

ACR 2007



**AFRICA COMPETITIVENESS REPORT 2007
AFRICAN DEVELOPMENT BANK, WORLD BANK
& WORLD ECONOMIC FORUM
SEMINAR ON FINANCE & BDS FOR
ENTREPRENEURSHIP DEVELOPMENT: HOW TO
EFFECTIVELY ASSIST SME CREATION AND
GROWTH
29TH OCT-1ST NOV 2007, TUNIS, TUNISIA**

The ACR 2007

Structure & Content



Part 1: Chapters

- Selected issues of competitiveness

Part 2: Competitiveness profiles

- Based on World Economic Forum data
- Overview of rankings and scores

Part 3: Investment climate profiles

- Based on World Bank data
- Country rankings per variable

The ACR 2007

Context

- ❑ **Renewed optimism** due to a much better **regional economic climate**. After years of economic stagnation, **Africa is experiencing an economic resurgence**, and the outlook for the region's economic prospects is broadly optimistic.
- ❑ But questions remain as to **how sustainable this growth will be over the longer run**. Most of the **current growth has been fueled** by a confluence of **external circumstances** and interventions, including high commodity prices, debt relief, and a favorable international economic environment.
- ❑ **Genuinely sustainable growth** must be based on **solid domestic foundations** rather than cyclical or exogenous factors: **African countries** must become **more competitive**.

ACR 2007 examines many aspects of Africa's business environment :

- ❑ assessments of the drivers of productivity and investment;
- ❑ the competitiveness and investment climate in the 4 largest economies of Africa;
- ❑ the effect of gender disparities on employment and competitiveness; and
- ❑ the role of new technologies in fostering a more dynamic business environment.
- ❑ The *Report* also details country competitiveness and investment climate profiles - the drivers of investment and competitiveness in each of the 29 countries covered.

The identified 5 Common Themes in the ACR 2007

- ❑ The importance of good policies to establish a sound business environment. Policies are more important than geography or the abundance of natural resources. Countries with sound policies have better growth and productivity outcomes.
- ❑ Access to finance is a major constraint to business in Africa
- ❑ Infrastructure is still one of the top constraints in the continent, particular energy and transportation
- ❑ Institutions in Africa need to be more business friendly and that corruption is still an obstacle in many countries.
- ❑ Africa has significant examples of success, however, sub-Saharan Africa, still lags in GCI primarily in the basics of infrastructure and education.

Global Competitiveness Index on Africa

- ❑ 29 countries covered (from North and sub-Saharan Africa)
- ❑ Comparisons with relevant developing regions—Latin America and Southeast Asia—as well as the ranks and scores of the four rapidly developing and large “BRIC” countries (Brazil, Russia, India, and China).

Global Competitiveness Index on Africa

- ❑ **Tunisia** is the **strongest performer**, ranked among the top 30. Tunisia also outperforms all comparator economies. Followed by **South Africa and Mauritius** (46th and 58th).
- ❑ Farther down are the other **North African countries**: **Egypt** (65), **Morocco** (72), **Libya** (73), and **Algeria** (76).
- ❑ All other countries are from the sub-Saharan region, with **Botswana, Namibia, and Kenya** as the **only three other countries within the top 100 countries**.
- ❑ **All other 19 countries from sub-Saharan Africa** rank among the **27 weakest performers** occupying **ranks of 102 or lower**.

Global Competitiveness Index on Africa

- **North African countries** are already assessed as **doing comparatively well in some of the more basic areas** measured by the GCI; **their focus should be** on improving the factors measured in the pillars of the efficiency enhancers subindex: most particularly **technological readiness** and **improved market efficiency**.
- In **sub-Saharan Africa**, efforts are needed on all **fronts within most countries**: upgrading **infrastructure** and improvements in the **health and education** of the workforce, as well as tackling weaknesses in the areas of **market efficiency** and **technological readiness**.

Global Competitiveness Index on Africa

- A number of **big economies** in **SSA** receive **high scores** in the **innovation and business sophistication pillars** relative to their overall ranking, while **neglecting more basic factors** that would help them migrate into a higher stage of development and achieve more sustainable growth.
- There are **strong individual country performances** throughout the continent in areas as diverse as **institutional quality, macroeconomic stability, business sophistication, and innovation**: these countries can serve as **regional benchmarks** to other countries, in efforts to improve competitiveness.

ACR 2007

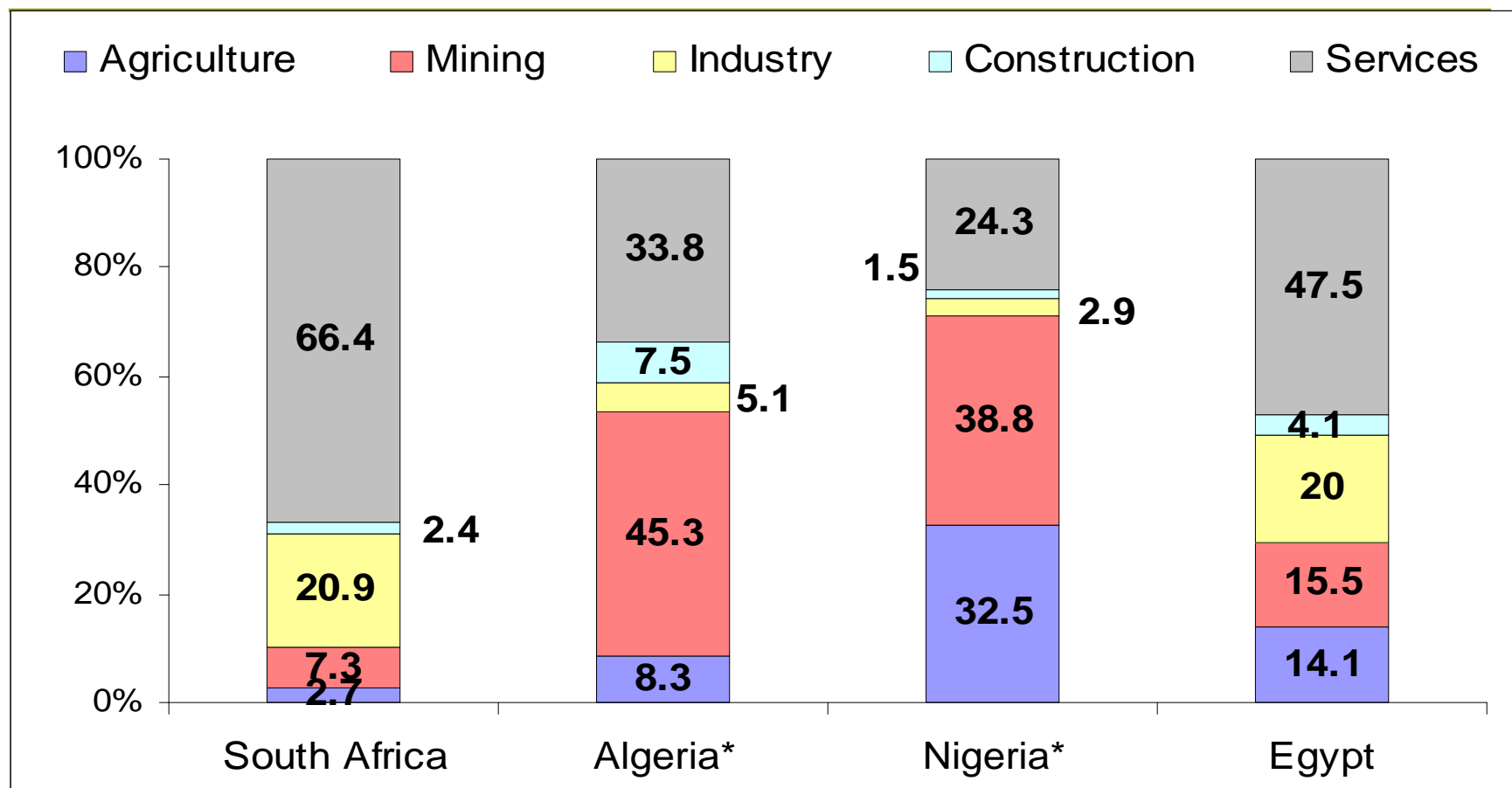


**Competitiveness and
Investment Climate in SANE
Economies**

Introduction – The SANE Chapter

- ❑ Explores the structure, performance and competitiveness of the four largest economies in Africa (**S**outh Africa, **A**lgeria, **N**igeria, and **E**gypt – the SANE).
- ❑ Examines the major investment constraints facing firms in these countries and discusses the policy implications of the findings.
- ❑ Also makes some comparisons of competitiveness and investment climate in the SANE countries and BRICs (**B**razil, **R**ussia, **I**ndia, and **C**hina)

Chart 1: Sector Contribution to the GDP of SANE in 2005 – S. Africa has a more diversified economy while in the rest oil is vital to their economies

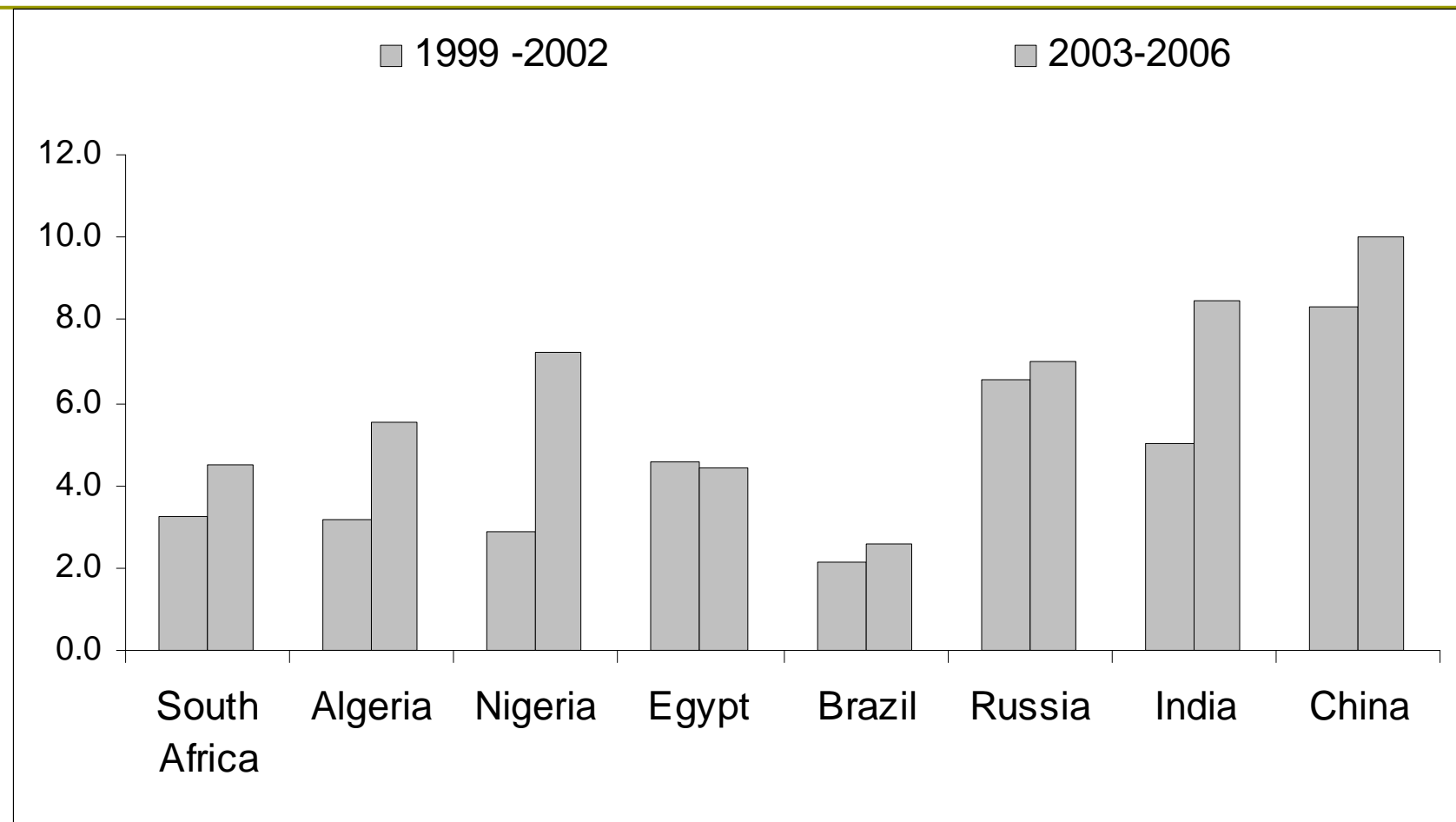


* Mining (Petroleum)

Industry (excl. Petroleum)

Source: Reserve Bank of South Africa; Algerian Ministry of Finance; Central Bank of Nigeria, December 2005; Central Bank of Egypt; AfDB Statistics Department

Chart 2: SANE's Average Real GDP Growth Rates, 1999-2002 and 2003-2006: - high growth rates, but BRICs, with exception of Brazil, much higher than SANEs



Source: *Economic Indicator: AfDB Statistics Department. African Live Database (WB), World Economic Outlook (IMF), September 2006*

Business Environment in the SANE appears comparable to, if not more favourable than, that in the BRICs

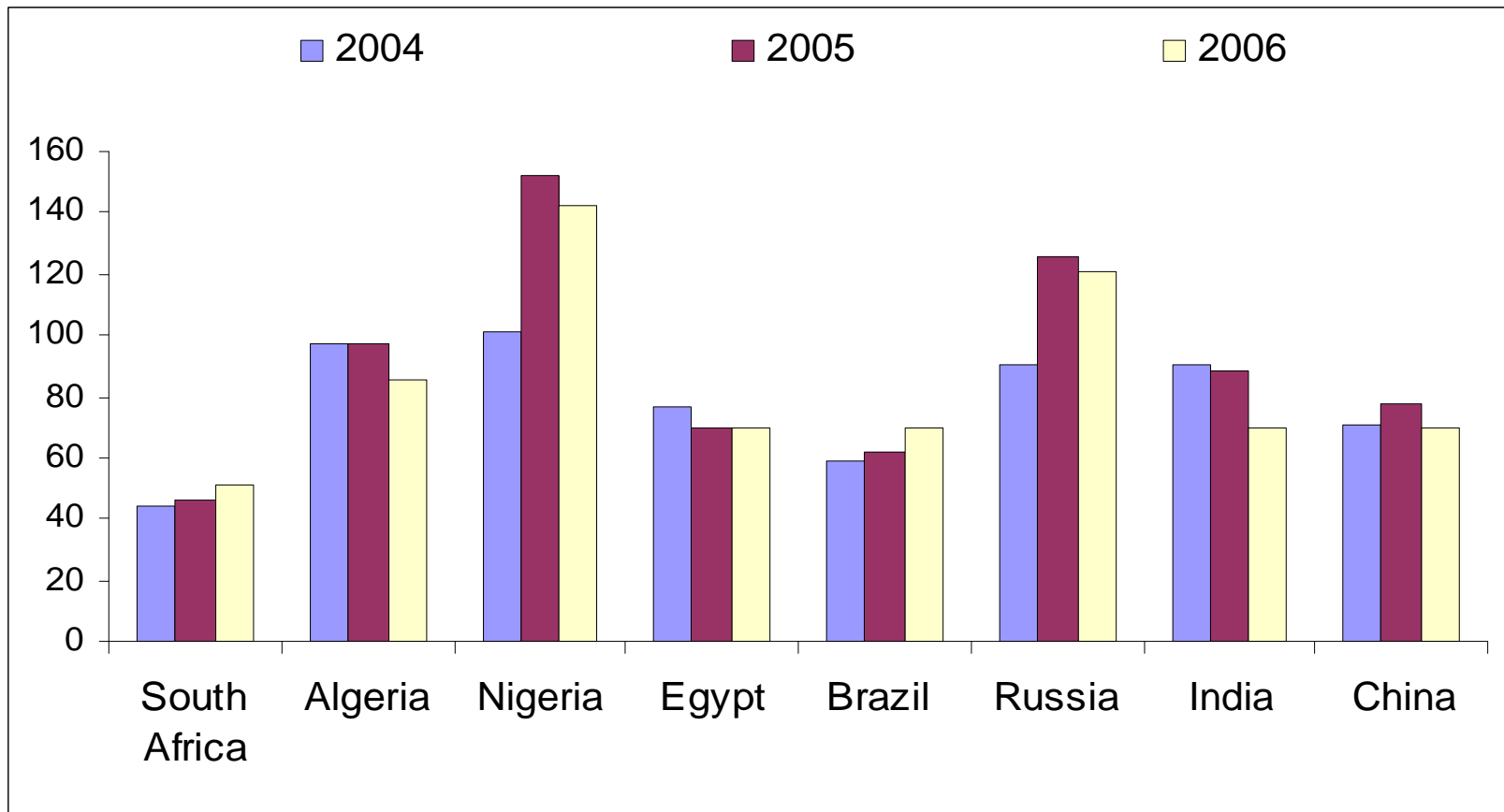
- ❑ On average, entrepreneurs in the SANE economies go through 10.5 steps to launch a business while in the BRIC is 12 procedures.
- ❑ It takes fewer steps to start a business in South Africa, Nigeria and Egypt than in Brazil, China and India.
- ❑ The average number of 286 days taken to license a business in the SANE economies is far less than the 407 days required in the BRIC.
- ❑ It takes 531 days to register a business in Russia, but 465 days to do so in Nigeria.
- ❑ SANE rank better than India and Russia on legal trade across borders index
- ❑ SANE face higher import costs than BRICs
- ❑ Very little intra-African trade by SANE, save S. Africa
- ❑ BRICs perform better than SANE on protecting investors

Table 1: The Nine Pillars of Competitiveness in the SANE and the BRIC – S. Africa & Egypt rank comparable to BRICs

	SANE Countries				BRICs Countries			
	South Africa	Algeria	Nigeria	Egypt	Brazil	Russia	India	China
Global CI	46	76	102	65	67	61	42	55
Basic Requirements	57	44	113	64	88	68	63	47
Institutions	31	65	93	50	85	119	33	96
Infrastructure	50	80	108	56	72	62	63	60
Macroeconomy	48	2	57	111	117	35	91	8
Health + Primary	106	46	119	51	48	78	96	56
Efficiency-Enhancers	45	92	90	75	58	59	41	72
Higher Education	57	86	103	77	61	43	49	79
Market Efficiency	34	97	71	66	59	60	20	55
Technological Readiness	44	93	90	80	53	72	56	78
Innovation/Sophistical Factors	29	92	69	65	38	72	26	57
Business Sophistication	32	106	75	57	38	79	25	65
Innovation	29	77	52	83	38	59	26	46

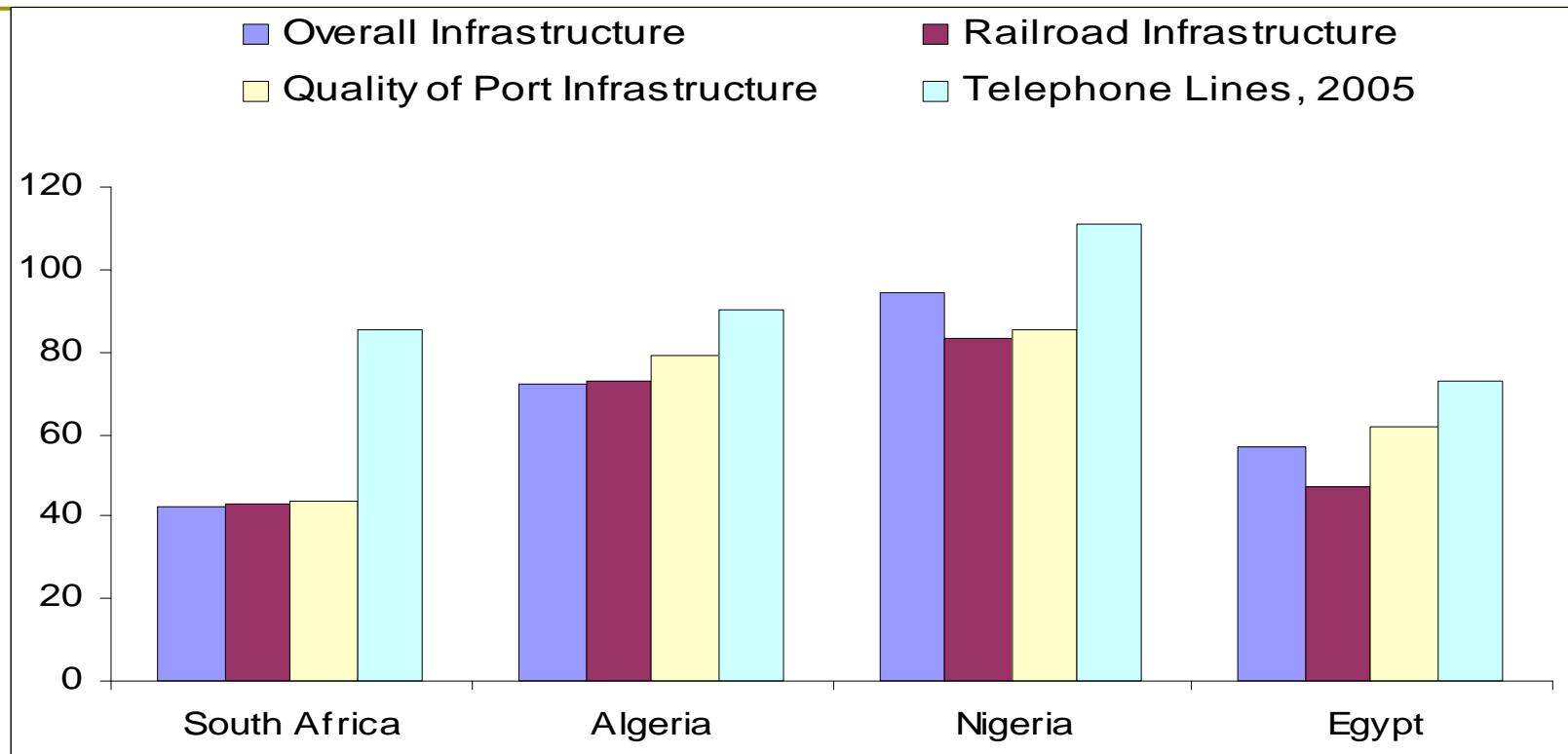
Source: World Economic Forum

Chart 3: Corruption Perception Index (CPI) Rankings of SANE Countries (CPI) – S.Africa ranks least, while Russia and Nigeria highest



Source: Transparency International 2005 and 2006

Chart 4: Rankings of SANE in Quality of Infrastructure - S. Africa best ranked



Source: World Economic Forum

Table 2: Top Five Business Constraints Identified by Firms in the SANE

South Africa	Algeria	Nigeria	Egypt
Skilled Labor Shortage	Unfair Competition from Imports and Illegal Business	Power Failure	Macroeconomic Uncertainty (Inflation, Exchange Rate)
Labor Regulations	Lack of Working Capital	Poor Infrastructure other than Power	Unfair Competition from Imports and Illegal Business
Crime and Theft	Corruption	Lack of Working Capital	Corruption
Unfair Competition	High interest rates	High Interest rates	High Interest Rates
Obtaining Land or Building	Obtaining Land or Building	Macroeconomic Uncertainty (Inflation, Exchange Rate)	Lack of Working Capital

5. Africa - Policy Implications and Recommendations

Reforms in several areas:

- ❑ Reforms in the area of competition
- ❑ Labor reforms
- ❑ Tax regulations
- ❑ Restructure the financial sector.
- ❑ Increasing the number of judges specialized in business and fiscal issues.
- ❑ Address Corruption

Conclusion

- The **relatively positive economic** outlook across much of Africa, coupled with the **renewed focus and increased attention** from several institutions from within the region and beyond, now provide a **promising opportunity** to make the **institutional and structural changes** needed to **put countries in the region on a more sustainable growth path** and to **pave the way for a more prosperous African future**.
- *The Africa Competitiveness Report 2007* is meant to provide a useful **benchmarking tool**, and a **public-private platform for dialogue** in these efforts.

Conclusion

- ❑ The SANE countries have the size and the scale to be drivers of Africa's economic growth, regional economic co-operation, and integration into the global economy.
- ❑ However, the SANE would need to address key obstacles to competitiveness and investment climate before its potentials in both the regional and global economy can be fully realized.
- ❑ These countries also have the potential to serve as growth poles for growth and investment and contribute to the reduction of the population leaving in poverty in Africa.



ANNEXES

GCI 2007: AFRICA & COMPARATORS

Country/Economy	Overall Index		Subindexes					
	Rank	Score	Basic requirements		Efficiency enhancers		Innovation enhancers	
			Rank	Score	Rank	Score	Rank	Score
North Africa:								
Algeria	76	3.98	44	4.91	92	3.30	92	3.22
Egypt	65	4.09	64	4.55	75	3.63	65	3.63
Libya	73	4.00	45	4.87	95	3.25	97	3.16
Morocco	72	4.02	70	4.45	77	3.60	73	3.54
Tunisia	29	4.72	33	5.27	40	4.34	28	4.42
<i>North Africa average</i>		4.09		4.67		3.58		3.56
Sub-Saharan Africa:								
Angola	128	2.50	128	2.48	126	2.51	126	2.52
Benin	107	3.41	106	3.74	107	3.04	90	3.23
Botswana	83	3.83	82	4.30	80	3.54	98	3.15
Burkina Faso	119	3.10	124	3.17	112	2.96	86	3.27
Burundi	127	2.62	127	2.73	127	2.46	121	2.66
Cameroon	111	3.32	108	3.71	117	2.91	104	3.05
Chad	126	2.64	126	2.90	128	2.35	125	2.53
Ethiopia	123	3.00	118	3.31	123	2.69	119	2.72
Gambia	104	3.45	105	3.84	103	3.11	115	2.89
Kenya	97	3.61	109	3.70	83	3.47	59	3.723

GCI 2007: AFRICA & COMPARATORS

Lesotho	115	3.24		107	3.72	122	2.81	123	2.59
Madagascar	113	3.29		114	3.60	116	2.92	91	3.23
Malawi	120	3.09		119	3.30	119	2.87	112	2.93
Mali	122	3.04		123	3.19	121	2.83	96	3.17
Mauritania	118	3.18		117	3.41	113	2.94	108	2.98
Mauritius	58	4.22		50	4.74	62	3.88	47	3.84
Mozambique	124	2.97		122	3.25	124	2.63	118	2.86
Namibia	88	3.76		72	4.44	93	3.29	88	3.25
Nigeria	102	3.49		113	3.60	90	3.33	69	3.60
South Africa	46	4.42		57	4.66	45	4.24	29	4.35
Tanzania	108	3.40		115	3.56	96	3.17	77	3.49
Uganda	116	3.21		121	3.27	100	3.12	83	3.30
Zambia	117	3.21		116	3.52	109	3.01	127	2.43
Zimbabwe	121	3.07		125	3.09	108	3.03	94	3.18
<i>Sub-Saharan Africa average</i>		3.29			3.55		3.05		3.12
BRICs:									
Brazil	67	4.08		88	4.23	58	3.96	38	4.09
China	55	4.25		47	4.82	72	3.66	57	3.75
India	42	4.47		63	4.56	41	4.33	26	4.60
Russian Federation	61	4.13		68	4.49	59	3.96	72	3.55
Latin America/Caribbean average		4.07			4.41		3.83		3.75
Southeast Asia Average		4.25			4.53		4.01		3.90

TOP 3 AFRICAN PERFORMERS IN EACH GCI PILLAR

	1. Institutions	2. Infrastructure	3. Macroeconomy	4. Health and Primary Education	5. Higher Education and Training	6. Market efficiency	7. Technological readiness	8. Business sophistication	9. Innovation
1	3	5	7	9	11	13	15	17	19
Algeria	65	80	2	46	86	97	93	106	77
Angola	123	116	126	128	128	123	124	126	124
Benin	87	117	95	104	104	96	114	87	91
Botswana	38	67	41	115	89	61	81	98	92
Burkina Faso	67	113	119	127	119	89	106	101	70
Burundi	115	126	125	123	126	126	128	120	122
Cameroon	120	124	42	107	106	117	116	104	100
Chad	128	128	110	122	127	127	127	124	125
Egypt	50	56	111	51	77	66	80	57	83
Ethiopia	91	105	98	124	123	119	123	123	117
Gambia	57	97	108	110	109	88	94	109	118
Kenya	92	89	102	113	90	73	83	68	48
Lesotho	89	121	54	112	118	120	112	125	120
Libya	75	100	1	81	73	121	115	88	98
Madagascar	98	119	118	103	116	100	103	102	78
Malawi	66	118	127	109	122	91	121	116	106

TOP 3 AFRICAN PERFORMERS IN EACH GCI PILLAR

Mali	71	115	116	125	121	104	119	110	81
Mauritania	72	114	123	108	124	103	85	105	111
Mauritius	43	42	107	44	69	70	54	44	65
Morocco	68	61	81	89	87	75	70	80	61
Mozambique	112	102	115	120	125	125	122	117	113
Namibia	49	45	45	114	108	80	79	85	89
Nigeria	93	108	57	119	103	71	90	75	52
South Africa	31	50	48	106	56	34	44	32	29
Tanzania	64	96	103	121	115	76	87	83	56
Tunisia	26	37	39	33	36	36	47	31	27
Uganda	103	122	69	126	110	85	97	93	73
Zambia	56	90	122	118	120	86	96	128	121
Zimbabwe	101	101	128	116	99	115	110	92	94

<i>Global Leader</i>	<i>Finland</i>	<i>Germany</i>	<i>Libya</i>	<i>Japan</i>	<i>Finland</i>	<i>Hong Kong</i>	<i>Sweden</i>	<i>Germany</i>	<i>Japan</i>
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