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# Africa's economic growth

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Taking off or slowing down?

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## IN-DEPTH ANALYSIS

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This publication discusses the recent economic growth on the African continent, the factors driving it and the economic sectors that have most contributed to it, as well as the extent of economic transformation achieved during the years of growth. It also addresses the role of economic growth in reducing poverty.

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## EXECUTIVE SUMMARY

Over the past 15 years, most countries in Africa experienced sustained economic growth, with growth rates often exceeding 5% per year. This has inspired much optimism about the region's prospects to finally leave poverty and under-development behind. However, the general economic context is now turning less favourable, with growth slowing down, especially in oil and mineral exporting countries. On the whole, overall growth is expected to continue, but at a slower pace. In this changing climate, it is important to look at the drivers of growth, in order to distinguish those that can sustain further growth.

Looking back to the years of sustained growth, it is clear that many drivers have contributed to this; their configuration ultimately depended on the local economic situation in each country. Favourable external conditions, especially high commodity prices (based on high international demand) and availability of investment money in search of new opportunities at global level have played a major role. At the domestic level, the improvement of the macroeconomic climate – especially the reduction of external debt and of current account and fiscal deficits – as well as the decline in the number of conflicts and improved political and economic governance have also been, without doubt, central contributors to growth. Spurred by growing internal demand, a buoyant services sector has in many cases been the fastest growing sector of African economies. The telecommunications boom, first based on a huge increase in mobile phone use and now on rapidly expanding internet penetration, has also played a central role. Financial services are developing quickly often in tandem with ICT uptake. The laggard in the growth story, however, has been the manufacturing sector. Sub-Saharan Africa remains unable to join the ranks of those developing countries that base their growth on the export of competitive manufactured products.

Growth has been fast, but from a low base, and consequently Africa still has much to do to catch up with other regions of the world. Despite the excitement raised by the fast economic growth which inspires the belief that Africa could become the next Asia, African countries still trail behind other developing countries in terms of development pace. Per capita GDP growth is still significantly lower than in Asia; economic diversification and sophistication remain low level in most African countries.

Proposals to spur a real and deep economic transformation have varied, but in many cases focus on the need to develop Africa's industrial base. Adapting Africa's industrialisation to its specific characteristics requires coordination with the extractive industries, and modernisation of agricultural production and expansion of agro-processing. In this way the continent could leave dependence on a few export commodities behind, and improve resilience to external shocks. Industrialisation is also considered necessary by many authors to create sufficient jobs for the rapidly growing population. While the service sector has grown quickly, driven by internal demand, and is usually considered the sector that most contributed to growth, its overall productivity and its export potential are still low; much of the workforce lacks the necessary higher skills. For economic success to continue and to achieve its transformative impact, a climate of political stability is needed, since conflict is a major threat to Africa's economic growth.

## TABLE OF CONTENTS

1. Background: the African economic boom .....	3
1.1. Do the numbers tell the truth? – GDP calculation in Africa .....	4
2. Economic situation .....	5
2.1. Recent economic history .....	5
2.2. Current economic outlook: Forecasts revised downwards .....	6
2.2.1. Despite growth, GDP remains low especially in SSA .....	8
3. Factors of growth .....	9
3.1. Improved political and macroeconomic climate .....	9
3.2. Business Climate .....	11
3.3. International financial flows .....	12
3.4. The demographic dividend .....	12
3.5. Sectors of the economy and their contribution to growth .....	13
3.5.1. Export of commodities and extractive industries .....	13
3.5.2. Agriculture .....	15
3.5.3. Building the infrastructure .....	16
3.5.4. Services .....	18
3.5.5. Manufacturing .....	19
3.5.6. Trade .....	20
4. Transformation of the economy .....	20
4.1. How much has the economy transformed? .....	20
4.1.1 Africa's failure to industrialise .....	20
4.1.2. Labour migration across sectors and increases in productivity .....	21
4.1.3. Economic transformation varies greatly among African countries and regions ...	23
4.2. How to spur economic transformation? .....	23
5. Is economic growth reducing poverty? .....	25
6. EU's support for economic development in Africa .....	26
7. Main references .....	27

### List of main acronyms used

<b>AfDB</b>	African Development Bank Group
<b>AU</b>	African Union
<b>FDI</b>	Foreign direct investment
<b>GDP</b>	Gross domestic product
<b>IMF</b>	International Monetary Fund
<b>PPP</b>	Purchasing power parity
<b>SSA</b>	Sub-Saharan Africa
<b>UNDP</b>	United Nations Development Programme
<b>UNECA</b>	United Nations Economic Commission for Africa

## 1. Background: the African economic boom

The past two decades, and especially the years since the turn of the millennium, have represented a period of sustained economic growth for the African continent. This economic boom followed two decades of economic stagnation in most Sub-Saharan African (SSA) countries, characterised in many of them by military conflicts, economic mismanagement and an unsustainable external debt. An important feature of this boom is that it has largely been shared by all countries in Africa, with a few exceptions related to conflicts. The new growth has not gone unnoticed, inspiring much optimism among journalists, economists, business people and investors over the fate of a region which not so long ago seemed doomed to failure.

Usually referred to as the 'Africa Rising Narrative', the **optimistic stance on African economic prospects** is based on the assumption that Africa is about to 'turn the page', 'to take off', to become the 'Asia of the 21st century', the new 'powerhouse of the world', that this century will be 'Africa's century'. An economic miracle is expected to alter the continent's fate, with great impact on the rest of the world. Over recent years, this idea of Africa growing rapidly and undergoing a major transformation has become a popular front-cover story for the press,<sup>1</sup> making some see it merely as media hype, which replaces the previous narrative of a continent doomed to misery and under-development<sup>2</sup> with an over-optimistic view.<sup>3</sup>

<sup>1</sup> The new story of the rising continent came to wide public attention through press articles such as *The Economist*, [The hopeful continent. Africa rising](#) (2011), *Time* magazine, [Africa Rising](#) (2012) and the *Financial Times*, [Africa calling](#) (2013).

<sup>2</sup> Sub-Saharan Africa experienced protracted economic stagnation from 1975 to 1995. *The Economist* was at the forefront of this approach, delivering in May 2000 a pessimistic verdict on Africa's development prospects. It considered it to be engulfed in endless problems, clustered around three issues – 'brutality, despotism and corruption' – deeply entrenched in its culture. Its main conclusion was that Africa 'was losing the battle'.

<sup>3</sup> For example, the often mentioned assertion that Africa includes a significant number of the fastest growing countries in the world is not so telling. As Africa includes around one quarter of the number of countries in the world, and the share of developing countries (which usually achieve the highest growth rates) situated in Africa is even higher, it is to be expected to find many African countries among those with the most rapid growth in the world, once African economies have started to grow (See [Why saying 'seven out of ten fastest growing economies are in Africa' carries no real meaning](#), Morten Jerven, August 2014).

The most recent developments however make it necessary to have a closer look at the nature of this economic growth. The main question surrounding it has been whether it is sustainable and effective in reducing poverty. Being driven by a favourable external context, it has been feared that the economic growth would abruptly stop once this context changes. The recent end of the high commodity prices cycle has actually led to such a change, but growth is expected to continue at a significant – even if slower – rate in many African countries. In some of the resource-poor countries, growth will continue unabated. Oil and mineral exporters are the hardest hit, but most of them should continue growing. Economic dependence on a few export commodities makes a country particularly vulnerable to fluctuations in prices on the world market and to global economic shocks in general. Extraction of fuels and minerals also does not usually require an extensive and highly skilled workforce. Without an increase in the manufacturing share in many African countries, few jobs have been created, at least in the formal sector, and the populations may have not always profited from the economic growth.<sup>4</sup>

A recent survey realised by the Pew Research Center<sup>5</sup> shows that people in SSA are happier with the economic situation in their countries than people in other parts of the world. Many people in sub-Saharan Africa are optimistic about the future, believing their economy is going to improve in the next 12 months and the next generation will be better off financially than their parents.

### 1.1. Do the numbers tell the truth? – GDP calculation in Africa

One unavoidable issue for reports on economic growth in Africa is the accuracy of GDP estimates. Existing economic data are considered inaccurate and thus unreliable in many African countries, leading to what some have called an African statistical tragedy.<sup>6</sup> Calculating exact GDP is difficult and expensive in general and even more so in African countries, which often lack sufficient statistical capacities. GDP estimates are negatively affected by the lack of appropriate censuses or by government interference for political purposes (in order to boast about higher growth rates). For this reason, GDP data should be taken with caution.

The inaccuracy of GDP calculation became obvious in the context of the GDP recalculation recently undertaken by several countries through so-called GDP 'rebasings'.<sup>7</sup> This exercise led to impressive results. Ghana, the first country to do so in 2010, saw its GDP almost double, thus becoming a middle-income country. Nigeria's case is similar, with a 2014 GDP recalculation which led to an almost twofold increase in its economy, making it the biggest African economy, ahead of South Africa. Nigeria's 'rebasings' took branches of the economy which had not existed in 1990, the previous

<sup>4</sup> See on the issue [Employment in Sub-Saharan Africa. Sorry, no vacancies](#), *The Economist*, March 2014 and [Africa at work: Job creation and inclusive growth](#), McKinsey Global Institute, August 2012

<sup>5</sup> Pew Research Center, '[Concerns and Priorities in Sub-Saharan Africa](#)', September 2015.

<sup>6</sup> [Africa's statistical tragedy](#), Shanta Devarajan, 2011.

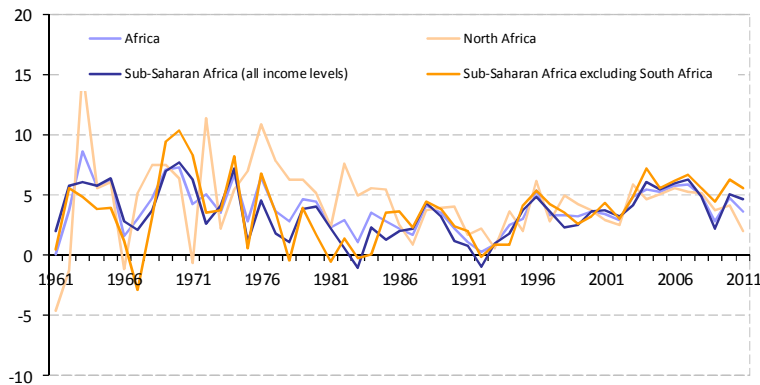
<sup>7</sup> This exercise involves changing the 'base year' used to calculate nominal GDP. The 'base year' is usually a year for which censuses on economic activities and other social indicators are more comprehensive. According to the African Development Bank, countries should rebase their GDP every five years, in line with IMF recommendations, but few African countries have done so. Reliable GDP calculations are therefore imperilled, as: 'complete and meaningful revisions can take place only when data availability is improved' (see Revising GDP estimates in Sub-Saharan [Africa: Lessons from Ghana](#), Morten Jerven and Magnus Ebo Duncan, *The African Statistical Journal*, Volume 15, August 2012.)

base year (e.g. the telecoms sector and the movie industry,<sup>8</sup> both drivers of Nigerian economic growth), into account. Kenya and Uganda also recalculated their GDP in 2014 and their GDP estimates increased by 25%<sup>9</sup> and 13%,<sup>10</sup> respectively.

## 2. Economic situation

### 2.1. Recent economic history

**Figure 1 – GDP growth in %, 1961-2011**



Data source: World Bank, [Africa Development Indicators](#), 2013.

Africa's economic history since independence is characterised by wide fluctuations, as can be seen in Figure 1. The continent has experienced two periods of growth: one between 1961 and 1975 and a second from 1995 to the present, with stagnation in between. Given the protracted economic stagnation, and the continent's low economic output in comparison with other regions of the world, Africa seemed doomed to persistent under-development. Hypotheses as to the cause often clustered around three factors – geographical conditions, the slave trade legacy, and colonisation. The assumption is that one of these initial factors led African countries on an institutional path that was not propitious to development.

Weak economic performance on the continent therefore would seem unsurprising. However, Africa was not always considered destined to under-development. At the end of the colonial era, the continent's resources and relative stability led to favourable comparisons of its development prospects with south-east Asia, which at that time was engulfed in conflict and marred by poverty, and seemingly destined for economic failure. Africa indeed experienced sustained growth in the 1960s and 1970s (above 5% in many cases), but this growth ended abruptly with the 1979 oil crisis. Soaring oil prices and high interest rates for sovereign debt sealed the fate of many countries. In the decade after independence, industrialisation had often been attempted, but under state ownership and with money borrowed from abroad. Aimed at import substitution, industry was uncompetitive, with low-quality products and low productivity. Many industries were unsustainable and were abandoned during the difficult economic period in the 1980s and 1990s, leaving many African countries crippled by debt.<sup>11</sup>

<sup>8</sup> [Africa's GDP Is Bigger Than You Think](#), Matt Mossman, *Bloomberg Business*, October 2014.

<sup>9</sup> [Kenya National Bureau of Statistics](#).

<sup>10</sup> [Uganda Bureau of Statistics](#).

<sup>11</sup> Industry for Africa. Why? How?, John Page, *The Oxford companion to the economics of Africa*, 2012, p. 304.



In response to these economic problems, a series of political measures were taken that finally renewed growth: liberalisation of agricultural markets; closure or privatisation of state-owned companies; opening to international trade; reduction of external debt; and improvement of the current account balance, either through sound macroeconomic policies or external aid, including debt cancellation. The growth of the services sector also played a major role.

At the turn of the millennium, Africa entered a period of sustained and impressive growth, with some of its countries among the fastest growing economies in the world. The continent proved resilient in the aftermath of the 2008 financial crisis due to two factors: a good fiscal situation; and low economic interconnectivity with the rest of the world. However, the fiscal situation has again deteriorated, and the region is characterised by 'twin deficits' (current account deficit and government budget deficit) instead of the twin surpluses which formerly helped the continent to withstand the financial crisis.<sup>12</sup> Debt levels in certain countries are approaching risk-factor status.<sup>13</sup>

**Africa's current growth could also be derailed by non-economic factors.** A study<sup>14</sup> which stress-tested the resilience of Africa's economy found that the biggest risks are drought and conflict. Agriculture remains fragile, given its economic importance to the population and its exposure to climate change impacts. According to the World Bank,<sup>15</sup> a new type of conflict is arising, different in nature to the conventional and large-scale conflict events and civil wars of the 1990s: election-related violence; extremism and terrorist attacks; drug-trafficking (west Africa); maritime piracy (Gulf of Guinea); criminality and wars fought by armed insurgents (e.g. Boko Haram in Nigeria). It puts economic progress at risk, especially in the affected countries.<sup>16</sup>

## 2.2. Current economic outlook: Forecasts revised downwards

According to IMF and World Bank forecasts, SSA will remain one of the fastest growing regions in the world, even if it suffers negative impacts from dropping commodity prices and less favourable global financial conditions. The latest World Bank report on SSA, 'Africa's Pulse',<sup>17</sup> shows economic slowdown in Sub-Saharan Africa, with growth decreasing in 2015 to 3.7% from 4.6% in 2014. The end of the commodity price super cycle (significantly affecting oil, copper and iron ore), the slowdown of the Chinese economy, and tightening global financial conditions are all slowing down the economy. The 2015 growth rate will be the lowest since 2009. Growth is expected to pick up gradually again in 2016 and 2017, pushed up by domestic demand generated by consumption, investment, and government spending. Lower commodity prices will most affect the less diversified oil exporters (such as Angola and the Republic of Congo) and other commodity exporters (Democratic Republic of Congo and Mauritania). The IMF has made similar forecasts. Growth in Sub-Saharan Africa has weakened markedly, and is now expected to be 3¼% this year and 4¼% in 2016, from 5% in 2014.<sup>18</sup> Oil and

<sup>12</sup> [Prospects for Africa's economies in 2015](#), Oxford Analytica, November 2014.

<sup>13</sup> [Prospects for Africa's economies in 2015](#), Oxford Analytica Daily Brief, November 2014.

<sup>14</sup> [Stress-Testing Africa's Recent Growth and Poverty Performance](#), Osorio-Rodarte, Israel, Hans Timmer, Shantayanan Devarajan, Delfin S. Go, and Maryla Maliszewska, World Bank, June 2013.

<sup>15</sup> [Africa's Pulse](#), World Bank, April 2015.

<sup>16</sup> Two countries engulfed in civil conflicts, namely Burundi and South Sudan, are among those expected to experience the sharpest economic contraction in 2015, of 7% and 5% respectively.

<sup>17</sup> [Africa's Pulse](#), World Bank, October 2015.

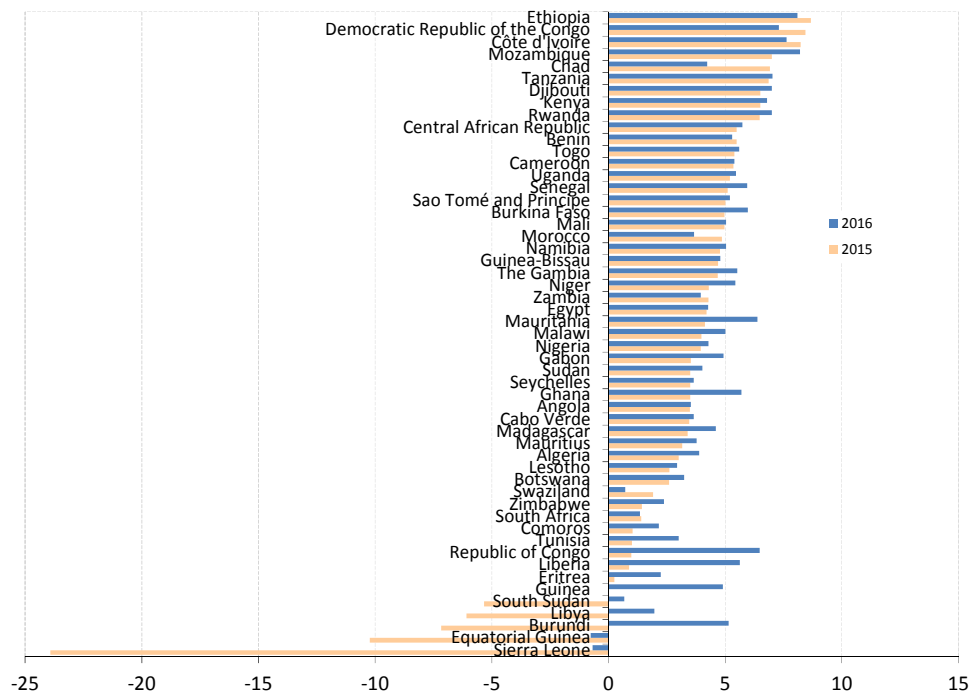
<sup>18</sup> [Regional Economic Outlook. Sub-Saharan Africa. Dealing with Gathering Clouds](#), IMF, October 2015.



mineral exporting countries will be particularly affected, among them Nigeria – Africa's biggest economy.

In 2015, North Africa has been growing very slowly with the exception of Egypt and Morocco, which have experienced stronger growth. Algeria is suffering from low oil prices. In Libya, the macroeconomic situation is expected to worsen with a fiscal deficit of more than 55% of GDP and a current account deficit of 70% GDP, but the country still holds considerable foreign currency reserves.<sup>19</sup>

**Figure 2 – Estimated GDP growth in % by African country – 2015 and 2016**



Source: IMF [World Economic Outlook](#), October 2015.

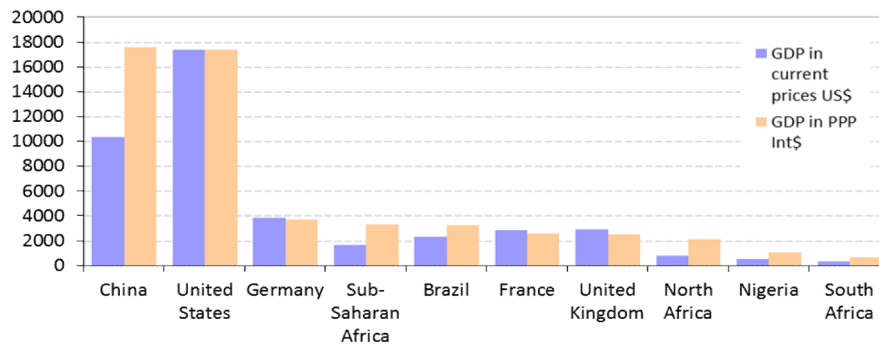
In 2015, the overall economic performance of the continent has also been mitigated by the continuing economic stagnation or contraction in Ebola-affected countries (Guinea, Liberia and Sierra Leone). Libya has continued its economic freefall in 2015, due to its chaotic political and security situation. Growth has remained low in South Africa, as the country has been affected by labour conflict and chronic electricity shortages.

Ebola has had a crippling impact on the economies of the three most affected countries in west Africa, i.e. Guinea, Liberia, and Sierra Leone, where it slowed growth significantly, whereas its economic impact on other countries in the west African region has been very limited. All three countries affected had been growing at an impressive pace in the first half of 2014, but from mid-2014 growth collapsed completely. Activity in mining (with mining projects postponed), services, and agriculture contracted significantly. In 2015, the forecast impact of the epidemic on economic growth will remain significant. According to the IMF's October forecast, the economy is expected to stagnate in Guinea and Liberia in 2015, with that of Sierra Leone to contract by almost one quarter. A modest recovery is forecast for 2016 in the first two countries.

<sup>19</sup> [The Economic Outlook for the Middle East and North Africa](#), World Bank, October 2015.

### 2.2.1. Despite growth, GDP remains low especially in SSA

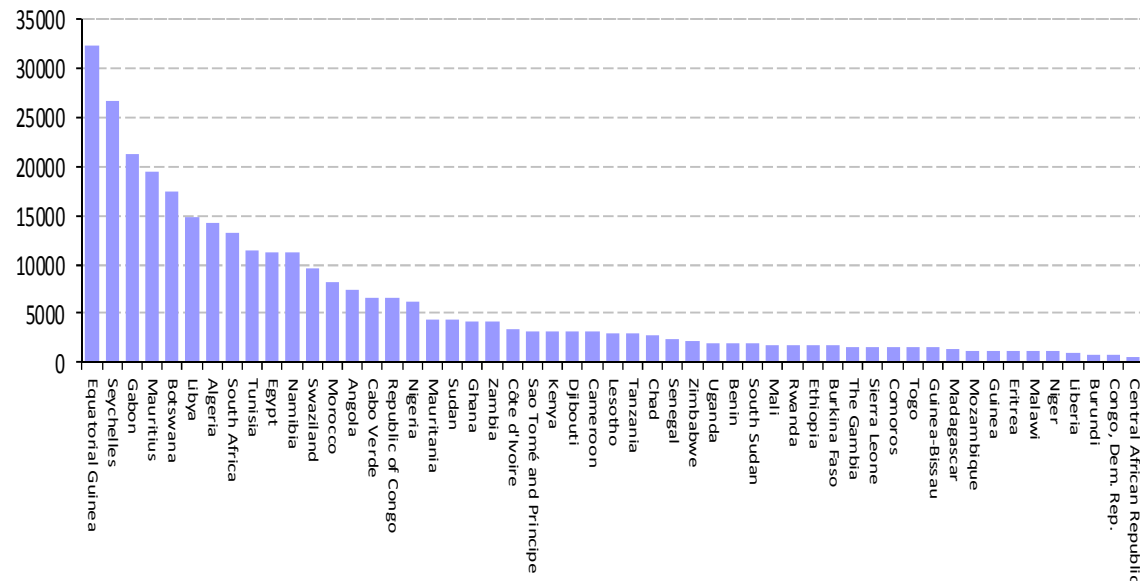
Figure 3 – A comparison of GDP based on PPP valuation in billion US\$, 2014



Source: IMF [World Economic Outlook](#), April 2015.

Despite the optimism the robust growth rate of recent years may generate, closer inspection is warranted. SSA economic output remains particularly low, in comparison to other regions. The region is home to almost 1 billion people,<sup>20</sup> however, SSA's total GDP valued in purchasing power parity lies between that of Germany and Brazil. Population growth is also rapid in SSA, the region of the world with the highest population growth rate. As a result, GDP growth per capita has been lower than total GDP growth. In the 2000s, SSA enjoyed the world's third highest increase in GDP per capita (in PPP and in percentage points), after south Asia and east Asia and the Pacific,<sup>21</sup> but its growth rate was in fact only almost half the rate of these two regions.

Figure 4 – GDP based on PPP per capita (INT\$) in 2015 by African country



Source: IMF [World Economic Outlook](#), October 2015.

Despite continued growth, the GDP per capita of many African countries also remains low. Most countries have a GDP per capita valued in PPP lower than INT\$5 000, and those above this threshold are either oil or mineral exporters, or more diversified economies (Cape Verde, Egypt, Morocco, Mauritius, Tunisia, South Africa and Seychelles). Nevertheless, while SSA has 12% of the world's population and 18% of the world's land surface, it produces only 1.5% of the world's nominal GDP (and 2.3% in PPP).

<sup>20</sup> [World Bank](#).

<sup>21</sup> [The Evolution of the Per Capita Income Levels in the World](#), Inequality Watch.

### 3. Factors of growth

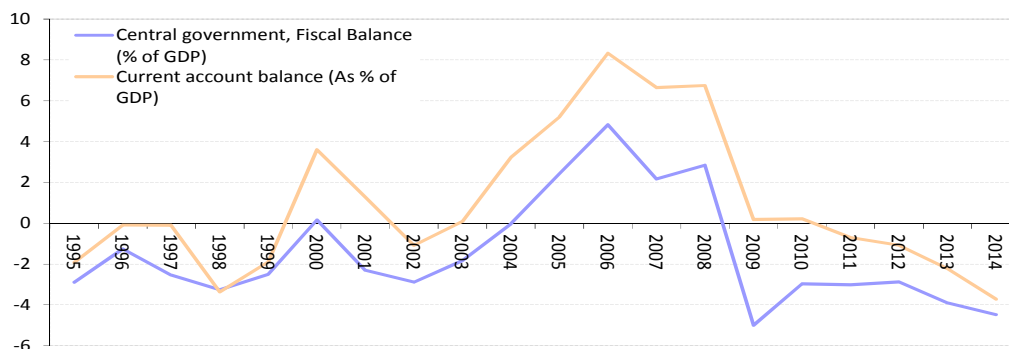
There is much debate about what exactly spurred Africa's impressive growth since the turn of the millennium. There is no consensus regarding the relative importance of external versus internal factors for fuelling growth. Africa has indeed profited from a very favourable external context for its exports and for attracting capital. The global market prices of the three product categories making up the bulk of exports – fossil fuels, minerals and agricultural products – have risen considerably, but declined again at the end of 2014. On the other hand, a complex configuration of favourable internal factors has also been vital for growth, including a favourable macroeconomic climate and a fast growing services sector. According to the World Bank, current key drivers of growth in the region are: public infrastructure investment, a rebound in agriculture, and a buoyant services sector.<sup>22</sup>

#### 3.1. Improved political and macroeconomic climate

An improved political and security situation is often mooted as a contributing factor to the economic rise of the continent. The number of conflicts has declined since 2000, and political stability and democratic governance have improved in many countries.

The improvement of the macroeconomic and business climate has also played a major role. First, the reduction of external debt: In the 1990s, many African countries were crippled by debt; from 2002, however, Africa's external debt fell after a series of initiatives to cut debt were put in place. The 1996 Heavily Indebted Poor Countries (HIPC) Initiative and the 2005 Multilateral Debt Relief Initiative (MDRI) cut debt in 30 African countries by about US\$100 billion.<sup>23</sup> Africa's external debt is today lower than in OECD countries in relative weight. Public debt is, in most African countries, below 50% of GDP, which is generally considered a sustainable limit, but is rising again. This creates new risks, as 'debt levels [in African countries] do not have to match those of developed economies to trigger an economic crisis'.<sup>24</sup> In Africa, government revenues represent a lower share of GDP than in developed countries and often come from more volatile sources, such as export commodities.

**Figure 5 – Current account balance and fiscal balance for Africa**



Source: AfDB, [Data Portal](#), 2015.

<sup>22</sup> [Africa's Pulse](#), World Bank, October 2014, p. 5.

<sup>23</sup> [Making the Most of Africa's Commodities: Industrializing for Growth, Jobs and Economic Transformation](#), UNECA & AU, 2013, p. 58.

<sup>24</sup> [Africa Debt Rising](#), Paul Adams, Africa Research Institute, January 2015.

As a consequence of this improved macroeconomic climate, several African countries have successfully issued bonds on international financial markets in the past few years at relatively low interest rates.<sup>25</sup> These bond issues were met with much interest from investors, signalling their growing confidence in the future of African economies.

On the other hand, if debt is mostly used only for current spending, and is not adequately managed, it may stop boosting economic growth.<sup>26</sup> Recently, there have been warnings of instability. The first came from an economy which used to be considered a model of economic success and dynamism in Africa – Ghana. Ghana illustrates the potential problems faced by African economies if they do not respect fiscal discipline. After prices for gold, cocoa and oil, the country's main exports, declined, the macroeconomic situation worsened; public debt grew at 70% of GDP, the budget deficit reached around 10%, and the currency lost 31% of its value in 2014.<sup>27</sup> The country's economy – one of the best performing in Africa – had previously been boosted by the discovery of offshore oil reserves, with exploitation starting in 2010, but oil revenues were disappointing in the end. The country borrowed heavily on private markets, using the money for current spending, mainly for increases in public sector salaries and energy subsidies, rather than spending on development. Despite concluding a stabilisation agreement with the IMF in April 2015, the risk of default persists.<sup>28</sup> Zambia, a major copper exporter (relying on copper for 70% of export earnings) has also come under increased pressure because of large macroeconomic imbalances and a sharp drop in the copper price. Its currency has depreciated by 45% in 2015.<sup>29</sup> Other SSA currencies have also weakened significantly (in Uganda, Angola, South Africa).<sup>30</sup> In the current context, the risks are more significant for countries which depend on the export of one or two commodities for their budget and foreign reserve revenues.

The level of public debt in Africa varies (see Figure 6). In many African countries, public borrowing has played a positive role in economic growth, making it possible for governments to invest in infrastructure among other things, but the tide is now turning, with fiscal deficits and current account deficits widening.

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<sup>25</sup> [Hunting for Eurobonds](#), Jocelyne Sambira, in *Africa Renewal*: April 2014, p. 30.

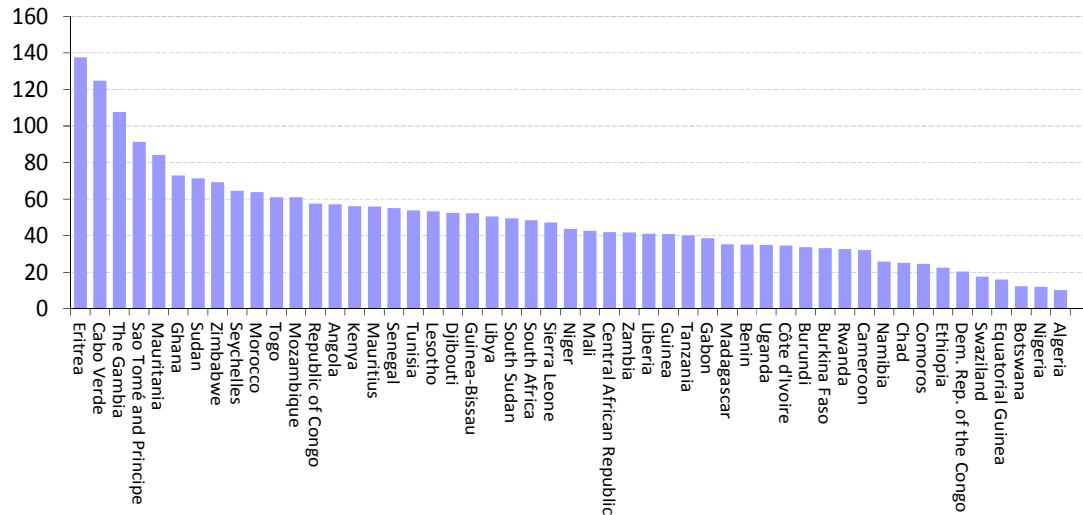
<sup>26</sup> Trends and Developments in African Frontier Bond Markets, Amadou N.R. Sy, March 2015.

<sup>27</sup> [Ghana Reaches \\$1bn Deal with IMF](#), Wallis, William. *Financial Times*, February 2015.

<sup>28</sup> [Ghana's slow progress on debt raises default risk](#), *Bloomberg Intelligence*, July 28 2015.

<sup>29</sup> [Zambia's Kwacha Falls Most Since 2001 After Moody's Downgrade](#), *Bloomberg*, September 2015.

<sup>30</sup> [Africa's Pulse](#), World Bank, October 2015, p 2.

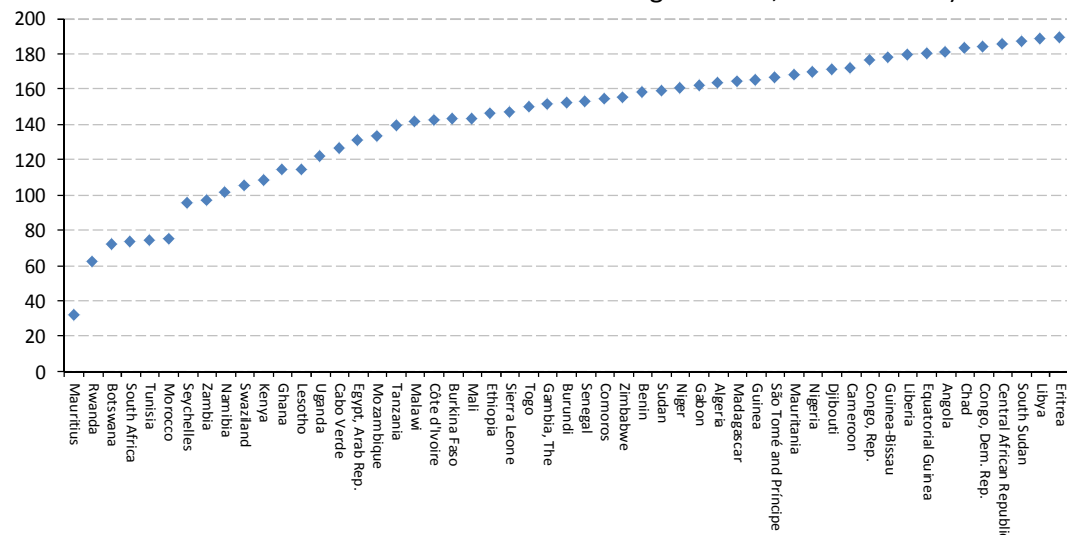
**Figure 6 – Gross government debt (% of GDP) by country – IMF estimates for 2015**

Source: IMF [World Economic Outlook](#), October 2015.

### 3.2. Business Climate

**Figure 7 – Ease of doing businesses, Economy rankings**

(Economies in the world are ranked on their ease of doing business, from 1 to 189)



Source: World Bank, [Doing Business](#), 2015.

Business climate remains a weakness for Africa's growth prospects. In terms of the ease with which companies do business in different countries in Africa, the continent does not rank highly, and a majority of African countries are among those placed at the bottom of the World Bank ranking for 189 countries.<sup>31</sup> There are, however, a few notable exceptions. Mauritius ranks 32nd (it was 28th in 2014) in the world and first among the African nations, followed by Rwanda (62nd), Botswana (72nd), South Africa (73rd), Tunisia (74th) and Morocco (75th). South Africa dropped significantly from 43rd in 2014 to 73rd in 2015. Rwanda's ranking deserves attention, given its low GDP per capita. The country has much improved its business climate in recent years, and was designated the world's best reformer in the World Bank's Doing Business Survey 2010 and the second best reformer in the 2011 and 2014 surveys.<sup>32</sup> African countries often appear among the top 10 reformers in the world identified by the World Bank.

<sup>31</sup> [Ease of doing business](#), World Bank.

<sup>32</sup> Rwanda's improvement and potential to improve further in this respect is recognised by other studies. See for example The Economist [Business in Rwanda. Africa's Singapore?](#), February 2012.

### 3.3. International financial flows

SSA has witnessed a significant increase in the volume of external financial flows (including private capital flows, official development assistance and remittances to the region) from US\$20 billion in 1990 to above US\$120 billion in 2012. Most of this increase is attributable to private capital flows and remittances, while official development assistance increased less. Between 2001 and 2012, most private capital flows have benefited two countries, namely South Africa and Nigeria, with 45% and 13% respectively of the total for SSA. These countries also make up more than half the region's GDP.<sup>33</sup>

There has been growing interest in investing in Africa, not only in government bonds (as explained above), but also in the private sector. According to an attractiveness survey by EY,<sup>34</sup> Africa was the second most attractive destination for FDI in the world in 2014, although some negative perceptions still linger, limiting FDI flows. Despite attracting increased FDI flows, Africa's share is only 5% of total world FDI. Currently, the situation differs significantly between North Africa and SSA. While FDI flows into North Africa have declined, those into sub-Saharan Africa continued to grow by 4.7% in 2014. Regional hubs, such as South Africa, Nigeria and Kenya, together with emerging economies, such as Ghana, Mozambique, Zambia, Tanzania and Uganda, attract increased FDI flows.<sup>35</sup>

More recently, the changing economic situation in the world and especially the slowdown of the Chinese economy have significant effects on investments in Africa. More specifically, Chinese investments fell by 40% in the first half of 2015.<sup>36</sup> China has been a major investor in Africa, putting money into numerous infrastructure projects and in extractive industries.

Remittances from migrant workers are another important source of capital and foreign exchange for African households and countries alike. About 3% of Africa's total population live outside their home countries. Sending money back to families in Africa, led to remittance inflows for Africa as a whole reaching US\$40 billion in 2010. This represented about 3% of Africa's total GDP.<sup>37</sup>

### 3.4. The demographic dividend

The demographic dividend could be one of the major drivers of future growth. By 2050, Sub-Saharan Africa will have a larger and younger workforce than China or India.<sup>38</sup> According to one estimate,<sup>39</sup> the demographic dividend could account for 11-15% of GDP growth between 2011 and 2030. The fact that Africa's population will continue to

<sup>33</sup> According to [Private capital flows, official development assistance, and remittances to Africa: Who gets what?](#), Amadou Sy and Fenohasina Maret Rakotondrazaka, Brookings Institution, May 2015.

<sup>34</sup> [EY's Africa attractiveness survey](#), Y, 2014, p. 6.

<sup>35</sup> Ibidem, p. 5.

<sup>36</sup> According to China's Commerce Ministry, quoted by [Voice of America](#), 25 November 2015. According to other sources, the drop could have been as high as 84% in the first half of the year compared to a year earlier. [Chinese investment in Africa plunges 84%](#) in *Financial Times*, 21 October 2015.

<sup>37</sup> [Harnessing Remittances for Africa's Development](#), AfDB, March 2014.

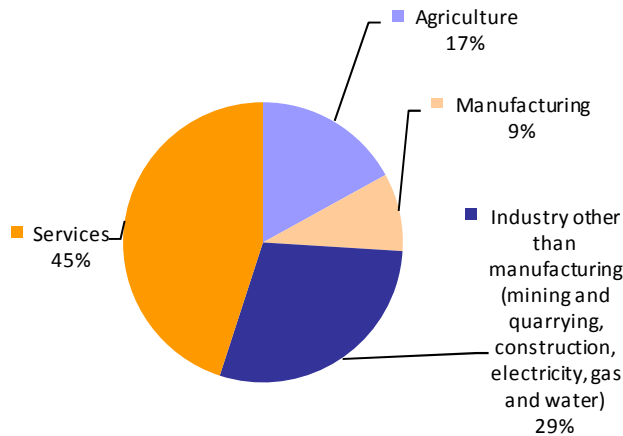
<sup>38</sup> [2014 African Transformation Report. Growth with Depth](#), African Center for Economic Transformation, 2014.

<sup>39</sup> [How Significant could Africa's Demographic Dividend be for Growth and Poverty Reduction?](#), Ahmed, S. Amer, March 2015.

grow steadily implies that the labour force will expand continuously. For the continent to reap benefits, the level of education of young people has to improve, and enough jobs have to be created, to avoid mass unemployment among the young, and social unrest.

### 3.5. Sectors of the economy and their contribution to growth

Figure 8 – Composition of GDP by sectors in Africa in 2013 (value added to GDP)



Source: AfDB, [Data Portal](#), 2015

Africa's GDP is dominated by services. In Figure 8, the share of industrial output is also significant, but this is due to the importance of extractive industries in many African countries.

#### 3.5.1. Export of commodities and extractive industries

Commodities (fuel, minerals and unprocessed agricultural products) represent the biggest share of African exports. **The top five exports of SSA countries, consisting of non-renewable natural resources, accounted for 60% of all exports in 2013. These are petroleum, iron ore, bituminous minerals, gold and natural gas.**<sup>40</sup>

Many countries in Africa are endowed with natural resources. In a recent report, the World Bank identified 17 resource-rich countries in SSA:<sup>41</sup> eight oil exporters (Angola, Chad, Republic of the Congo, Equatorial Guinea, Gabon, Nigeria, South Sudan and Sudan) and nine metals and minerals exporters (Botswana, Democratic Republic of the Congo, Guinea, Liberia, Mauritania, Namibia, Niger, Sierra Leone, Zambia). In North Africa, Algeria and Libya are important producers and exporters of gas and oil, but in Libya production has collapsed as a result of instability. Four of the African oil exporters are also members of OPEC, namely Algeria, Angola, Libya and Nigeria. Among the African countries which are not resource-rich, some have the potential to become so: Mozambique, São Tomé and Príncipe, and Uganda have oil and gas reserves; Liberia could exploit offshore oil, and Malawi could extract uranium.<sup>42</sup>

Africa has the reputation of being a resource-rich continent. Under closer scrutiny, however, this wealth is relative: the known subsoil resources of the continent are not so large when compared to Africa's huge land surface. Africa's average sub-soil assets

<sup>40</sup> [Africa's Pulse](#), World Bank, October 2014, p. 20.

<sup>41</sup> [Africa's Pulse](#), World Bank, October 2015, p. 49. According to the World Bank's definition, 'resource-rich countries are those with rents from natural resources (excluding forests) that exceed 10 percent of GDP.'

<sup>42</sup> [Boom, Bust, or Prosperity? Managing Sub-Saharan Africa's Natural Resource Wealth](#), IMF African Department, 2013, p. 7.



per square kilometre in 2000 amounted to only a fifth of those in OECD countries. This can be explained by the low level of exploration in many parts of Africa.<sup>43</sup> Recently exploration for oil and gas resources has been successful, with the discovery of new fields in west Africa (offshore) and in east Africa from Kenya to Mozambique.

Many African countries are characterised by dependency on one or few export commodities, exposing them to external shocks. The linkage of the extractive sector with the rest of the economy has also remained low and resource-rich countries have usually failed to diversify their economy. Thus the jobs generated by the extractive industries have been few. This is the situation for oil in Nigeria, gold in Ghana, for Zambia's copper, Democratic Republic of Congo's cobalt, Namibia's and Niger's uranium, Guinea's bauxite, and until recently Botswana's diamonds.<sup>44</sup> The situation is similar for agricultural exporters like Kenya, the third tea exporter in the world after China and India, and Ethiopia, a major coffee producer. Exports of these agricultural products are mostly unprocessed.

It is well known that natural resources have not made the fortune of resource-rich countries in SSA. A linkage between resource wealth and economic and political misfortunes (lack of development, poverty and corruption, political instability and even military conflict) was often observed in the past. This engendered the concept of a '**resource curse**' afflicting many African countries. The idea of an unavoidable 'resource curse' is now increasingly called into question.<sup>45</sup> Nigeria was traditionally considered a leading example of the 'resource curse', being afflicted by poor economic performance. More recently, however, Nigeria has become a success story, reaping the benefits of its vast oil resources. The economic situation has substantially improved; the economy has diversified and has grown steadily in recent years, to become the biggest in Africa. In more extreme cases, resource endowment led to sanguinary conflicts, as in diamond-rich Sierra Leone or in the mineral-rich provinces of eastern Congo in the 1990s, where instability persists. Botswana, on the other hand, has managed its diamond wealth well, building prosperity and political stability for its people and becoming a leading example of how natural resources can benefit the population.

If resources are well managed, they can have a positive effect on growth. According to the IMF, the resource-rich countries in SSA have recorded higher rates of economic growth than other countries since 2000. The population as a whole has however not benefited from this economic surge. People in resource rich countries in SSA are not better off than those in resource poor countries: they have lower life expectancy, extreme poverty is higher and level of education is lower.<sup>46</sup> Exploiting natural resources requires appropriate governance and fiscal regimes, to ensure that resource rents are not misappropriated, are widely shared, and that the government is accountable and

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<sup>43</sup> See An Overview of African Development Prospects, Paul Collier, in The Oxford companion to the economics of Africa, p. 28-29. This view is shared also by the IMF report, [Boom, Bust, or Prosperity? Managing Sub-Saharan Africa's Natural Resource Wealth](#), 2013.

<sup>44</sup> [2014 African Transformation Report. Growth with Depth](#); African Center for Economic Transformation, 2014.

<sup>45</sup> [Boom, Bust, or Prosperity? Managing Sub-Saharan Africa's Natural Resource Wealth](#), IMF African Department, 2013, p. 14.

<sup>46</sup> [Lucky Countries Or Lucky People: Will East Africans Benefit From Their Natural Resource Discoveries?](#), Alexander Huurdeman and Borko Handjiski, February 2015

transparent in its resource allocation.<sup>47</sup> Many African countries have subscribed to the Extractive Industries Transparency Initiative, which helps to address some of these issues.<sup>48</sup>

It is important to build appropriate value chains both upstream and downstream of commodities extraction, to maximise local workforce involvement, and to upgrade skills. In Botswana, a local industry for processing rough diamonds has recently been put in place with potential for improving the local economy. In west Africa, the iron ore extraction boom has led to a revitalisation of railways in Sierra Leone and Liberia with mining company involvement.<sup>49</sup> However, many countries do not add enough value to their natural resources. Nigeria, a major oil producer and exporter, has very limited refining capacity and is obliged to import most of the refined fuel it consumes internally.

Despite dropping commodities prices on the external markets, certain structural factors indicate that **Africa will remain an exporter of raw commodities** instead of moving towards industrialisation, namely the abundance of natural resources and the low level of skills.<sup>50</sup>

### 3.5.2. Agriculture

Africa possesses about half the uncultivated arable land surface in the world and the growth potential of the sector is enormous.<sup>51</sup> Most of SSA's population works in agriculture: 60% of its jobs are related to agriculture. The growth of the agricultural sector is vital, because, according to the World Bank: 'in Sub-Saharan Africa, growth in agriculture and services is more effective at reducing poverty than growth in industry'.<sup>52</sup>

A widely advocated approach is to move agricultural production to large farm production level in order to boost productivity, as was done in the past in many developed countries. Several governments favour this approach by contracting out land to international agribusinesses. According to some economists, growth in the agriculture sector should remain based on smallholder farms and value chains, given the importance of the sector as a vital source of revenue for so many (especially poor) households.<sup>53</sup>

There are significant obstacles to the sector's development. The issue of land ownership rights is often quoted as one; in many cases, land is owned by communities or by the state, and ownership rights are not clearly documented. This hinders farmers from using their land as collateral for obtaining loans necessary to update and mechanise their production. Lack of capital for investing in seeds, fertilisers and machinery is in general a major growth impediment. Government subsidies for seeds or fertilisers have tried to address this problem in several countries (Ghana, Malawi,

<sup>47</sup> [Boom, Bust, or Prosperity? Managing Sub-Saharan Africa's Natural Resource Wealth](#), IMF African Department, 2013, p. 2.

<sup>48</sup> For a map see the [webpage](#) of the EITI initiative.

<sup>49</sup> [Demand for resources drives African rail boom](#), Paul Ash, in International Railways Journal, January 2013.

<sup>50</sup> Comparative Advantage and African Development, Arne Bigsten, The Oxford companion to the economics of Africa, 2012, p. 169.

<sup>51</sup> [Five Questions Answered on Africa's Rising Economic Growth](#), Amadou Sy, Brookings Institution, February 2014.

<sup>52</sup> [Africa's Pulse](#), World Bank, October 2014

<sup>53</sup> Industry for Africa. Why? How?, John Page, The Oxford companion to the economics of Africa, 2012, p. 304.

Tanzania, Zambia etc.). Although they led to an increase in agricultural production, such programmes have been criticised for being economically inefficient.<sup>54</sup>

### 3.5.3. Building the infrastructure

Investment in infrastructure is essential for economic growth from multiple points of view. Infrastructure-building needs in Africa are huge; weak infrastructure, especially in SSA, is a key factor preventing economic growth, trade integration, and poverty reduction. The region needs roads, ports, railways, airports, pipelines, energy production capacities, and grid and ICT infrastructure. Transport costs for merchandise are among the highest in the world, and an often unreliable electricity supply hinders economic activities and industrialisation. Including in South Africa, the most industrialised African nation, the economy suffers because of frequent power outages. Specifically, the poor state of infrastructure in SSA cuts economic growth by 2% every year and reduces productivity by 40%.<sup>55</sup>

Since 2007, the European Union together with some of its Member States has financed numerous infrastructure projects in SSA through the EU-Africa Infrastructure Trust Fund (EU-AITF). The aim of the fund is to increase investment in infrastructure in Sub-Saharan Africa by blending long-term loans from participating financiers with grants. It funds regional and cross-border infrastructure projects in the energy, water, transport and communications, and telecoms sectors, as well as projects under the Sustainable Energy for All initiative. The money provided by the EU stems from the European Development Fund (EDF). Between 2007, when the fund was created, and 2014, more than €536 million has been provided by the EU to support investment in 73 projects.<sup>56</sup>

Strong momentum exists for building the infrastructure needed. A report by EY<sup>57</sup> indicates that, in 2012, there were over 800 active infrastructure projects in Africa, with South Africa and Nigeria topping the list by number of projects. The construction of the necessary infrastructure constitutes in itself a boost to economic growth, by creating jobs and generating demand for building materials and equipment, and subsequent maintenance. Building infrastructure can play a catalytic role for the economy as a whole through the large investments it activates. Some countries have made building infrastructure one of their main drivers of growth, following China's model. One leading example is Ethiopia, one of Africa's fastest growing economies. However within this developmental model, if financial sources dry up, a strong recession can follow, as is the case for Equatorial Guinea.<sup>58</sup> Improved infrastructure is also essential in order to foster economic diversification and structural transformation, e.g. through improving energy supply.<sup>59</sup>

According to the Africa Infrastructure Development Index<sup>60</sup> produced by the African Development Bank (AfDB), over the period 2000-2010, improvements in infrastructure were driven mostly by enhancements in information and communications technology (ICT), and to a lesser extent, by better access to water and sanitation. In contrast, electricity production stagnated, and transport development was limited. There are also significant differences across countries and regions regarding their infrastructure

<sup>54</sup> [Agricultural input subsidies in Sub-Saharan Africa](#), Kenneth Baltzer, Henrik Hansen, 2011.

<sup>55</sup> [Africa's Infrastructure A Time for Transformation](#), AfDB, WB etc., 2009.

<sup>56</sup> See [EU-Africa Infrastructure Trust Fund website](#).

<sup>57</sup> [Africa Attractiveness Survey 2013](#), EY, 2013.

<sup>58</sup> [Equatorial Guinea Economic Outlook](#), AfDB, 2014.

<sup>59</sup> [Regional Economic Outlook: Sub-Saharan Africa. Staying the Course](#), IMF, October 2014, p. 41.

<sup>60</sup> [The Africa Infrastructure Development Index \(Aidi\)](#), AfDB, May 2013.

index. The most developed region is North Africa, followed by Southern Africa, while the other regions lag behind.

Infrastructure Targets of Goal 9 of the UN Sustainable Development Goals,<sup>61</sup> adopted in 2015:

- '- Develop quality, reliable, sustainable and resilient infrastructure, including regional and transborder infrastructure, to support economic development and human well-being, with a focus on affordable and equitable access for all.
- Facilitate sustainable and resilient infrastructure development in developing countries through enhanced financial, technological and technical support to African countries, least developed countries, landlocked developing countries and small island developing States.'

On the whole, African **transport infrastructure** development has been inadequate, with the share of paved roads remaining low and few rail developments. This contributes to high merchandise export costs, especially in landlocked countries. However, some major breakthroughs are occurring. Sub-Saharan Africa spends almost US\$7 billion yearly on paving roads.<sup>62</sup> In 2016, paved roads should connect Cairo to Cape Town for the first time. The Trans-Sahara Highway from Algiers to Lagos is also expected to be completed soon. Major rail construction or rail refurbishment projects are under way, often with Chinese involvement.<sup>63</sup> The rail connection between Angola, Zambia and RDC has been rebuilt. A new electric railway between Addis Ababa and Djibouti has been opened to freight in November 2015, and a major plan in east Africa to connect Kenya, Uganda, Tanzania, Rwanda, Burundi and South Sudan by rail has started taking shape. Urban infrastructure also needs to be extended and updated, as the continent urbanises fast.

SSA is experiencing an electricity crisis, while it has a huge – still largely untapped – **potential in renewable energies**, which could prove a decisive factor in spurring industrialisation. There are currently many projects to build river dams for electricity production in Africa, with the Renaissance Dam in Ethiopia on the Blue Nile being the most exemplar. Already half built, the dam will be the largest in Africa when finished. With a much larger projected capacity, the Grand Inga Dam on the Congo River in DRC is only in the concept stage, but if built, it would transform energy supply in the whole region. Building dams for electricity is no easy task, mainly because of the large initial investment needed, which is widely unavailable to African countries.<sup>64</sup> Varying river levels in certain regions can also be a hindrance to constant energy supply.

The EU is committed to actively support the exploitation of renewable energy in Sub-Saharan Africa. Until 2020, the EU budget alone will allocate more than €2.5 billion in grants to support sustainable energy in Sub-Saharan Africa, with an estimated leveraging of up to €20 billion in financing and investment. Additional assistance provided by European Union Member States will at least double this amount.<sup>65</sup>

<sup>61</sup> [UN Sustainable Development Goals – Goal 9](#).

<sup>62</sup> [African roads and rails. All aboard](#), in *The Economist*, February 2015.

<sup>63</sup> [Picking Up Steam: The Expansion of Chinese Railways in Africa](#), Yun Su, Brookings Institution, September 2014.

<sup>64</sup> Ethiopia opted to sell bonds to citizens at home and abroad for the construction of the dam. Government employees have been encouraged to devote as much as one or two months of their salaries to the purchasing of the bonds and according to some reports, they have been pressured to do so. ([While Egypt Struggles, Ethiopia Builds over the Blue Nile: Controversies and the Way Forward](#), Temesgen T. Deressa and John Mukum Mbaku, July 2013).

<sup>65</sup> [European Union and the US Power Africa Initiative join forces to assist partner countries to reduce energy poverty and increase access to electricity in Sub-Saharan Africa](#), European Commission, July 2015.

Investment in less conventional energy sources also initiates new projects: the Lake Kivu methane gas to electricity project in Rwanda is being built by a US company with the support of USAID (the US governmental aid agency); the Lake Turkana project – financed by AfDB and several other development financial institutions (including by the EU with a €25 million grant) – seeks to exploit wind power in Kenya, while the first geothermal energy production plant has started operating in Kenya. Morocco has started building a solar mega-project (Ouarzazate solar plant), which should generate enough energy to power a million homes when finished in 2020.<sup>66</sup> Solar energy has huge potential and production could be adapted to local demand, without the need to rely on extensive grids, which may often prove more costly to build.<sup>67</sup> Many African countries are expected to experience a solar energy revolution at the household level; several schemes are already in place to provide small solar panels to family in exchange for gradual small reimbursements, and are proving very successful with consumers.<sup>68</sup>

#### 3.5.4. Services

Services have been the fastest growing sector in most African economies. Services accounted for two thirds of growth in GDP per capita in SSA from 1995 to 2011.<sup>69</sup> Major areas leading to overall economic growth are transport, telecommunications, financial services and tourism. In the past two decades, services sector growth outpaced that of agriculture and industry, with an average of 2.6% compared to 1.7% in industry and less than 1% in agriculture between 1995 and 2011.<sup>70</sup> Today services have the biggest share in the sectoral output of SSA economies. Countries such as Nigeria, Tanzania, and Uganda are among those which have profited most from the dynamism in the services sector.

The growth in the **telecommunications sector**, including its impact on other sectors, has had a big impact on the economy as a whole. Since 2000, the use of mobile phones has increased quickly, on a continent traditionally little connected by landlines. More recently, internet penetration is also expanding rapidly, supported for the moment by fast uptake of mobile data usage. These new technologies have the potential to penetrate remote rural areas, opening them to modern economic processes. By improving communication and the business environment, by providing access to otherwise inaccessible information, and by allowing the development of a range of specific applications, this rapid penetration of ICT has important spill-over effects in other economic sectors.

**Financial services** have also begun to develop quickly, often based on innovative business models that take into account the weak financial capacity of African consumers and make full use of the increased penetration of communication technology (mobile financial transactions or mobile banking). If they reach the poor, they have the potential to create sustainable growth,<sup>71</sup> for example by providing the necessary money (either through saving or small loans) to small farmers to update their traditional model of agricultural production or to small business owners to develop

<sup>66</sup> [Morocco poised to become a solar superpower with launch of desert mega-project](#), Arthur Neslen, *The Guardian*, October 2015.

<sup>67</sup> See [Renewable energies in Africa](#), Joint Research Centre, European Commission, 2011.

<sup>68</sup> [Africa's Mobile-Sun Revolution](#), Steven Sinofsky, Board Partner, Andreessen Horowitz, 2015.

<sup>69</sup> [Africa's Pulse](#), World Bank, October 2014 p. 17.

<sup>70</sup> Ibidem.

<sup>71</sup> [Taking financial services to Africa's poorest consumers](#), Pindie Nyandoro, *The Guardian*, 15 July 2013.

their business. The degree of readiness for financial services varies greatly among African countries.<sup>72</sup>

**Tourism** is one of the fastest growing and most dynamic sectors;<sup>73</sup> in 2013, the number of tourists arriving in Africa grew by 5% compared to the previous year. The share of the continent remains low: Africa attracted only 6% of the tourists in the world, but it has the potential to grow significantly, boosting inclusive economic growth and reducing poverty in the future. The World Tourism Organization forecasts that Africa's international tourist arrivals will double by 2030. This growth has benefited mainly SSA countries, while north Africa's tourist industry still ails from the impact of conflict and insecurity.

Many African countries, including South Africa, Egypt, Morocco, Kenya, Ghana and Mauritius, have made efforts to develop their **business process outsourcing** capabilities.<sup>74</sup> However, few African cities are among the Top 100 Outsourcing Destinations in 2015: Johannesburg (South Africa), Accra (Ghana), Cape Town (South Africa), Casablanca (Morocco), Cairo (Egypt), Port Louis (Mauritius), Nairobi (Kenya) and Durban (South Africa).<sup>75</sup> Africa still has much to do if it wants to emulate India's growth model based on the export of services.

The **retail sector** shows promising potential. Africa has a fast-growing middle class, which accounts for much of economic growth through its spending. African consumer spending is predicted to almost double in the next decade. Large supermarket chains are expanding into new markets on the continent. While Nigeria and South Africa currently lead this expansion of consumer demand in SSA, other countries such as Angola, Ethiopia, Kenya, Uganda and Zambia will also see a substantial increase in their domestic demand.<sup>76</sup> Regional integration could be an important driver in the expansion of retail services.

### 3.5.5. Manufacturing

Industrial production in Africa is low as a share of GDP, and is concentrated mainly in north African countries (Algeria, Egypt, Morocco and Tunisia) and in South Africa. Chemical and petroleum industries, coal, rubber, and metal manufacture are the leading heavy industries. Food processing and manufacturing of textiles, leather products, and cement or other building materials usually takes place in smaller scale plants.<sup>77</sup> The automotive industry, especially the car assembly sector, has taken root in a few countries: Algeria, Egypt, Kenya, Morocco, Nigeria and South Africa. Most of these countries are recent entrants to the market, while in South Africa, which has pursued a 20-year policy to strengthen its automotive sector, it already accounts for 6% of the country's GDP.<sup>78</sup>

<sup>72</sup> See the 'Tipping point index' in [Ideal Model for Financial Services in Africa. At the Tipping Point: an inclusive approach](#), Accenture, 2014, p. 6.

<sup>73</sup> [2014 Africa Tourism Monitor](#), AfDB, 2015.

<sup>74</sup> [Can Africa Become a Global Outsourcing Hub? Some Food for Thought](#), Stephan Manning, 2013.

<sup>75</sup> [Top 100 Outsourcing Destinations in 2015](#), Tholons, December 2014.

<sup>76</sup> [African Economic Outlook 2014](#), AfDB, OECD, UNDP, UNECA, 2014, p. 58.

<sup>77</sup> [Encyclopaedia Britannica, Africa Industry](#).

<sup>78</sup> [South Africa's automotive industry](#), November 2012.



### 3.5.6. Trade

As was explained above, the export of commodities contributed greatly to the economic growth of the continent during recent years, for as long as the boom cycle lasted. Intra-African trade also increased significantly. Intra-African exports grew by 50% between 2010 and 2013, but almost 90% of this trade takes place at intraregional level. Manufactured goods constitute nearly 40% of intra-African trade, indicating that economic diversification is starting to take hold.<sup>79</sup> Intraregional trade has increased as a result of advancing regional integration in Africa, at the level of Regional Economic Communities. The recently launched project of the African Union to create a pan-continental free trade area by 2017 would further boost intra-African trade significantly.

## 4. Transformation of the economy

### 4.1. How much has the economy transformed?

While economic growth has been significant for most countries in Africa in the past 15 years, it is more difficult to gauge the degree of economic transformation<sup>80</sup> the continent has undergone. This is a key driver of economic growth, as it is usually accompanied by diversification and sophistication of the economy. Countries with more diversified production and export tend to have higher per capita incomes. Countries that produce and export more sophisticated products tend to grow faster. Most African countries have traditionally suffered from a lack of economic diversification and sophistication. According to several studies,<sup>81</sup> despite impressive economic growth, limited structural change has taken place in the African economy. Africa lags behind other regions of the world, especially east Asia and Latin America, in this respect.<sup>82</sup>

#### 4.1.1 Africa's failure to industrialise

Africa's manufacturing has lost in relative importance both globally and at regional level and has not contributed to structural transformation. Africa's share of global manufacturing has fallen from about 3% in 1970 to less than 2% in 2013.<sup>83</sup> The share of manufacturing in total African GDP has decreased slightly over the past four decades, and, at 10%, is much lower in SSA than in other developing regions (see Figure 9).

<sup>79</sup> The data in this paragraph is taken out of [African Economic Outlook 2015](#), AfDB, OECD, UNDP, p. 75.

<sup>80</sup> In economics, 'Structural transformation is the reallocation of economic activity away from the least productive sectors of the economy to more productive ones. It is one fundamental driver of economic development. It contains two elements: the rise of new, more productive activities and the movement of resources from traditional activities to these newer ones, raising overall productivity. Without the first, there is little that propels the economy forward. Without the second, productivity gains are not diffused to the rest of the economy.' See [Globalization, structural change and productivity growth](#), McMillan, M.S. and D. Rodrik, NBER Working Paper No. 17143, 2011.

<sup>81</sup> This is also the view defended in [Economic Report on Africa 2014: Dynamic Industrial Policy in Africa](#), United Nations Economic Commission for Africa, 2014.

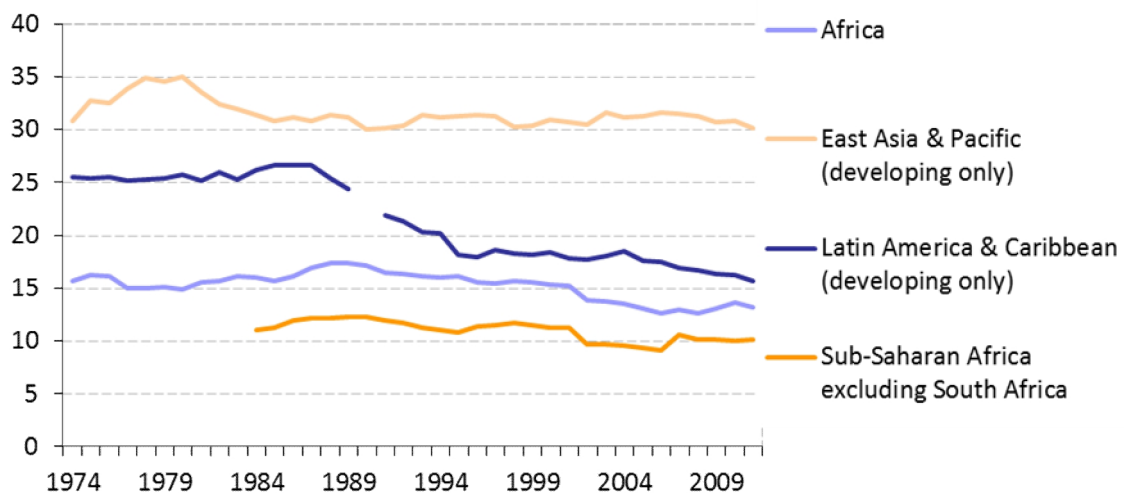
<sup>82</sup> UNECA, p. 35.

<sup>83</sup> [Made in Africa: Some new thinking for Africa Industrialization Day](#), John Page, November 2015.



The failure of industrialisation on the continent can be explained by a multiplicity of inhibiting factors: insufficient infrastructure (mainly electricity supply and transport), lack of skills, small market size – most African countries are small economies – and poorly functioning institutions have often been mentioned as significant obstacles to economic growth and industrialisation in particular. Productivity has also remained low and prices are above the level expected given the income level, hindering international competitiveness.<sup>84</sup> Other factors, often absent in Africa, are also vital in order to spur successful industrialisation, namely companies' orientation towards exports, industrial clusters and firm capabilities.<sup>85</sup>

**Figure 9 – Manufacturing, value added (% of GDP) in Africa, 1974-2011**



Data source: World Bank, [Africa Development Indicators](#), 2013, [World Development Indicators](#), 2015.

The shrinking manufacturing share could indicate a trend similar to deindustrialisation in other parts of the world. **Deindustrialisation** (defined as the decline of employment in manufacturing as a share of total employment) is a trend that can be observed everywhere in the world, not only in the US and Europe, but also in East Asia and Latin America,<sup>86</sup> while the share of services increases. For Africa this is a worrying trend because it could 'miss out on the chance to grow rich by shifting workers from farms to higher-paying factory jobs'.<sup>87</sup> In Africa manufacturing provides just over 6% of all jobs – a percentage that has remained unchanged for three decades. There are exceptions to this trend. Ethiopia's manufacturing has grown by an average of over 10% a year in 2006-2014, albeit from a very low base. In Tanzania, manufacturing output has grown 7.5% annually from 1997 to 2012.

#### 4.1.2. Labour migration across sectors and increases in productivity

It is a fact that labour has migrated from agriculture to other sectors of the economy, but there is no consensus as to whether this has led to an increase in productivity and thus to structural transformation. According to one point of view, instead of benefiting manufacturing, labour and other economic resources shifted in Africa from traditional

<sup>84</sup> Comparative Advantage and African Development, Arne Bigsten, The Oxford companion to the economics of Africa, 2012, p. 169.

<sup>85</sup> [Made in Africa: Some new thinking for Africa Industrialization Day](#), John Page, November 2015.

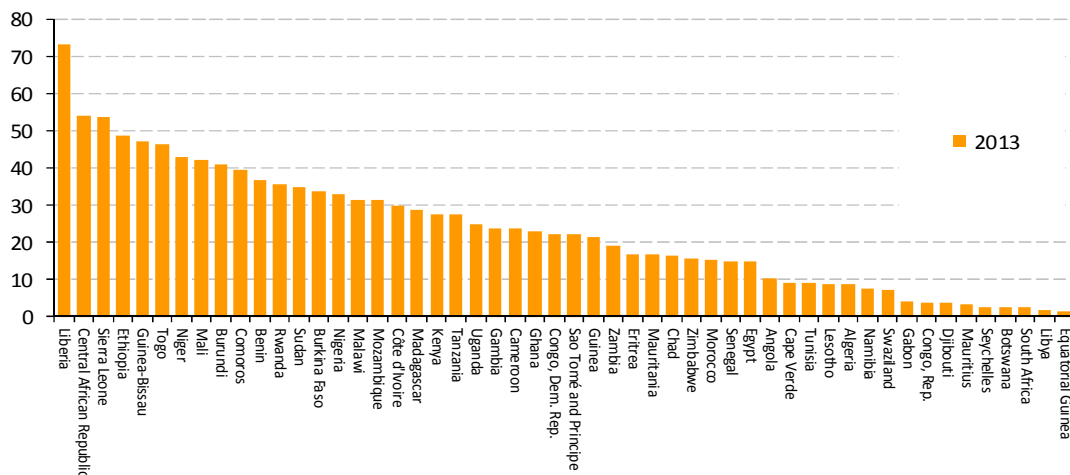
<sup>86</sup> 'Structural Change in Africa', Justin Yifu Lin, The Oxford companion to the economics of Africa, 2012, p. 297.

<sup>87</sup> [More a marathon than a sprint. There is a long road ahead for Africa to emulate East Asia](#), The Economist, November 2015.

agriculture to informal low-productivity services in cities.<sup>88</sup> This is in stark contrast with the development of other emerging economies that have entered a structural transformative phase in recent decades. Transformation in east Asia and Latin America involved migration of labour to high-productivity manufacturing and modern services. Over most of the five decades since independence, African countries have experienced negative structural change leading to lower productivity, as labour migrated from an underperforming, yet higher-productivity agricultural sector into an oversized, lower-productivity service sector.<sup>89</sup> Since 1980, productivity in the agricultural sector has mostly remained stagnant, while in the other sectors of the economy has declined initially, only to stagnate afterwards.<sup>90</sup>

Other authors hold an opposite point of view, finding evidence of productivity-enhancing structural change, at least since 2000. The 1990s were indeed characterised by 'negative structural transformation', with the labour force moving from higher productivity sectors to lower productivity sectors. However, since 2000 a positive transformation has set in, leading to productivity growth. For example, during 2000-2005, overall labour productivity growth in Africa was second only to that in Asia.<sup>91</sup> Ghana, Ethiopia and Malawi are examples of countries that have experienced growth-enhancing structural change; the share of employment declined in the agricultural sector and increased in the manufacturing sector.<sup>92</sup>

**Figure 10 – Agriculture, value added of GDP in % in African countries in 2013**



Source: AfDB, [Data Portal](#), 2015

<sup>88</sup> See on this topic [An African Growth Miracle](#), Dani Rodrik, April 2014, pp. 8-9 and [Economic Report on Africa 2014: Dynamic Industrial Policy in Africa](#), UNECA, 2014 p. 52.

<sup>89</sup> [Structural Transformation among African Economies: Patterns and performance](#), Ousmane Badiane, John Ulimwengu, Thaddee Badibanga, Development (2012) 55(4), p. 463.

<sup>90</sup> See ibidem, p. 466: the data presented are until 2008.

<sup>91</sup> [African Economic Outlook 2013](#), AfDB, OECD, UNDP, UNECA, May 2013, pp. 114-115. This result is however based on data for a sample of only nine African countries: Ethiopia, Ghana, Kenya, Malawi, Mauritius, Nigeria, Senegal, South Africa, and Zambia (representing 47% of total Sub-Saharan population). Another study also found evidence that Africa's economic growth since 2000 can be traced to a substantive decline in the share of the labour force engaged in agriculture, accompanied by a systematic increase in productivity, as labour moved to higher productivity manufacturing and services (See [What is Driving the 'African Growth Miracle'?](#), Margaret McMillan and Kenneth Harttgen, October 2014.)

<sup>92</sup> [Globalization, structural change and productivity growth](#), Margaret S. McMillan and Dani Rodrik, in NBER Working Paper Series 17143, June 2011.

#### 4.1.3. Economic transformation varies greatly among African countries and regions

There are strong differences among countries and regions in terms of economic transformation. According to UNECA, the most rapid transformation occurred in southern Africa and north Africa, where the share of agriculture in GDP declined fastest. The oil exporting countries present a much higher industrial share of their GDP than the oil importing countries (about twice as high),<sup>93</sup> but this is mainly due to the economic weight of the extractive industries. A report by the consultancy company McKinsey<sup>94</sup> takes a similar stance, including among what it considers as diversified economies (those which developed sources of growth other than agricultural and resources), countries mainly from north Africa and southern Africa: Côte d'Ivoire, Egypt, Mauritius, Morocco, Namibia, South Africa and Tunisia. The report considers the main oil-exporting countries to be the least diversified economies in Africa.<sup>95</sup>

There are some successful cases of building more sophisticated and export-oriented production in SSA, either in agriculture or industry, although limited in number: cut flowers in east Africa, back-office services in west Africa, garments in Madagascar and Lesotho.<sup>96</sup> Mauritius is often mentioned as one of the most successful examples of economic transformation in Africa. The country was able to develop an internationally competitive manufacturing (especially its garment sector) and services sector (especially tourism), significantly raising its GDP per capita to a level well above the African average.

#### 4.2. How to spur economic transformation?

The need to spur industrialisation is often highlighted in this context, while there are also suggestions that Africa should follow an alternative path of services-based development. The argument in favour of manufacturing is that it could provide numerous low skilled jobs for Africa's young population, while services would require a higher degree of specialisation that the African workforce has yet to acquire. The global context could also play in Africa's favour. With rising labour costs in Asia, Africa could attract a significant part of world manufacturing, but this is a hypothetical scenario, not yet confirmed by the available data.<sup>97</sup>

In fact, services and manufacturing should not be considered separate tracks for economic transformation. Although Africa's share of global services exports is very low – 2.2 % in 2012, according to the United Nations Conference on Trade and Development (UNCTAD), the services sector has the potential to become a significant driver of sustained economic growth and structural transformation in Africa, provided complementarities are built with other economic sectors especially manufacturing.<sup>98</sup>

<sup>93</sup> [Economic Report on Africa 2014: Dynamic Industrial Policy in Africa](#), UNECA, 2014 p. 36-37.

<sup>94</sup> [Lions on the Move: The Progress and Potential of African Economies](#), McKinsey & Co., June 2010, p. 5.

<sup>95</sup> The African Center for Economic Transformation, a think-tank based in Accra, publishes an index reflecting the degree of economic transformation in a sample of 21 African economies based on five main indicators (diversification of production and exports, export competitiveness, productivity increases, technology upgrading, human economic well-being). According to this index, the top seven performers in economic transformation in 2010 in SSA were: Mauritius, South Africa, Côte d'Ivoire, Senegal, Uganda, Kenya, and Gabon. [African Center for Economic Transformation](#), 2014.

<sup>96</sup> Industry for Africa. Why? How?, John Page, The Oxford companion to the economics of Africa, 2012, p. 307.

<sup>97</sup> [An African Growth Miracle](#), Dani Rodrik, April 2014, p. 10.

<sup>98</sup> [Unlocking the potential of Africa's services trade for growth and development](#), UNCTAD, 2015.

One of the targets of the Sustainable Development Goals<sup>99</sup> adopted in September 2015 is to 'promote inclusive and sustainable industrialization and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries'.

An **industrial policy** is needed, albeit a market-friendly industrial policy that would avoid past mistakes, when African governments tried to build state-owned enterprises, often with borrowed foreign capital, and following a rigid blueprint. An industrial policy has to respond both to the requirements of free markets, and those of democratic society. The 2014 Economic Report of the United Nations Economic Commission for Africa focused on the need to build 'innovative, effective and flexible industrial policy institutions, processes and mechanisms', to promote industrial development and structural transformation. According to this report, industrialisation is a precondition for Africa to achieve inclusive economic growth. The industrial policy has to be dynamic, adapted to local specific characteristics and based on a continual dialogue with all stakeholders.<sup>100</sup>

Recognising the vital importance of industry for the economic development of the continent, the African Union in 2011 adopted an 'Action Plan for the Accelerated Industrial Development of Africa'.<sup>101</sup>

In its 2013 and 2014 editions, The African Economic Outlook, a yearly report drafted by the African Development Bank, the OECD Development Centre and the United Nations Development Programme, made recommendations on how the region can develop its industrial sector and improve its competitiveness in the global market. The 2013 report emphasises that **structural transformation has to start from the natural resource sector**. Resource-based raw and semi-processed goods accounted for about 80% of African export products in 2011, much more than in other major developing countries. Natural resources will remain the continent's comparative advantage, and the overarching objective should be to create a **diversified resource based economy**. Poverty persists because there are not enough good jobs. African countries have to diversify their natural resources sector in order to diversify their manufacturing. On the other hand, they have to achieve large-scale agricultural transformation. The report recommends putting in place the right framework conditions for structural transformation, optimising the revenue from natural resources and investing it wisely and building linkages to and from the extractive sector. The 2014 report recommends promoting better integration into global value chains, as industrial production at global level becomes increasingly specialised and the production chains more complex and integrated, but also increasingly fragmented across the globe. Africa's share of global value chains only amounted to 2.2% in 2011.<sup>102</sup>

A more radical view on African economic transformation is that Africa has the potential to leapfrog other stages of development and become the leader of the 'third industrial revolution', based on pervasive ICT use and on renewable and decentralised energy production.<sup>103</sup> Given its cultural and social traditions which emphasise group

<sup>99</sup> [UN Sustainable Development Goals](#)

<sup>100</sup> [Dynamic industrial policy in Africa. 2014 Economic Report on Africa](#), UNECA & AU, 2014.

[Action Plan for the Accelerated Industrial Development of Africa](#), African Union Department of Trade and Industry, 2011.

<sup>102</sup> [African Economic Outlook 2014](#), AfDB, OECD, UNDP, UNECA, p. 28.

<sup>103</sup> [Jeremy Rifkin: 'L'Afrique peut être le leader de la 3e révolution industrielle'](#), in *Jeune Afrique*, March 2015.

ownership, Africa would also be well suited for a new 'sharing economy', built around the sharing of human and physical resources. This view has been only very little explored.

#### **Are authoritarian regimes better at modernising countries?**

Looking at China's impressive economic development, there is a strong temptation to believe that authoritarian regimes are better at driving sustained economic development in developing countries. In Africa, this impression is reinforced by the strong economic performance of countries like Ethiopia or Rwanda, rule by authoritarian regimes. There are arguments against such a view: over the past two decades, the liberal democracies of Africa have performed better in economic and human development; history shows that growth under a non-democratic regime is not sustainable; and Africans have clearly indicated their preference for both democracy and economic development in surveys.<sup>104</sup>

## **5. Is economic growth reducing poverty?**

This is an important question, but the answers have been unclear, as acknowledged by the World Bank.<sup>105</sup> Data on poverty in Africa are very weak given the lack of sufficient appropriate surveys. Based on the available data, the share of poor people living on less than US\$1.9 per day in Africa has decreased from 56% in 1990 to 43% in 2012. This decrease could in reality be higher than indicated by data. However, given the population growth there were more poor people in Africa in 2012 than in 1990. Many dimensions of well-being have improved: literacy rates, life expectancy, prevalence of chronic infant malnutrition, and the number of deaths from politically motivated violence.

The translation of growth into poverty reduction has been slower than in other parts of the world. Despite the economic growth, Africa is the continent which has achieved the least progress on the Millennium Development Goals. This is related to the way in which the African economies transformed. Most Africans continue to earn their living in the traditional economy or the informal sector. The majority of African workers are engaged in farming and small household enterprises. Agriculture employs more poor people than any other sector in Africa. For incomes to rise, improvements in productivity, especially in agriculture and services, are necessary, along with the redeployment of the workforce from lower productivity to higher productivity activities.<sup>106</sup> Fragility and conflict are also especially detrimental to the reduction of poverty.

The number of very wealthy people on the continent has been steadily growing, causing worries that growth benefits mainly the super-rich, while the poor become even poorer. However, inequality is not higher in Africa than elsewhere in the world. Excluding the seven African countries which are among the 10 most unequal countries in the world today (all seven are in Southern Africa and five have populations under 5 million), the inequality levels are comparable to other developing countries in the world.

<sup>104</sup> [The False Allure of Authoritarian Modernization](#), Isaac Debrah, Southern Voices Network Scholar, November, 2015.

<sup>105</sup> [Poverty in a rising Africa](#), World Bank, October 2015

<sup>106</sup> [Africa's Pulse](#), World Bank, October 2014, p. 14 and f.

Recommendations<sup>107</sup> to improve equality via economic growth include: promoting growth that needs more low-wage employment, a more even distribution of gains from resources by governments, and improving the level of education.

## 6. EU's support for economic development in Africa

The EU is committed to supporting economic development in SSA countries through the Cotonou Agreement<sup>108</sup> with ACP countries, which mentions economic development first in the list of objectives to be pursued, in its Article 1, and again in its Article 20, which foresees 'achieving rapid and sustained job-creating economic growth'. The Agreement includes a section on economic development. The cooperation measures envisaged should aim at the development of a dynamic, viable and competitive private sector, at stimulating investment in basic infrastructure, at economic growth and poverty eradication, and at macroeconomic growth and stabilisation through disciplined fiscal and monetary policies that result in the reduction of inflation, and improve external and fiscal balances. EU-ACP sectoral cooperation should focus on the development of training systems that help increase productivity in both the formal and informal sectors; on capital, credit, and land, especially as regards property rights and use; on the development of strategies with a view to enhancing agricultural production and productivity; on development of competitive industrial, mining and energy sectors; on trade development, development of business, finance and banking, tourism development, and development of scientific and technological research.

In line with the objectives of the Cotonou Agreement, cooperation with the SSA countries is funded mainly by the European Development Fund (EDF), created by an intergovernmental agreement – as it is not part of the EU Budget, but is managed by the Commission. The latest EDF entered into force on 1 March 2015 and is endowed with €30.5 billion for the period 2014-2020.<sup>109</sup>

The Joint Africa-EU Strategy Roadmap 2014-2017, which defines the framework for cooperation between the EU and Africa at continental level, mentions as key areas of cooperation the promotion of continental and regional integration and trade in Africa, support for the private sector as a key partner in development, support for infrastructure building, and cooperation in the area of industrial development. It also mentions support for agriculture and food security, including value-adding activities and agribusiness. It recognises that industrialisation is essential for Africa, and that it is needed to support the transformation of raw materials on the continent.

The Multiannual Indicative Programme 2014-2017 of the Pan-African Programme 2014-2020 – a financial instrument of EU development policy directed at Africa as a continent – includes among its components: trade integration, the sustainable management of raw materials, improving the quality of statistics, infrastructure development and support to agribusiness.

<sup>107</sup> [Inequality in Africa: Implications for the Sustainable Development Goals](#), Haroon Borat, September 2015

<sup>108</sup> Partnership Agreement between the members of the African, Caribbean and Pacific Group of States of the one part, and the European Community and its Member States, of the other part, signed in Cotonou on 23 June 2000, [latest consolidated version](#).

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Since the turn of the millennium, Africa has achieved high and sustained growth rates, sparking hopes that the 21st century could be Africa's century. As the global economic context is turning less favourable, other drivers of growth than export commodities become essential. The primary sector (agriculture and extractive industries) will remain vital for most African countries but it has to generate more industrial processing locally. Services have contributed significantly to growth, being the fastest growing sector, but remain affected by low productivity and an insufficient level of skills. Manufacturing has been stagnant for decades. Africa has to industrialise in order to create jobs (including low-skilled ones) and transform the economy. Building infrastructure, especially for electricity supply and transport networks, and also improving the quality of economic governance are necessary but not sufficient prerequisites for achieving further growth and creating the new jobs so much needed by Africa's young population.

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