AFRICA COMPETITIVENESS REPORT 2000-2001
EXECUTIVE SUMMARY

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The *Africa Competitiveness Report 1998* became the first systematic benchmarking exercise for Africa, combining broader macroeconomic and political analysis with analysis of firm and country competitiveness. Using a continental standard, we attempted to answer the question: How fragile or deep is the competitiveness of one African country relative to another?

The *ACR 2000-2001*[1] is being produced in a context quite different from the first *Report* published in 1998. The most important piece of good news is surely the democratization of Nigeria, which gives new hope to sub-Saharan Africa's most populous nation. If Nigeria consolidates its democracy and begins to achieve sustained economic growth, the positive ramifications for West Africa, and indeed all of sub-Saharan Africa, will be enormous. The deepening of democratic processes in Senegal and South Africa is also noteworthy. Another piece of good news is the progress, albeit inadequate, on debt relief for the highly indebted poor countries (HIPCs) of the region. While the main creditors can't quite bring themselves to the obvious step of debt cancellation, they have all acknowledged the eventual need to write off the unpayable debts. When this happens, it will mark an important financial turning point for sub-Saharan Africa. Another piece of good news is that economic growth in many countries, and in the region as a whole, has continued to be stronger than in the first half of the 1990's, though regional growth slowed in 1998 and 1999 compared with 1995-1997.

On the other hand, the news from much of Africa is bleaker than just two years ago. The shocking extent of the HIV/AIDS epidemic has become clearer. Africa is now home to around two-thirds of the HIV-infected individuals in the world. Civil strife continues to ravage the region, from Ethiopia and Eritrea, through the Democratic Republic of Congo, and on to Angola. Political unrest grips several countries, such as Zimbabwe, and this unrest translates strongly into a decline of international competitiveness in those countries.

Both the good news and the bad news affected the relative competitiveness of the countries under study. Let us now turn to the results.

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[1] Throughout the Report the terms "Africa Competitiveness Report 2000-2001" and "Africa Competitiveness Report 2000" will be used interchangeably. In addition, unless otherwise specified, surveys refer to the Executive Surveys distributed by the World Economic Forum for this report. They are also referred to as "Africa Competitiveness Executive Surveys" and "ACR (executive) surveys."

The 2000 Results

Tunisia tops the competitiveness rankings in 2000, rising from the second position in 1998. Mauritius, the top performer two years ago, remains very highly rated in second place. Botswana, long a star performer of southern Africa, remains in third position. Indeed, the composition of the top seven countries has remained the same, with slight changes in their respective positions. There is considerably more change in the remainder of the rankings, however, with the changes correlated rather highly with the progress or retrogression of democracy in the various countries. Côte d'Ivoire (15), for example, has fallen three positions, a clear result of the political turmoil that culminated in the coup d'état last year.

On the other hand, three countries with consolidating democracies—Tanzania (14), Malawi (19), and Nigeria (20)—each rose three positions in the rankings. Two notable losers in this year's rankings are Kenya and Zimbabwe. Kenya declined by a remarkable eight positions, and Zimbabwe declined by two, finding itself just second from the bottom. Both countries have political leadership that has stayed in power for more than twenty years, and both countries are fraught with growing internal dissension and demands for further democratization. Madagascar, which is ranked for the first time this year, is at the bottom of the list, a reflection of extremely weak governance and financial sector institutions.

A few surprises can be noted. Senegal, which was unranked in the 1998 index, entered the rankings this year in the top third. Cameroon, whose perceived rising corruption grew over the period, improved in other areas enough to raise its rankings by four positions. Burkina Faso's position fell by five to 21 this year. Ethiopia's position in the Competitiveness Index increased dramatically, by seven positions. There are several possible reasons for such a climb, which appears anomalous, given the war with Eritrea and famine in the country. One explanation is that the government has tenaciously continued to push through a reform program, regardless of other events in the country. Among the components of the reform program are fiscal decentralization (one of the most sweeping in Africa) and financial restructuring. Another possibility is that recent tragic news of the famine, and the fallout from the continuing strife with Eritrea, was not fully incorporated into the firms' expectations at the time of the survey.

The Improvement and Optimism indices, which are based solely on direction-of-change variables in the survey, are dominated by a few countries. The Improvement Index is based on comparisons of current competitiveness factors with those of three years ago. Tanzania, Morocco, Mozambique, Nigeria, and Uganda appear to be the most improved economies in terms of competitiveness. In contrast, the Optimism Index measures anticipated change in the near future (specifically, the next two years). Nigeria, Tanzania, Mozambique, Morocco, and Ghana occupy the top five positions in this index. In 1998, Egypt was included among the five in each of the two indices. In 2000, it appears at number 8 in the Improvement Index and at number 12 in the Optimism Index. While Egypt has continued to achieve economic growth and, notably, export growth to

Europe, its fixed exchange rate system has come under increasing strain, adding to concerns about the macroeconomic framework.

Innovations in the ACR 2000-2001

While the methods of computing and reporting competitiveness are largely unchanged since 1998, there are a number of innovations in this year's report.

First, to make the ACR more comprehensive, we have revised the data and expanded the sample. While we maintained most questions regarding institutions, infrastructure, labor, finance, government, and openness, the survey was revised to collect richer data on health, exports, foreign direct investment (FDI), and governance, for example, and fewer data on crime and finance. We also increased our geographic coverage by adding six countries to the sample, including Algeria, Gabon, Guinea, Madagascar, Mali, Seychelles, which brought the total to twenty-nine. More than eighteen hundred firms constitute the sample. Increasing the sample size will generally have a lagged effect on the benchmarking exercise. As surveying efforts for the *Report* were recently begun in these countries, only one country, Madagascar, had a response rate high enough to be included in all indices and subindices.

Second, we drew on the rich pool of local economists and others who are observers of features of competitiveness to write the country profiles. They provide a candid, up-to-date appraisal of local conditions that aid the reader in interpreting results from surveys and from computation of the overall Competitiveness Index.

Third, we introduced a more rigorous editing and review process that should raise the quality of analysis. Each country profile and essay had at least one reader and one editor. Coupled with a partnership with our new publisher, Oxford University Press, we hope to expand our readership in the academic and business communities.

ACR 2000-2001 Essays

Consistent with changes in conditions in Africa, research presented in the essays has also changed.

The potential throughout Africa for mitigating high transactions costs and increasing competitiveness through electronic commerce in many African economies is immense. The essay by Lisa D. Cook and Geoffrey S. Kirkman gives the example of progress in Internet-host growth, just under 20 percent in 1999, and in technological change – e.g., hand-held mobile telecommunications devices.

The optimism of advances in a limited number of measures is tempered by the realism of the poor state of access, infrastructure, and regulation in much of the African information technology sector. Excluding South Africa, only a few thousand computers are connected to the Internet, though each of these may be used by many people in the growing number of cyber cafés, community centers, and other sites for Internet use.

Inconsistent, poor-quality, and high-cost access to electricity in many African countries is working against growth in computer and Internet use. And, perhaps most important, the highly regulated and monopolistic telecommunications sectors often impede competition in information technology (IT), the possibility of new entrants (telecoms companies and Internet service providers), falling prices, enhanced service, and innovation. To create the proper environment for the IT sector, the authors strongly urge deregulation and demonopolization of the telecommunications sector, education and training (both basic and computer literacy), and policies to get schools and government agencies online.

David Bloom, Lakshmi Bloom, and associates consider the significant toll that HIV/AIDS is taking on competitiveness in Africa, in addition to the human tragedy. AIDS, they show, is rapidly reversing the health gains made in Africa during the twentieth century. Life expectancy is falling at unprecedented speed. Only 44 per cent of sub-Saharan Africans are now expected to reach age sixty, and an African child born today can expect to live for only forty-nine years, compared with a world average of sixty-seven years.

The authors provide evidence of the multiple menaces HIV/AIDS poses to business and the economy. Given the demographic profile of the disease in Africa, the economically active population has been devastated by HIV/AIDS, and this imposes direct costs on firms. In Zimbabwe, insurance premiums generally doubled between 1996 and 1998. Firms' profits will fall, due not only to rising costs but also to lower sales, since many participants in the labor force can no longer earn salaries and wages. The epidemic is also likely to impede FDI in Africa and to burden government budgets with extreme pressures on health-care spending in the coming years.

Aggregate data suggest that by traditional measures financial intermediation has actually worsened in a number of Africa countries over the last decade. Peter Cornelius reviews the firm-level evidence from the ACR Survey to examine financial development and openness in Africa. In most African countries, he finds, the private sector has become more confident in the financial system as a provider of financing. Respondents agreed on average that it has become easier form private firms to obtain financing than it was three years ago. In Egypt, Morocco, and Mozambique, the confidence-building process has been more rapid than in other countries, and in nearly all cases respondents expect the situation to improve further in the next couple of years, suggesting growing optimism with regard to ongoing reform processes. However, Cornelius finds that in the majority of countries, a large number of respondents remain cautious about the financial system's ability to finance private investment. From analysis of the survey data, the cost of borrowing is widely considered the single most important obstacle to the operation and growth of private firms.

Cornelius compares African countries' commitments to liberalize their financial sectors with African business executives' perceptions of liberalization. Compared with other developing regions, especially Asia and Latin America, African WTO members have taken a relatively liberal approach vis-à-vis international liberalization of the financial sector, though actual opening has lagged behind public commitments. In any event, domestic factors generally were viewed as more critical to firms. Cornelius suggests that observed optimism regarding financial development rests largely on continued domestic reform: deregulation of the financial sector, improved risk management and banking supervision, greater institution building, and intensified competition among financial intermediaries.

Jeffrey D. Sachs, Maciej Cuchra and Sara E. Sievers analyze the Enhanced Heavily Indebted Poor Country (HIPC) Initiative for debt relief. They call for deeper and faster relief for the HIPCs than is being offered under the current initiative. Given these countries' urgent social crises (HIV/AIDS, underfunding of health and education), the Enhanced HIPC Initiative still falls short of delivering the deep debt forgiveness and transfer of the debt dividends to greater spending on urgent social needs, especially the health crisis in the region.

There is ample evidence to suggest that some African economies saw rapid growth in the immediate post-colonial period in the late 1960's and 1970's. In his essay, "African Economies Without Raw Materials," Andrew Warner decomposes growth during this period to examine the extent to which it was due to commodity price booms and natural resource discoveries. He finds that, from this perspective, estimates of African growth would change significantly in a number of important countries. This finding provides support for the hypothesis that natural resources propped up a number of African economies in the earlier years and masked fundamental economic weaknesses.

Lisa D. Cook's essay on Mozambique is an attempt to measure whether expectations of the business community in 1998 were met by 2000. How did the response of factors affecting competitiveness meet expectations? What role did expectations play in economic growth and investment between 1997 and 2000? While much of the analysis focuses on this southern African country with 11.7 percent average real growth between 1997 and 1998, it also extends to the remainder of countries in the *ACR* sample. A more general question is then posed and answered using econometric analysis: How well does our Optimism Index work? That is, how well did we predict growth during the intervening period for all countries? The results obtained are mixed. On the one hand, the indicator is positively correlated with a country's optimism score (used to construct the Optimism Index). The index also predicts average annual growth well, if Mozambique is in the sample. If excluded, the indicator has no correlation with cross-country growth. At least within Mozambique, however, expectations for a more competitive environment and for sustained high economic growth are corroborated by other evidence.

Peter Cornelius's second contribution, with Johann Graf Lambsdorff, to the *Africa Competitiveness Report 2000* addresses changes in the perceptions of corruption among African countries and the effects of corruption on growth and foreign investment. They first construct a corruption index and find that it is broadly consistent with other indices that benchmark corruption. They report that Botswana, Namibia, and Tunisia are the least corrupt countries, while Madagascar, Nigeria, Egypt, Kenya, and Uganda are the worst with respect to perceptions of corruption.

With respect to economic growth, they find more support for the hypothesis that corrupt practices act as a random tax on growth, and that, in Africa, as in other regions, corruption severely distorts markets and the allocation of resources. Corruption's negative effects on foreign investment, they find, are similar to its negative effects on growth. Results of econometric analysis suggest that a one-point improvement in the corruption score increases annual FDI by 50 percent. Given the important and growth-inhibiting implications of corruption in Africa, the authors offer several recommendations that might help African (and other) government and economies provide disincentives for corrupt practices.

Modern economies increasingly challenge the economic management skills of democratically elected leadership. Nigeria's change from military to civilian leadership since the publication of the first *ACR* in 1998 provides a test of the effects of such a regime shift. Lisa D. Cook examines the Nigerian case in depth using the *ACR* survey data. The central question she addresses is: Has democratic transition begun to change competitiveness factors enough to increase the set of opportunities available to Nigerian firms and, thus, the economy? Nigeria's rapid ascendancy from the bottom of the Improvement Index and the middle of the Optimism Index in 1998 to the fourth slot in the former and the top of the latter suggests that change is afoot. However, such progress is checked by the lack of improvement in a number of dimensions of competitiveness. The essay ends by attempting to reconcile the rise in optimism with the continuing challenges in key aspects of competitiveness.

Remaining Items on the Growth and Competitiveness Agenda

Economic policymakers in much of Africa have proceeded with reform programs that have underpinned a return to economic growth, the focal point of the *ACR 1998*. Nonetheless, the experience since 1996 displays a very uneven record. Some countries are enmeshed in war and internal conflict which have derailed, at least for the short term, their economic and social reforms. Other countries have experienced enormous and tragic natural disasters, including floods, droughts, pest infestations, and outbreaks of epidemic disease. Fortunately, still others have achieved internal social and macroeconomic stability and high rates of economic growth. Our benchmarking analysis in this volume strongly suggests, however, that the key factors in promoting economic growth—good governance, public health infrastructure, and the like—have not yet been adequately addressed. The competitiveness agenda remains unfulfilled. It is worth reiterating that the crucial investments in health, education, and infrastructure that raise living standards in developing markets cannot be undertaken simply with per capita rates of growth that only slightly exceed zero, as is true in many parts of Africa. It is also worth reiterating that Africa's success will depend on a combination of internal reforms and external assistance. It will do no good for Washington, London, Paris, and Berlin to preach to Africa about governance, if these centers of power in the rich countries fail to support Africa's reforms with urgently needed debt cancellation and greatly increased financing for public health, nutrition, and other urgent human needs. In the end, we believe strongly in Africa's Renaissance, but we believe that it will be the product of a combination of forces: the vigor of African society, an increasingly democratic African policy, and the good will and urgently needed financial support of Africa's supporters in the world community.