THE AFRICA COMPETITIVENESS REPORT 2007

PRESS RELEASE, WINDHOEK, NAMIBIA

"FINANCE, INFRASTRUCTURE, INSTITUTIONS CRUCIAL TO MAKING AFRICA MORE COMPETITIVE"

New Report from World Economic Forum, World Bank, African Development Bank Takes Stock of African Competitiveness

Windhoek, Namibia, 18 June 2007 – African businesses can become far more competitive, but African governments and their international partners will need to improve access to finance, rebuild infrastructure, and strengthen institutions.

The conclusions, released today at the seminar of a major new report, *The Africa Competitiveness Report 2007*, reflect research efforts of three institutions-- the World Economic Forum, the African Development Bank and the World Bank. Low access to financial services emerges as a major obstacle for African enterprises, but poor infrastructure, corruption, and weak institutions also make African goods and services less competitive in a global marketplace. The report also points to the growing number success stories in the region showing the steps countries can take to improve business conditions.

The jointly produced report was released ahead of the World Economic Forum on Africa, 13-15 June in Cape Town, South Africa. It is the first report on the region's business environment to leverage knowledge and expertise within the three organizations, marking a new level of research cooperation. The report also presents an integrated vision of the policy challenges African nations face as they build a foundation for sustainable growth and prosperity.

The five common themes that emerge from the analysis of the competitiveness landscape in Africa are:

1. **There are significant examples of success throughout the region**. The World Economic Forum's Global Competitiveness Index, shows that the region, and sub-Saharan Africa in particular, lags primarily in the basics of infrastructure and education. However, many countries perform much better on issues associated with technological readiness and efficiency. How to sustain and expand these opportunities remains a challenge.
2. **Good policies are critical for a sound business environment.** Policies are more important than geography or the abundance natural resources. Countries that have implemented sound policies score better on competitiveness rankings, with better growth and productivity outcomes.

3. **A critical constraint to businesses in Africa remains access to finance.** Further, improvements in the regulatory environment (such as better collateralization, transparency, and auditing) represent a necessary step for unleashing the potential of finance for competitiveness in Africa.
4. **Infrastructure remains one of the top constraints to businesses in Africa**. Energy and transportation are among the main bottlenecks to productivity growth and competitiveness in Africa. Firms lose as much as 8 percent of sales to power outages, and transportation delays can account for as much as 3 percent of lost sales.
5. **Corruption in Africa remains a serious obstacle to improving productivity and competitiveness**. The frequent payment of bribes, inconsistent enforcement of regulations, significant time spent with officials, and political favors being directed to special interest groups impact productivity significantly.

"This Competitiveness Report is an important contribution to a better understanding of the challenges faced by policy-makers and the international community in their efforts to better assist these countries," notes Peter Ondiege. This year's *Africa Competitiveness Report* is a comprehensive attempt by our three organizations to place the continent in a broader international context and to cast light on the important aspects of development in the region," Africa has the potential to become a far more competitive player in the global economy. The study finds that while a number of governments have significantly improved the business climate in their countries, the region as a whole has much to do to make Africa a competitive location for enterprise. These changes in the business climate, together with greater access to finance and new investment in infrastructure, should come together to advance Africa's drive to develop, create jobs and reduce poverty.

The key to the future of African economies is trade and investment, and therefore the business climate. Our aims at the African Development Bank are to act as a catalyst, to enhance the investment climate and to respond to demand in support of the Bank's development goals. This is achieved by rallying investors to look at opportunities in African countries differently. I applaud the palpable progress being made in the regulatory and institutional domains. But we must vigorously now deal with the other set of barriers – physical – that means infrastructure. It is crystal clear today that energy shortages, poor roads, inadequate communication between countries and regions constitutes a real impediment to the private sector and economic growth and in the case of energy shortages threatens to roll back economic achievements of the last six years.

The *Report* analyzes many aspects of Africa's business environment and highlights the key issues that hinder improvements in Africa's competitiveness and job growth. This year it examines many aspects of Africa's business environment and themes that will boost the prosperity of nations. This includes detailed assessments of the drivers of productivity and employment growth, including the rankings of 29 African countries in the Global Competitiveness Index; the competitiveness and investment climate in Africa's four largest economies (South Africa, Algeria, Nigeria and Egypt); the effect of gender disparities on employment and competitiveness; and the role of new technologies in fostering a more dynamic business environment.

Also included are detailed competitiveness and investment climate profiles, providing a comprehensive summary of the drivers of the competitiveness environment in each of the countries included in the *Report*.

On Namibia,

It is ranked just behind Botswana, at 88th overall. Namibia also demonstrates a number of clear competitive strengths: for example the quality of the institutional environment within the country (ranked 49th). In Namibia, property rights are well-protected (32nd), and the judiciary is perceived as independent from undue influence (28th). With regard to private institutions, auditing and accounting standards are quite strong (39th) and firms are viewed as demonstrating relatively good ethical behavior (53rd).

The quality of the country's infrastructure is also good by regional standards. In particular, aspects of the transport infrastructure such as the quality of railroads (35th) and ports (30th) are highly rated, although telephone lines remain scarce (94th).

Financial markets are also sophisticated by regional standards (57th), with relatively easy access to loans (45th), from a relatively sound banking sector (44th), and some venture capital available (50th), although raising funds by issuing shares on the local stock market is deemed difficult (89th).

With regard to weaknesses, similar to Botswana, health indicators are extremely worrisome, including infant mortality (94th), life expectancy (54 years, placing the country108th) and high prevalence rates of malaria, tuberculosis and HIV. Further, educational attainment rates are extremely low, with primary, secondary and tertiary enrolment rates placing the country 106th, 98th and 102nd respectively. The quality of the educational system is assessed as being among the worst of all countries assessed, ranked 122nd overall. On a positive note, companies are making up for this weakness by providing some on the job training to staff (65th).

Namibia's labor markets are not very flexible or efficient, with stringent hiring and firing practices (96th), friction in labor-employer relations (105th), and little relation between pay and productivity. On a positive note, the brain drain from the country (55th) does not seem to be as severe as in many other countries in the region. Goods markets suffer from a number of distortions, such as a long time required for starting a business (95 days, placing the country 113th) and high agricultural policy costs (97th).

Finally, the country could do more to harness new technologies to improve its productivity levels. Companies are not considered sufficiently aggressive in absorbing new technologies (92rd) and Namibia has low penetration rates of new technologies such as cell phones and the Internet.

The Africa Competitiveness Report 2007 is an invaluable tool for policymakers, business strategists, and other key stakeholders, as well as essential reading for all those with an interest in the region, says Ondiege.