permits, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. The indicators are built on the basis of standardized scenarios that permit consistency of approach and straightforward comparisons across countries. They also enable the tracking of reform efforts over time. Ease of use makes this a useful tool for policy analysis. The Doing Business data are updated annually; the most recent report (published in September 2010) covers 183 economies, 50 of them in Africa. Some of these indicators are included in the Global Competitiveness Index. For more information, visit www.doingbusiness.org.

These three methodologies have similarities and differences. They are similar to the extent that they all focus on issues related to the business environment and they are based on a survey of managers or experts. They differ in their objective: the World Economic Forum Survey aims at capturing the differences in the business environment across countries and at including the perspectives of CEOs and top managers, preferably with international experience. The World Bank Enterprise Surveys, on the other hand, aim at measuring many different aspects of the business environment and are more geared toward SMEs and domestically focused firms; the Doing Business data attempt to measure the regulatory environment across countries.

Themes for improved competitiveness

Over the last decade, many African countries focused on getting the economic fundamentals right. They put in place more sustainable fiscal policies, controlled inflation, and managed their debt. Some went further, addressing fundamental structural rigidities by divesting from private-sector activity, opening up some publicly dominated sectors—such as telecommunications—and reducing public-sector borrowing from the banking sector, which was crowding out private investment. These reforms paid off. Investors both domestic and foreign welcomed these reforms, and foreign direct investment (FDI) in particular increased from US$2.4 billion in 1985 to US$53 billion in 2008. Similarly, exports from Africa increased significantly and continuously. African countries witnessed a period of sustained economic expansion mostly fuelled by export-led growth.

Global integration offers incredible opportunities for increased investment, greater growth, and job creation. Africa must take advantage of this opportunity and must claim a greater share of world trade. The continent has made genuine progress in first-generation reforms. But to further boost competitiveness and increase volume and sophistication of exports, Africa must tackle much tougher second-generation reforms. Two strategies can help the continent achieve this goal: diversifying its product and market base, and capitalizing on its own underutilized resources: managerial skills, female entrepreneurship, and natural and cultural resources.

Diversifying products and markets

A great deal of empirical evidence suggests that international trade is positively associated with high economic growth.[2] The benefits of trade are well known: it raises income through specialization, increased competition, and the exploitation of economies of scale. It also increases the variety of products and services available in the market and promotes technological innovation.

Yet, despite improving over recent decades, Africa's share in world trade remains low, it is heavily concentrated in natural resources, and intra-African trade is particularly limited. Over the past 20 years, Africa has continued to depend heavily on natural resources for export revenues, whereas other regions largely diversified into processing industries. Only a handful of countries in Africa were able to increase their world market share of exports over the last decade, and these still began from a very low base. Much can be gained by diversifying exports and by further opening up regional trade.

The strategy each country must follow will depend on which industry it has a comparative advantage in. The cost of inputs (labor, capital, materials, energy), the quality of physical infrastructure, and the tax system are critical in determining a country's competitiveness in the global export markets for simple manufacturers. The availability of skilled labor and the capacity for innovation, along with input costs and the quality of policies, are the main drivers of competitiveness in heavy manufacturing. More generally, the major cross-cutting policy areas that constrain Africa's competitiveness across all main industry groups include those that increase indirect costs—trade logistics and infrastructure; and those that relate to poor business environments—access to land, availability of skills, and ability to absorb technology. The Global Competitiveness Index (GCI) discussed in Chapter 1.1 shows that these are areas in which the continent scores relatively poorly.

Regional integration can help African countries become more competitive and resilient to external shocks, as the recent experience of East Africa during the global financial crisis illustrates. Clearly, a lack of well-functioning transport and trade facilitation regimes is what is hindering many countries from becoming bigger

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

The *African Economic Outlook* (AEO) is an annual publication jointly produced by the African Development Bank and the OECD Development Centre beginning in 2001–02. These organizations were joined in 2007 by the UN Economic Commission for Africa and by the United Nations Development Programme (UNDP) in 2010. The publication reviews recent economic developments in Africa by adopting a comparative approach and a common analytical framework. It provides forecasts for key macroeconomic variables. The AEO surveys and analyzes the current socioeconomic performance of African economies and provides information on a country-by-country basis about their socioeconomic progress as well as on the short- to medium-term prospects of these countries. Each year, the AEO addresses a specific theme that focuses on a critical but under-researched area of Africa's socioeconomic development. The 2011 theme is *Emerging Economic Partnerships.* The AEO provides an overview of specific international developments that may impact African economies, country notes on selected number of countries, and a selected statistical appendix on African countries. The current edition of the AEO is the 10th and covers 51 African countries—1 more than in the previous edition. The key objectives of the AEO are to broaden the knowledge base on African economies and to offer valuable support for policymaking, investment decisions, and donors' interventions. Another important objective is to assist in capacity building. Through the involvement of African experts and institutions in its preparation, the AEO increases research capacity and reinforces their ownership. For more information, visit www.africaneconomicoutlook.org.

global players. Better logistics are strongly associated with trade expansion, export diversification, and the ability to attract FDI.

FDI inflows play an important role in improving competitiveness in African firms (both producers and suppliers) through advancing their managerial skills and technological capacities. Measures to encourage regional integration and trade in Africa are likely to attract additional market-seeking FDI. Similarly, services in most of Africa need to be further developed since the service sector is both an important input into the competitiveness of manufactures and an engine of growth in its own right. In addition to augmenting the capital stock, FDI can play an important role in improving total factor productivity (TFP) in African countries through advancing their technological capacities. The central role of FDI has been well recognized by African policymakers: without the transfer of technological capabilities and home-grown innovation, the productivity gap between African countries and more advanced economies will not be reduced and could even widen further.

While attracting growth-enhancing FDI would help raise competitiveness, achieving it requires that host countries create business environments where foreign investors can boost the productivity of existing domestic activities and generate positive spillovers. Open trade and investment regimes are critical in this regard, as FDI has been found to be particularly beneficial for growth where it encourages trade.[3] Raising human capital and technological capacity as well as developing infrastructure and financial sectors are crucial for attracting FDI that would generate positive spillovers for domestic economies. In other words, more competitive economies will tend to attract more FDI.

Finally, FDI is likely to exert the most positive impact on productivity and development in recipient African countries if multinational enterprises (MNEs) take a broader perspective and support them in this endeavor. Specifically, investing MNEs need to negotiate contracts that are fair and sustainable, adopt adequate and clean technologies, share knowledge, and in general adhere to good standards of corporate behavior.[4]

Managerial skills and higher education

In today's globalized world, no country can thrive without a capacity to generate, transmit, and utilize new knowledge. Put differently, today's globalized economy requires countries to nurture pools of well-educated workers.

Much progress has been made in getting children into school and achieving parity between boys and girls in African classrooms at the primary school level, and to a lesser extent at the secondary school level. But while rapid progress has been made in such basic-level enrollments, university enrollment has barely advanced, rising only from 4 percent in 1999 to 6 percent in 2007. Even though African countries have generally spent relatively large proportions of their national resources on education, the stock of human capital with a higher education in Africa continues to be very low by international standards.

Besides, research shows more and more that it is cognitive skills and learning, not years of schooling, that makes the difference. The reason is that cognitive skills could foster innovation and promote technology diffusion by equipping the workforce with the ability to absorb, process, and integrate new ideas into production and service delivery. The areas of higher education undertaken by a majority of African students are not in fields such as science, engineering, technology, and business, as is the case in rapidly growing emerging economies of Korea and China, but often in social sciences and the humanities. The result is a skill mismatch—university graduates remain unemployed, while African countries continue to face shortages of skilled labor.

The good news is that the rate of return to skills is high in Africa. What is therefore needed is a big push on quality education and skills, as was seen in Korea and other East Asian countries to underpin their growth miracles. The finding on the importance of cognitive skills for long-run growth should be a wake-up call for Africa, and should raise questions about the quality of the education now being provided.

The thriving telecommunications sector in many African countries can facilitate information transfer, knowledge, and learning. At the same time, tertiary education curricula and pedagogy need to be reformed. The pedagogical approach makes a difference in the quality and effectiveness of entrepreneurship education students receive. Consequently, a partnership between industry and government on tertiary education should be formed.

Women's entrepreneurship

The business case for expanding women's economic opportunities is becoming increasingly evident. The ability of women to participate fully and productively in the labor market is constrained in many regions, both by women's lower educational levels relative to men's and by social norms. This is inefficient, since increased women's labor force participation and earnings will enhance not only women's own economic empowerment, but also that of their children and the society as a whole.

The rate of women's entrepreneurship is high in Africa—higher than in any other region. However, this is not necessarily a sign of economic empowerment. In fact, although there are no performance gaps between men's and women's enterprises once differences in size, sector, and industry are taken into account, research shows that women are concentrated in the informal, micro, low-growth, low-profit areas. These include food processing and vending, tailoring, batik making, beauty salons, selling charcoal, and producing handicrafts, among others.

While women are less likely to be operating larger firms in higher-value-added sectors, those who do so in fact manage firms that perform equally as well as those run by men. Two sets of explanations help to account for why women are less likely to be active in the higher-opportunity entrepreneurship activities. The first has to do with human capital. Women's education has continued to lag behind men's, including in areas of particular relevance to running a business such as financial literacy and management training. The second set of explanations regards control over assets. While business laws are largely gender blind, family, inheritance, labor, and land laws are often not. It is this group of laws that determine legal capacity and control over assets within the household and often limit women's decision-making authority. Furthermore, the laws and regulations affecting businesses (including licensing procedures) were designed for relatively large activities, which makes it difficult for micro enterprises to comply with them. Corruption and bureaucracy make matters worse, especially for women who are more vulnerable to physical pressure from corrupt officials. Finally, the main barrier to performance of women-owned enterprises is a cultural environment that makes it more difficult for women to start and run enterprises because of their traditional reproductive roles: women often must divide their time and energy between their traditional family and community roles and running the business.

Thus the agenda for expanding women's economic opportunities is not to increase entrepreneurship *per se,* but rather to enable women to move into higher-value-added activities, both in terms of taking the step from self-employment to being an employer, and in the types of activities in which the women entrepreneurs engage. Increasing women's human capital (education, management training, business mentors/networks), expanding the awareness of women's success as entrepreneurs, and improving women's voice in investment climate policy circles are important steps to achieve these results.

Cultural and natural resources

Africa is blessed by rich natural and cultural resources, which include a great deal more than the continent's vast supply of natural minerals. This unexploited endowment has great potential for employment generation, growth, and poverty reduction. One in twenty of all jobs in sub-Saharan Africa are in Travel & Tourism (T&T). And as the T&T sector grows, its job creation and income-generating potential rise exponentially. A US$250,000 investment in the tourism sector generates 182 full-time formal jobs, according to a study by the Natural Resources Consultative Forum.[5] This is nearly 40 percent more than the same investment in agriculture and over 50 percent more than in mining. At the same time, the T&T sector compares well with other sectors in regard to opportunities for SME development, career advancement, and lifelong learning potential.

The *Report* analyzes the T&T competitiveness of countries across the continent, using the World Economic Forum's Travel & Tourism Competitiveness Index. This analysis is complemented by World Bank research on the drivers of Africa's T&T competitiveness that investigates visa administration, air transport access, hotels and lodges, tour operators, ecotourism and biodiversity, and cultural heritage in Africa. This approach provides a sense of the opportunities and challenges provided by the tourism sector on the continent.

The development of the T&T sector offers significant opportunities for Africa to move up the value chain, fostering growth and development in the region. Travel & Tourism in Africa has many advantages on which to build, including price competitiveness, a strong affinity for tourism, and rich natural resources supported by efforts toward environmental sustainability. However, evidence shows that a number of obstacles remain to improving the region's competitiveness, notably improving safety and security, upgrading health and hygiene levels, developing various forms of infrastructure, and fostering the region's human capital. Given Africa's many strengths, improvements in these areas will greatly enhance its ability to reap the enormous potential benefits of tourism.

Framing the competitiveness agenda: National competitiveness councils

The government plays a crucial role in fostering competitiveness within the African continent. And this role should not be limited to facilitating a business-friendly environment and an adequate supply to human and physical infrastructure. The state should also adopt active and inclusive interventions in factors of production, especially in high-growth potential sectors. African governments need to be committed to fostering their economies' competitiveness by incorporating competitiveness more broadly and effectively into their national development strategies. It is therefore important that any intervention be brought together within a comprehensive strategy on competitiveness rather than being a series of ad hoc interventions.

Yet improving competitiveness is not the responsibility of government alone. Businesses and civil society also have their roles to play. What is needed is an ongoing dialogue about measures needed and progress made in various areas, as well as incentives to keep up the reform process.

As the world economy continues to globalize, promoting competitiveness and growth has been moving to the center of the attention of policymakers and business. However, progress is not easy to achieve, as it often requires fundamental changes at all levels of society. Although government implementation of the right economic policy measures is a prerequisite to enhancing competitiveness, these measures need to be supported by the private sector and civil society in order to make them work efficiently. What makes the task even more difficult is that competitiveness depends on a myriad of factors that span many areas of the economy. Yet success is possible only if the underlying mechanisms are well understood and if the main actors are committed to making continuous efforts.

The common denominator of successful approaches is close cooperation among the public sector, business, and civil society, the three key actors. Over the past few years, national competitiveness councils (NCCs) have proven to be one of the most successful approaches to institutionalizing public-private dialogue on competitiveness. Recognizing that competitiveness can be enhanced only through joint actions, a number of countries have created NCCs that often play a major role in economic policymaking.

Yet at present only a few African countries have established active NCCs. Going forward, the creation of NCCs in Africa can play an important role in institutionalizing the ongoing process of reform and improvement, and also the sharing of best practices across the continent.

Structure of the *Report*

This *Report* includes four chapters, each addressing different aspects of competitiveness in Africa. The first chapter of the *Report* analyzes competitiveness across the continent by looking at a wide range of factors of the business environment that have an impact on productivity, as well as Africa's progress in integrating into the global economy through exports and FDI. The subsequent chapters focus on how Africa can better capitalize on its rich resource base—through reforming higher education, strengthening women's entrepreneurship, and improving the environment for developing Travel & Tourism on the continent. A number of concrete policy recommendations are made within the chapters.

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

Notes

1 Launched in April 2006, the Commission on Growth and Development brought together 22 leading practitioners from government, business, and the policymaking arenas, mostly from the developing world. The Commission was chaired by Nobel Laureate Michael Spence, former Dean of the Stanford Graduate Business School, with Danny Leipziger, former Vice-President of the World Bank as its Vice-Chair. Over a period of four years the Commission sought to gather the best understanding there was about the policies and strategies underlying rapid and sustained economic growth and poverty reduction. More information on the Commission and its findings can be found at www.growthcommission.org.

2 Some earlier controversies notwithstanding, more recent empirical literature (including a study focusing on within-country variations in trade and growth rather than cross-country regressions) has consistently showed positive links between trade and growth. See, for example, Lee et al. 2004 and Dollar and Kraay 2002.

3 Moran et al. 2005.

4 OECD 2002.

5 Hamilton et al. 2007.

References

Acs, Z. J. and A. Varga. 2005. "Entrepreneurship, Agglomeration and Technological Change." *Small Business Economics* 24 (3): 323–34.

Dollar, D. and A. Kraay. 2002. "Institutions, Trade, and Growth." *Journal of Monetary Economics* 50: 133–62.

Hamilton, K., G. Tembo, G. Sinyenga, S. Bandyopadhyay, A. Pope, B. Guilon, B. Muwele, S. Mann, and J.-M. Pavy. 2007. *The Real Economic Impact of Nature Tourism in Zambia*. Lusaka, Zambia: Natural Resources Consultative Forum, Government of Zambia, and the World Bank.

Lee, H. Y., L. Ricci, and R. Rigobon. 2004. "Once Again, Is Openness Good for Growth?" *Journal of Development Economics* 75 (2): 451–72.

Moran, T., E. M. Graham, and M. Blomström, eds. 2005. *Does Foreign Direct Investment Promote Development?* Washington DC: Institute for International Economics and Center for Global Development.

OECD (Organisation for Economic Co-operation and Development). 2002. *Foreign Direct Investment for Development: Maximizing Benefits, Minimizing Costs*. Paris: OECD.

World Economic Forum. 2010. *The Global Competitiveness Report 2010–2011*. Geneva: World Economic Forum.

———. 2011. *The Travel & Tourism Competitiveness Report 2011*. Geneva: World Economic Forum.