African Economic Outlook 2017

SPECIAL THEME:

Entrepreneurship and Industrialisation

AFRICAN DEVELOPMENT BANK GROUP

OECD DEVELOPMENT CENTRE

UNDP

Empowered lives.
Resilient nations.

African Economic Outlook 2017

ENTREPRENEURSHIP AND INDUSTRIALISATION

The opinions expressed and arguments employed herein do not necessarily reflect the official views of the African Development Bank, its Boards of Directors or the countries they represent; of the OECD, its Development Centre or their member countries; or the United Nations Development Programme.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area.

ISBN 978-92-64-27425-9 (print)
ISBN 978-92-64-27426-6 (PDF)

Series: African Economic Outlook
ISSN 1995-3909 (print)
ISSN 1999-1029 (online)

http://dx.doi.org/10.1787/aeo-2017-en

Photo credits: Cover design by the African Development Bank based on images from Shutterstock.com

Corrigenda to OECD publications may be found on line at: *www.oecd.org/about/publishing/corrigenda.htm*.

Foreword

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

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

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

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

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

Editorial

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

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

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

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

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

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

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

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

Akinwumi Ayodeji Adesina President, African Development Bank Group, Abidjan	**Angel Gurría** Secretary-General, Organisation for Economic Co-operation and Development, Paris	**Helen Clark** Administrator, United Nations Development Programme, New York

Acknowledgements

The *African Economic Outlook* (AEO) was prepared by a consortium of three teams from the African Development Bank (AfDB), the OECD Development Centre and the United Nations Development Programme (UNDP). The *Outlook* benefited from the overall guidance of the office of the Vice President and Chief Economist, Economic Governance and Knowledge Management (AfDB) and direct supervision of Abebe Shimeles (Acting Director, Macroeconomic Policy, Forecasting and Research Department, AfDB), Federico Bonaglia (Acting Deputy Director of the OECD Development Centre) and Ayodele Odusola (Chief Economist and Head of the Strategic Advisory Unit, Regional Bureau for Africa, UNDP).

The AfDB team was led by Anthony Simpasa. Key team members included Maurice Mubila, Louis Kouakou, Anouar Chaouch and the entire AfDB Statistics Department. The team at the OECD Development Centre was led by Henri-Bernard Solignac-Lecomte and Arthur Minsat, while the team at UNDP was led by Angela Lusigi.

The report benefited from substantial input by Jennifer Blanke, Vice-President for Agriculture, Human and Social Development, as well as Lawrence Tawah, Ferdinand Bakoup, Stefan Muller, Thomas Viot, Mahib Cisse, Alhassane Haidara, Laura Sennet, Walter Odhiambo, Saloua Sehili, Kapil Kapoor, Emanuele Santi, Thouraya Triki and staff in the Macroeconomic Policy, Forecasting and Research Department at the AfDB; as well as by Laurent Bossard at the Sahel and West Africa Club and Nadine Gbossa, Johannes Jütting, Bathylle Missika, Rolando Avendano, Marcus Böhme, Lucia Cusmano, Juan De Laiglesia, Antonio Fanelli, Gaëlle Ferrant, Miriam Koreen, Adrien Lorenceau, Maria Rosa Lunati, Keiko Nowacka, Antonella Noya, Lucia Perez Villar, Jonathan Potter, Annalisa Primi, Jan Rieländer and Vicente Ruiz at the OECD.

Part I on Africa's performance and prospects was drafted by Jacob Oduor, based on the forecast from the AfDB Statistics Department (Chapter 1), Lucia Wegner and Mouhamadou Sy (Chapter 2), Bumi Camara (Chapter 3), Kate Tench and Angela Lusigi (Chapter 4), and Bakary Traoré, Sébastien Markley, Harriet Ayernor and Ines Zebdi (Chapter 5). Additional data analysis and input were provided by Christine de la Maisonneuve, Richard Dutu, Ryan Jacildo, Willi Leibfritz and Thang Nguyen (Chapter 1), Yasmin Ahmad, Olivier Bouret, Elena Bernaldo de Quiros, Angel Melguizo, Emmanuelle Modica, Aimée Nichols, Lorenzo Pavone and Valérie Thielemans (Chapter 2), Laurent Bossard, Bakary Traoré, Sébastien Markley, Rodrigo Deiana and Martin Wermelinger (Chapter 3), Sunita Pitamber, Adamon Ndungu Mukasa, Andinet Woldemichael, Bumi Camara, Alessandra Heinemann, Keiko Nowacka and Willi Leibfritz (Chapter 4), as well as Catherine Anderson, Sara Batmanglich, Joël Boutroue, Derek Carnegie, Rachel Scott and Lisa Williams (Chapter 5).

Part II on entrepreneurship and industrialisation was drafted by Willi Leibfritz, Arthur Minsat, Thang Nguyen and Rodrigo Deiana with assistance from Gisely González-Peña, Palesa Thinta, Kentaro Fujimaru, Portia Maseogane and Paula Misler. John Page (Brookings Institution), Milan Brahmbhatt (World Resources Institute), Catlyne Haddaoui (New Climate Economy) and Wim Naudé (Maastricht School of Management) drafted background papers. The following people made written contributions: Mike Herrington (Global Entrepreneurship Monitoring); Dirk Willem te Velde (Overseas Development Institute); Frank Cinque and Mario Marco Molteni (E4Impact); Saskia Vossenberg (KIT – Royal Tropical Institute/Center for Frugal Innovation in Africa, CFIA); Michael Onyango (Kisumu County Government); Roland Portella (CADE); Samuel Mathey and Siriki Coulibaly (FAFEDE); Parminder Vir OBE (Tony Elumelu Foundation); Youth Unit/Urban Economic Branch, UN-Habitat; Sara Núñez Evora (Ministry of Trade, Industry and East African Community Affairs, Rwanda).

In collaboration with the partner institutions and under the overall guidance of the AfDB Directors General and lead economists, AfDB country economists prepared the country notes. In most cases, they collaborated with UNDP country economists and/or OECD Development Centre economists. The work on the country notes benefited from contributions from local consultants in selected countries. The country notes were drafted by the people below.

Country	Authors
Algeria	Hervé Lohoues and Tarik Benbahmed
Angola	Joel Muzima and Glenda Gallardo
Benin	Daniel Ndoye, Ginette Patricia Mondongou Camara and Janvier Polycape Alofa
Botswana	George J. Honde
Burkina Faso	Facinet Sylla, Amata Sangho Diabate, Alain Siri and Hervé Marie Patrice Kouraogo
Burundi	Joel Tokindang, Ernest Bamou and Arthur Rushemeza
Cabo Verde	Adalbert Nshimyumuremyi, Yannis Arvanitis and Luca Monge Roffarello
Cameroon	Richard Antonin Doffonsou and Francis Jony Andrianarison
Central African Republic	Kalidou Diallo and David Tchuinou
Chad	Claude N'Kodia and Daniel Gbetnkom
Comoros	Alassane Diabate, El Hadji Ndji Mamadou Fall and Issa Attoumane Boina
Congo	Nouridine Kane Dia and Francis Jony Andrianarison
Congo, Dem. Rep.	Jean Marie Vianney Dabire, Ernest Bamou and Jean Amisi Mutumbi Kalongania
Côte d'Ivoire	Pascal Yembiline, Idrissa Diagne and El Allassane Baguia
Djibouti	Guy Blaise Nkamleu
Egypt	Angus Downie
Equatorial Guinea	Dominique Puthod
Eritrea	Magidu Nyende and Frederick Mugisha
Ethiopia	Edward Batte Sennoga, Admit Wondifraw Zerihun, James Wakiaga and Haile Kibret
Gabon	Dominique Puthod and Célestin Tsassa
Gambia	Adalbert Nshimyumuremyi, Yannis Arvanitis, Khadidiatou Gassama, Radhika Lal and Abdoulie Janneh
Ghana	Eline Okudzeto, Radhika Lal and Kordzo Sedegah
Guinea	Olivier Manlan, Idrissa Diagne and Mamadou Sarifou Diao Diallo
Guinea Bissau	Yannis Arvanitis, Luca Monge Roffarello and Inacio Ie
Kenya	Walter Odero, Wilmot Reeves and Julius Chokerah
Lesotho	Edirisa Nseera and Asha P. Kannan
Liberia	Patrick Hettinger, Moses Sichei and Stanley Kamara
Libya	Yasmine Eita
Madagascar	Tankien Dayo, El Hadji Ndji Mamadou Fall and Adamson Rasolofo
Malawi	Peter Mwanakatwe and Alka Bhatia
Mali	Abdoulaye Konate, Hamaciré Dicko and Becaye Diarra
Mauritania	Marcellin Ndong Ntah, Becaye Diarra and Selma Cheikh Malainine
Mauritius	Ndoli Kalumiya and Luka Jovita Okumu
Morocco	Vincent Castel
Mozambique	Andre Almeida Santos, Glenda Gallardo and Manuel Filipe
Namibia	Martha Phiri and Alka Bhatia
Niger	Facinet Sylla, Amata Sangho Diabate and Moctar Seydou
Nigeria	Barbara Barungi, Ojijo Odhiambo and Robert Asogwa
Rwanda	Bernis Byamukama and Yemesrach Workie
Sao Tome and Principe	Flavio Soares Da Gama and Idrissa Sanoussi
Senegal	Toussaint Houeninvo, Khadidiatou Gassama and Isiyaka Sabo
Seychelles	Tilahun Temesgen and Roland Alcindor
Sierra Leone	Jamal Zayid, Moses Sichei and Milton Korseh-Hindowa
Somalia	Richard Walker and Salome Kimani
South Africa	Wolassa Lawisso Kumo, Fatou Nyang Leigh and Arthur Minsat
South Sudan	Guy Blaise Nkamleu and Frederick Mugisha
Sudan	Suwareh Darbo and Yousif Eltahir
Swaziland	Peninah Kariuki and Asha P. Kannan
Tanzania	Chidodzie Emenuga, Prosper Charle and Rogers Dhliwayo
Togo	Carpophore Ntagunguria, Ginette Patricia Mondongou Camara and Jeanne Bougonou
Tunisia	Philippe Trape
Uganda	Vera Kintu Oling, Yemesrach Workie and Simon Peter Nsereko
Zambia	Peter Engbo Rasmussen, Colleen Zamba and Elda Chirwa
Zimbabwe	Mary Manneko Monyau and Amarakoon Bandara

The committee of peer reviewers of the country notes included Adamon Ndungu, Adeleke Salami, John Anyanwu, Amadou Boly, Andinet Woldemichael, Audrey Chouchane, Blessing Ose Oligbi, Bumi Camara, Carlos Mollinedo, Charlotte Karagueuzian, Chuku Chuku, Dawit Birhanu, El-Haji Mamadou Bah, Elizabeth Anyango Owiti, Eric Kere, Gilbert Galibaka, Jacob Novignon, Jacob Oduor, Jacqueline Odula, Johnathan Dastu Danlad, Kevin Lumbila, Laureline Pla, Linguere M. Mbaye, Mawuko Kokou Kponnou, Mouhamadou Sy, Nicolas Masiyandima, Oscar Pitti Rivera, Qingwei Meng, Regis Lakoue Derant, Rose Mwebaza, Sandrine Alissoutin, Thierry Kangoye, Urbain Nerry Cyrille Mballa and Zeke Geh (AfDB); Rodrigo Deiana, Arthur Minsat and Thang Nguyen (OECD); Angela Lusigi and Idrissa Diagne (UNDP).

The macroeconomic framework and database used to produce the forecast and statistical annex were managed by Mubila Maurice and Koua Louis Kouakou at the AfDB. Statistical inputs for updating the database and running the AEO model were provided by Anouar Chaouch, Mbiya H.K. Kadisha, Soumaila Karambiri, Doffou Marc Elisée Monsoh, Slaheddine Saidi and Jerbi Slim in the AfDB Statistics Department. Bakary Traoré and Sébastien Markley assembled the final dataset for publication at the OECD Development Centre. Patience Gogo, Veronique Aka, Abiana Nelson and Elisabeth Turner also provided assistance.

The report benefited from inputs and comments from a large number of African government representatives, private sector operators and civil society members; sector specialists and senior management officials in the AfDB Vice Presidency Complexes, operations departments and field offices; the UNDP Africa Regional Bureau and Country Offices; and OECD bodies: Centre for Entrepreneurship, SMEs, Local Development and Tourism; Development Centre; Development Co-operation Directorate; Directorate for Employment, Labour and Social Affairs; Directorate for Financial and Enterprise Affairs; Directorate for Public Governance and Territorial Development; Directorate for Science, Technology and Innovation; Economics Directorate; Global Relations Secretariat; Public Affairs and Communications Directorate; Sahel and West Africa Club; Statistics Directorate; and Trade and Agriculture Directorate.

Part II on entrepreneurship and industrialisation in Africa drew heavily from the knowledge of international experts invited to the AEO 2017 experts' meeting in Paris on 10-11 October 2016: Blandina Kilama (Repoa), Eric Bazin, Catherine Dernis (Land of African Business), Catlyne Haddaoui, Russell Austin Bishop (New Climate Economy), Christophe Angely (FERDI), Dorothy McCormick (University of Nairobi), Eyerusalem Siba (Brookings Institution), Isabelle Ramdoo (Linkages and Investment), Jean-Michel Severino (Investisseurs & Partenaires), Lena Giesbert, Tabea Lakemann (GIGA Institute of African Affairs), Lucia Wegner (KIT – Royal Tropical Institute), Magena Ayyagari (George Washington University), Marco Kamiya (UN HABITAT), Marie-Ange Véganzonès Varoudakis (CERDI-CNRS), Martyn Shannon (DfID), Max Cuvellier (GSMA Mobile for Development), Oa Selialia Sechada (Scoody), Olga Memedovic (UNIDO), Paul Ginies (Stratconseil), Pierre Ewenczyk (IMF), Roland Portella (CADE), Siriki Coulibaly and Samuel Mathey (FAFEDE), and Wim Naudé (Maastricht School of Management).

Key contributions to the thematic chapters were also made by Justin Yifu Lin (Peking University), Dirk Willem te Velde (Overseas Development Institute), David Kaplan (University of Cape Town), Elizabeth Glass (US Small Business Administration), Abiodun Egbetokun (National Centre for Technology Management), Thierry Giordano (FAO), José Pineda (University of British Columbia), Anton Cartwright (African Centre for Cities), Felicity Proctor (Proctor Consulting), Gideon Mass (Coventry University), Jacqueline Kew (University of Cape Town), Kingston Mutsonziwa (FinMark Trust), Mikael Samuelsson (Stockholm School of Economics), Allon Raiz (Raizcorp), Lesley Wentworth (Southern

Africa Business Forum), Edwin Bbenkele (University of Johannesburg), Akmal Abdurazakov (Boston University) and Setlakalane Molepo (South Africa's National Empowerment Fund).

The dedication of the editing, translation and proof-reading team was essential to the timely production of this report. Jill Gaston managed the editorial process with Vanda Lintott and Elisabeth Turner, while Delphine Grandrieux oversaw the production of the publication in both paper and electronic forms with Louise Schets. Aida Buendia and Pykha were responsible for the design and layout of the report while Laetitia Yattien-Amiguet and Justin Kabasele contributed to the design of the cover. Anne-Lise Prigent offered editorial advice.

Additional financial support to the 2017 edition provided to the OECD Development Centre by Germany (GIZ), Italy (Ministry of Foreign Affairs and International Co-operation) and Portugal (Camões – Instituto da Cooperação e da Língua, I.P.) is gratefully acknowledged.

Table of contents

Figures

Tables

Statistical annex tables (published online)

Executive summary

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

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

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

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

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

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

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

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

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

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

PART I
Africa’s performance and prospects

Chapter 1

Africa's macroeconomic prospects

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

IN BRIEF

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

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

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

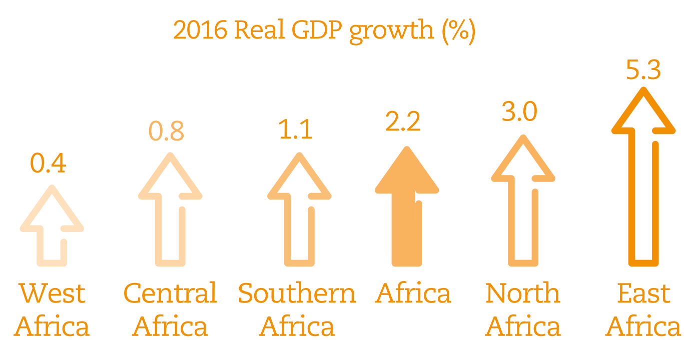
Did you know?

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

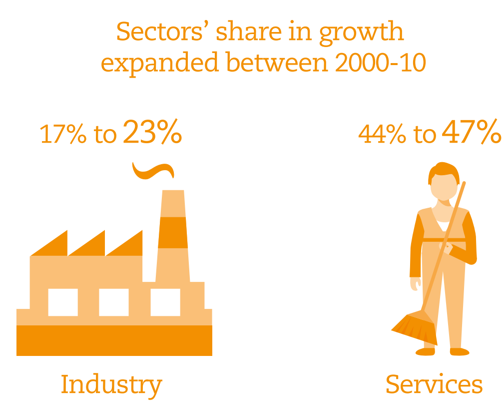
Africa's growth projections are positive after slowdown

Africa's macroeconomic prospects

East Africa maintains its lead in regional growth



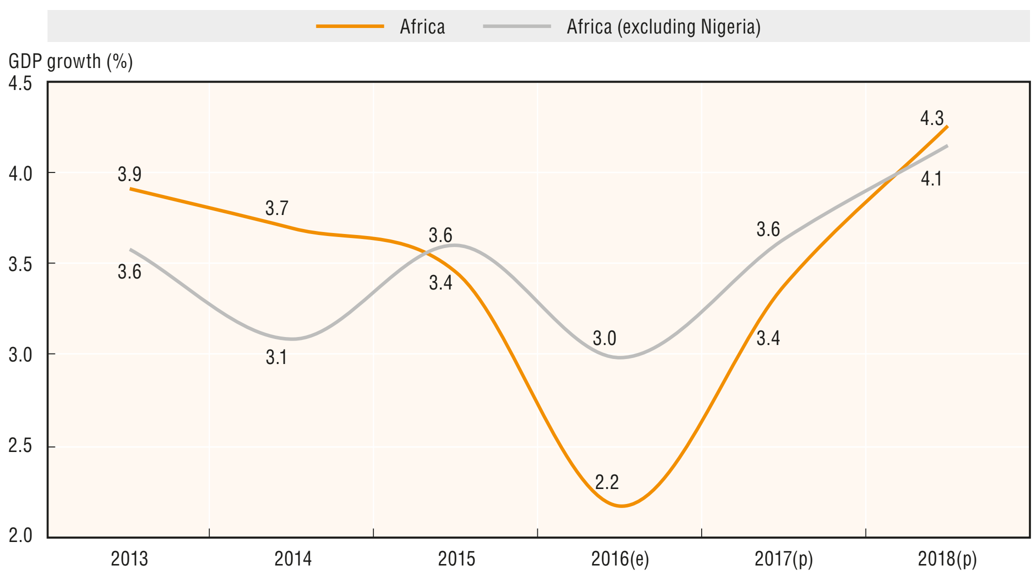
Increased diversification helped make growth more resilient



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

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

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



Source: Adapted from AfDB Statistics Department data.

StatLink http://dx.doi.org/10.1787/888933474872

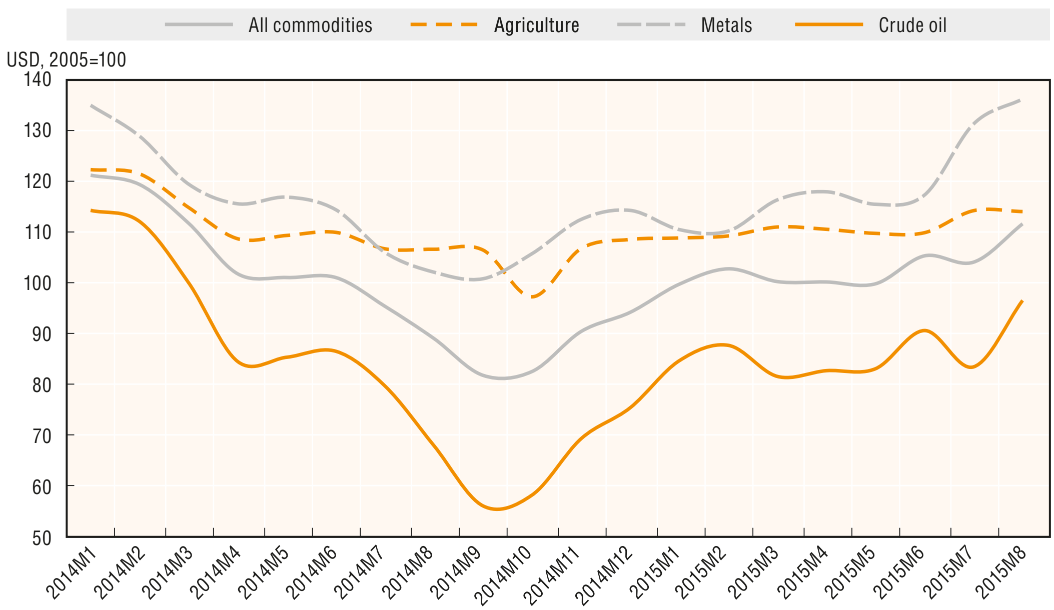
While the slowdown has concentrated mainly in commodity exporters, several factors have contributed to overall lacklustre performance in 2016. These include simmering effects from the Arab Spring, dampening of the global economic recovery including emerging economies (notably, continued slow growth in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

The recent fall in commodity prices is slowing growth

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

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

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



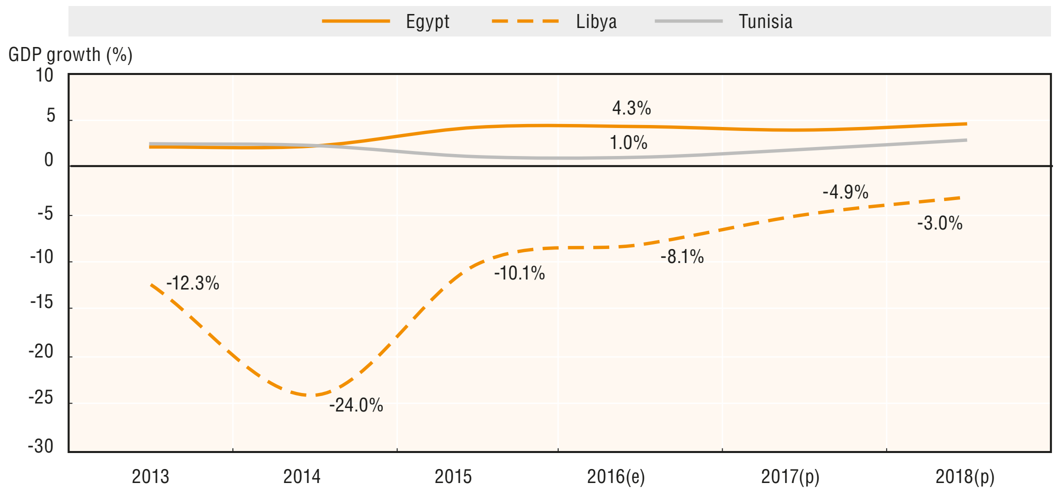
Source: Federal Reserve Bank of St. Louis (2017), https://fred.stlouisfed.org/series/PALLFNFINDEXQ.
StatLink http://dx.doi.org/10.1787/888933474884

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

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

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

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



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

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

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

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

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

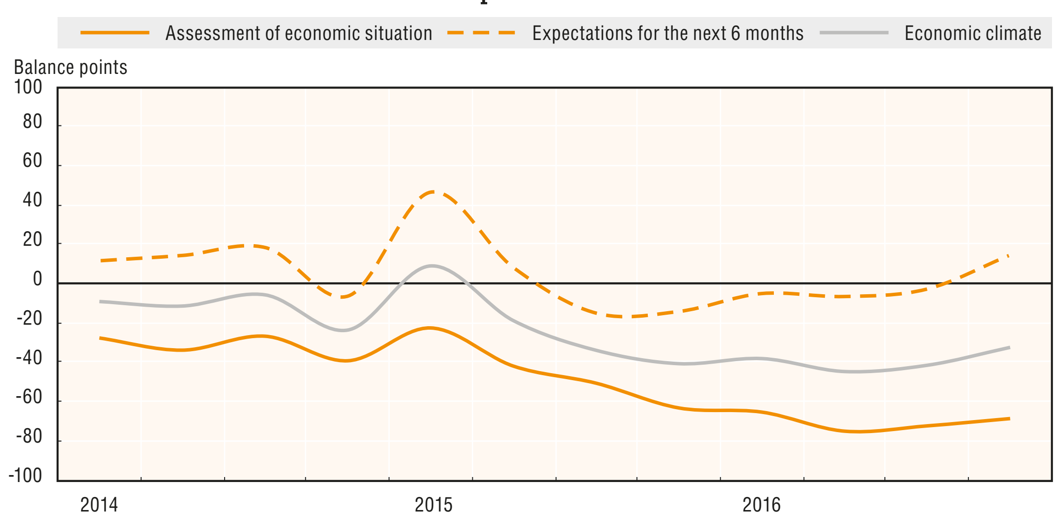
Africa's exports to emerging economies comprise mainly oil and metals and are dominated by China, exposing the continent to global demand shocks. Currently, China accounts for 27% of Africa's total global exports with primary commodities representing about 83% of exports to China.

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

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

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

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



Source: Ifo World Economic Survey (Ifo Institute, 2017).

StatLink http://dx.doi.org/10.1787/888933474900

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

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

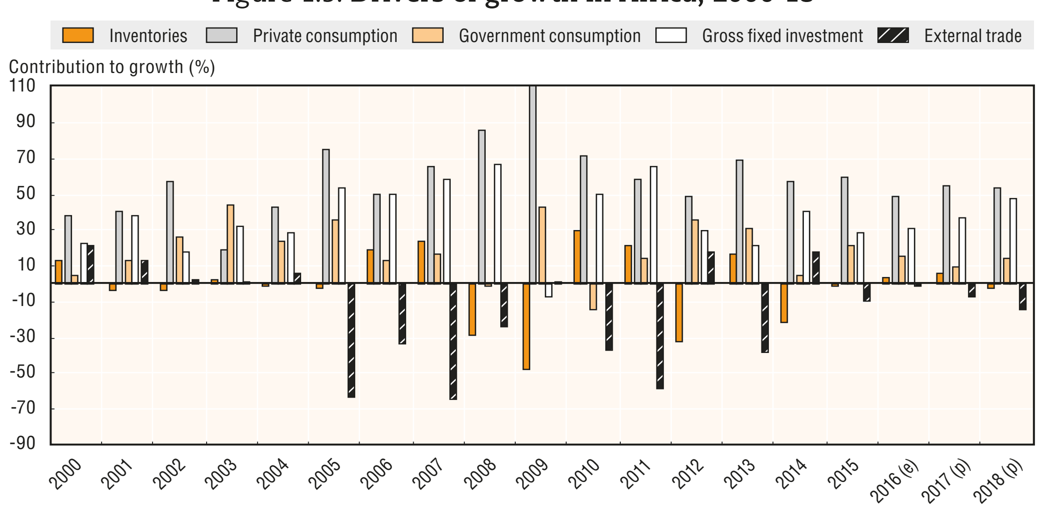
Domestic demand is becoming increasingly important as a driver of growth

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

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

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

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



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

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

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

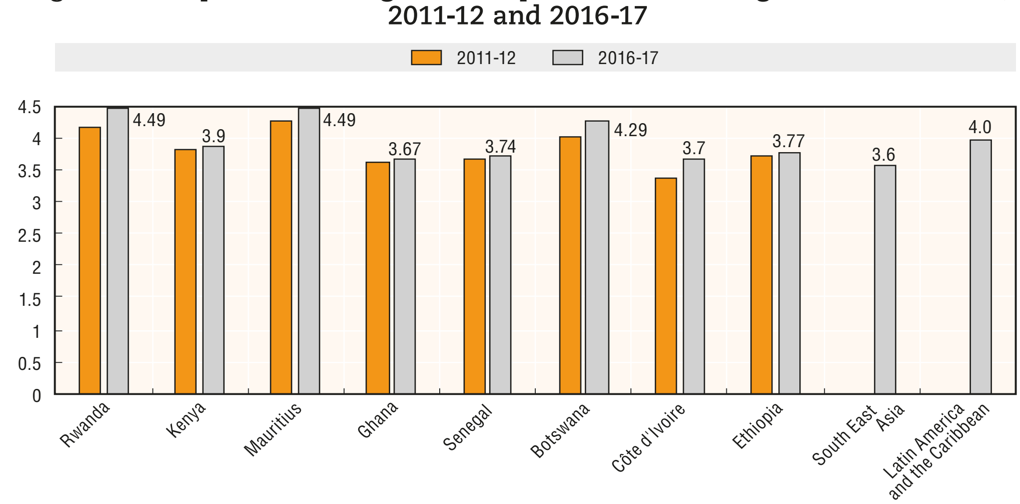
The pace of public infrastructure investment is increasing in Africa

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

Business and macroeconomic governance reforms are taking root in the continent

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

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



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