Rolling machine for roof sheets, Kampala, Uganda

ANNEX 2

Country transformation profiles

Annex 2 provides a short profile of economic transformation in each of the ACET 15 countries.

Much of each profile is based on case studies by think tanks or experts in each country, supervised by ACET. The "transformation platform" assesses the institutional context for promoting economic transformation. It reviews state capacity to guide and manage the economy in a way that promotes transformation, including a favorable environment for business and the effectiveness of state-private sector collaboration.

The "transformation prospects" flag low-hanging fruits that—with policy attention to remove specific constraints and to support the private sector—could be scaled up as exports, new exports, or competitive import substitutes.

The growth with depth boxes elaborate the results from the transformation indexes. A figure compares each country's transformation and depth scores with the average scores for the ACET 15 countries. The results are ACET calculations using comparable data from international sources, and the average annual GDP growth rates are calculated as point-to-point compound (exponential) rates.

We hope the profiles will focus discussions of African economic policies squarely on economic transformation.

Contents

Botswana—Ambitions to diversify

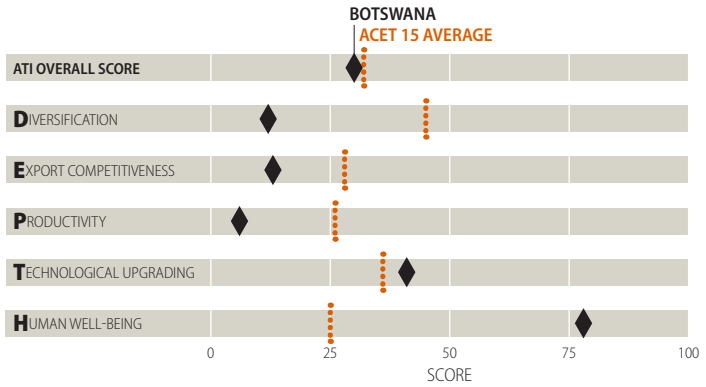
With strong institutions, a flourishing democracy, and noted for prudent management of its diamond revenues, small, landlocked Botswana has achieved impressive economic growth. From one of the poorest countries in Africa in the 1960s, Botswana, through good management of its diamond mining and exports, has progressed to become an upper middle-income country, with an average GDP per capita during 2009–11 of more than $12,000 (PPP 2005 US$). Real GDP per capita in 2010 was more than eight times what it was in 1971—an achievement unequaled on the continent, with only Mauritius coming close. But most of the impressive growth was between 1970 and 1990; since then growth has significantly faltered.

Botswana has not been able to leverage its high income from diamonds to transform the economy, despite the impressive growth. The export base remains narrow. Diamonds account for more than 70% of total exports, followed by copper, nickel matte, textiles, and beef products (in that order). With growth slowing in the past two decades, pursuing transformation while the diamond income lasts should be a foremost concern of policymakers.

Transformation platform

Botswana's political stability has provided continuity for the government to develop policies and programs and build strong institutions that can ensure effective implementation. Recognizing its reliance on a few nonrenewable resources and the mining industry's weak labor absorptive capacity and weak links with the rest of the economy, Botswana has recently embarked on ambitious initiatives to diversify its economy, including diamond polishing. But these initiatives have yet to produce sustainable, productive, and competitive sectors that would ensure future growth. Its transformation will demand not just creative and vigorous diversification, but also deeper partnerships with the private sector and stronger foundations for competitiveness, mostly in developing the skills and knowledge capabilities of the workforce. Despite its favorable rankings on human well-being, expansions in education and health, infrastructure, and other welfare-enhancing programs that target vulnerable groups would strengthen the country's transformation effort.

Botswana's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Transformation prospects

Sectors that can boost transformation include services, manufacturing, and tourism. Very important in current diversification initiatives are the six hubs for diamonds, transportation, agriculture, health, education, and innovation—identified in *Vision 2016* and coordinated by the National Strategy Office.

Tin products are the fastest growing export. Botswana has a high revealed comparative advantage in pearls and precious and semiprecious stones, unworked and worked ores and concentrates of base metals, and meat and edible meat offal, fresh, chilled, or frozen. Other areas with good prospects for boosting exports include financial services, mining and minerals value addition, glass manufacturing, health services, ICT and data processing, tourism, and manufacturing.

In addition to the recent initiative to upgrade part of diamond exports into polished stones, diversification priorities could focus in the short to medium term on garments and textiles, packaging food and beverages, packaging materials, leather, ceramics, jewelry, tourism, and financial services. Attention will need to be paid to improving transportation and power generation, including solar power in rural areas.

Botswana's growth with depth

- ***Transformation—10th of 21.*** Botswana moved from 5th in 2000 (1999–2001) to 10th in 2010 (2009–11) on the overall transformation ranking. The overall ranking is not as high as its GDP per capita ranking due to the economy's lack of diversity, low productivity (in manufacturing and agriculture), and low level of formal employment, compared with other relatively high GDP per capita countries such as Mauritius and South Africa. The drop in rank between 2000 and 2010 mainly reflects a loss of export competitiveness (in nonextractives).

- ***Growth.*** GDP growth averaged an impressive 11.7% a year from 1971 to 1980, followed by another decade of high growth in 1981 to 1990, when the growth rate averaged 9.5%. GDP per capita grew robustly over those two decades at 8.4% and 6.5%, respectively. Since then growth has significantly slowed, averaging 4.8% in 1991–2000 and 3.7% in 2001–10, with corresponding per capita growth of 2.7% and 2.5%. Much of Botswana's growth has come from mining and exporting diamonds.

- ***Diversification—20th.*** Botswana was 20th of the 21 countries on diversification in 2010, a slight deterioration from its 19th position in 2000. The share of manufacturing in GDP stayed around 4%, the share of the top five exports dropped from 92% to 86% (an improvement), and the share of manufactures and services in exports fell from 24% to 18%.

- ***Export competitiveness—17th.*** Botswana's export competitiveness deteriorated markedly over the decade, falling from 9th in 2000 to 17th in 2010. Export competitiveness is measured as the share of a country's exports of goods and services in GDP divided by the corresponding share for the world, with extractives (including raw diamond exports) excluded (as explained in chapter 1 and in annex 1). This ratio fell from 1.35 in 1999–2001 to 0.44 in 2009–11. This means, from being able to export about 35% more of its nonextractive GDP than the world average in 1999–2001, Botswana was exporting less than half the world average by 2009–11.

- ***Productivity—21st.*** Manufacturing value added per worker (in 2005 US$) rose from $10,638 in 2000 to $12,887 in 2010, and agricultural productivity (cereal yield) rose from 303 kilograms per hectare to 375. The levels in both manufacturing and agriculture are so low relative to other African countries that Botswana comes at the bottom of the productivity index in 2010. It ranked 20th in 2000.

- ***Technology—5th.*** Botswana does relatively well on technology, ranking 5th in 2010, up from 6th in 2000. Botswana's rank is largely attributable to the level of technology in production but not in exports.

- ***Human well-being—2nd.*** Botswana's average GDP per capita was around $12,462 (PPP 2005 US$) during 2009–11—up from $9,470 a decade earlier. Although Botswana's per capita GDP was higher, it came 2nd to Mauritius on the human well-being index because of its lower level of formal employment.

Burkina Faso—Reducing the costs of being landlocked

Burkina Faso's economy grew slowly with high volatility during 1971–2000—then growth nudged up and volatility abated. Services dominate in contributions to GDP followed by agriculture and manufacturing, which has stagnated for most of the past four decades. The share of manufacturing in GDP in 2010 (average of 2009–11) is now around 7%, and in exports of goods and services about 3%. Resource-based exports have expanded since 2005 when the gold mining boom started. Revenues from gold exports, if properly managed, could help diversify the economy, which remains highly dependent on unprocessed agricultural and resource-based products.

The economy grew 10.0% in 2012, up from 4.2% in 2011 and an average of 5.1% in the 2000s. But growth has not translated into more jobs, especially for youth, and lower poverty rates. In 2007 youth unemployment was estimated at 29.4% for 15–24 year olds and at 21.4% for 25–29 year olds. Roughly 85% of employment is in agriculture. Poverty fell from 71% in 1994 to 45% in 2009 (share of population living on less than $1.25 a day), and the Gini index of inequality from 51 to 40.

Transformation platform

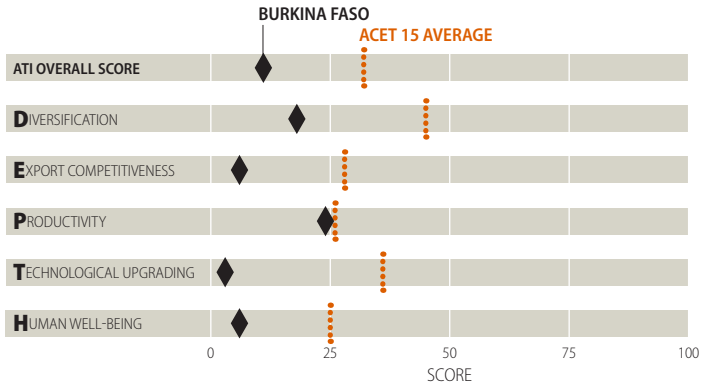
Democratic elections returned in 1991, and the ruling party has won all presidential and parliamentary elections since then. But there has been some social and political unrest, especially in 2008–11. Technical capacity in the public service is good, with 21% of the public sector employees holding a bachelor's degree or higher and 56% holding a high school diploma or higher. And most employees are recruited through examinations.

The review of implementation of the national growth and development strategy shows good results for public finance—87% of measures met in 2012 compared with 37% in 2011—but only 57% of measures were met for sustained and inclusive growth in 2012 compared with 64% in 2011. The fight against corruption has also shown mixed results in recent years, and the recurrent social unrest (food riots, trade unions, demonstrations) and cabinet reshuffles challenge the state's capacity to implement and manage transformation.

The business climate improved, with the country's ranking on the Doing Business Index going from 171st of 175 countries in 2005 to 163rd in 2006 and from 154th of 183 countries in 2010 to 151st in 2011. Burkina Faso was among the top five most improved economies for the five-year (2006–11) cumulative change on the Doing Business Index, with the areas improved being hiring workers, paying taxes, registering property, and dealing with construction permits.

In global competitiveness Burkina Faso ranked among the bottom 10 countries in 2010–11, at 134th of 139 countries. The most challenging areas include infrastructure, health, primary education, higher education and training, and business sophistication. Burkina Faso has shown a commitment to making the private sector the driving force of economic development. For more than 15 years the public authorities have set up a dialogue mechanism between the private and public sectors, which includes annual meetings between the government and the private sector. But challenges remain including the poorly skilled labor force, the lack of business sophistication, and credit constraints.

Burkina Faso's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Transformation prospects

The most promising products for Burkina Faso's exports include:

- *Cotton.* Burkina Faso's world market share for cotton has increased from 0.9% in 1980 to 3.2% in 2009, its revealed comparative advantage in cotton was 466.42 in 2009, and the country is

Burkina Faso's growth with depth

- ***Transformation—21st of 21.*** Burkina Faso ranked last among the 21 countries on the overall transformation index in 2010 (2009–11), having dropped from 17th in 2000 (1999–2001) and losing ground to Ethiopia, Nigeria, Burundi, and Rwanda.
- ***Growth.*** Burkina's GDP grew at 4.4% a year from 1971 to 2010, yielding a GDP per capita growth of 1.8% a year. But growth has been extremely volatile. Since 2001 growth has picked up—5.1% for GDP and 2.5% for GDP per capita. Volatility in growth has abated but is still evident.
- ***Diversification—18th.*** The share of manufacturing in GDP dropped from 12% in 2000 to 7% in 2010, and the share of manufacturing and services in total exports fell from 27% to 18%. The top five exports made up 79% of total exports of goods and services during 2009–11 (but export concentration is rising with the expansion of gold exports). The composition of the top 10 export products did not vary much over the decade except for the occasional product that enters the list one year and drops out the next.
- ***Export competitiveness—20th.*** Burkina Faso ranked 18th in 2000 but dropped to 20th in 2010, losing ground to Rwanda and Nigeria.
- ***Productivity—9th.*** Burkina Faso ranked 9th on productivity in both 2000 and 2010, though levels of manufacturing value added per worker and cereal yields went down.
- ***Technology—21st.*** Burkina Faso's rank on technology dropped from 17th in 2000 to 21st in 2010, indicating that production in the economy remains at low levels of technology.
- ***Human well-being—18th.*** GDP per capita (PPP 2005 US$) was $1,124 in 2010, up from $867 in 2000. Burkina Faso's human well-being score improved slightly from 20th to 18th over the two periods.

the top Sub-Saharan cotton producer. If productivity improves, there are opportunities to capture more value by moving up the value chain (animal feed, cooking oil, biogas, medical and hygiene products, and textiles).

- *Food products from animals*. Given the large livestock herds and poultry flocks, industrial production of meat, milk, and butter could be promoted. Indeed, livestock has consistently been among the top 10 exports in the past decade.
- *Agricultural food products*. Large-scale production and packaging of agricultural products can be envisaged for tomatoes, French beans, Shea nut butter, and mangoes.

To transform the economy, policymakers need to work on reducing the costs imposed by being landlocked, one of the major constraints on the country's competitiveness. Indeed, investment in infrastructure needs to be stepped up and sustained to bring transport costs down and increase trade with countries in the region and beyond. A strategic investment policy involving airports, roads, railways, and storage facilities is needed. Reliable and affordable energy is also critical.

Other measures to promote economic transformation include attracting more private investment, both foreign and domestic, promoting financial sector development, investing in skills development through state-private sector partnerships, and improving the quality of exported products to meet the requirements of foreign markets. Reinforcing the capacity of the technical secretariat of the national growth and development plan to coordinate the implementation of the needed reforms will be crucial for starting and sustaining transformation.

Cameroon—Manufacturing expansion but income stagnation

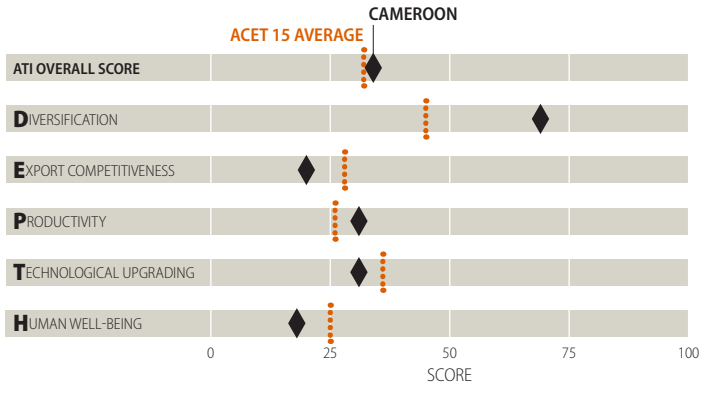
Cameroon's rise in the share of manufacturing, which should be good for transformation, did not lead to a rise in GDP per capita. Manufacturing's share rose from around 14% of GDP in the early 1980s to around 18–19% from the end of the 1980s to the mid-2000s, before falling to 16–17% by the end of the 2000s. But GDP per capita (PPP 2005 US$) hardly changed from 1980 to 2010—it averaged $2,098 in 1979–81 and $2,052 in 2009–11, a clear reminder that there is more to economic transformation than just building up manufacturing.

But the country has many of the ingredients to transform its economy—agricultural resources (bananas, cocoa, coffee, cotton, honey, livestock), forestry products, minerals (bauxite, iron, cobalt, nickel, manganese, diamond), and crude petroleum (which has accounted for more than 40% of exports in most of the 2000s). It is also second to Democratic Republic of Congo in Africa in water resources. Crude oil and dried and roasted cocoa beans dominate exports.

Most Cameroonians operate their economic activities in the informal sector. And as for most Sub-Saharan countries the true size of the sector is unknown. There are no reliable statistics on the labor force. The National Institute of Statistics estimates unemployment at 4.4% in 2005 (against 7.2% for 2001), but this is not believed to reflect severe underemployment.

The incidence of poverty remains high, currently at 39% but down from 53% in 1996 and 40% in 2001. Extreme poverty (share of population living on less than $1.25 a day) declined from 25% in 1996 to 10% in 2007, and the Gini index of inequality from 41 in 1996 to 39 in 2007. Health problems persist, and life expectancy remains low. In 2006–11 the risk of infant mortality was estimated at 62 deaths for 1,000 live births. Generally, the risk of death before the age of five is 12.5%.

Cameroon's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Transformation platform

Politically stable, Cameroon ranked 34th of 134 countries on the Global Competitiveness Index in 2009 in political and macroeconomic stability. The ruling Democratic Rally of the Cameroon People has dominated Cameroonian politics and controlled the government since independence.

Budget management is a challenge. Although a functional budget nomenclature exists, it is not used in budget implementation. Moreover, the lack of an operational medium term expenditure framework is likely a major reason why Cameroon is unable to reach the goals set in its Poverty Reduction Strategy Paper.

The business climate has improved somewhat since 2000, but Cameroon ranked 161st of 183 countries on the overall Doing Business Index in 2012. Cameroon's best ranking was on electricity (66th), but it ranked very unfavorably (below 130th) on enforcing contracts, paying taxes, trading across borders, registering property, and resolving insolvency. On the overall Global Competitiveness Index in 2011–12, Cameroon ranked 116th of 142 countries, 114th on basic requirements of doing business, 101st on innovation and business sophistication, and 120th on efficiency enhancers. The poor quality of health and infrastructure as well as the low levels of secondary and tertiary education are seen to be major contributors to Cameroon's lack of competitiveness.

Constraining private sector development are corruption, poor quality infrastructure, arbitrary judicial system, unfavorable income tax system, and limited financial services. In 2010 Cameroon made some progress on the indicators of

Cameroon's growth with depth

- ***Transformation—8th of 21.*** Cameroon ranked 8th on the overall economic transformation index in 2010, after dropping from 6th in 2000, losing ground to Kenya and Uganda.
- ***Growth.*** Average GDP growth was 3.5% a year from 1971 to 2010. It was high and volatile in the first 20 years, averaging 4.6% a year, –1.1% a year from 1991 to 1995, and a stagnant 3.4% a year from 1996 to 2010. Real GDP per capita was essentially flat from 1980 to 2010.
- ***Diversification—4th.*** Cameroon's rank on diversification improved from 5th in 2000 to 4th in 2010. The share of manufacturing and services in exports of goods and services rose from 26% in 2000 to 32% in 2010. In 2010 the top 5 exports made up 77% of total merchandise exports (crude petroleum, cocoa, refined petroleum product, and rough wood and other wood), and the top 10, 89%.
- ***Export competitiveness—15th.*** Cameroon's rank fell from 11th in 2000 to 15th in 2010, losing ground to Ethiopia, Gabon, Mozambique, and Tanzania.
- ***Productivity—8th.*** Manufacturing value added per worker was $50,489 in 2001 after a sharp increase from $43,856 in 1999. Cereal yields averaged 1,704 kilograms per hectare in the 2000s, up from 851 kilograms in the 1970s.
- ***Technology—9th.*** Cameroon ranked 13th on the level of technology in 2000, but gained on Ethiopia, Mauritius, and Mozambique to reach 9th in 2010. The share of medium and high technology in exports grew from 1.6% in 1999 to 15.2% in 2010.
- ***Human well-being—6th.*** Cameroon's average GDP per capita (PPP 2005 US$) over 2009–11 was $2,052, up from $1,855 over 1999–2001. Its rank on human well-being improved marginally from 7th to 6th over the two periods.

starting a business, reducing time (19 days instead of 34), number of procedures (6 instead of 12), and fixed costs (70%), thanks to pilot centers that facilitate the process of firm creation. Cameroon has set the goal of becoming an emerging country by 2035. Cameroon *Vision 2035* is part of the Growth and Employment Strategy Paper, which sees higher investment and greater participation of the private sector as prerequisites for transformation.

A National Competitiveness Committee has been created to tackle problems constraining the ability to export, including inadequate basic infrastructure, weak governance, low capacity, and hostility toward the private sector.

Transformation prospects

Increasing production in the agricultural, forest, and extractive sectors, all high-growth potential areas, is a major challenge for Cameroon but essential for diversifying its oil-dominated exports. Tourism also offers opportunities to bring rapid economic growth and could be an opportunity to diversify exports since, as part of the Congo Basin, Cameroon is endowed with rich cultural and ecological diversity.

Measures to expand agricultural production and productivity and promote agricultural products with high-growth potential should include making land, water, and agricultural inputs (particularly fertilizers and seeds) more easily accessible; promoting access to technological innovation; improving access to markets through better organized domestic market channels and neighboring export markets; and investing in transportation and communication infrastructures (road, rail, sea, air, telecommunication) in agricultural production areas.

Ethiopia—Rapid recovery and big transformation plans

A centralized economic system that discouraged private sector growth and a prolonged civil war were the main causes of Ethiopia's dismal growth in the 1980s and 1990s. But growth has been impressive since 2000, powered not by the extraction of natural resources and higher commodity prices, but largely by government attention to economic transformation, a change in policy direction toward welcoming the private sector, support to agriculture and export promotion, rapid expansion in public investment that likely attracted private investment and capital inflows, and debt relief.

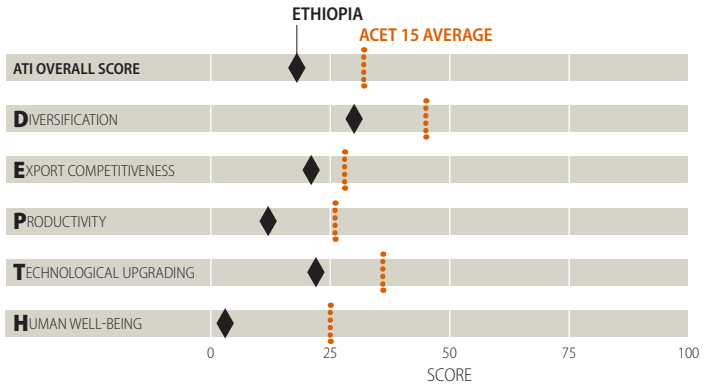
Agriculture remains important, but its contribution to output fell from 58% in 1980–81 to 46% in 2010–12. The share of services rose from 31% to 43%. Industry's share in GDP was 10.5% in 2010–12 and manufacturing's about 3.6%, about 90% of which is low technology. Wholesale and retail trade, real estate and renting, and other business support activities have dominated Ethiopia's services sector since the economic policy reforms of the 1990s.

The top exports are primary products, and the five largest constitute almost three-quarters of export revenues. Manufacturing value added per worker has increased since the 1990s, particularly in textiles. Policy reforms of the 1990s—reducing tariffs, eliminating export taxes, providing new investment incentives, and improving global market access—have encouraged restructuring in textiles and in light manufacturing, especially in leather and leather products (shoes). Overall export growth is estimated at about 10% a year between 2000 and 2011 by volume.

Transformation platform

To speed economic transformation, Ethiopia launched a five-year Growth and Transformation Plan for 2010–15, aiming to build implementation capacity, including a Civil Service Reform Program as one of its pillars. The Plan aims to establish mechanisms to maximize the benefits of foreign aid in the areas of agriculture, food security, social services (education, health), and physical infrastructure (roads, water, power).

Ethiopia's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

The government is addressing weakness in tax administration, especially in registration, collection, assessment, audit, and enforcement. It is targeting an increase in taxes from 8% of GDP in 2010 to 16% by 2015 and in the tax financing of spending from 53% to 87%.

Implementing the Growth and Transformation Plan requires coordination among public agencies, development partners, and civil society organizations. The executive bodies are expected to establish strong networks with regional and local executive bodies to ensure that information flows smoothly at the national level. The National Strategy for the Development of Statistics for 2010–14 aims to strengthen statistical capacity and tackle both human and infrastructure gaps.

The Ethiopian Chamber of Commerce and Sectoral Associations, the Ministry of Trade, and the Ethiopian Investment Agency each have an agenda to foster public-private collaboration. The ministry has a public-private sector forum on trade and related issues. The investment agency has initiated several joint public-private meetings to promote public-private investment partnerships as part of its five-year investment plan, with the Ethiopian Chamber of Commerce acting as a bridge between the public and private sectors.

Recent public-private dialogues reveal optimism about the prospects for economic transformation. But they also uncover some concerns. For example, shoe manufacturers are concerned about the weak links in the value chain between leather and shoe manufacturing. Tanneries prefer to sell semiprocessed leather in export markets rather than leather to local shoemakers, creating a shortage of raw materials and leading to escalating prices of hides and skins for

Ethiopia's growth with depth

- ***Transformation—17th of 21.*** Overall transformation remains limited, with the country improving only marginally from its 18th place in 2000 (1999–2001) to 17th in 2010 (2009–11).
- ***Growth.*** Real GDP grew 1.9% a year in 1981–90, 3.5% in 1991–2000, and 7.3% in 2001–10, while real GDP per capita grew –1.0% a year, 0.8%, and 5.3%.
- ***Diversification—15th.*** Ethiopia improved its rank on diversification from 17th in 2000 to 15th in 2010. It progressed on export commodity diversification, as the share of the top five commodity exports fell from around 90% in earlier decades to 77% in the 2000s. But the share of manufacturing and services in exports fell from 54% of GDP in the 1980s to 49% in the 2000s, which is still high. The bulk comes from services, including from the operations of Ethiopian Airways, tourism, and real estate.
- ***Export competitiveness—13th.*** Ethiopia improved its export competitiveness rank from 14th in 2000 to 13th in 2010 as the share of exports in GDP almost doubled from 7% to 13% and as its relative export intensity of production (the export-to-GDP ratio relative to that of the world) rose from an average of 0.34 in the 1980s to 0.46 in the 2000s. The export volume (value) index increased from 2000 to 2011 by 112% (438%), reflecting rising export competitiveness especially of coffee, oilseeds, chat, flowers, and leather and leather products.
- ***Productivity—20th.*** Productivity of workers in manufacturing rose from $4,469 in 2000 (in 2005 US$) to $5,876 in 2010. Similarly, cereal yields rose from 1,146 kilograms per hectare to 1,699 over the period, reflecting in part the government's fertilizer and technology push since 2000. Even so, Ethiopia fell one notch on the productivity ranking from 19th to 20th.
- ***Technology—12th.*** The share of medium and high technology in exports jumped from 0.25% in 2000 to 3.91% in 2010, while that in production stayed between 14% and 15% over the period. Ethiopia ranked 12th in 2010, a two-step improvement from that in 2000.
- ***Human well-being—20th.*** Despite recent improvements, the levels of GDP per capita and of formal employment in Ethiopia remain very low. GDP per capita shrank from $600 (PPP 2005 US$) in 1981 to and average of $531 in 1999–2001, before rising to an average of $921 in 2009–11.

manufacturers. The depth and consistency of government support to the private sector needs to increase. Uncertain government policy drives investors away from higher risk investments in manufacturing and into low-risk ventures in services. Many regulations are inconsistently enforced.

Transformation prospects

Ethiopia's ambitious Growth and Transformation Plan envisions maintaining real GDP growth of 11% and building an economy with modern, productive, and technologically enhanced agricultural and industrial sectors. Key export products slated for attention are flowers, coffee, meat, oilseeds, pulses, and horticultural products in the agricultural sector and sugar, textiles and garments, and leather and leather products in the industrial sector. The plan also sets ambitious targets for infrastructure and social development. Other key sectors are pharmaceuticals and medical supplies and basic metals and engineering products.

Going forward, Ethiopia can focus first on processing resources for which it has a comparative advantage and then gradually stepping up to higher value products and increasing its participation in regional free-trade areas and in preferential trade agreements, such as the Common Market for Eastern and Southern Africa.

Ethiopia's most promising products for export or import substitution are coffee, flowers, leather and leather products, textiles and garments, metal and engineering products (mainly for import substitution), and pharmaceuticals and medical supplies. Other products with clear potential advantage include oilseeds, live animals, meat and meat products, assembly plants, and electronics.

Ghana—Punching below its weight

After a severe collapse in the 1970s, Ghana began a recovery in the late 1980s that accelerated in the 2000s, generating optimism in the country's capacity to realize its economic potential. Buoyed by high commodity prices and now by oil production, the economy grew from its average of 5.3% in the 2000s to 14% in 2011 and is projected to grow at about 8% in 2013–14, carried largely by extractives and high global commodity prices.

Sustained output growth has not been matched by employment growth. Total employment increased 3.5% a year on average between 2000 and 2010 (with most of the new jobs in the informal sector). With only about 24% of the labor force in the formal sector, informal employment dominates. Youth unemployment doubled from 6.6% in 2006 to 12.9% in 2012. Extreme poverty has come down from 52% in 1992 to 29% in 2005–06 and further to 24% in 2012, according to World Bank simulations, but the Gini index of inequality rose from 36 in 1990 to 43 in 2005.

Ghana's economy remains stuck in extractives and primary products, with the share of manufacturing falling despite the recovery in growth, and agriculture is still based on traditional methods. The new production of oil and gas provides additional fiscal space and opportunities to promote economic transformation; whether the potential is realized will depend on national economic management.

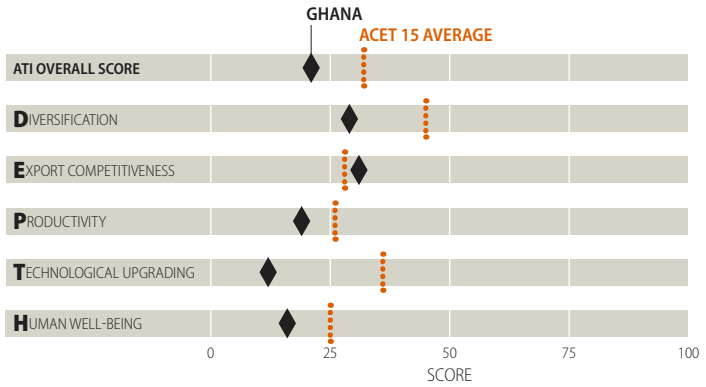
Transformation platform

The technical capacity of Ghana's once experienced and well trained civil service has diminished, with some ministries having to rely on the services of outside specialists and professionals to execute their mandates. The National Development Planning Commission has not become the focal point for economic transformation because its programs are often driven by short-term political manifestos. State capacity is notably weak in public financial management and resource mobilization and in enforcing transparency and accountability. Fiscal deficits remain high. Rising public debt (up from 30% of GDP in 2007 to nearly 50% in 2012), energy subsidies, and a high public sector wage bill threaten macroeconomic stability. Inflation has moved into double digits, as have interest rates, pushing up the cost of credit.

But the business climate has improved considerably since 2000. Ghana's rank of 63rd of 183 countries on the 2012 Doing Business Index places it in the middle among comparator countries, outperforming Indonesia and Brazil but falling short of Malaysia, Thailand, and Korea. Ghana ranked favorably on registering property, getting credit, protecting investor, and enforcing contracts, but unfavorably on starting a business, dealing with permits, trading across borders, and resolving insolvency.

Ghana ranked 114th of 142 countries on the 2011–12 Global Competitiveness Index, 122nd on the basic requirement of doing business, 98th on innovation and business sophistication, and 92nd on efficiency enhancers. Despite recent initiatives to develop private sector development strategies, formal business-government consultations—in developing policy frameworks, identifying growth opportunities, and tackling internal constraints to the private sector—are sporadic.

Ghana's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Transformation prospects

Ghana's comparative advantage in export products is strongest in cocoa and gold and strong in seeds and fruits, wood products, palm products, aluminum products, fish, crustaceans, mollusks, tourism, and, to some extent, horticulture.

- Cocoa offers opportunities to increase export earnings by improving yields and moving up the value chain into intermediate

Ghana's growth with depth

- ***Transformation—16th of 21.*** Ghana's recent experience since 2000 shows that rapid growth does not in itself translate into structural transformation. The country ranked 9th on the economic transformation index in 2000 (1999–2001) and dropped to 16th in 2010 (2009–11).

- ***Growth.*** Average GDP growth was barely 1% a year from 1971 to 1990, resulting in falling GDP per capita of around –1.5% a year. Real GDP per capita in 1990 was about 30% less than that in 1971. Growth recovered in the 1990s, with GDP rising at 3.7% a year from 1991 to 2000 and GDP per capita at 1.4% a year. From 2001 to 2010 average growth accelerated to 5.3% a year and per capita growth to 3.1%. (From 1971 to 2010 GDP per capita rose barely 20%—an average annual growth of around 0.45%).

- ***Diversification—17th.*** Ghana fell from 8th in 2000 to 17th in 2010 on economic diversification. The share of manufacturing in GDP in 2010 is low at 7%, well below the world average of 16% and the Sub-Saharan average of around 10%. Merchandise exports became more concentrated as the share of the top five products (cocoa, gold, wood, veneers and plywood, and fruit and nuts) in merchandise exports rose from 70% in 2000 to 85%. Further, the share of manufacturing and services in total exports almost halved between 2000 and 2010.

- ***Export competitiveness—7th.*** Ghana's rank deteriorated from 2nd in 2000 to 7th in 2010, losing ground to Côte d'Ivoire, Kenya, Malawi, Mozambique, and Tanzania. The export competitiveness ratio (the share of exports in GDP relative to the share for the world) plunged from 1.62 in 2000 to 0.72 in 2010—partly a statistical artifact, given Ghana's upward revaluation of its GDP by 60% in 2006.

- ***Productivity—12th.*** Ghana's rank fell from 11th in 2000 to 12th in 2010. Manufacturing value added per worker moved up from $14,910 (in 2005 US$) in 2000 to $20,162 in 2010. Productivity in agriculture, proxied by cereal yields, was at 1,689 kilograms per hectare in 2010 (above the Sub-Saharan average of around 1,500), up from 1,264 in 2000.

- ***Technology—20th.*** The manufacturing sector is small and at a low technological level. Ghana dropped from 11th in 2000 to 20th in 2010. The share of medium- and high-technology exports averaged just 2.3% in the 2000s.

- ***Human well-being—8th.*** GDP per capita (PPP 2005 US$) rose from $1,068 in 2000 (1999–2001) to $1,512 in 2010 (2009–11). Only about 24% of the labor force is in formal employment.

processing. But Ghana should first resolve whether to continue to export its raw cocoa beans or encourage domestic processing of its beans, and under what price and nonprice incentives.

- Other opportunities are in light manufacturing of wood, palm oil, and aluminum products. Both palm oil and wood have the potential for backward linkages and strong value addition prospects for regional and global markets.

- Ghana's horticultural exports, led by pineapples, yams, and bananas, can extend to mangoes, citrus fruits, melons, and avocados. If scientifically managed, emerging aquaculture could drive exports of fresh and frozen fish. Increased domestic production of rice, sugar, meat, and poultry is another food processing segment for the domestic and regional markets.

- Tourism and business travel can be further leveraged with better infrastructure and support services.

- There are also opportunities for harnessing gas to generate power, for developing ancillary oil and gas services, and for producing petrochemicals.

Kenya—A Silicon Savannah?

Kenya shows an uneven growth pattern, with periods of promising growth overshadowed by a combination of adverse external shocks, weak internal economic management, and political unrest in 2007. As a result per capita economic growth has been lackluster, and output and employment are not shifting from low-productivity areas to high-productivity areas. Per capita income in 2010 was essentially the same as in 1981, with only a modest 7.8% cumulative increase over three decades.

Despite the diminishing contribution of agricultural output, agricultural employment remains high, and there are few signs that workers are migrating into higher productivity areas. Agricultural output is now about a quarter of GDP, down from a third in 1980, yet agricultural employment is about 70% of total employment. Manufacturing output has stagnated at about 10% of GDP for decades and remains largely agro-based. The services sector, now the biggest contributor to GDP, remains highly informal and—except for the few large firms in finance, telecommunication, and ICTs—is dominated by a large number of low-productivity small firms.

Formal sector employment has grown at between 0.1% and 0.4% a year since the 1980s. The informal sector constitutes about 80% of employment. Between 2000 and 2001 the prospects of new graduates getting formal sector employment averaged about 1% and improved to 10% in 2008 and 14% in 2009. Youth unemployment is high—at around 24%.

Transformation platform

According to the 2011–12 Global Competitiveness Index, Kenya's strength lies in the more complex areas of innovation and sophistication in business. It ranked 73rd of 142 countries thanks to its maturing private sector, the degree of business sophistication, and innovative capacity. Kenya receives good assessments for its labor market efficiency (37th) and for its relatively well developed financial markets (26th).

The constraints that have slowed Kenya's transformation include institutional weaknesses, infrastructure gaps, and inadequate financing coupled with limited fiscal space in the government budget and low productivity of the public and private sectors. Overcoming these constraints is essential to providing a platform for economic transformation.

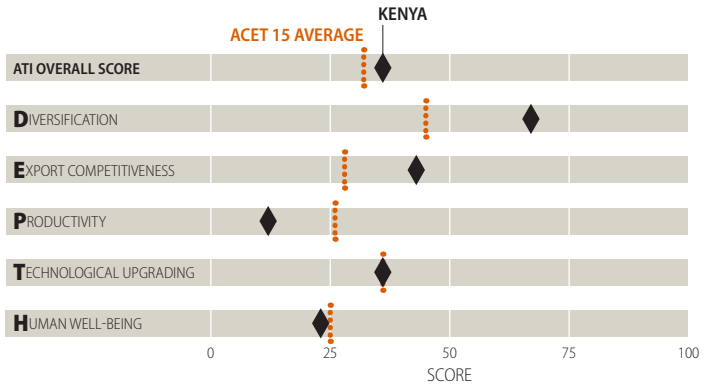
The 2010 Kenya Constitution and the Kenya *Vision 2030* are two important documents that contain critical measures for sustaining the economic transformation agenda. Implementation of the constitutional reforms and the Kenya *Vision 2030* plan is thus imperative for transformation.

Transformation prospects

Traditional high export earners include tea, coffee, and horticulture and resource-based products such as butter and ghee, pyrethrum extract, wattle extract, meat products, canned pineapples, and cement and petroleum products. Low-technology products include textiles, leather, footwear, and articles of plastics. Medium-technology products include metal containers, wire products, insecticides and fungicides, and screws and nuts. In the high-technology category there is potential to scale up the manufacture of medicinal and pharmaceutical products.

In transport Kenya can exploit its geographical position to serve the large hinterland. The financial sector, rated 26th of 142 countries on the 2011–12 Global Competitiveness Index, can make Kenya the financial hub for the region. The strong growth in the ICT sector (epitomized by the successful mobile telephone M-Pesa financial services platform), the development of the largest techno city in Africa (the Konza technolopolis), and the relatively high levels of education position Kenya as a

Kenya's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Kenya's growth with depth

- ***Transformation—6th of 21.*** Kenya improved its transformation rank from 8th in 2000 (1999–2001) to 6th in 2010 (2009–11), largely on the strength of its diversification, export competitiveness, and technological innovation, offset by weakness in productivity in manufacturing and agriculture.
- ***Growth.*** Kenya's rapid growth in the 1970s, averaging 5.7% a year from 1971 to 1980, dipped to 3.6% in 1981–90, collapsed to 1.7% in 1991–2000, and revived to 3.7% in 2001–10. Corresponding GDP per capita growth rates were 2.4%, 0.3%, –0.8% and 1.3%. GDP growth turned negative (–1.0%) in 2008 in the wake of the post-election violence at the end of 2007, but has since recovered, rising to an average of around 5.1% in 2010–12, and expected to average 6.0% in 2013–14.
- ***Diversification—6th.*** Manufacturing's share of GDP was 11.7% in 2000 and 11.8% in 2010 (down from an average of 14% in 1971–80). The share of the top five export products fell from 59% in 2000 to 46% in 2010 (an improvement), while the share of manufacturing and services in exports of goods and services also rose from 47% to 51%. These developments moved Kenya up one step in the diversification rank from 7th in 2000 to 6th in 2010.
- ***Export competitiveness—4th.*** The relative export intensity of production (the share of exports in GDP relative to the share for the world) fell from 0.96 in 2000 to 0.92 in 2010. But Kenya improved in rank from 9th to 4th due to greater falls in the ratio for some of the other countries.
- ***Productivity—18th.*** Kenya dropped from 15th in 2000 to 18th in 2010 on productivity. Manufacturing value added per worker rose from $7,826 (in 2005 US$) to $9,512 over the period, while cereal yields stagnated around 1,480 kilograms per hectare.
- ***Technology—7th.*** The share of medium and high technology in production fell from 21% in 2000 to 14.4% in 2010, while the share in exports rose from 6.4% to 12.4% resulting in Kenya's rank on technology falling from 6th to 7th.
- ***Human well-being—5th.*** Real GDP per capita (PPP 2005 US$) in 2010 was $1,479, up from $1,297 in 2000. Youth unemployment, at around 24%, is a serious challenge.

competitive ICT innovation and business process outsourcing hub providing high-value services such as software development, call centers, and medical transcription. Indeed, the country's ambition is to leverage these potential assets to make Kenya the "Silicon Savannah."

Regional integration arrangements offer further opportunities for economic transformation. Kenya is party to the East African Community and the Common Market for Eastern and Southern Africa regional integration agreements. The East African Community is now Kenya's leading destination for exports, accounting for about 26% of exports. The prospects for even faster growth of Kenya's exports to the East African Community are considerable because of the expected growth in Tanzania and Uganda from exploiting oil and other natural resources.

The Common Market for Eastern and Southern Africa region presents an opportunity to increase exports of manufactured goods. Most Kenyan exports to this region are manufactured rather than primary products, thus enhancing the diversification of Kenya's manufacturing base.

Mauritius—Steady growth but new challenges

The five pillars of Mauritius's growth are sugar, textiles, tourism and hospitality, and the more recent expanding sectors—financial services and ICT. Together with Botswana, Mauritius has had the most impressive growth in GDP per capita from 1971 to 2010. Starting with a growth rate of –0.6% a year in the 1970s, GDP per capita climbed rapidly to 5.1% a year in the 1980s when Mauritius embarked on its transformation from a mono-crop sugar exporter to a textiles and garments exporter. Its GDP per capita (PPP 2005 US$) more than tripled from 1981 to 2010. Only Botswana among the ACET 15 did better over the period. Mauritius owes its remarkable economic performance to sound economic governance, steady reforms to sustain long-term growth, a favorable business environment, effective state-business relations, and proactivity of the state in supporting transformation, including attracting foreign investors and gaining access to foreign markets.

Unlike Botswana, Mauritius has combined steady growth with diversification of production and exports. The share of manufacturing in GDP rose from an average of 19% in the 1970s to 25% in the 1980s, but has since fallen to 17% in 2011. Through an export-oriented development strategy, Mauritius developed the exports of textiles and garments and tourism to complement sugar exports. With the expiration of the Multi-Fibre Agreement and the advent of China in the global textile market, Mauritius is now refining its strategy to find other sources of export growth. Services contribute a rising share of GDP particularly from financial services, tourism, and hotels and restaurants.

Transformation platform

Mauritius's success in promoting sugar, export processing zones for textiles, tourism, real estate development, and offshore financial intermediation lies in its institutions, flexibility, and responsiveness. It boasts a stable democracy, a good legal system, respect for and protection of private property, macroeconomic discipline, good exchange rate management, and streamlined regulation.

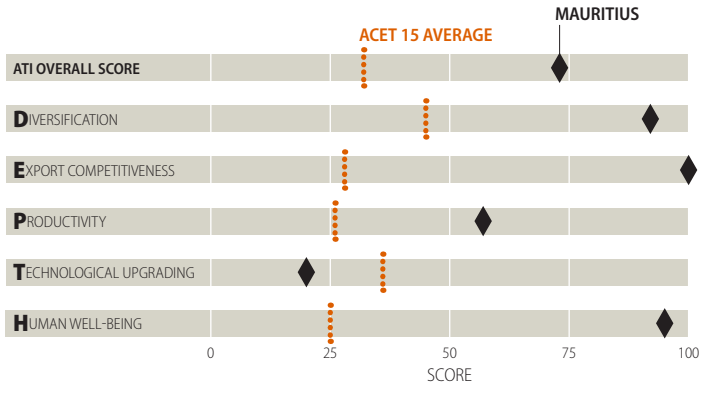
The Joint Economic Council, a coordinating body of the private sector, promotes the interests of business and shares business views on the government's development strategy. The consensus is that government is a facilitator and provider of an enabling environment for private enterprises. There also exists a formal mechanism of interaction through tripartite wage negotiations, the submission of memoranda for the national budget, and representation in public-private committees. Mauritius has various institutional advantages, not least a transparent and well defined investment code and legal system, and a competitive and efficient tax system. Companies and individuals pay a flat income tax rate of 15%.

Mauritius has been improving its position in international indexes for the rule of law, investment, and ease of doing business. The island is first in Sub-Sahara Africa on the rule of law index. It has made progress on the ease of doing business, ranking 19th of 183 countries on the 2012 Doing Business Index, first in Africa ahead of South Africa (34th) and Botswana (59th). It also ranks 14th worldwide on the ease of starting a business and on the strength of investor protection—and 12th on the ease of paying taxes.

Transformation prospects

Mauritius's economy so far has been dominated by the sugar sector, high-end tourism, and manufacturing of apparel. Three expanding sectors and potential growth boosters are financial services; tourism, hospitality, and property development; and ICTs and business process outsourcing.

Mauritius's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Mauritius's growth with depth

- ***Transformation—1st of 21.*** Mauritius has progressed from a "three pillar economy"—sugar, tourism, and textiles—into a modern strong economy revolving around agriculture, manufacturing, financial services, ICT, real estate, and hospitality. The country ranked 1st on the overall transformation index in both 2000 (1999–2001) and 2010 (2009–11).
- ***Growth.*** The promotion of textile and garment exports (in addition to sugar) through special economic zones and tourism powered Mauritius's GDP growth at 5.2% a year from 1981 to 2000, while GDP per capita grew at 4.3%, taking the level in 2000 to more than 2.3 times the level in 1981. From 2001 to 2010 growth slowed to an average of 3.4% a year, while GDP per capita rose at an average of 2.8% a year.
- ***Diversification—1st.*** Mauritius was again 1st in diversification in both periods. The share of manufacturing in GDP fell from 23% in 2000 to 18% in 2010, which is still much higher than the 10% average in Sub-Saharan Africa. The share of manufacturing and services in total exports is very high—87% in 2000 and 82% in 2010, while the top five exports make up 57% of exports—down from 70% in 2000.
- ***Export competitiveness—1st.*** On export competitiveness too (the share of exports in GDP relative the share for the world), Mauritius was 1st in both periods. The export competitiveness ratio, or the relative export intensity of production, was 1.85 in 2010. This was a fall from 2.90 in 2000, but still much higher than the comparator African countries.
- ***Productivity—2nd.*** Mauritius was 2nd on productivity in both periods. Manufacturing value added per worker rose from an average of $9,351 in 2000 to $15,307 in the 2010. Cereal yields are very high—7,002 kilograms per hectare in 2000 and 7,425 in 2010, compared with the Sub-Saharan average of around 1,500.
- ***Technology—14th.*** Mauritius's rank of 14th on technology in 2010 reflects the fact that a significant part of production and the bulk of exports are in garments, which are classified as low technology. The share of medium and high technology in both production and exports was around 8%. The rank of 14th in 2010 was a one-step improvement from 15th in 2000.
- ***Human well-being—1st.*** GDP per capita (PPP 2005 US$) was $12,289 in 2010, having risen from $8,774 in 2000. Though behind Gabon and Botswana in GDP per capita, Mauritius ranks 1st on human well-being in both periods due to its relatively higher level of formal employment for its labor force.

Financial services. Mauritius's financial center has international recognition as a safe and trusted jurisdiction. But there is need to move to the next stage in financial development. The offshore financial sector, though fairly well developed, is weakly integrated with the domestic economy. Recent measures to strengthen the anti–money laundering regime should mitigate vulnerability and reputational risks.

Tourism, hospitality, and property development. From 935,000 tourists in 2010, the government has set the ambitious goal of attracting 2 million tourists a year by 2025. Mauritius has always promoted high-end tourism, directed primarily at the high-spending European market. It is now moving beyond its traditional beach resort tourism into a broader phase of tourism development with hospitality and property development.

Hospitality encompasses hotels, leisure parks, green and medical tourism, restaurants, tour operators, training institutions, international conferences, and airline companies. Property development has the potential to attract a range of developers seeking cross-border opportunities. Major constraints include serious scarcity of beachfront sites for further hotel development and an ever-growing need for skilled manpower.

ICTs and business process outsourcing. Mauritius has progressed in network readiness with ICT prowess and leadership in Africa, displaying a first-class environment characterized by the ease for starting a business, a conducive regulatory environment for ICT development, favorable laws on ICT; and stiff competition among Internet and telephony providers.

Mozambique—Tapping great potential

After its independence in 1975 Mozambique went through 16 years of civil war (ending in 1992), followed by a period of poor economic performance before turning around in 1995. Mozambique has since attracted significant FDI to its "megaprojects," generating faster economic growth. The share of agriculture in GDP has fallen, but still contributes about a third of output. Manufacturing has maintained a slow upward trend thanks mainly to the megaprojects. And services have emerged as the largest sector.

Exports have increased in recent years but remain concentrated in a small number of products. In 2011 aluminum ingots, electric current, and fruits and nuts made up 60% of the country's exports. More recently Mozambique has become Africa's second largest exporter of coal, with plans to increase production and exports.

The economy has been highly dependent on aluminum exports (about 45% of total exports) and thus dependent on aluminum prices. Agriculture contributes slightly less than a third of total output and employs about 80% of labor force. Export performance has been impressive, as the share of exports in GDP doubled from 14% to 30%, raising the relative export intensity of production from 0.62 in the 1990s to 1.07 in the 2000s.

Mozambique's real GDP growth was 7.4% in 2012. The progressive increase in coal production and the implementation of large infrastructure projects are expected to drive growth above 8% in 2013 and 2014. But unemployment is still high, estimated at 19% of the economically active. Poverty and income inequality remain high. In 2008, the latest year with data, the $1.25 a day poverty rate was 60%, down from 81% in 1996, and the Gini index of inequality was 45.7, up from 44.5 in 1996.

Transformation platform

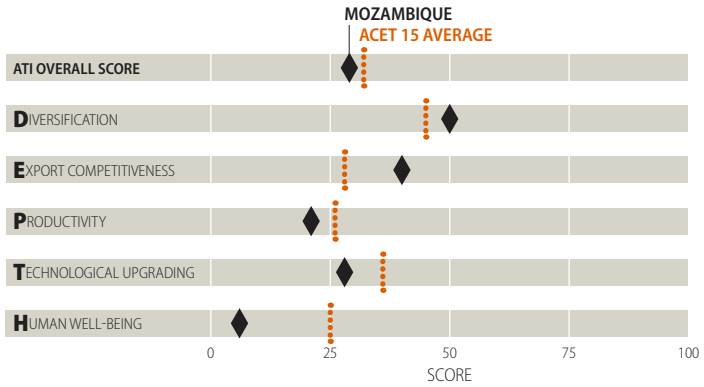
Since independence, Mozambique has suffered prolonged periods of instability. And since the signing of the 1992 Peace Agreement, Mozambique has held relatively peaceful elections (in 1994, 1999, 2005, and 2009), though the last one was marked by tension. Mozambique suffers from a deficit of technical capacity in the civil service, which limits the state's ability to design and implement adequate development and transformation strategies. It is estimated that only 9% of public servants have higher education, while 42% have basic education and 26% elementary.

Mozambique's economic planning is incremental. Donors play a large role in its design and implementation, and it suffers from weak internal demand for accountability (through parliament and civil society) to improve public finance management. But the government is improving the planning process to allocate resources based on priorities and outputs. It is also promoting the creation of higher education institutions to strengthen institutional capacity.

Mozambique's performance on the World Bank's Doing Business Index has been inconsistent and poor. In 2012 it was ranked 139th of 183 countries. But Mozambique is doing relatively well in protecting investors and starting a business. Global competitiveness is low, which does not favor private sector development. The country ranked 133rd of 142 countries on the 2011–12 Global Competitiveness Index. Weak institutions, poor infrastructure, and low educational levels are the main factors reducing competitiveness. Its institutions, infrastructure, financial markets, and technological readiness do not support a competitive economy. Mozambique also suffers from a weak macroeconomic environment.

The government has recently promoted private sector development. The Institute for Promotion of Small

Mozambique's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Mozambique's growth with depth

- ***Transformation—11th of 21.*** Mozambique's progress has been encouraging. It ranked 15th in 2000 (1999–2001) and improved to 11th in 2010 (2009–11), moving ahead of Ghana, Benin, Malawi, and Tanzania.
- ***Growth.*** GDP per capita growth has been impressive since the war ended in 1992. From 1993 to 2000 average GDP growth was 5.7%, with per capita growth at 3.1%. In 2001–10 GDP growth accelerated to an average of 6.4% a year, with a corresponding jump in per capita growth to 4.1%.
- ***Diversification—10th.*** Mozambique's rank on diversification in 2010 was the same as in 2000. The share of manufacturing in GDP in 2010 was 13.7%. The top 5 exports—aluminum, electric current, fruits and nuts, natural and manufactured gas, and unmanufactured tobacco—made up around 70% of merchandise exports and the top 10 about 89% in 2010. The share of manufacturing and services in total exports was 23% in 2010.
- ***Export competitiveness—5th.*** Mozambique's rank improved significantly, moving from 16th in 2000 to 5th 2010, mainly due to the expansion of electric power exports and the electric power–intensive exports from the megaprojects. Its competitiveness ratio, or the relative export intensity of production, rose from 0.61 in 2000 to 0.87 in 2010.
- ***Productivity—11th.*** Mozambique improved from 13th in 2000 to 11th in 2010. Manufacturing value added per worker (in 2005 US$) increased from $15,594 in 2000 to $34,102 in 2010, while productivity in agriculture, proxied by cereal yields, rose from 911 kilograms per hectare in 2000 to 1,042 in 2010.
- ***Technology—10th.*** Mozambique's technology rank remained unchanged from 2000. The share of medium and high technology in exports is low, at 4% in 2000 and 6% in 2010, while the share in production is around 16%.
- ***Human well-being—17th.*** Despite significant growth in per capita income in the 2000s, Mozambique's per capita income is very low—$824 in 2010 (PPP 2005 US$)—and so is the level of formal and nonvulnerable employment—around 12%. Mozambique's 17th rank on human well-being in 2010 was a drop from its 15th rank in 2000.

and Medium Sized Enterprises was created in 2008, and a new law for public-private partnerships was passed in 2011. The Mozambique Confederation of Economic Associations, a private umbrella organization of various economic associations, undertakes independent studies and reviews its member priorities.

Transformation prospects

Given its coastal location, abundant natural and mineral resources, and unexplored potential in agriculture, Mozambique can embark on a wide range of opportunities in agriculture, tourism, and extractive industries. It also has an advantage in maritime transport that can serve neighboring landlocked countries.

Cotton and cashew nuts have the most promise for expanding exports. Intensive in labor, the two crops can be major sources of income for the majority of rural population, and if linked to light manufacturing, their beneficial spillover effects could be considerably high.

Cotton farming involves more than 100,000 producers, 70% of them family-based enterprises. The companies operating in cotton production employ about 4,700 people. Adding textile and garment industries makes the scenario look even more promising in terms of economic transformation. Some estimates show that the textile industry could employ, with existing capacity, more than 15,000 workers, 20% of them at Textile of Mocuba.

The cashew subsector is not much different from the cotton subsector. Cashew growing involves around 1 million people, all in rural areas. The cashew industry employed 8,200 nonfarm workers in 2010.

Significant FDI flows have boosted manufacturing prospects. Megaprojects should link with the rest of the economy and create jobs. Providing farmers with affordable agricultural inputs and investing in infrastructure and skills should be high priorities for Mozambican policymakers.

Nigeria—Is the giant waking up?

Since the 2000s Nigeria has had overall growth in the range of 6.5–8.0% a year, reaching 7.3% in 2011–12. But that growth has not translated into a strong diversified economy. Oil, gas, and agricultural output continue to dominate GDP, contributing around 70% of total output, with oil alone accounting for more than a third of GDP. Oil rose from 58% of exports in 1970 to more than 90% in the 2000s.

Formal employment in Nigeria remains low. Manufacturing employment has been declining since the mid-1980s. Driven mainly by the liberalization of telecommunications and the banking sector in the late 1990s, employment in services experienced a major boom at the end of the 1990s and continued to rise for most of the 2000s.

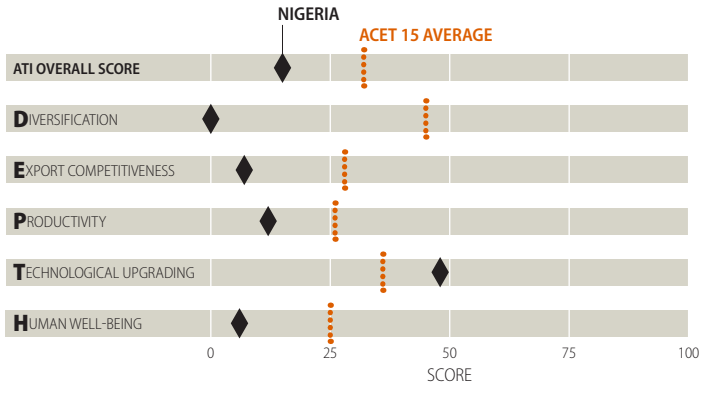
Nigeria's informal sector accounted for about 70% of total employment in 2010. Unemployment has been rising in the 2000s, reaching about 24% in 2011, up from 4% in 1986 and 13% in 2007. Youth unemployment remains a major challenge, more than doubling from 15% in 1986 to about 38% in 2011. Extreme poverty persists, at about 68% of the population in 2010 (share of population living on less than $1.25 a day).

Transformation platform

The return to democratic governance in 1999 strengthened the planning for growth and poverty reduction. Governments have since enacted laws and created institutions to strengthen institutional capacity for fighting corruption. The National Planning Commission and its three parastatal agencies—National Institute of Social and Economic Research, National Bureau of Statistics, and Center for Management Development—helped develop the *Vision 20:2020*.

External reserves rose from $4 billion in 1999 to $46 billion in 2010 after paying $12 billion to liquidate the external debt in 2005. But economic management remains challenged by weak implementation capacity.

Nigeria's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

The business climate has improved somewhat since the early 2000s. Nigeria was cited in the 2012 Doing Business report among the countries that make it easy to enforce contracts, get credit, and trade across borders. But its ranking of 133rd of 183 countries in the overall doing business ranking places it below comparator countries, slightly below Indonesia and Brazil but far below Malaysia, Thailand, Korea, and Chile. Nigeria ranked favorably on protecting investors, outperforming Vietnam, Brazil, and Korea, but unfavorably on registering property (180th) and getting electricity (176th).

Nigeria ranked 127th of 142 countries on the 2011–12 Global Competitiveness Index, 69th on innovation and business sophistication, and 80th on efficiency enhancers. The quantity and quality of health and primary education and infrastructure, as well as the macroeconomic environment, emerged as the primary reasons for Nigeria's weak overall global competitiveness.

One of the core strategies of Nigeria's *Vision 20:2020* is public-private partnership in investments, especially in core infrastructure (power, roads, ports) to generate employment opportunities. But the challenge is that in general the private sector remains relatively weak, mainly because a large part of it is the oil economy, which has been unable to link up with the rest of the economy and significantly contribute to structural change and transformation.

Transformation prospects

Nigeria's prospects for transformation built on the petroleum sector remain undiminished. In 2010 Nigeria ranked as the 10th largest global oil producer. Reserves at the end of 2007 (the latest estimate available) were about 36.2 billion

Nigeria's growth with depth

- ***Transformation—19th of 21.*** Nigeria ranked 19th on economic transformation in both 2000 (1999–2001) and 2010 (2009–11).
- ***Growth.*** Nigeria's economy grew sluggishly for 30 years—from 1971 to 2000—with average GDP growth at 2.4% a year and GDP per capita growth of –0.1%. But there has been a dramatic pick-up in growth since 2000. From 2001 to 2010 average GDP and GDP per capita growth jumped to 5.9% a year and to 4.0% a year. GDP growth reached 7.3% in 2010–12, and is projected to stay around that rate in 2013 and 2014.
- ***Diversification—21st.*** Nigeria's rank on diversification did not change from 2000. The share of manufacturing in GDP in 2000 and 2010 was very low at about 3%, well below even the Sub-Saharan average of around 10%. The share of manufacturing and services in exports moved up from 3.6% in 2000 to 6.2% in 2010. Commodity exports are very concentrated, with the top five exports in 2010 (crude petroleum, refined petroleum products, natural and manufactured gas, leather, and cocoa) making up around 94.3%—an improvement from 99.7% in 2000.
- ***Export competitiveness—18th.*** Nigeria's improved its rank on export competitiveness from 20th in 2000 to 18th in 2010. Its competitiveness ratio, or the relative export intensity of production, rose from 0.30 in 2000 to 0.33 in 2010.
- ***Productivity—19th.*** Nigeria ranked 18th in 2000 and 19th in 2010. Manufacturing value added per worker was $9,663 in 2010, more than doubling from $4,248 in 2000. Cereal yields were at 1,463 kilograms per hectare in 2010, up from 1,215 in 2000. But other countries achieved greater increases in productivity, thus the deterioration in Nigeria's rank.
- ***Technology—4th.*** Nigeria ranks high in technology—3rd in 2000 and 4th in 2010. The share of medium and high technology in manufacturing production is around 35%. But the share in exports is rather low—between 4% and 6%.
- ***Human well-being—16th.*** Nigeria retained its 16th rank in both periods. GDP per capita (PPP 2005 US$) rose from $1,459 in 2000 to $2,134 in 2010.

barrels, nearly 3% of the world total. Nigeria's growing policy focus on downstream forward linkages and local content is beginning to bear fruit. According to UNCTAD estimates, local content rose from 3–5% in the 1970s to 20% in 2004 and 39% in 2010, still below the planned target of 70% for 2010. There is considerable scope for improvements to strengthen links with the nonoil sector, as a source of employment and as a source of energy for both industrial and household uses.

Outside oil and gas, Nigeria's comparative advantage lies primarily in agriculture, especially cocoa, and in leather products, labor-intensive light manufacturing, and oil-related chemicals and pharmaceuticals.

Nigeria is the world's fourth largest producer and exporter of cocoa. The largest nonoil foreign exchange earner, cocoa generates directly or indirectly more than 2 million jobs. Nigeria can scale up the production and export of cocoa by improving productivity and moving into domestic processing of cocoa beans, as outlined in the *Vision 20:2020*.

Nigerian firms are expanding the use of improved leather tanning technologies, which should contribute to increasing exports from the sector. Like Ethiopia, Nigeria could gain further in job creation and foreign exchange earnings if it were to move up the value chain by expanding exports of processed leather and leather-based manufactures.

Chemical (refined oil, liquefied natural gas) and pharmaceuticals (over-the-counter drugs for export, mainly to the Economic Community of West African States region) are targeted as export industries in the *Vision 20:2020*. Nigeria should identify efficient ways to use natural gas for power generation.

Upgrading agricultural value chains and making a strong move into agribusiness would expand the manufacturing sector. So would strengthening local content policy by promoting private investment in backward and forward linkages.

Rwanda—Building a knowledge economy

Against the background of the destruction from the genocide and the postwar resource constraints, Rwanda is a case study of success in postconflict reconstruction. Invigorated by its leadership and the ability to guide national development, Rwanda has made great strides in improving the business environment. Private investment has risen since the introduction of a revised tax code and implementation of business reforms after 2005. Exports have increased, and export diversification is beginning in areas prioritized by government. Reflecting these developments, the country moved from last on the transformation index in 2000 to 18th in 2010.

Transformation platform

Elections are held at presidential, parliamentary, and local levels. Leaders are accountable to the electorate through performance contracts and annual progress reports. Although Rwanda has come a long way in reforming its civil service, low capacity results in high turnover, especially for mid-level positions, which adversely affects the continuity of government programs.

Government is working to strengthen the interaction and communication links between central and local government through consultative meetings and planning. Increased collaboration with development partners in harmonizing performance across sectors has improved the overall quality of the policy dialogue. Institutional capacity for planning and budgeting in the civil service in Rwanda is generally low due to the low human resource base. The National Institute of Statistics suffers from this weakness.

Rwanda moved up to 70th on the Global Competitiveness Index in 2012 (third in Sub-Saharan Africa after South Africa and Mauritius). Rwanda also improved its ranking from 143rd in 2009 to 67th on the World Bank's 2010 Doing Business report. Committed to sustainable economic growth coupled with job creation, Rwanda has made impressive progress in rehabilitating and stabilizing its economy.

Rwanda's *Vision 2020* aims to build a knowledge-based economy and to become a private sector–led middle-income country by 2020. The Economic Development and Poverty Reduction Strategy is the mid-term framework to implement the long-term development agenda. The Rwanda Development Board is a one-stop center for attracting FDI and increasing jobs in the different sectors of the economy). An annual leadership retreat addresses short-term priority issues aimed at private sector–led growth. And the Strategic Investments Plan boosts Rwanda's export growth through selected investments. Rwanda's private sector is small but growing, comprising family businesses, small and medium-size enterprises, and a few large companies and cooperatives.

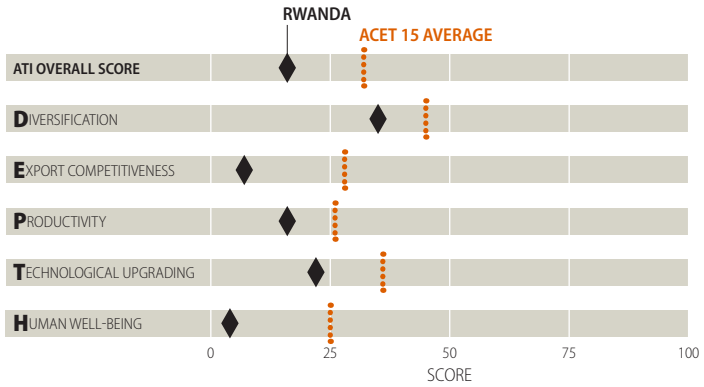
Transformation prospects

Falling transport and communication costs have fragmented much manufacturing production into trade in tasks. The opportunity to trade in tasks can simplify entry to international markets for industrial late-comers such as Rwanda, which no longer need vertically integrated industries to enter world trade.

Rwanda should thus take advantage of information technology-enabled shared services and business process outsourcing. It should also continue pursuing its long-term objective of positioning itself as a regional hub and a location that provides lower costs for high-value shared services. This will enable it to attract international companies in sectors such as banking to establish operations in Rwanda together with their service centers.

Rwanda's opportunities in manufacturing lie in silk textiles, fruits,

Rwanda's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Rwanda's growth with depth

- ***Transformation—18th of 21.*** Rwanda improved from last in 2000 (1999–2001) to 18th in 2010 (2009–11) on the overall economic transformation index.
- ***Growth.*** Average growth in GDP growth in the five years after the genocide—1996 to 2000—was 7.3% a year, but per capita growth was a low 0.6% a year, most likely reflecting the impact of returning refugees. From 2001 to 2010 GDP growth averaged 6.4% a year, and GDP per capita growth 4.2%. In the 15 years from the end of the genocide to 2010, Rwanda's GDP per capita rose by 63%.
- ***Diversification—13th.*** The share of manufacturing in GDP is low—falling from 7.2% in 2000 to 6.8% in 2010. But the share of the top five products in exports fell from 96% in 2000 to 79% in 2010, a very significant improvement in commodity export diversification. The share of manufacturing and services in exports rose from 32% to 50% over the period—again, a significant movement on export diversification. Reflecting these movements, Rwanda's rank on diversification improved from 18th to 13th.
- ***Export competitiveness—13th.*** Rwanda's export competitiveness rank remained unchanged as its relative export intensity of production moved only from a low 0.32 in 2000 to 0.33 in 2010.
- ***Productivity—16th.*** Rwanda moved from last on productivity in 2000 to 16th in 2010. Manufacturing value added per worker as well as cereal yields doubled over the period—the former from $5,425 in 2000 (in 2005 US$) to $11,082 in 2010, and the latter from 862 kilograms per hectare to 1,876.
- ***Technology—13th.*** Rwanda significantly improved its rank on technology from 20th in 2000 to 13th in 2010. This was primarily on account of the share of medium and high technology in exports rising from under 3% in 2000 to almost 11% in 2010. The share in production stayed around 7%.
- ***Human well-being—19th.*** Rwanda's rank remained unchanged. GDP per capita (PPP 2005 US$) increased from $660 in 2000 to $1,081 in 2010. But still Rwanda is very poor. According to the 2006 national household survey, 57% of the population was below the poverty line, with 37% of the population in extreme poverty.

dairy products, and vegetable processing—and in services like niche tourism and business process outsourcing. Rwanda has also identified financial services, engineering, construction, ICTs, agribusiness, mining, and transport as priorities.

The government has established horticulture, hides and skins, handicrafts, and pyrethrum as priorities for investment promotion. But it will have to overcome productivity and human resource challenges.

Rwanda should continue to deepen its efforts in facilitating trade and promoting conformity with standards to increase exports in both regional and international markets. The government has reduced tariff barriers through the negotiations in the East African Community trade bloc. But several nontariff barriers to trade remain. Rwanda faces the highest cost for exporting containers in the East African Community. The time to export a container in Rwanda is 42 days, compared with 24 days in Tanzania. The cost of transporting a container from Mombasa to Kigali (including all customs payments) amounts to 53% of its value.

Senegal—Good manufacturing base but slow growth

Senegal has a relatively high manufacturing base, compared with the other ACET 15. The share of manufacturing in GDP was around 14% in 2010, but it has been trending downward—from an average of 16.7% in 1991–2000 and 15.3% in 2001–10. The country's location as a gateway to several francophone countries in West Africa is an advantage for developing manufactures and also for serving as a transshipment point for exports. But this advantage is yet to be fully utilized. Growth has been very slow—average GDP per capita growth was 0.1% a year from 1971 to 2010.

Growth has picked up a bit in recent years, but unemployment has not changed much in the country, increasing slightly in recent years from 10.0% in 2005 to 10.2% in 2011. Unemployment affects women and youth much more. Youth unemployment was 12.7% in 2011, and was 13.3% for women, compared with 7.7% for men. The poverty rate has declined from 66% in 1991 to 29% in 2011 (share of population living on less than $1.25 a day), but income inequality remains high with a Gini index of 40.3 in 2011.

Transformation platform

Senegal is one of the few African countries that has escaped coup d'états and all their political and economic costs. The country is considered an example of successful democratic transition. Senegalese authorities have undertaken initiatives to transform the national economy. But the country remains highly dependent on donor support for the implementing and effectively monitoring development programs and projects. Economic planning is weak and government policies are based mainly on short-term projections.

Despite significant reforms in 2003 and 2007 (including reducing the corporate tax and facilitating the procedure for business creation), Senegal dropped from 152th of 183 countries in 2007 to 154th in 2012 on the Doing Business Index. But the country is fairly well ranked in trading across the borders (65th) and resolving insolvency (86th). Senegal's private sector suffers from a lack of competitiveness. Senegal ranked 111th of 142 counties on the 2011–12 Global Competitiveness Index. Infrastructure, primary education and health, and higher education and training constitute major constraints to Senegal's competitiveness.

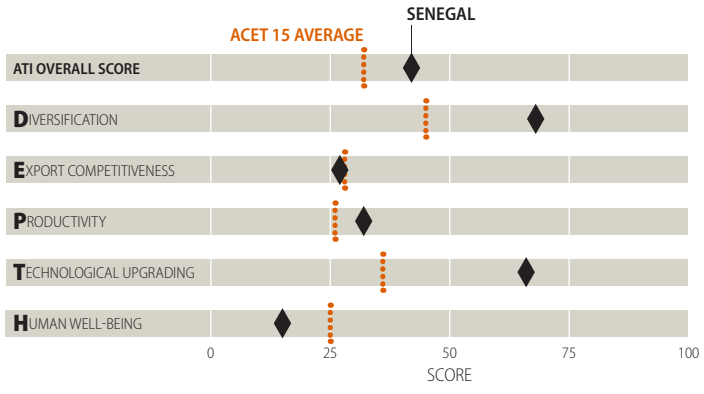
During the past decade Senegal has adopted a private sector strategy and implemented reforms to improve business environment. Under the leadership of the Presidential Council for Investment, reforms have focused on increasing private participation and improving the business environment and competitiveness. The country has adopted a legislative framework for public-private partnerships, and build–operate–transfer, especially for infrastructure and utilities.

Transformation prospects

Senegal's traditional exports include groundnut products, fish products, and cotton—and its non-traditional exports, salt, horticultural products, cement, refined petroleum products, and phosphate and its derivatives. Horticultural products, cement, and cotton have the greatest potential to increase and diversify Senegal's exports.

The country has a good climate for horticultural production throughout the year. About 70% of Senegal's exports to the EU are green beans, cherry tomatoes, mangoes, and melons. The labor-intensive vegetable and fruit industry employs more than 17,000 families in rural Senegal. Cement could be a booming sector with exports to neighboring countries and the rest

Senegal's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Senegal's growth with depth

- ***Transformation—4th of 21.*** Senegal was ranked 3rd on economic transformation in 2000 (1999–2001); it dropped to 4th in 2010 (2009–11), losing ground to Côte d'Ivoire.
- ***Growth.*** Senegal has grown slowly for four decades. Average GDP growth was 1.7% a year in the 1970s, 2.1% in the 1980s, 2.8% in the 1990s, and 3.5% from 2001 to 2010. And GDP per capita fell at –0.8% a year in the 1970s and –0.6% in the 1980s, before turning positive at 0.4% in the 1990s and 1.1% from 2001 to 2010. GDP per capita growth is projected at 2.6% in 2011 and about 3.7% in 2012.
- ***Diversification—5th.*** The manufacturing share in GDP was 14.2% in 2010, down from 15.7% in 2000. The share of manufacturing and services in total exports, 42.8% in 2000, rose to 45.4% in 2010, of which more than half was from services. In 2000 the top five exports made up 65% of Senegal's total merchandise exports, but the share dropped to 59% in 2010, indicating a positive trend in commodity diversification. But overall on diversification, Senegal did not make much progress compared with the other countries, so its rank of 5th in 2010 was a slight deterioration from 4th in 2000.
- ***Export competitiveness—9th.*** Senegal's rank of 9th in 2010 is deterioration from 7th in 2000. The relative export intensity of production (the share of exports in GDP relative to the share of the world) fell from 0.77 in the early 2000s to 0.66 at the end of the decade.
- ***Productivity—7th.*** Productivity in manufacturing, measured by manufacturing value added per worker, rose from $42,396 (in 2005 US$) in 2000 to $22,260 in 2010. Similarly, cereal yields have been on an upward trend—from and 865 kilograms per hectare in 2000 to 1,099 in 2010. But the improvements did not match those in the other countries, so Senegal dropped from 6th in 2000 to 7th in 2010.
- ***Technology—2nd.*** In 2000 the share of medium and high technology in production in manufacturing was 38%, dropping to 36% in 2010. The share of medium and high technology in exports was 11.2% in 2000, dropping to 10.1% in 2010. But Senegal's 2nd position went unchanged between the two periods.
- ***Human well-being—9th.*** Senegal's average GDP per capita (PPP 2005 international $) rose from $1,500 in 2000 to $1,732 in 2010. The country fell from 8th in 2000 to 9th in 2010.

of Sub-Saharan Africa. Cotton holds perhaps the greatest prospect for value addition. But authorities must invest in infrastructure to facilitate storage and transportation to markets. They should also improve the production and distribution of electricity—and invest in the training of farmers and facilitate their access to agricultural inputs. Leveraging cotton, Senegal's could build on its reputation in high fashion African designs to expand garments exports. The country also has good opportunities for raising its success in tourism to the next level by diversifying its tourism attractions and source markets.

South Africa—Linking to the rest of Africa

South Africa is the economic powerhouse of Sub-Saharan Africa. Since its transition to majority rule in 1994, the country has pursued a number of political, economic, and social reforms aimed at achieving a stable social democracy, ensuring a fine balance between meeting pressing social objectives and good macroeconomic management, and building a robust economy. It trades extensively within the region, and its companies have a growing presence in Africa. It also has a diversified manufacturing base that can compete in the global economy. And it boasts good transport, ICT and telecommunication infrastructure, and a well developed financial system.

South Africa's trade structure remains unchanged from its primary and resource-based products. Except in mining, movement toward a significant amount of high-tech products has been slow.

Transformation platform

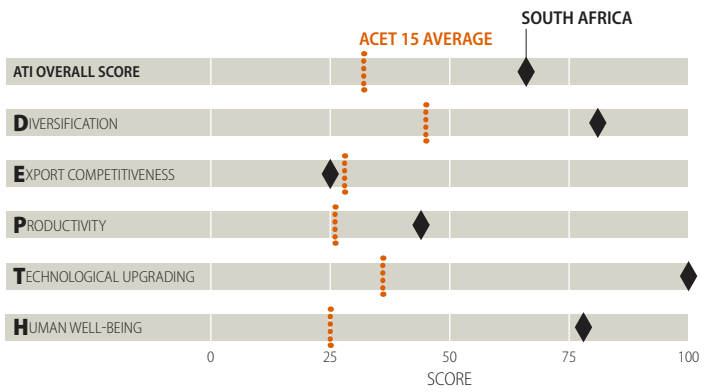
Policy frameworks adopted since 1994 have tried to respond to the economy's growth and development challenges.

- The Reconstruction and Development Program (1994) focused on growth with government investment playing a major role.
- The Growth, Employment, and Redistribution program (1996) emphasized increased private sector investment–led growth.
- The Accelerated and Shared Growth Initiative (2005) aimed to further the goals of the preceding policy frameworks with a higher commitment to macroeconomic stabilization policies relative to welfare policies.
- The New Growth Path framework (2010) aimed to address persistently high unemployment through the creation of decent jobs.
- The Industrial Policy Action Plan (2010) set out to diversify and grow exports, improve trade balances, build long-term industrial capacity, grow domestic technology, catalyze skills, and accelerate job creation in the next decade.

The 2014 version of the plan reinforces diversification, industrialization, and the move to a knowledge economy. It also promotes labor-absorbing industrialization to increase the participation of historically disadvantaged people and marginalized regions.

The consensus is that South Africa faces deep structural and microeconomic challenges that, separately and together, constrain growth and development. So resolving any one issue in isolation will not release the economy's growth and job-generating potential. A multipronged approach, and a refocused industrial and innovation policy, are imperative for economic transformation.

South Africa's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Transformation prospects

South Africa should focus on a few growth areas with:

- Significant externalities, particularly relating to training and innovation.
- Access to rapidly growing export markets, thus providing scope for scaling up.
- An element of economic rent and not easy for competitors to reproduce.
- High local value addition and intensive use of labor.

Tourism, mining equipment, solar energy, high-quality wines, and tea and fruit meet these criteria as potential sources of growth to varying degrees.

South Africa's trade with the rest of Africa has a huge potential. Exports of technology-intensive products

South Africa's growth with depth

- ***Transformation—2nd of 21.*** South Africa ranked 2nd in both 2000 (1999–2001) and 2010 (2009–11) on economic transformation, after only Mauritius.
- ***Growth.*** South Africa's GDP grew at an average of 2.4% a year in the seven years after independence. GDP per capita grew at an average of 0.4%. In the last seven years of apartheid average GDP growth was 0.6% and GDP per capita growth was a –1.2%. Growth accelerated from 2001 to 2010, with average GDP growth moving up to 3.2% and GDP per capita to 2.1%. Two episodes—the 1998 contagion of the East Asia financial crisis and the global recession of 2009—interrupted South Africa's longest period of economic expansion by ending 55 quarters of growth since the end of apartheid in 1994. GDP is projected to grow at 3% in 2013 and 2014.
- ***Diversification—2nd.*** South Africa's rank did not change from 2000. The share of manufacturing in GDP fell from an average of 19% in 2000 to 17% in 2010, while the share of manufacturing and services in exports also dropped from 37% to 32%. Meanwhile, the share of the top five exports rose from 35% to 40%. So all the indicators of diversification moved in the wrong direction between 2000 and 2010. But South Africa is so diversified relative to most of the countries compared on the index that it still retained its 2nd rank.
- ***Export competitiveness—11th.*** South Africa lost three places, falling from 8th in 2000 to 11th in 2010. Its relative export intensity of production (the share of exports in GDP relative to the share for the world—not counting extractives) is below 1.0, and it fell from 0.69 in 2000 to 0.66 in 2010.
- ***Productivity—4th.*** South Africa improved its rank on productivity from 8th in 2000 to 4th in 2010. Manufacturing value added per worker (in 2005 US$) rose from $26,703 in 2000 to $36,050 in 2010, while cereal yields rose from 2,458 kilograms per hectare to 4,193.
- ***Technology—1st.*** South Africa is the clear leader when it comes to the level of technology—in both 2000 and 2010. The share of medium and high technology is around 37% in production and around 32% in exports.
- ***Human well-being—3rd.*** GDP per capita was $9,510 (PPP 2005 US$) in 2010, up from $7,617 in 2000. Despite modest improvement in human and social indicators over the last decade, high open unemployment and inequality remain serious challenges.

to Sub-Saharan Africa range from specialized agricultural products to machinery, vehicles, and electronics. In turn, South Africa receives resource-based products such as oil, precious stones, base metals, and agricultural products. South Africa has the opportunity to further specialize in higher technology and more sophisticated products for the African market. Indeed, Southern African Development Community countries could soon become South Africa's biggest market for manufactured goods.

Travel service exports are on the rise. Other services in which world trade is growing faster than the average and faster than South Africa's market shares are increasing include ICTs, insurance, and finance. Call centers are a growing business, and South Africa's location is ideal for servicing major European and Asian markets because of time zones and cultural affinities. The installation of fiber optic cables around Sub-Saharan Africa—on the eastern and western coasts—should ensure cheaper and more widely available bandwidth, which should boost South Africa's connections with the rest of the world.

South Africa's participation in the EU-South Africa Free Trade Agreement, the Southern African Development Community trade protocol, the renegotiated Southern African Customs Union agreement, and the U.S. African Growth and Opportunity Act have all boosted market access. That should help exports of agricultural products, such as wines and fresh fruits, on the rise since the end of apartheid.

Tanzania—Steady progress but still lagging

Tanzania's economic policy has moved slowly from socialist to market-based. Starting in 1986, reforms dismantled the key pillars of the socialist economy, notably removing price controls and privatizing state enterprises. Growth stuttered at first, but accelerated after 1996 following aggressive macroeconomic stabilization and structural reforms. Further initiatives in the 2000s included the adoption of a National Strategy for Growth and Reduction of Poverty, with institutional reforms to improve capacity in macroeconomic management, planning, and budgeting.

Agriculture remains an important share (about 28%) of Tanzania's GDP, industry at 25%, and services at 47% in 2010–12. Mining has grown fast over the period as Tanzania emerges as a resource-rich economy producing gold, pearls, and precious stones, and thanks to the recently confirmed new discoveries of both onshore and offshore natural gas. Growth in manufacturing has been modest, however—moving from and average of around 8% of GDP in 1999–2001 to around 9% in 2009–11.

Despite numerous poverty reduction initiatives, low levels of productivity and high levels of unemployment and underemployment have constrained the country's ability to achieve meaningful poverty reduction.

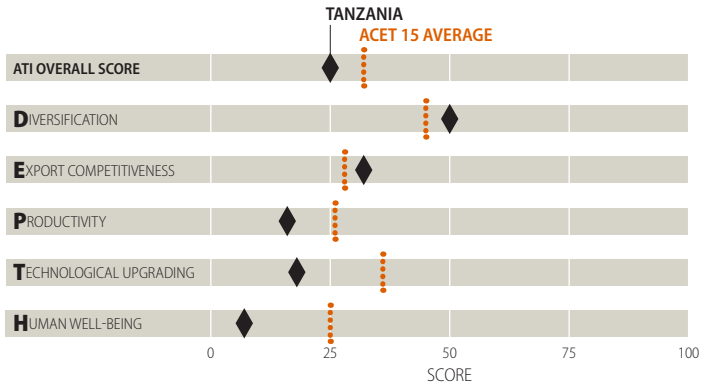
Transformation platform

The President's Office Planning Commission, the agency for strategic thinking on the national economy, drives and coordinates the implementation of transformation strategies. It advises on medium- and long-term strategies, monitors and analyzes development trends, and provides advice on macro and sectoral policies as well as broad socioeconomic development issues.

Tanzania uses three models to strengthen planning and budgeting. The Macroeconomic Model for Tanzania provides a quantitative framework for forecasting and policy analysis. The Strategic Budget Allocation System links the country's poverty reduction targets and resource requirements with the budget. And the Social Accounting Matrix estimates the impact of fiscal policy on progress being made to attain the country's *Vision 2025*. Despite strong growth in the formal sector, Tanzania's private sector is still largely informal. More than 95% of enterprises are informal to some degree.

Tanzania ranked 120th of 142 countries on the 2011–12 Global Competitiveness Index. It did not improve markedly on any of the major aspects of the indicators in 2012 relative to 2010. Its weakest ranks are in its sophistication of its business sector (104th), technological readiness of its businesses (126th), overall macro environment (129th), infrastructure development (130th), and higher education and training (131st). Its best rankings are 73rd for both innovation and labor market efficiency and 80th for institutions. The government set out in 2011 to develop a roadmap to improve the country's investment climate and to identify measures to reduce the regulatory burdens for doing business.

Tanzania's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Transformation prospects

Based on the revealed comparative advantage of the top 10 exports in 2009, there are opportunities in producing key products and services that can drive transformation. Tanzania's first export segment is in primary commodities, including gold, precious metals, and coffee. The second is in textiles, iron and steel, petroleum products, soda ash, cement, plastics, pharmaceutical products, and leather.

Tanzania also boasts many tourist attractions: 12 national parks, 17

Tanzania's growth with depth

- ***Transformation—12th of 21.*** Tanzania improved its rank on economic transformation from 13th in 2000 (1999–2001) to 12th in 2010 (2009–11), gaining on Zambia over the decade.

- ***Growth.*** GDP growth picked up after the reforms in the second half of the 1980s. Average growth was 3.5% a year from 1988 to 1990, 2.8% from 1991 to 2000, and a very impressive 6.1% from 2001 to 2010. Corresponding GDP per capita growth in the respective periods was 1.4%, 0.2%, and 3.7%. Tanzania recorded an average growth of 6.6% a year in 2011/12 and is projected to grow at 7.1% in 2013/14.

- ***Diversification—9th.*** Zambia's rank remained unchanged. The share of manufacturing in GDP rose from an average of 8.2% in 1999–2001 to 9.3% in 2009–11. Merchandise exports are relatively concentrated, but there has been some progress on diversification. The share of the top five merchandise exports fell from 64% in the 1990s to 57% in the 2000s. The share of manufacturing and services is relatively high, falling from around 47% in 2000 to 42% in 2010. Most of the share came from services, mainly tourism, as manufacturing exports made up only about 6% of exports in 2000 and 8% in 2010. But it is worth noting that the share of manufacturing exports has been rising.

- ***Export competitiveness—6th.*** In its relative export intensity of production, which divides a country's export-to-GDP ratio with the corresponding world ratio, without taking extractives into account, Tanzania did not move much—from 0.73 in 2000 to 0.74 in 2010. But since many of the countries experienced significant declines in this ratio over the period, Tanzania moved up significantly in export competitiveness from 13th in 2000 to 6th in 2010.

- ***Productivity—14th.*** Productivity in manufacturing shot up from $6,086 (in 2005 US$) per worker in 2000 to $18,776 in 2010. But cereal yields fell from 1,753 kilograms per hectare to 1,373. Tanzania's position on the productivity ranking did not change over the period.

- ***Technology—15th.*** The share of medium and high technology in production fell from 18.3% from 2000 to 6.9% in 2010, while the share in exports rose from 3.2% to 8.2%, leading to a decline in technology rank from 8th to 15th.

- ***Human well-being—13th.*** GDP per capita averaged $1,291 over 2009–11 (PPP 2005 US$), up significantly from $871 in 1999–2001. This helped improve the country's rank on human well-being from 17th to 13th.

game reserves, 50 game-controlled areas, a conservation area, 2 marine parks, and 2 marine reserves for significant revenue. Zanzibar, Lake Victoria, Lake Nyasa, and Lake Tanganyika provide opportunities for beach resorts, water sports, and game fishing. And taking a cue from the success of neighboring Kenya, Tanzania's horticultural industry has been growing over the years, especially around Arusha—and this should be supported to attain world-class standards.

Tanzania is part of two regional integration arrangements: the East African Community and the Southern African Development Community. Participation in those arrangements has increased market access for the country's manufactured products, and there is potential for driving the manufacturing sector.

Confirmed new discoveries of natural gas are expected to move Tanzania to 5th on the continent (34th globally) of countries with significant gas reserves. Gas production during 2020–40 should enhance the country's energy supply, boost its exports, and have positive spillovers for employment and fiscal revenues.

But significant improvement is needed in roads, water, electricity, and ICTs. And education and skills upgrading are essential to enhance productivity, improve competitiveness, and attract foreign investments. Trade policy should be geared toward promoting key exports by strengthening implementation of relevant regulations as well as relaxing export quotas and constraints on the import of capital goods needed to expand domestic production capacities.

Uganda—Managing oil revenues for transformation

After more than a decade of political instability and economic decline, Uganda began to turn the corner in the second half of the 1980s. An economic recovery program introduced in 1987 put the economy back on a growth path. Uganda has since had two decades of very strong economic growth, with GDP growth averaging 5.8% in the 1990s and 6.7% in the 2000s. Despite the impressive growth performance, the structure of the economy has merely shifted from low-productivity agriculture to services dominated by equally low–productivity small businesses. Production processes remain low in skill and technology application. Poverty rates declined from 64% in 1996 to 38% in 2009 (share of population living on less than $1.25 a day).

Transformation platform

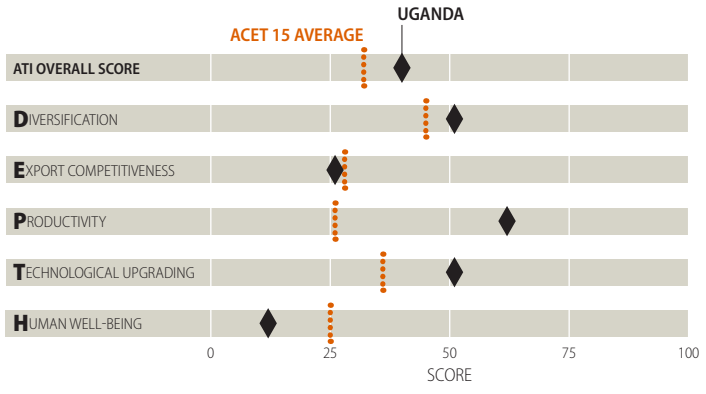
Uganda has had two decades of structural adjustment reforms aimed at creating a market-based economy, but the greater majority of the labor force is still employed in low-productivity activities.

Uganda ranks in the bottom quarter of most of the 2011–12 Global Competitive Index indicators. Its overall rank was 121st of 142 countries. Its competitiveness ranking was weakest in business sophistication (115th), technological readiness (111th), health and primary education (122nd), higher education and training (125th), macroeconomic management (127th), and infrastructure (128th). Its best ranks were in innovation (90th) and institutions (98th).

Oil discoveries offer the opportunity for Uganda to transform significant revenues into productive investments that can drive economic transformation. But optimizing the benefits from oil requires good governance, prudent macroeconomic and exchange rate management, and investing the revenues in human and physical infrastructure.

Uganda's National Development Plan of 2010 provides a blueprint of policies and measures needed to transform the economy. The five-year plan aims at accelerating socioeconomic transformation to achieve the national vision of transforming Uganda from a low- to a middle-income country by 2015. The plan is expected to act as a precursor to the development of longer term plans as envisaged by the Comprehensive National Development Planning Framework of 30 years.

Uganda's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

The end of the insurgency in northern Uganda presents an opportunity for attracting investments to the north, thus contributing to the National Development Plan growth targets. Opportunities also exist through increased trade. In particular, the East African Community regional integration process, the tripartite East African Community–Common Market for Eastern and Southern Africa–Southern African Development Community free trade agreement, and the independence of South Sudan all present new opportunities for increased trade and growth.

On policies the government has since 1989 focused mainly on market reforms and macroeconomic stability as the anchor for investment, economic growth, and structural transformation. While these policies paid off in macroeconomic stability and impressive GDP growth, they have not delivered significantly on economic transformation. In most cases there is a realization that the state must play a role in addressing market failures and helping markets work better, where they may not be working well.

Uganda already has the National Development Plan, which provides a basis for economic transformation. The plan identifies key sectors that will drive Uganda's economy forward. But liberal market policies should be accompanied with helpful regulation and support from the public sector to develop sectors in which Uganda enjoys a revealed comparative advantage. Uganda's National Development Plan prioritizes developing

Uganda's growth with depth

- ***Transformation—5th of 21.*** Uganda ranked 5th on the overall economic transformation index in 2010 (2009–11), a significant improvement from 10th in 2000 (1999–2001).
- ***Growth.*** Uganda's growth has been very impressive in the past two decades. GDP grew at an average rate of 5.8% a year from 1991 to 2000, and at 6.7% from 2001 to 2010, resulting in average GDP per capita growth of 3.0% and 3.8%. In contrast, average GDP growth from 1982 to 1990 was 2.9%, with per capita growth of –0.1%. Real GDP is projected to grow around 6% in 2013–14.
- ***Diversification—8th.*** Now ranking 8th, Uganda saw an improvement from 11th in 2000. The improvement came from a significant expansion in the number of commodity exports that saw the share of the top five commodities in exports fall from 70% to 40%. Manufacturing forms only a small part of Uganda's GDP, with a share that has stayed around 7% over the 2000s.
- ***Export competitiveness—10th.*** Uganda also saw a significant improvement in its rank on export competitiveness—from 16th in 2000 to 10th in 2010. The share of exports of goods and services more than doubled from an average of 10% in 1999–2001 to almost 24% in 2009–10. Uganda's competitiveness ratio, or the relative export intensity of production (the share of exports in GDP relative to the share for the world and excluding extractives), Uganda moved from 0.62 to 0.64 over the period. Uganda's jump of six places in the competitiveness ranking also results from the falls many of the other countries experienced.
- ***Productivity—1st.*** Uganda's 1st rank here, which remained unchanged from 2000, is due to incredibly high reported values for manufacturing value added per worker ($102,338 for 2010 and $53,927 for 2000 in 2005 US$). We doubt that these figures are representative of Uganda's manufacturing sector.
- ***Technology—3rd.*** Uganda improved from 9th to 3rd on the strength of the share of medium and high technology in exports rising from 3.2% to 17.6%.
- ***Human well-being—10th.*** Uganda improved from 13th to 10th primarily from GDP per capita rising from $778 to $1,152 (PPP 2005 US$).

infrastructure and enhancing production and productivity. Increases in the budgets for infrastructure have been significant, but what is lacking is a holistic development strategy.

Transformation prospects

The low-hanging fruit for improved international competitiveness are in food, live animals, and simple manufactures. Uganda also has comparative advantage in a few manufactured items, including beverages, tobacco, and chemicals and related products. Improving the quality and value of these manufactured products will be instrumental in promoting the industrial sector.

The discovery of commercially viable oil deposits in Uganda offers an opportunity for economic transformation if the oil revenues are well managed. Uganda has an estimated potential capacity of 2.5 billion barrels of oil reserves (as of June 2009). Oil revenues will reduce Uganda's dependency on foreign financing, and the oil sector can be instrumental in job creation both upstream and downstream.

Going forward, Uganda's economic transformation will require rethinking the country's development approach in policies, institutions, incentives, and public investments. In particular, while we do not recommend reintroducing public enterprises in business, selective state support could be provided in the following ways:

- Through public-private partnerships with selected export sectors at least in the initial stages until the sectors are self-sustaining. Promising sectors include food, live animals, footwear, garments, and textiles.
- State support could also help the private sector add value to primary commodities such as cotton, coffee, and hides and skins.

Zambia—Still too dependent on copper

From independence in 1964 through the 1980s, Zambia pursued a state-led import-substitution strategy. It sought to promote industrialization through backward and forward linkages to its copper mining industry. The initial success in building its manufacturing sector and industry was short-lived. As output collapsed so did government revenues, and the external current account balance deteriorated. Zambia experienced continuous declines in GDP per capita in the 1970s, 1980s, and 1990s, driven largely by a combination of poor economic policies and a downward trend in the international price of copper.

With policy reforms and an upswing in copper prices, the economy recovered in the 2000s. But the economy continues to depend heavily on copper mining and exports, despite government attempts to promote diversification.

The sector composition of the economy has changed notably since the 1980s with the most striking change being the decline in manufacturing. The sector's share in GDP increased from 21% in the early 1980s to a high of 30% in the early 1990, before declining to 11% in 2005–09 and further to 8% in 2011–12. Services dominated throughout the period, accounting for an average of about 41% a year in the early 1980s, declining marginally to 38% in the late 2000s but rebounding to 43% in 2010–12. Agriculture value added, which made up the smallest share in the 1980s (16%) expanded to around 21% of GDP in 2005–09, but fell back to 20% in 2010–12.

Copper mining remains the major contributor to Zambia's export earnings and economic growth, contributing about 70% to the country's foreign exchange earnings and 9% to formal employment.

Transformation platform

Zambia's overall rank of 113th of 142 countries puts it in the bottom quarter on most 2011–12 Global Competitiveness Index indicators. On the World Bank's Doing Business rankings Zambia lost ground in 2012 compared with 2011, dropping 11 places in starting a business to 69th of 183 countries, 12 in registering property to 96th, and 5 in protecting investors to 79th. But it gained in enforcing contracts.

The Sixth National Development Plan 2011–15 identifies agriculture, tourism, manufacturing, mining, and energy as growth sectors. Mining remains important and dominant, and will most likely continue to be promoted. But there is the need to diversify the economy to other sectors to cushion it against the negative effects of external commodity price shocks.

To this end, government intends to promote private investment and public-private partnerships. The developments in these sectors are to be augmented by human development, particularly in health, education, and skills development, and by investments in water and sanitation.

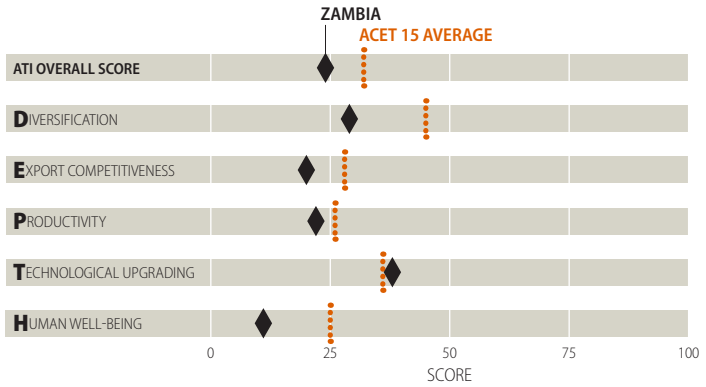
The Private Sector Development Reform Program addresses a range of issues that stifle business growth and discourage investment. The Action Plan contains about 78 actions rationalized into six reform areas: policy environment and institutions, regulations and law, infrastructure, business facilitation and economic diversification, trade expansion, and citizen empowerment.

The Zambia Development Agency promotes and coordinates the establishment of public-private partnerships. There are ongoing efforts to set up multifacility economic zones as an important form of cooperation under the public-private partnership framework.

Transformation prospects

Production and trade trends reveal the following (merchandise)

Zambia's overall ATI and depth compared with the ACET 15 average



Source: ACET research. See annex 1.

Zambia's growth with depth

- ***Transformation—13th of 21.*** Zambia fell in the overall transformation ranking from 12th in 2000 (1999–2001) to 13th in 2010 (2009–11), trading places with Tanzania.
- ***Growth.*** Zambia went through three decades of negative GDP per capita growth. It averaged –1.6% a year during 1971–80; –2.3% in 1981–90; and –1.7% in 1991–2000. By 2000 the level of real GDP per capita was almost half—57%—of the level in 1971. Fortunately for Zambia, growth has been robust since 2000. Average GDP growth was 5% from 2001 to 2010, with GDP per capita growing at 2.9%. Projections are for growth of around 6.3% in 2013/14. Recent growth has been boosted by a resource boom, specifically the price of copper, improved macroeconomic management, and sustained growth in services (including tourism) and agriculture.
- ***Diversification—16th.*** All the indicators of diversification deteriorated between 2000 and 2010. The share of manufacturing in GDP fell from 11.0% to 9.6%; the share of the top five products in merchandise exports rose from 75% to 85%; and the share of manufacturing and services in exports plunged from 23% to 12%. The rank on diversification thus deteriorated from 12th to 16th.
- ***Export competitiveness—14th.*** Zambia's export competitiveness ratio (the export-to-GDP ratio relative to the ratio for the world, excluding extractives) fell from 0.80 in 1999–2001 to 0.55 in 2009–11, which resulted in its export competitiveness rank dropping from 10th to 14th.
- ***Productivity—10th.*** Zambia saw an improvement from 12th to 10th. Manufacturing value added per worker increased from $11,855 to $18,044 (in 2005 US$), while cereal yields rose from 1,470 kilograms per hectare to 2,322, which improved Zambia's rank on productivity.
- ***Technology—6th.*** Zambia's rank on technology fell from 5th to 6th. The share of medium and high technology in production and exports have basically stagnated.
- ***Human well-being—11th.*** Real GDP per capita in 2010 was $1,385 (PPP 2005 US$) compared with $1,033 in 2000, but the rise was not enough to prevent Zambia falling one notch in human well being, from 10th to 11th.

products as being among those with significant potential for exports: cotton, tobacco, and sugar. Cotton is among the top 10 exports. Zambia has a world share of total exports at 0.71% and a revealed comparative advantage of 21.4 in 2008. Zambia's world market share in sugar moved from 0.15% in 1993 to 0.25% in 2000 and 2008. Zambia has the land and vast water systems to promote massive sugar production, and yet one company is currently responsible for more than 90% of Zambia's total sugar production. Other goods that have featured significantly in the country's total merchandise exports in recent times include edible vegetables, precious and semiprecious stones (natural and processed), electrical machinery and equipment, textile, honey, and soya bean products.

Investors have shown interest in the mining sector through investment pledges and inflows. Investment pledges (both local and international) more than doubled to $4.8 billion in 2010 compared with $2 billion in 2009. Both traditional large-scale mining of copper, nickel, and cobalt as well as new small-scale mining in semiprecious and precious stones have received attention. There is considerable scope for backward and forward linkages in the copper value chain. Zambia's exports of semifabricates including copper plates, copper wire, sheets and strips, and export values have increased substantially. There is good scope for expanding the downstream processing of copper into fabricates.

Zambia's tourism, cut flowers, sugar, and high-value financial services have the highest potential for spurring growth and development through links with other sectors. But they face challenges and risks that will need to be carefully considered product by product.