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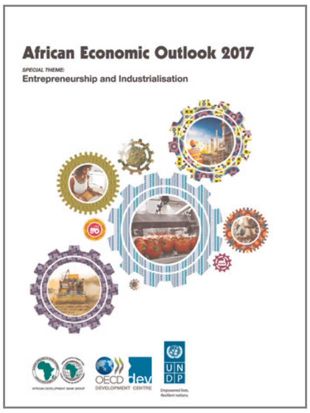
African Economic Outlook 2017
Entrepreneurship and Industrialisation

Summary in English



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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.

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