

# Five Lions Poised to Leap?

The economic and demographic potential  
of Africa's emerging nations



only a few profit from oil wealth +++ The world's largest potential labour force is coming of age in Africa +++ South Africa: the only industrialised country for miles around +++ High rates of economic growth class fuels consumer demand +++ Brazil, India, and China are big investors +++ Too little electricity for too many people +++ Falling fertility rates: time to cash in the demographic dividend? +++

# Five Lions Poised to Leap?

The economic and demographic potential of Africa's emerging nations

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# FOREWORD

Africa's population is growing – by 2030 it will in all probability have increased by another 500 million people to a total of 1.5 billion. In the past, economic growth in Africa was only marginally higher than the growth in the population: thus from 1973 to 2003, Gross Domestic Product (GDP) increased by three percent annually while the population grew by 2.6 percent per year over the same period. Africans were thus unable to reap the benefits of economic development.

Over the past decade, however, Africa has seen much more rapid economic growth with an average annual rate of 6.5 percent. If the countries of Africa succeed in creating jobs for the many young people flooding onto the labour market, this trend will not only be set to continue but will accelerate still further, enabling Africans to overcome poverty and give private households more disposable income.

When considering private consumption in Africa, however, we should remember that more than half of all Africans of working age are employed in agriculture, while three-fifths of farmers are subsistence farmers who grow food primarily for their own consumption. This goes some way to explaining the very low level (by international standards) of per capita expenditure on consumer goods as well

as the enormous variation – not only between countries but also within countries, and above all between the relatively well supplied urban centres and rural areas, where traditional ways of life are still the rule rather than the exception.

So which African countries currently have the greatest potential for positive economic development? How diversified are Africa's economies? What kinds of living conditions prevail in the individual countries? What kind of link is there between economic growth and household consumer expenditure? Which countries have mainly urban – and hence more accessible – populations? What is the state of Africa's infrastructure, political stability, and rule of law? This study by the Berlin Institute for Population and Development answers these questions in a brief overview, focusing in particular on five countries: **Egypt, Ghana, Nigeria, Kenya, and South Africa.**

Like Europeans, Africans live in households and consume goods and services. But since market research is virtually unknown in Africa, companies, political institutions, and development aid organisations lack data on which to base their work and planning. A joint project conceived by the Deutsche Investitions- und Entwicklungsgesellschaft mbH (German Development Corporation – DEG) and the German market research company GfK seeks to fill this gap by establishing market research of an international standard in four African countries: Ghana, Kenya, Nigeria, and South Africa.

Thanks to this initiative, several higher education institutions in these countries will in future be able to offer market research as a study discipline: the Universities of Pretoria and Nairobi, the School of Media and Communication (Pan-African University) in Nigeria, and Central University College in Ghana.

Starting in summer 2012, students will embark on courses in the conception and evaluation of market research and in statistics. In addition, there are plans to establish market research academies in which local staff will be trained in interviewing and data collection techniques. The graduates of these universities and market research academies will then participate in a pilot study to collect basic information about their respective countries.

The project fulfils two fundamental objectives laid down in the statutes of the GfK Verein: it supports the training of market researchers and it expands collaboration with universities – now for the first time in Africa as well.

Ronald Frank  
GfK Verein

# THE SUN RISES OVER AFRICA

**After decades of bad news, the neglected continent is now reporting impressive growth rates. But will the boom last?**

Which region of the world can boast average annual economic growth of more than six percent between 2000 and 2011?<sup>1</sup> On which continent is The Economist expecting by far the highest growth in the coming five years?<sup>2</sup> Where has direct foreign investment increased six-fold in the space of little more than a decade?<sup>3</sup> And where is the number of young consumers increasing the fastest?

Until recently there was hardly an expert who would have imagined that Africa would be the answer to all these questions. Following the lost decades of the 1970s, 80s, and 90s, following political chaos and endless civil wars, famines and gloomy Aids scenarios, development was a word that did not seem to apply to Africa.

Yet now the figures seem to be telling us that the African continent – currently home to one billion people – is now a lion poised for the same great leap forward that the Asian Tigers made before it. Indeed, six of the ten fastest-growing economies of the past decade are located in sub-Saharan Africa, a region that for a long time was the source of some of the world's worst bad news.<sup>4</sup> Inflation rates have halved since the mid-1990s, and no region has recovered as quickly from the global financial crisis as Africa. The economy in Ethiopia, a country once synonymous with hunger and drought, grew by more than nine percent in 2011 – even without the help of oil or other natural resources.<sup>5</sup>

The number of mobile phone users in Africa has exploded since 2000, rising from 12 million to more than 500 million a year in 2011.<sup>6</sup> The new possibilities for communication give farmers access to information about current market prices, allow bank transfers to be made where

there are no banks, and serve to network the upwardly mobile middle class. While in Europe the average age of the workforce is rising and in many places the population has begun to shrink, the largest potential workforce in the world is coming of age between Tunisia and South Africa. What is more, Africa has not only an abundance of raw materials that it will be able to go on exploiting for years to come, but also the largest unused areas of agrarian land on the entire globe. No wonder that the wealthiest black person in the world was born in Africa rather than in the United States. Sheikh Mohammed Al-Amoudi, born in Ethiopia to an Ethiopian mother and Saudi father, began his career on the Swedish market before he discovered the Saudi Arabian construction industry. More recently Al-Amoudi has become interested in his native Africa as well, investing in cement, steel, and agriculture in Ethiopia and operating oil refineries in Morocco and West Africa. His wealth also includes gold mines and an African hotel empire. Altogether he has amassed a fortune of 12.5 billion dollars.

## **Threshold countries invest in developing countries**

Significantly, some of the largest investors in Africa are China, Brazil, and India – three countries that can be considered to have “emerged”, but which still have fresh memories of what development means. They are investing in raw material concerns, the construction industry, and the chemicals industry, in infrastructure projects and telecommunications, and in tourism and agriculture. African exports to East Asia increased six-fold between 2000 and 2009.<sup>7</sup> If African farmers, whose production has been well below world standards up till now, were able to increase their yields to the level of their South American counterparts, this alone would fuel economic growth to the tune of 2.3 percent a year.<sup>8</sup> According to a prediction by Roland Berger Strategy Consultants, Africans’ per capita income could rise by an average of 50 percent in the coming 12 years. “Those who continue to underestimate Africa”, the analysts warn, “will be left behind”.<sup>9</sup> Even the World Bank, which tends to be cautious with its predictions, thinks Africa is capable of achieving the same level of economic momentum as China or India once did.

Steven Radelet, Chief Economist at the United States Agency for International Development (USAID), sees five main reasons for this development.<sup>10</sup> First of all, many African states have now held democratic elections; whereas for much of its history – until well into the 1990s – virtually the entire continent was ruled by dictators and for three decades not a single government (with the exception of that of Mauritius) was voted out of office peacefully. The move towards democracy has made governments more accountable to the public and placed them under greater pressure to pursue sounder economic policies and govern their countries better. Secondly, African governments have removed trade barriers and abolished the worst taxation and bureaucratic hurdles for citizens and investors. Thirdly, most African states have reduced their debt, either by paying back their credits or through debt cancellation, and are thus in a position to invest more in education and health. Fourth, new technologies, particularly mobile phones and the Internet, will facilitate Africans' access to markets. Fifth, the new political freedoms have created opportunities for the so-called "cheetahs", a new generation of young and creative politicians, many of them educated abroad, who are seeking to oust the ponderous old "hippos" of the post-colonial age from their seats in parliament.

## High growth rates from a low baseline

Yet for all the euphoria, we should be cautious about reading too much into the impressive record figures. Africa is still by far the least developed region of the world, and its now famous growth started from a very low baseline. Only 2.5 percent of the world's economic output comes from Africa and only 1 percent of its industrial goods are produced there – and the trend is falling rather than rising.<sup>11</sup> The majority of Africans still have to make do with less than two dollars a day. That is barely enough to survive, let alone engage in the kind of consumer spending that would fuel growth. Because of the high youth unemployment in Nigeria, Ethiopia, Uganda, and Zambia, 80 percent of 15–24-year-olds in these countries live below this poverty threshold.

How little economic growth has to do with prosperity is illustrated by the example of Eritrea. The International Monetary Fund (IMF) predicts growth of 7.5 percent in 2012 for this country on the Red Sea, yet Eritrea is still one of the world's poorest countries: in the period between 2005 and 2010, the economy even shrank by 2.5 percent per year. The economy of Nigeria – with 160 million inhabitants Africa's most populous state – is not even a fifth the size of Germany's despite its huge oil revenues. Although Angola's economy has grown by more than 11 percent per year over the past decade, this is due entirely to oil revenues that disappear into the pockets of a few people. How badly off the country is can be seen in the fact that more than 10 percent of Angolan children die before their first birthday.

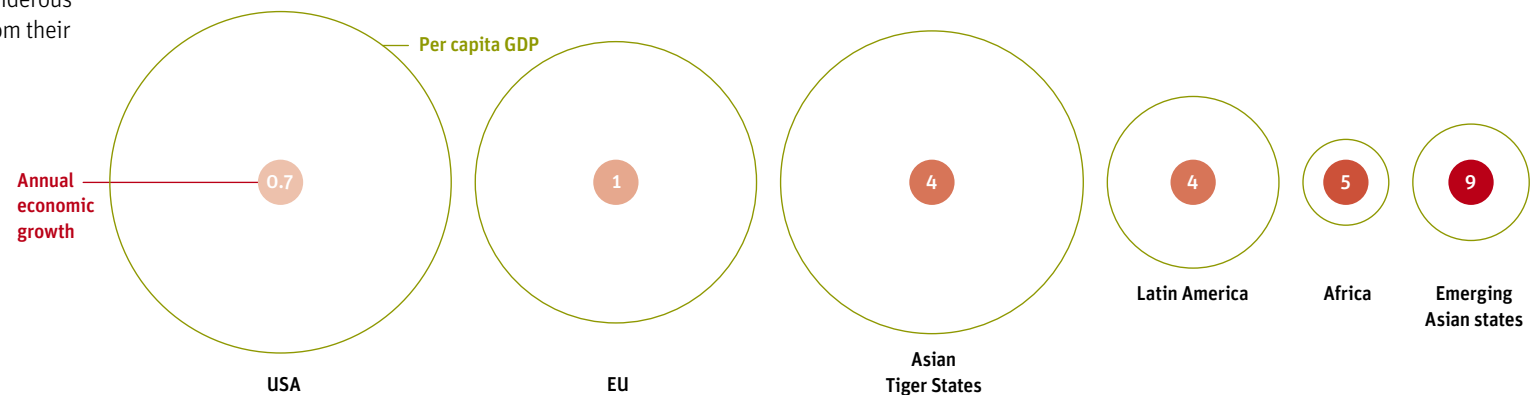
Most of the world's "failed states" are in Africa – states like Somalia, Chad, the Democratic Republic of the Congo, and Sudan that can no longer fulfil basic functions.<sup>12</sup> Despite economic development, many other countries like Mali, Egypt, Libya, Nigeria, and Zimbabwe are threatened by on-going political or ethnic conflicts and may suffer dangerous setbacks at any time.

Standards of healthcare, particularly in rural regions of Africa, are catastrophically low. Life expectancy in Zambia, Angola, Chad, and the Democratic Republic of the Congo is 50 at most. In areas dominated by poverty and high birth rates, pressure on natural resources is increasing. People are cutting down trees for firewood and overgrazing pasture land,

## The race to catch up

Economic growth has almost come to a standstill in the western industrialised countries. Growth in Asia, South America, and Africa, by contrast, has gathered speed. Countries starting from a low baseline have shown particularly impressive growth rates. The so-called Tiger States of Singapore, Taiwan, Hong Kong, and South Korea, for instance, had average annual growth rates of four percent between 2005 and 2010, but their emerging Asian neighbours China, Indonesia, and India have already overtaken them in terms of growth. The same goes for Africa, which for a long time was unable to share in the global boom. However, African per capita GDP is still only a tenth that of the Tiger States, and in 2011 the United States' GDP was four times as large as all the African states together. So Africa will have a long way to go before it catches up.

Average annual GDP growth 2005–2010 in percent; Per capita GDP 2011 in international dollars (Data source: IMF, OECD)



the soil is eroding, and living conditions are deteriorating in the face of rapid population growth. Only six African nations are likely to achieve even half of the UN's 15 Millennium Development Goals – a far cry from the situation in the developing countries of Asia and Latin America.

The educational level of the African population is low by world standards and is a main obstacle to the success of new companies. In eleven sub-Saharan countries, only 50 percent of adults even have primary education, and in five countries the figure is only 20 percent. Only 63 percent of adults in sub-Saharan Africa can read and write.<sup>13</sup>

Foreign and domestic investment capital is lacking, in part because the savings ratio is low in Africa and 400 million Africans have no access to the banking system. For that reason, not enough people are able to start businesses or found companies. And the goods that are produced do not always find their way to the consumer: many goods cannot be distributed or traded because transportation routes almost everywhere are in a poor state of repair. African governments would need to invest an annual 33 billion US dollars in the infrastructure alone.<sup>14</sup>

## The African energy crisis

The infrastructure deficiencies apply most particularly to the energy supply, which to date has been unable to keep pace with population growth. Even if the continent as a whole is rich in oil, gas, and coal reserves, the per capita energy consumption of Africans has remained stable at a constant low level for twenty years, and south of the Sahara it has even fallen.<sup>15</sup> Around half a billion Africans have no access to electricity. Only half of the population in the cities has a power connection, and even then the supply is rarely reliable.<sup>16</sup> Eight percent of people in sub-Saharan Africa cook on open fires that burn wood or dung simply because they have no other choice. Nigeria has installed power generation capacity of 8.6 gigawatts, of which only 4.8 gigawatts are actually used.<sup>17</sup> By comparison, Germany's power generation capacity is more than 170 gigawatts. Many countries are therefore investing heavily in new power stations, for without a reliable energy supply, important steps on the road to development in Africa simply will not be taken. Some countries like Kenya and South Africa are even taking the direct route to renewables like solar, wind, or geothermal energy.

Ultimately, Africa's abundance of raw materials also poses dangers, for although high global demand has led to many states' receiving large revenues from selling oil, platinum, gold, and minerals, if the world economy were to cool down, world market prices for these materials would also fall. Many raw materials companies, many of them owned by the state, would then have to cope with losses, with

disastrous consequences for state budgets. In sub-Saharan Africa alone, oil exports from seven of the 44 nations account for 30 percent of annual exports.

The big question is therefore whether African countries will be able to diversify their economies sufficiently to be able to respond flexibly to extreme fluctuations. Above all, what implications will the rapidly growing populations have for development? At 2.6 percent a year, population growth in Africa is twice as high as that in Latin America and Asia. By 2050, the number of people on the African continent is likely to double to two billion. And because the populations of most countries will still be very young, these growth rates are likely to continue for several decades into the second half of the twenty-first century.

## The dream of two billion consumers

This growth poses major challenges for the African continent, for in many regions it is impossible to provide the growing population with healthcare, schools, teachers, and especially jobs. In order to achieve the second Millennium Development Goal, namely, to enable all children to receive at least a primary education by 2015, UNESCO estimates that sub-Saharan Africa would have to create a million new teaching posts – an utterly utopian goal.<sup>18</sup>

And yet, at the same time, Africa's population is also its most important potential. The number of people aged 15 to 24 entering the labour market will double to 400 million by 2045. By then Africa will have more than a billion people of working age – the largest working population in the world.<sup>19</sup> In order to activate this potential, however, the countries of Africa would have to cash in on their demographic dividend. Opportunities to do this arise whenever poor countries reach the stage in their development when fertility rates start to fall. For when people start to have fewer children, the ratio of people of working age to children and old people who need to be cared for rises. And because families and the state have to support fewer children in this phase, there are more financial resources left over to spend on education or job creation. If a country succeeds in doing all these things and if the many people of working age actually get jobs, then a phase of rapid development begins, just as it once did in an exemplary fashion in the Asian Tiger states and somewhat later in Latin America. A third of the economic growth that has taken place in Southeast Asia in the past can be attributed solely to the demographic dividend. Since in many African countries the number of children per woman has already fallen noticeably, they now have the potential to go down the same road of development that would allow the lions to make the leap.

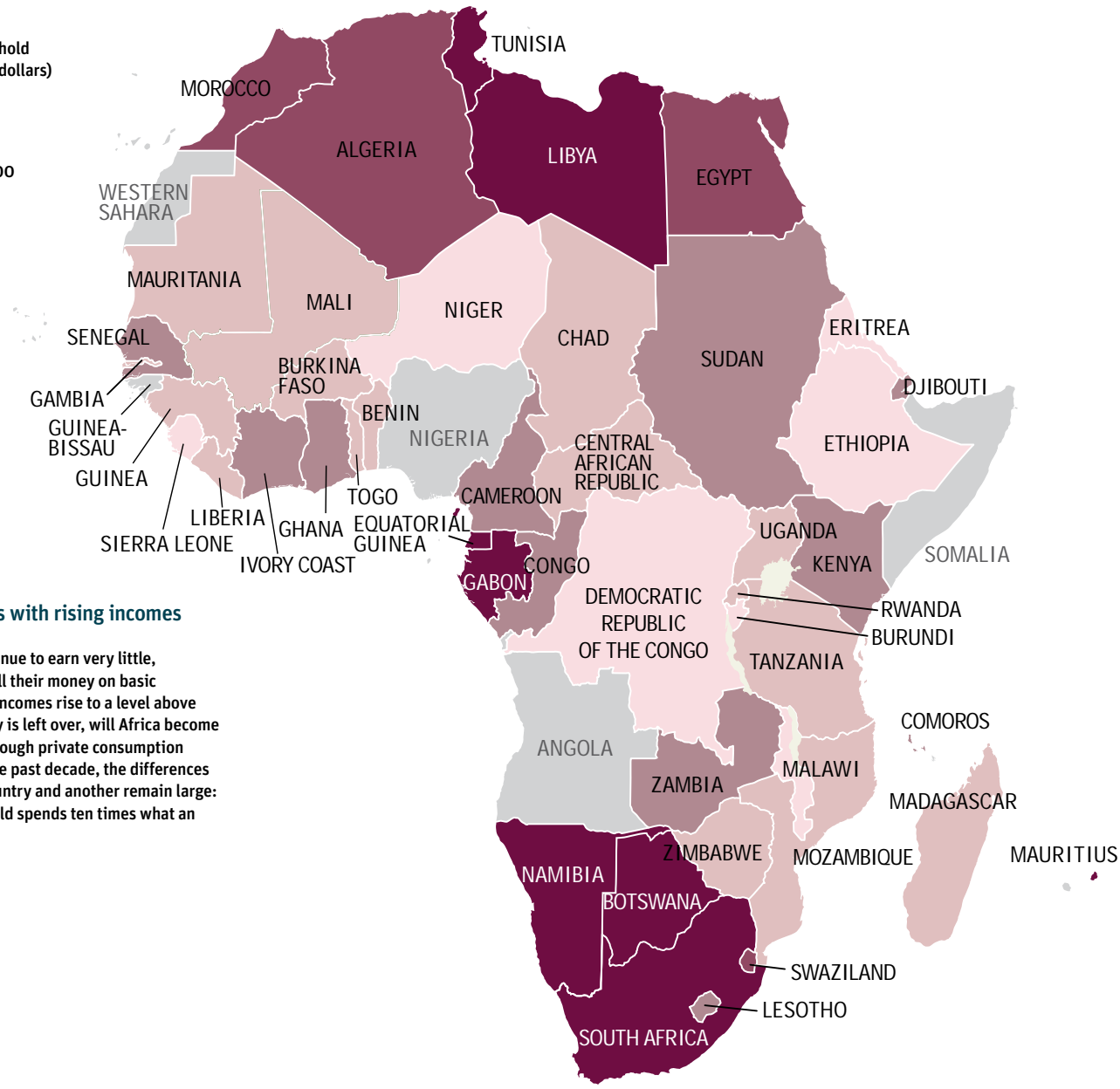
Nations like Tunisia, Libya, Algeria, Egypt, South Africa, Namibia, or Botswana already have a chance to cash in their demographic dividend now. However, recent developments in North Africa have shown that a large population of educated young people also has explosive potential. For if the time window elapses in which the demographic composition of the population is favourable without the necessary jobs being created, this is likely to spell disaster rather than a dividend.

Expectations that Africa is about to embark on a “consumer safari” are based on this vision of a demographic dividend. Yet for this to become a reality, the incomes of the broad mass of the population would need to rise and an increasing number of Africans would have to move out of poverty and become members of a middle class with more money to spend on food and household goods, on corrugated iron roofs and medicines, and on televisions, computers, and cars. To date, only 150 million African households are regarded as emerging consumers. They have an annual income of more than 2,000 US dollars, some of them even earning more than 5,000 US dollars a year, allowing them to afford major purchases. The McKinsey consultancy firm estimates that this group will grow to 128 million households by 2020. Of course, there is no guarantee that this will actually happen. But a look at the past shows that Africa is at least moving in the right direction: since 2000, private consumption in Africa has risen by a volume of 275 billion US dollars – more than in Brazil or India.<sup>20</sup>

Annual per capita household consumer spending (US dollars)

- Below 250
- 250 to below 500
- 500 to below 1,000
- 1,000 to below 2,000
- 2,000 and more
- No data

(Data source: World Bank)



### Consumption comes with rising incomes

As long as Africans continue to earn very little, households will spend all their money on basic necessities. Only when incomes rise to a level above this, so that some money is left over, will Africa become a consumer market. Although private consumption has risen rapidly over the past decade, the differences between one African country and another remain large: a South African household spends ten times what an Ethiopian one does.



# AN EVALUATION OF THE SITUATION IN AFRICA

In 1990, 635 million people lived on the African continent. Currently the African population already exceeds one billion and is likely to grow to more than 1.5 billion by 2030. At the same time, many African countries are becoming politically more stable, and economic development is increasing the importance of Africans as consumers. Between 2005 and 2010, 30 of the 50 African states registered an economic growth rate of more than four percent per year. The annual sum spent by private households on consumer goods rose in only five years from 544 billion to 835 billion US dollars – an increase of more than 50 percent. Africa is a continent with great economic opportunities, but also with enormous regional differences in development. While per capita GDP (measured in terms of purchasing power) of South Africa and Tunisia has nearly reached the level of EU member Romania, other states like Somalia or Zimbabwe are among the poorest and most dangerous countries in the world.

For this evaluation of the living conditions, political situation, and economies of the African states we mainly used the most recent available data from 2010. It therefore does not reflect the impact of the political protest movements known as the “Arab Spring” in 2011 and 2012.

## The Economy

Our evaluation of the economic situation is based on four indicators: growth of GDP, annual per capita household consumer spending, the proportion of the population living in extreme poverty, and the share of the manufacturing and service sectors in GDP.

The ten economically most successful countries in Africa according to these criteria are Tunisia, Morocco, South Africa, Egypt, Swaziland, Namibia, Djibouti, Mauritius, Lesotho, and Ghana. Per capita household consumer spending in these countries ranged between 521 dollars per resident in Djibouti and 4,441 dollars in Mauritius. In seven of the ten countries, the annual per capita expenditure on household goods averaged more than 1,400 euros. One characteristic of the countries in the top economic group is that a relatively small share of the population lives in extreme poverty – the figure is below 15 percent in all these countries. In Tunisia,

Morocco, South Africa, and Egypt, the proportion of the population living in extreme poverty is in the low single-digit figures. These ten countries exhibited growth rates of five percent a year in the period from 2005 to 2010, and their economies are also highly diversified. In all of them, manufacturing and services together account for well over half of GDP. In South Africa, Swaziland, Mauritius, and Djibouti the figure is above 80 percent. Countries strongly dependent on commodity exports with a low degree of diversification – such as Libya, Nigeria, and the Democratic Republic of the Congo – therefore do not qualify for the top group in our economic evaluation, despite relatively high GDP.

## Politics, Ease of Doing Business, and Rule of Law

To evaluate these areas we used four indices: “Ease of Doing Business”, “Rule of Law”, “Political Stability”, and “Corruption Perceptions”. The first three indices were compiled by the World Bank, the fourth by Transparency International on the basis of interviews with experts and industry representatives in each country.

According to these indices, politically and in terms of rule of law the most stable countries on the African continent are Mauritius, Botswana, Namibia, Tunisia, South Africa, Ghana, Rwanda, Zambia, Lesotho, and Morocco. It is significant that five of these countries also belong to the top economic group, since rule of law and political stability are important prerequisites for economic development. Some of the countries score highly in the “Rule of Law”, “Political Stability”, and “Corruption Perceptions” indices. Thus Botswana, Namibia and Mauritius are not only the least corrupt countries in Africa, but also those evaluated as having the best legal systems and the highest levels of political stability. When it comes to the Ease of Doing Business Index, however, South Africa,

Rwanda, and Morocco score far ahead of the others, although they lag behind in terms of political stability. The most politically unstable and corrupt countries are Somalia, the Democratic Republic of the Congo, Chad, Guinea, and the Central African Republic. The oil-rich countries Angola, Nigeria, and Equatorial Guinea are in the lower third of the league table and therefore qualify as only moderately attractive economic partners.

## Living Conditions

In these areas of the evaluation, we used the indicators infant mortality, adult mortality (i.e., the likelihood of suffering premature death), percentage of the population with secondary education, and percentage of the population with higher education. From this perspective Algeria, Egypt, Tunisia, Ghana, Gabon, Morocco, Mauritius, Madagascar, Eritrea, and South Africa do best. Some of these countries (Egypt, Tunisia, Ghana, Morocco, Mauritius, South Africa) also score well in other areas, so that we would therefore expect to find reasonable living conditions there. On the other hand, some of them scored high on living conditions and education but did less well on the economic and political indicators – for example, Eritrea, which only scored four and five, respectively, on these two indicators; Algeria, which achieved scores of three and four; and Madagascar, which was awarded a three for both political stability and ease of doing business.

The better the economic situation and the more reliable the political situation, the broader the sector of the population that can share in prosperity. This has an impact on living standards, which can be measured, among other things, in terms of the infant mortality rate. In Mauritius, only 13 newborns per thousand die in the first 12 months after birth – the lowest infant mortality rate in the whole of Africa. In Tunisia, Egypt, and Morocco the rate is below 40 per thousand, which indicates relatively good living conditions. In these countries, about half the adult population has at least secondary education. Here Ghana is also represented in the top group – at 58 percent, it has the highest proportion of the population with secondary education in Africa. In Egypt, 19 percent of people between the ages of 20 and 64 have further education: this is once again the best rate in Africa.

Eritrea is an isolated country under a military dictatorship. Despite its wretched economic situation, it has a relatively low infant mortality rate and moderate adult mortality, putting it in the top group with respect to living conditions. A further conducive factor is that as many as 31 percent of the adult population have at least secondary education and 7 percent have a university or college degree. The same is true for Algeria, where the low mortality rates for both infants and adults and

the good educational data (53 percent have secondary education) point to a decent health and education system.

At the bottom of the league table in this respect come Equatorial Guinea, Botswana, Angola, Mozambique, and Chad – not least because of their high mortality rate, which in Botswana is caused by the HIV/Aids epidemic. In some of these countries, however, missing educational data have led to their being more negatively assessed. But if such data are not even recorded, this suggests a fundamentally poor education system.

## Population Potential

The potential consumer markets in Africa vary considerably, as a look at the population figures reveals. As well as the size of the population, the evaluation of consumer potential also takes into account demographic trends up to 2030 in the 20–39 age-group, the dependency ratio (number of children and elderly people per hundred people of working age), and the proportion of the urban population.

According to these criteria the most attractive potential markets on the continent are Tunisia, South Africa, Ghana, Morocco, Egypt, Algeria, Ivory Coast, Nigeria, Sudan, and Angola. Nigeria and Egypt, with 158 million and 81 million inhabitants, respectively, are ranked in first and third place among the most populous African countries. In Egypt, moreover, the dependency ratio lies at 58 children and old people per hundred of the working age

population, which is relatively low by African standards. In both countries, however, the proportion of the urban population is less than 50 percent and hence below the African average. Although Angola, Ivory Coast, and Ghana only have between 20 million and 24 million inhabitants, they can expect population growth in the 20–39 age-group of about 60 percent by 2030. With 10 million inhabitants, however, Tunisia has one of the highest urban – and hence easily accessible – populations, namely, 67 percent. Other populous states, such as Ethiopia and the Democratic Republic of the Congo, were only awarded a two for their population potential, despite populations numbering 83 million and 66 million, respectively. Although both countries are experiencing strong population growth, their dependency ratios of 81 (Ethiopia) and 96 (Democratic Republic of the Congo) children and elderly people per hundred of working age mean that both the state and families have a very heavy burden to bear. Both countries are also predominantly rural. Only 35 percent of the inhabitants of the Democratic Republic of the Congo live in cities, and in Ethiopia, only 16 percent.

# THE INDICATORS AND HOW THEY WERE EVALUATED

To evaluate the current economic, social, and demographic situation of the countries of Africa as well as their potential for development, 16 different indicators were used. They allow a comparison of 50 African states. Africa's three island nations (Seychelles, Sao Tomé and Príncipe, and Cape Verde), all of which have fewer than 500,000 inhabitants, were not included in the evaluation. It also excludes Southern Sudan, which does not yet appear as an independent state in the statistics.

The evaluation was carried out by awarding each country indicator points according to the ranking it achieved (the best country was awarded 50 points, the worst, one point). For four areas – population potential, living conditions, political stability, and state of the economy – the evaluation points of the four corresponding indicators were added together. The ten countries with the highest scores were given a rating of one, the next ten countries a rating of two, and so on. For the overall rating, the rating points for all 16 indicators were added together.

## Population potential

### 1. Number of inhabitants in 2010 (Source: United Nations Population Division [UNPD])

The populations and hence the market potential of African countries varies considerably. They range from a population of 700,000 in Equatorial Guinea to 158 million in Nigeria.

### 2. Changes in the number of 20–39-year-old inhabitants between 2010 and 2030 (Source: UNPD)

In developing countries, the 20–39 age-group is a particularly important group of consumers. Increasingly they include well-educated, upwardly mobile people who have set up their own businesses. They have an open-minded attitude to new products and strive to increase their families' standard of living. Demographic developments mean that this segment of the population is growing strongly in all African countries – albeit at different rates, ranging from +47 percent in Tunisia to +64 percent in Niger.

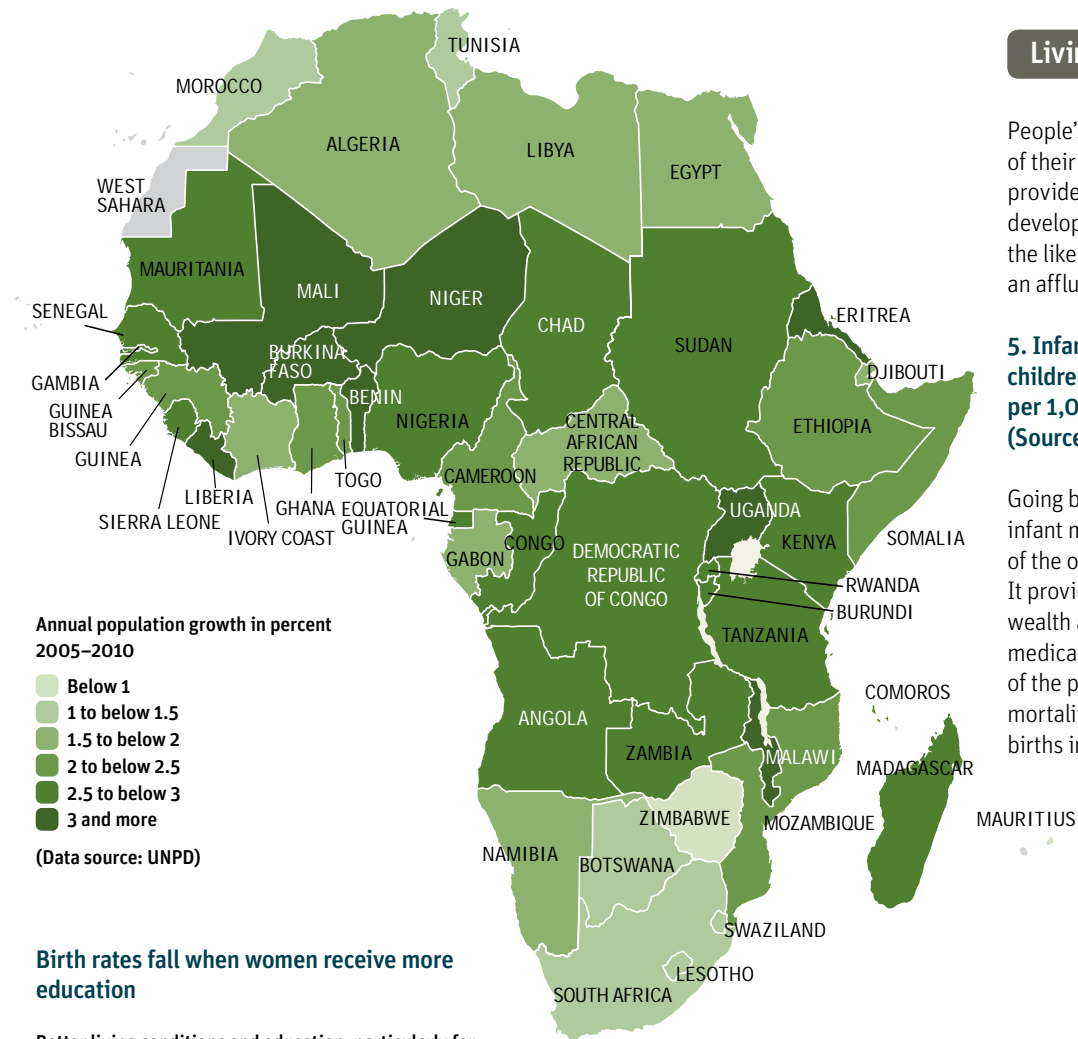
Ranking	Population potential rating	Rating
1	South Africa	1
2	Ghana	1
3	Sudan	1
4	Algeria	1
5	Egypt	1
6	Morocco	1
7	Ivory Coast	1
8	Nigeria	1
9	Angola	1
10	Tunisia	1
11	Gabon	2
12	Libya	2
13	Cameroon	2
14	Ethiopia	2
15	Madagascar	2
16	Senegal	2
17	Equatorial Guinea	2
18	The Gambia	2
19	Djibouti	2
20	Democratic Republic of the Congo	2
21	Tanzania	2
22	Mozambique	2
23	Benin	3
24	Zimbabwe	3
25	Togo	3
26	Congo	3
27	Botswana	3
28	Kenya	3
29	Mauritania	3
30	Burkina Faso	3
31	Guinea	4
32	Uganda	4
33	Malawi	4
34	Mauritius	4
35	Namibia	4
36	Niger	4
37	Mali	4
38	Sierra Leone	4
39	Eritrea	4
40	Chad	4
41	Zambia	5
42	Central African Republic	5
43	Somalia	5
44	Rwanda	5
45	Burundi	5
46	Lesotho	5
47	Liberia	5
48	Comoros	5
49	Guinea-Bissau	5
50	Swaziland	5

### 3. Dependency ratio in 2010 (Source: UNPD)

The consumer potential of the 15–64 age-group (i.e., people of working age) can only develop if their income and productivity are not exhausted by having to provide for large numbers of children and elderly people. The dependency ratio refers to the number of children under the age of 15 and the number of elderly people over the age of 64 who have to be supported by a hundred people of working-age. This ratio ranges between 40 in Mauritius and 105 per 100 in Niger.

### 4. Percentage of the population living in cities in 2010 (Source: UNPD)

Urban dwellers are usually wealthier and better educated than their rural counterparts and, unlike farmers, they do not grow their own food. The percentage of city-dwellers is therefore an interesting indicator of the consumer potential of a country. It ranges between only 11 percent in Burundi and 86 percent in Gabon.



### Birth rates fall when women receive more education

Better living conditions and education, particularly for women, slow down population growth in developing countries. The improved living standards in the countries of North Africa and in South Africa can thus be deduced from their relatively low birth rates. Conversely, in politically unstable and economically weak countries like Niger, Mali, or Burkina Faso, the population continues to grow rapidly.

### Living conditions

People's living conditions, measured in terms of their state of health and level of education, provide information about the future economic development potential of a country and about the likelihood that it will manage to establish an affluent middle class.

### 5. Infant mortality in 2010 (number of children who die before their first birthday per 1,000 live births) (Source: UNPD)

Going beyond the purely medical aspect, the infant mortality rate is a very good indicator of the overall social development of a country. It provides information about the levels of wealth and education and the quality of medical care and about whether all sectors of the population have access to these. Infant mortality ranges between 13 per 1,000 live births in Mauritius and 131 in Chad.

Ranking	Living conditions	Rating
1	Algeria	1
2	Egypt	1
3	Tunesia	1
4	Ghana	1
5	Gabon	1
6	Morocco	1
7	Mauritius	1
8	Madagascar	1
9	Eritrea	1
10	South Africa	1
11	Zimbabwe	2
12	Kenya	2
13	Namibia	2
14	Swaziland	2
15	Mauritania	2
16	Senegal	2
17	The Gambia	2
18	Nigeria	2
19	Togo	2
20	Libya	2
21	Liberia	3
22	Cameroon	3
23	Democratic Republic of the Congo	3
24	Ivory Coast	3
25	Benin	3
26	Zambia	3
27	Uganda	3
28	Burkina Faso	3
29	Ethiopia	3
30	Lesotho	3
31	Guinea	4
32	Sudan	4
33	Comoros	4
34	Congo	4
35	Niger	4
36	Tanzania	4
37	Mali	4
38	Djibouti	4
39	Central African Republic	4
40	Rwanda	4
41	Sierra Leone	5
42	Guinea-Bissau	5
43	Angola	5
44	Botswana	5
45	Malawi	5
46	Mozambique	5
47	Chad	5
48	Somalia	5
49	Burundi	5
50	Equatorial Guinea	5

## 6. Adult mortality 2010 (deaths among 15–59-year-olds per 1,000 inhabitants of this age-group) (Source: UNPD)

The adult mortality rate provides information about the general health of the population (which is also influenced by HIV/Aids) and about everyday dangers like accidents and violence. The mortality rate ranges between 102 per 1,000 in Tunisia and 638 per 1,000 in Zimbabwe.

## 7. Percentage of 20–64-year-olds with at least secondary education (2010) (Source: International Institute for Applied Systems Analysis [IIASA])

The educational level of the population allows conclusions to be drawn about a country's future social and economic development. The percentage of those with secondary education in Africa ranges from 9 percent in Tanzania to 44 percent in Ghana (six countries had such a poor education system that they had no data on this indicator).

## 8. Percentage of 20–64-year-olds with tertiary education (2010) (Source: IIASA)

People with higher education are particularly indicative of a society's ability to engage in economic and technological innovation. The percentage of people with higher education ranges from 0 percent in Angola and 19 percent in Egypt. For six countries there were no data.

## Political stability

Anyone engaging in entrepreneurial activities in Africa needs to know how stable the political situation is, to what extent they can rely on the rule of law, and how corrupt the country is. The political section of the evaluation therefore covers four recognised indices from these areas, with some overlap within the indices. Since the results to some extent depend on the subjective assessments of the respondents, taking several indices together helps to ensure the accuracy of the evaluation.

## 9. Rule of Law Index 2010 (Source: World Bank)

The Rule of Law Index assesses the legal security in a country, especially the enforceability of contracts, the integrity of the police and the courts, and the level of crime. In Africa this index value ranges between 0.84 in Mauritius and –2.43 in Somalia.

## 10. Ease of Doing Business Index 2010 (Source: World Bank)

The Ease of Doing Business Index rates all countries of the world in terms of how regulated their business environment is. The highest-ranking country in Africa is Mauritius (which in the world ranking came 23rd of 183 countries), the lowest-ranking was Chad (placed 183rd in the world ranking). For three countries there were no data available.

Ranking	Politics	Rating
1	Mauritius	1
2	Botswana	1
3	Namibia	1
4	Tunisia	1
5	South Africa	1
6	Ghana	1
7	Rwanda	1
8	Zambia	1
9	Lesotho	1
10	Morocco	1
11	Malawi	2
12	Swaziland	2
13	Tanzania	2
14	Gambia	2
15	Mozambique	2
16	Egypt	2
17	Burkina Faso	2
18	Gabon	2
19	Djibouti	2
20	Mali	2
21	Benin	3
22	Senegal	3
23	Uganda	3
24	Madagascar	3
25	Liberia	3
26	Sierra Leone	3
27	Ethiopia	3
28	Algeria	3
29	Togo	3
30	Kenya	3
31	Cameroon	4
32	Niger	4
33	Comoros	4
34	Equatorial Guinea	4
35	Mauritania	4
36	Nigeria	4
37	Libya	4
38	Congo	4
39	Eritrea	4
40	Ivory Coast	4
41	Guinea-Bissau	4
42	Angola	4
43	Sudan	5
44	Zimbabwe	5
45	Burundi	5
46	Central African Republic	5
47	Guinea	5
48	Chad	5
49	Democratic Republic of the Congo	5
50	Somalia	5

## 11. Political Stability Index 2010 (Source: World Bank)

The Political Stability Index 2010 assessed the likelihood of destabilisation and the overthrow of the political system as well as violent conflict or terrorism. The values ranged from 0.91 for Botswana to -3.09 for Somalia.

## 12. Corruption Perceptions Index 2010 (Source: Transparency International)

The Corruption Perceptions Index records business people's estimates of the degree of corruption in a country. The values range between 1 (highly corrupt) and 10 (free of corruption). In Africa it ranges from 1.0 for Somalia and 6.1 for Botswana.

## The Economy

The economic indicators quantify economic prosperity in the individual countries and provide information about households' disposable financial resources. They also provided insights into their economic structure and the distribution of wealth.

## 13. Average annual economic growth 2005–2010 (Source: World Bank)

Average annual economic growth varies considerably in Africa. It should be noted that very poor countries can achieve high growth rates more easily than those that already have a higher level of prosperity. The value for the period 2005 to 2010 ranged between -2.5 percent in Eritrea and 12.9 percent in Angola. There were no data for Somalia.

## 14. Annual per capita expenditure on household consumption 2005–2010, in US dollars (Source: World Bank)

Expenditure on household consumption embraces the market value of all goods and services, purchased or consumed by households (not including the purchase of real estate). Since not all countries provided data for each year of the years 2005–2010, the averages are based on different time periods. Data for all five years was available for 27 countries; in four countries only the data for 2005 were available. The range is between 92 dollars in Burundi and 4,441 dollars in Mauritius. For four countries there were no data at all.

Ranking	Economy	Rating
1	Tunisia	1
2	Morocco	1
3	South Africa	1
4	Egypt	1
5	Swaziland	1
6	Namibia	1
7	Djibouti	1
8	Mauritius	1
9	Lesotho	1
10	Ghana	1
11	Zambia	2
12	Kenya	2
13	Botswana	2
14	Malawi	2
15	Gabon	2
16	Gambia	2
17	Senegal	2
18	Uganda	2
19	Cameroon	2
20	Congo	2
21	Rwanda	3
22	Ivory Coast	3
23	Sudan	3
24	Mozambique <sup>4</sup>	3
25	Tanzania	3
26	Equatorial Guinea	3
27	Zimbabwe	3
28	Madagascar	3
29	Benin	3
30	Mauritania	3
31	Libya	4
32	Ethiopia	4
33	Liberia	4
34	Togo	4
35	Nigeria	4
36	Angola	4
37	Comoros	4
38	Burkina Faso	4
39	Algeria	4
40	Mali	4
41	Burundi	5
42	Central African Republic	5
43	Sierra Leone	5
44	Chad	5
45	Guinea	5
46	Eritrea	5
47	Democratic Republic of the Congo	5
48	Niger	5
49	Guinea-Bissau	5
50	Somalia	5

## 15. Percentage of the population living in extreme poverty in 2011 (Source: Oxford Poverty and Human Development Initiative [OPHI])

The Multidimensional Poverty Index determines the poverty rate by considering provisions in ten different areas, including housing, food, and access to electricity and sanitation. People are defined as extremely poor if they are disadvantaged in more than 50 percent of the indicators. The values range from 0.2 percent in Tunisia to 81.8 percent in Niger. For nine countries there were no data.

## 16. Percentage of manufacturing and services in GDP 2005–2010 (Source: World Bank)

Manufacturing and services as a percentage of GDP are an indicator of a diversified economy. The economic base of countries where this percentage is low is mainly in the extraction and export of raw materials. This not only represents a lack of economic innovation, it also makes such economies vulnerable to fluctuations in commodity prices and also, as a rule, makes it difficult for broad sectors of the population to gain a share of prosperity via education and professional advancement. Since only about half of the countries had data for all the years between 2005 and 2010, the average values are based on different periods of time. The values range from 14 percent in Equatorial Guinea to 87 percent in Swaziland.

# OVERALL ASSESSMENT

## A mixed picture

In summary, we can say the situation at the heart of the continent and in the Horn of Africa remains problematic, while there are grounds for hope in northern and southern Africa and to some extent in West Africa as well. South Africa, the West African state of Ghana, and Egypt, Tunisia, and Morocco offer the most potential for development and also achieved the highest scores in the fields of the economy, politics/rule of law, living conditions, and population potential. Other countries that give more qualified grounds for hope are Gabon, Mauritius, Namibia, Gambia, and Senegal. The second league also includes Kenya, the chief regional power on Africa's east coast, which together with Tanzania and Madagascar occupies top place. The important and populous state of Nigeria only received an overall score of three – yet the extremely wealthy ruling class and a growing middle class continue to make the country very interesting for companies and investors.

## 1 Africa's beacons of hope

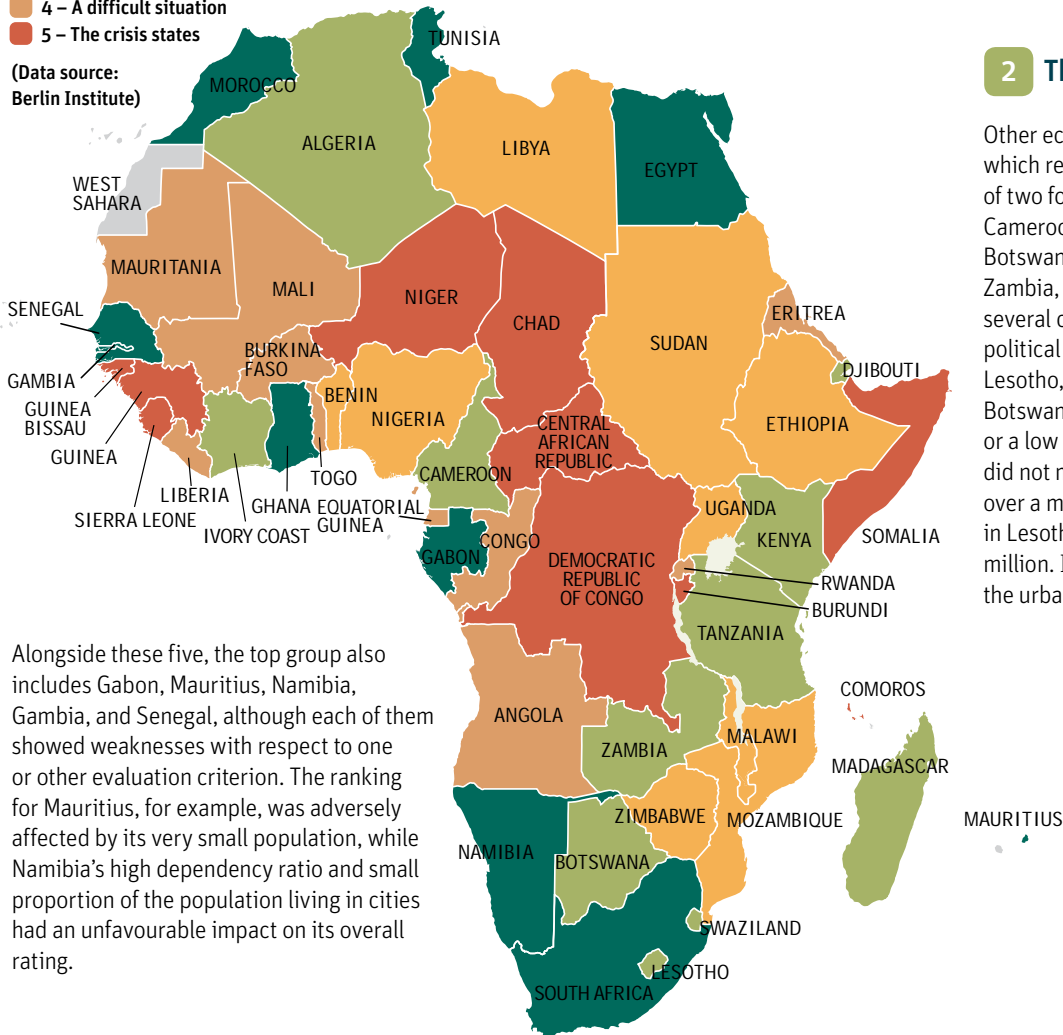
If we look at all four areas of evaluation together, five countries stand out from the rest of the continent: Tunisia, South Africa, Ghana, Morocco, and Egypt. They rank among the top countries on all counts – with one exception: Egypt scores much worse than the others with respect to the political situation. A fifth of the African population lives in these five states, and although positive developments mean that population growth is already quite low, the number of 20–39-year-olds will still rise by about half by 2030.

The annual average per capita expenditure on consumer goods in these countries ranges from less than 800 dollars in Ghana to 3,500 dollars in South Africa, which also ranks in second place on the continent after the island of Mauritius. Morocco, Egypt, and Tunisia all have per capita consumer spending levels of between 1,400 and 2,100 US dollars a year and therefore also score highly. The proportion of people living in extreme poverty is under four percent in four of the five countries and hence low by African standards. Only in Ghana is it slightly higher (11 percent). This indicates that quite a few people have been able to participate in the general rise in prosperity.

### Overall ranking

- 1 – Afrika's beacons of hope
- 2 – The second league
- 3 – Less attractive
- 4 – A difficult situation
- 5 – The crisis states

(Data source: Berlin Institute)



Alongside these five, the top group also includes Gabon, Mauritius, Namibia, Gambia, and Senegal, although each of them showed weaknesses with respect to one or other evaluation criterion. The ranking for Mauritius, for example, was adversely affected by its very small population, while Namibia's high dependency ratio and small proportion of the population living in cities had an unfavourable impact on its overall rating.

## 2 The second league

Other economically interesting countries which received an overall average ranking of two for all the indicators include Algeria, Cameroon, Kenya, Ivory Coast, Madagascar, Botswana, Tanzania, Swaziland, Djibouti, Zambia, and Lesotho. Among this group are several countries with good or very good political and economic indicators (such as Lesotho, Zambia, Djibouti, Swaziland, and Botswana). Owing to poor living conditions or a low population potential, however, they did not make it into the top group. Only just over a million people live in Swaziland, while in Lesotho the population is well over two million. In both countries, the proportion of the urban population is low – less than 21

and 26 percent, respectively. In Botswana the high mortality rate, caused mainly by HIV/AIDS, is the number one problem. Algeria and Ivory Coast, on the other hand, have a good population potential but achieve only moderate to bad reviews of their economic climate and political system. Cameroon, Kenya, and Madagascar recorded moderate to good scores in all four areas evaluated.

### 3 Less attractive

Libya, Sudan, Nigeria, Benin, Ethiopia, Zimbabwe, Mozambique, Malawi, and Uganda all received an overall evaluation of three. These countries did badly on several indicators with significant outliers below the mean in certain areas. In Libya, Sudan, Nigeria, and Ethiopia these were the economic situation and the political system. These countries are considered politically unstable, and the rule of law receives a low rating. Politically, Zimbabwe finds itself in the lowest fifth of all African countries. In Mozambique and Malawi living conditions are bad, even though the political and economic situation is classified as moderate to good. In those countries a hundred children per thousand die in the first year of life and less than 20 percent of the adult population have secondary education.

### 4 A difficult situation

Angola, Equatorial Guinea, the Congo, Mauritania, Togo, Eritrea, Liberia, Burkina Faso, Mali, and Rwanda all received an overall score of four. In many of these countries the economic or political indicators point to serious problems. Although Rwanda received one of the best political ratings, its economic situation was judged to be mediocre. What is more, population potential is weak and living conditions poor. Of Rwanda's ten million inhabitants, only 18 percent live in cities – one of the lowest shares in Africa. Only 15 percent of Rwandans have a secondary education. Equatorial Guinea, with a population of just 700,000 people, has a special role to play on account of its massive oil reserves – the country now has the third highest average per capita expenditure on household consumer goods in Africa. But this wealth is concentrated among a very small group. This is evident in the high infant mortality rate of 100 children per 1,000 newborns, indicating extremely poor living conditions for the general population. As for education, there were no data at all.

### 5 The crisis states

Ten countries still represent the old image of Africa as a poor, crisis-ridden, and underdeveloped continent: Comoros, Chad, Guinea, the Central African Republic, Sierra Leone, Niger, the Democratic Republic of the Congo, Burundi, Guinea-Bissau, and Somalia. Five countries (the Democratic Republic of the Congo, Central African Republic, Burundi, Chad, and Somalia) were at war in 2011. The economies of nearly all the countries in this group are in a wretched state and received a rating of five – the only exception being Comoros, which was awarded a four. Political stability and rule of law in almost all these countries was either poor or very poor. Only Sierra Leone showed a slightly more positive picture, scoring a three. The Democratic Republic of the Congo is a demographic heavy-weight with a current population of 66 million and a predicted rise of 60 percent in the population of 20–39-year-olds by 2030. Poor countries, however, generally have a problem providing the younger generation with the necessary education and health infrastructure. Nevertheless, almost half the adult population of the Democratic Republic of the Congo have completed secondary education, a level achieved by very few African countries. Yet given the difficult economic situation and annual per capita expenditure on household consumer goods of only 104 dollars, it will be a long time before these people become consumers.

Ranking	Overall	Rating
1	Tunisia	1
2	South Africa	1
3	Ghana	1
4	Morocco	1
5	Egypt	1
6	Gabon	1
7	Mauritius	1
8	Namibia	1
9	Gambia	1
10	Senegal	1
11	Algeria	2
12	Madagascar	2
13	Swaziland	2
14	Djibouti	2
15	Kenya	2
16	Botswana	2
17	Cameroon	2
18	Zambia	2
19	Ivory Coast	2
20	Lesotho	2
21	Tanzania	2
22	Nigeria	3
23	Uganda	3
24	Benin	3
25	Libya	3
26	Sudan	3
27	Malawi	3
28	Ethiopia	3
29	Mozambique	3
30	Zimbabwe	3
31	Togo	4
32	Mauritania	4
33	Rwanda	4
34	Burkina Faso	4
35	Congo	4
36	Liberia	4
37	Equatorial Guinea	4
38	Angola	4
39	Mali	4
40	Eritrea	4
41	Democratic Republic of the Congo	5
42	Sierra Leone	5
43	Niger	5
44	Comoros	5
45	Guinea	5
46	Central African Republic	5
47	Burundi	5
48	Chad	5
49	Guinea-Bissau	5
50	Somalia	5

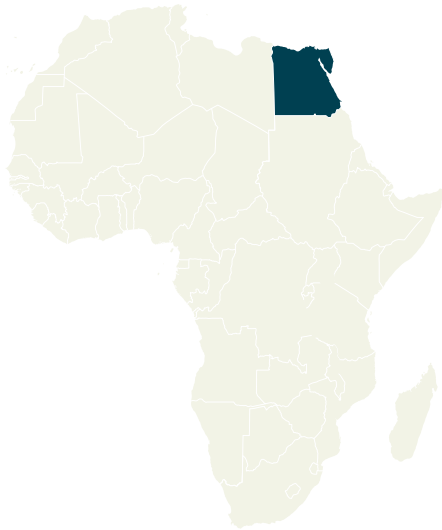


Indicators	Population potential						Living Conditions				Rating
	Total rating	Population 2010	Change in population of 20–39-year-olds 2010–2030	Dependency ratio 2010	Percentage of urban population	Rating	Infant mortality 2005–2010	Adult mortality 2010	Percentage of the population with secondary education 2010	Percentage of the population with tertiary education 2010	
Country		Millions	per cent				per thousand	per thousand			
Tunisia	1	10.5	46.7	43.7	67.3	1	21	102	41	5	1
South Africa	1	50.1	49.4	53.3	61.7	1	55	533	47	11	1
Ghana	1	24.4	58.7	73.6	51.5	1	50	255	58	6	1
Morocco	1	32.0	49.1	50.4	58.2	1	34	125	29	10	1
Egypt	1	81.1	53.9	57.6	43.4	1	26	120	43	19	1
Gabon	1	1.5	58.0	66.1	86.0	2	51	286	55	10	1
Mauritius	1	1.3	48.6	40.4	41.8	4	13	160	51	3	1
Namibia	1	2.3	57.0	66.9	38.0	4	38	342	23	4	2
Gambia	1	1.7	61.9	85.7	58.2	2	74	284	26	3	2
Senegal	1	12.4	60.1	85.5	42.4	2	55	275	17	3	2
Algeria	2	35.5	48.6	46.3	66.5	1	25	121	53	12	1
Madagascar	2	20.7	63.6	86.0	30.2	2	45	198	31	4	1
Swaziland	2	1.2	54.0	71.7	21.4	5	76	569	49	12	2
Djibouti	2	0.9	57.2	64.2	76.2	2	82	315	ND	ND	4
Kenya	2	40.5	58.4	82.2	22.2	3	65	398	29	11	2
Botswana	2	2.0	51.8	57.6	61.1	3	41	519	ND	ND	5
Cameroon	2	19.6	57.0	78.9	58.4	2	94	413	42	6	3
Zambia	2	13.1	59.3	97.7	35.7	5	95	502	35	7	3
Ivory Coast	2	19.7	59.9	80.9	50.6	1	77	399	22	6	3
Lesotho	2	2.2	51.4	71.5	26.9	5	77	606	32	4	3
Tanzania	2	44.8	61.4	91.8	26.4	2	65	385	9	1	4
Nigeria	3	158.4	58.3	85.9	49.8	1	96	396	38	13	2
Uganda	3	33.4	62.0	103.8	13.3	4	79	415	20	7	3
Benin	3	8.8	60.7	87.7	42.0	3	85	316	21	3	3
Libya	3	6.4	50.3	53.2	77.9	2	15	120	ND	ND	2
Sudan	3	43.6	60.0	77.5	40.1	1	64	248	ND	ND	4
Malawi	3	14.9	63.0	95.7	19.8	4	95	443	18	1	5
Ethiopia	3	82.9	61.0	81.2	16.7	2	73	301	14	2	3
Mozambique	3	23.4	59.5	90.1	38.4	2	88	470	15	1	5
Zimbabwe	3	12.6	57.7	75.7	38.3	3	59	638	56	8	2
Togo	4	6.0	57.6	75.6	43.4	3	74	335	30	3	2
Mauritius	4	3.5	57.7	74.2	41.4	3	77	264	19	6	2
Rwanda	4	10.6	57.5	82.8	18.9	5	100	340	15	1	4
Burkina Faso	4	16.5	60.4	90.7	25.7	3	79	283	13	3	3
Congo	4	4.0	57.3	79.4	62.1	3	72	335	14	1	4
Liberia	4	4.0	ND	86.2	47.8	5	89	357	37	4	3
Equatorial Guinea	4	0.7	62.6	72.9	39.7	2	103	369	ND	ND	5
Angola	4	19.1	61.8	96.3	58.5	1	104	375	24	0	5
Mali	4	15.4	59.5	97.5	35.9	4	101	339	13	3	4
Eritrea	4	5.3	59.0	78.8	21.6	4	54	319	31	7	1
Democratic Republic of the Congo	5	66.0	60.1	95.9	35.2	2	116	389	48	6	3
Sierra Leone	5	5.9	57.8	81.4	38.4	4	114	471	26	3	5
Niger	5	15.5	64.4	104.8	17.1	4	96	306	10	2	4
Comoros	5	0.7	58.2	82.9	28.2	5	72	269	ND	ND	4
Guinea	5	10.0	60.0	86.0	35.4	4	93	344	16	5	4
Central African Republic	5	4.4	56.9	79.7	38.9	5	105	491	27	3	4
Burundi	5	8.4	53.7	68.7	11.0	5	101	421	14	2	5
Chad	5	11.2	60.0	93.5	27.6	4	131	354	17	1	5
Guinea-Bissau	5	1.5	56.0	80.6	30.0	5	119	396	25	2	5
Somalia	5	9.3	58.9	91.0	37.5	5	107	348	9	2	5

Political stability, Rule of law					Economy						Indicators
Rule of Law Index 2010	Ease of Doing Business Index 2010	Political Stability Index 2010	Corruption Perceptions Index 2010	Rating	Average annual economic growth 2005–2010	Annual per capita expenditure on household goods 2005–2010	Percentage of the population living in extreme poverty 2010	Manufacturing and services as a percentage of GDP (2005–2010)	Rating		
					per cent	US-Dollars				Country	
0.11	46	0.10	3.8	1	6.4	2,106	0	77	1	Tunisia	
0.10	35	-0.03	4.1	1	4.2	3,537	2	82	1	South Africa	
-0.07	63	0.04	3.9	1	5.4	777	11	55	1	Ghana	
-0.19	94	-0.52	3.4	1	6.6	1,439	3	72	1	Morocco	
-0.11	110	-0.91	2.9	2	6.7	1,382	1	67	1	Egypt	
-0.51	156	0.22	3.0	2	2.9	2,714	13	40	2	Gabon	
0.84	23	0.53	5.1	1	5.7	4,441	ND	87	2	Mauritius	
0.23	78	0.75	4.4	1	4.3	2,204	15	73	1	Namibia	
-0.51	149	0.06	3.5	2	5.6	296	36	61	2	Gambia	
-0.41	154	-0.39	2.9	3	2.7	750	44	75	2	Senegal	
-0.76	148	-1.25	2.9	3	3.5	1,149	ND	37	4	Algeria	
-0.84	137	-1.13	3.0	3	1.7	281	35	71	3	Madagascar	
-0.50	124	-0.06	3.1	2	4.0	1,849	13	87	1	Swaziland	
-0.71	170	0.30	3.0	2	5.0	521	13	82	1	Djibouti	
-1.01	109	-1.20	2.2	3	4.9	504	20	71	2	Kenya	
0.66	54	0.91	6.1	1	3.6	2,389	ND	52	2	Botswana	
-1.04	161	-0.58	2.5	4	2.2	674	30	67	2	Cameroon	
-0.49	84	0.48	3.2	1	8.2	561	35	55	2	Zambia	
-1.22	167	-1.55	2.2	4	1.3	743	39	69	3	Ivory Coast	
-0.30	143	0.48	3.5	1	4.0	608	11	75	1	Lesotho	
-0.51	127	-0.01	3.0	2	7.6	273	44	56	3	Tanzania	
-1.21	133	-2.05	2.4	4	6.3	ND	34	28	4	Nigeria	
-0.40	123	-1.12	2.4	3	7.3	295	40	57	2	Uganda	
-0.73	175	0.31	3.0	3	3.3	375	47	62	3	Benin	
-0.98	ND	-0.06	2.0	4	5.4	2,453	ND	25	4	Libya	
-1.32	135	-2.70	1.6	5	8.1	696	ND	48	3	Sudan	
-0.14	145	0.08	3.0	2	8.8	188	40	63	2	Malawi	
-0.76	111	-1.71	2.7	3	11.7	229	72	45	4	Ethiopia	
-0.50	139	0.32	2.7	2	7.6	298	61	61	3	Mozambique	
-1.80	171	-1.21	2.2	5	-1.4	453	15	66	3	Zimbabwe	
-0.92	162	-0.19	2.4	3	2.1	304	29	43	4	Togo	
-0.88	159	-1.25	2.4	4	3.7	500	41	45	3	Mauritius	
-0.31	45	-0.11	5.0	1	7.9	291	51	56	3	Rwanda	
-0.21	150	-0.11	3.0	2	4.4	270	66	58	4	Burkina Faso	
-1.13	181	-0.25	2.2	4	5.5	813	23	25	2	Congo	
-1.01	151	-0.46	3.2	3	7.8	287	58	36	4	Liberia	
-1.26	155	0.24	1.9	4	7.7	3,039	ND	14	3	Equatorial Guinea	
-1.24	ND	-0.22	2.0	4	12.9	ND	55	30	4	Angola	
-0.46	146	-0.25	2.8	2	5.1	283	68	42	4	Mali	
-1.29	180	-0.87	2.5	4	-2.5	208	ND	65	5	Eritrea	
-1.61	178	-2.20	2.0	5	4.6	104	ND	36	5	Democratic Republic of the Congo	
-0.94	141	-0.20	2.5	3	5.5	237	53	ND	5	Sierra Leone	
-0.57	173	-1.14	2.5	4	3.5	174	82	ND	5	Niger	
-1.06	157	-0.43	2.4	4	1.0	661	44	42	4	Comoros	
-1.51	179	-1.81	2.1	5	1.2	362	62	38	5	Guinea	
-1.30	182	-2.15	2.2	5	3.2	357	55	39	5	Central African Republic	
-1.21	169	-1.54	1.9	5	4.5	92	62	54	5	Burundi	
-1.50	183	-1.53	2.0	5	0.1	409	44	37	5	Chad	
-1.35	176	-0.77	2.2	4	2.2	ND	ND	ND	5	Guinea-Bissau	
-2.43	ND	-3.09	1.0	5	ND	ND	66	ND	5	Somalia	

# EGYPT

## Desert State at a Crossroads



Beverly Hills, Egypt, is only two hours' drive from Little Venice. Both settlements, located respectively near Cairo and on the Red Sea, are well-to-do districts where residents can stroll among palm gardens and canals. A life of luxury that is unattainable for most inhabitants of this North African country, even though Egypt's economy has shown average annual growth of 7 percent in recent years.<sup>1</sup> But only a very few Egyptians have been able to benefit from this level of growth, while the majority continue to live in humble dwellings in the country's few major cities, in slums on the periphery, or else in small remote villages in the huge deserts that cover 95 percent of the area between the Mediterranean in the north and the border with Sudan in the south.

Yet Egypt certainly has potential, for its geographical location on the Red Sea and the Mediterranean could make it a crossroads between Europe, Africa, and Asia, while archaeological treasures, deep-sea diving, and white sandy beaches attract tourists from all over the world. Above all Egypt has a demographic bonus,<sup>2</sup> namely, that the share of people of working age in its population is much larger than the share of those who are either too young or too old to work. If harnessed intelligently, this bonus could augur a rosy future. Left unused, however, it could also lead to economic misery, chaos, and violence.

Around 95 percent of the 81 million Egyptians are younger than 65 and the share of 20–40-year-olds is set to rise by just under 54 percent by 2030.<sup>3</sup> More than a third of the population is under 14. However, the economic potential of such a young population can only be of use to a country if it provides them with sufficient jobs. Although the working population of Egypt rose from 16.9 million to 26.7 million people between 1990 and 2011,<sup>4</sup> and although the official unemployment rate of 12 percent is relatively low, the real figure is probably much higher, for many Egyptians work in the informal sector and therefore do not show up in the statistics. What is more, six million Egyptians, both unskilled and highly qualified, have emigrated abroad after failing to find work at home. The money they send home to their families every year amounts to tens of billions.<sup>5</sup>

In this patriarchal country, the first to lose their jobs are usually the women – if they have even managed to find a job in the first place. Officially, female unemployment stands at 23 percent, while only 9 percent of Egyptian males are unemployed.<sup>6</sup> Ironically, however, young people, who really stand to benefit most from the country's demographic bonus, are the hardest hit by unemployment. Around a quarter of young Egyptians are jobless, and every year a further 700,000 young people enter the labour market.<sup>7</sup> Young academics in particular are seeking work, and they account for around 90 percent of the unemployed under the age of 30. The position of unemployed academics is likely to grow worse rather than better in the coming years, for almost a third of those of student age are registered at the country's universities.

## Poor education, high living costs

Altogether 19 percent of Egyptians have completed tertiary education.<sup>8</sup> The high ratio of academics is partly the result of a law dating from 1960 that only went out of force a few years ago, which guaranteed all those who completed secondary or tertiary education a job in the civil service. Access to university is regulated by standard national tests – only those with top marks are admitted to study subjects like medicine or mechanical engineering, while the rest study arts and social sciences. As a result, around 82 percent of Egyptian students study the latter subjects while only about 14 percent study medicine or natural sciences, a skewed relationship that ignores the real needs of the labour market.<sup>9</sup>

In order to ensure that their children have the best possible opportunities in this system, one household in two with children of school age spends money on coaching. In 2002, coaching fees constituted 1.6 percent of Egyptian GDP.<sup>10</sup> Since then the number of pupils has risen, so the sum is now likely to be even higher. Yet, in terms of quality, the Egyptian education system comes near the bottom of the international league table, ranking 131st of 139 countries.<sup>11</sup>

As a result of poor education and high, partially hidden unemployment, the average annual income of 80 percent of Egyptian families is the equivalent of 2,250 euros.<sup>12</sup> More than a fifth of Egyptians even lives below the national poverty threshold of 1.50 euros a day.<sup>13</sup> Average per capita income, however, is 4,700 euros<sup>14</sup> – a sign of the unequal distribution of wealth in the country. The large

number of poor Egyptians have for many years also had to cope with a high inflation rate that at times topped 10 percent, sending living costs soaring. Food and fuel are subsidised and there is a minimum wage,<sup>15</sup> yet at 87 euros this is scarcely sufficient to feed a family, given that Egyptians have to spend half their monthly income on food and another third on housing, utilities, health, and education. Thus the average Egyptian has little money left over with which to purchase consumer goods.<sup>16</sup>

## Big increase in the number of university graduates

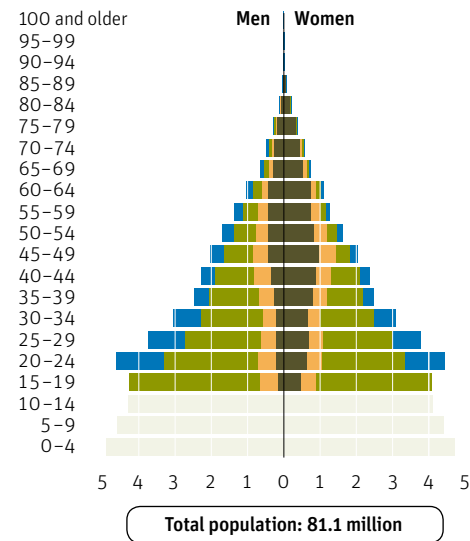
If current trends are anything to go by, the share of both male and female Egyptians with tertiary education will increase considerably by 2050. Even today, about a third of this age group are registered at the country's universities. Theoretically, the preconditions look to be set for an economic boom; but only if graduates are able to find work.

Population according to level of education attained (in millions)

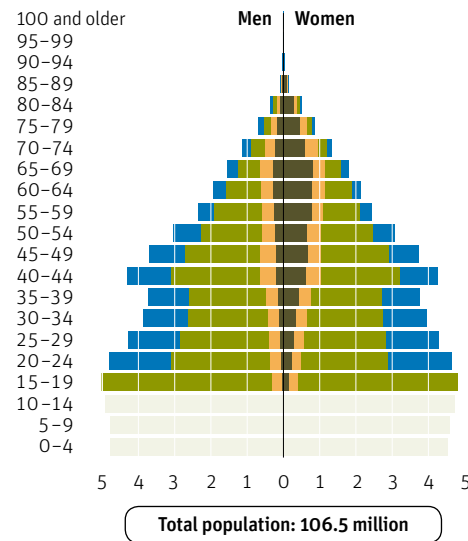
- No schooling
- Primary education
- Secondary education
- Tertiary education

(Data source: UNPD, IIASA)

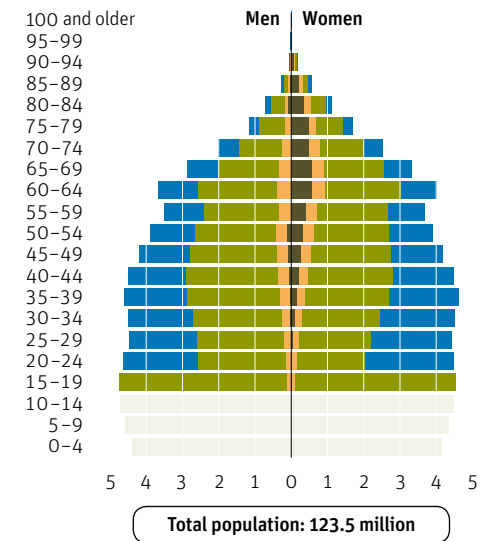
Egypt 2010



Egypt 2030



Egypt 2050



## Wealthy coast, impoverished desert

Egypt's wealth is very unevenly distributed between different regions of the country. The governorates in the interior bordering Libya to the west and Sudan to the south as well as east of the Nile as far as the Red Sea are thinly populated, impoverished desert regions. 20 percent – even 40 percent in some places – of the population in these areas is classified as very poor.<sup>17</sup> The Sinai Peninsula east of the Suez Canal is just as barren, and, with only half a million inhabitants, just as thinly populated. The Sharm al-Sheikh bathing resort at the southern tip of the peninsula does at least provide some jobs. The Suez Canal, joining the Red Sea and the Mediterranean and thus shortening shipping routes between Asia, Africa, Europe, and North America, is another important economic factor for parts of Sinai. The toll revenues from the canal amount to almost seven percent of GDP. At both the northern and southern ends of the canal there are free trade zones, which have boosted the local economy.

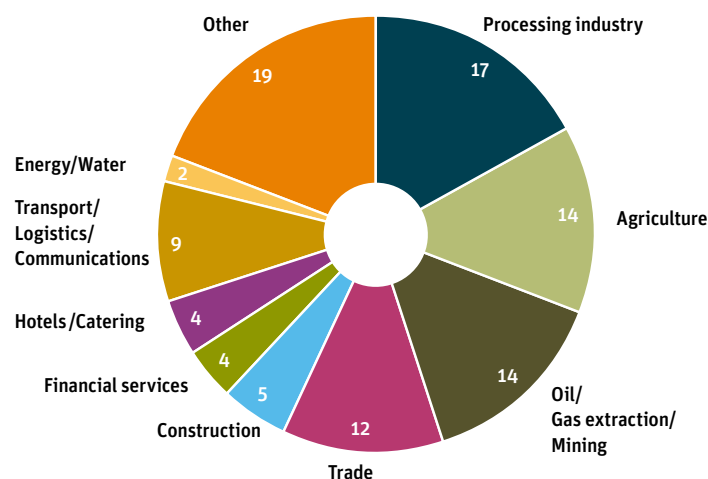
The Nile valley and the Nile delta on the Mediterranean form a marked contrast to the barren desert regions. In the Nile valley with its fertile mud, people have successfully grown fruit and vegetables since ancient times. On account of its ancient Egyptian monuments, such as the Valley of the Kings in Luxor, the

Nile valley is also a major tourist attraction, as are bathing resorts like Hurghada on the Red Sea. Although tourism suffered here in the 1990s following a number of terrorist attacks, it has now recovered and is responsible for 14 percent of GDP, employing 13 percent of the population of working age.<sup>18</sup> The economically most prosperous and also the most populous region of Egypt is, however, the Nile delta, which encompasses the greater metropolitan areas of Cairo, located slightly inland, and Alexandria on the Mediterranean coast. Most of Egypt's GDP is generated in this region – 142.7 billion of a total of 186.7 billion EUR in 2010.<sup>19</sup> This is where the country's largest companies have their headquarters and production facilities.

## Lucrative connections

The glittering facades of the office blocks along the Nile and in central Cairo stand for the Egyptian economic success story. In 1991 the Mubarak government, under pressure from the International Monetary Fund, embarked on economic reforms designed to bring about macroeconomic stability, reduce public expenditure, lower trade barriers, promote the private sector, and make the country attractive for direct foreign investment.<sup>20</sup> Those who benefited most from these reforms, however, were business people who had close ties to the government of the time. Thus companies and investors who were loyal to the regime paid symbolic sums for building land on the Red

Sea on which to build hotels. Some families became very rich through their close ties to the regime. One example is the Sawiris family, who under their patriarch Onsi Sawiris established one of Egypt's largest private companies: the Orascom holding, whose three subsidiaries for telecommunications, construction, and development are run by the patriarch's three sons. The company, which is listed on the stock exchange, is worth 9.77 billion euros and has made the family one of the wealthiest in Egypt.<sup>21</sup>



## A broad economic base with a high level of state ownership

Egypt's economy is broadly based, with sectors ranging from financial services to telecommunications and tourism. A special feature is the strong state sector: state-owned enterprises, making everything from munitions to cement to olive oil, produce around 40 percent of GDP. Most of the national economic output comes from the populous Nile delta, a region dominated by urban settlement from the inland capital of Cairo to Alexandria on the Mediterranean coast.

Percentage of GDP  
(Data source: Central Agency for Public Mobilization and Statistics)

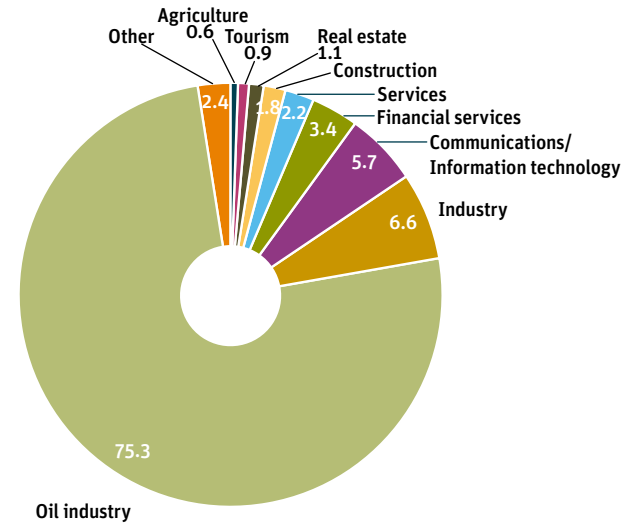
The most powerful counterweight to the private sector in Egypt is the state. Thus the output of state-owned enterprises accounts for around 40 percent of GDP. The various military enterprises alone are responsible for ten percent of annual economic output.<sup>22</sup> The state sector produces a broad range of products from munitions to cement to olive oil.<sup>23</sup> A total of around eight million Egyptians – almost one person in ten – are employed by the state. Around three million are employed by the security forces alone.<sup>24</sup>

However, the largest employer in the Egyptian economy is neither the private sector nor the state, but rather the informal sector, in which around 40 percent more people work than in the private sector. One reason for this is the cumbersome Egyptian bureaucracy.<sup>25</sup> It may take 18 months to register a small bakery, for instance, and up to ten years to purchase a piece of land.<sup>26</sup> Many Egyptians circumvent these obstacles by working on the black and running illegal businesses. Another factor contributing to the growth of the informal sector is migration from the countryside into the cities: many of the unskilled or poorly qualified internal migrants come from structurally weak regions of the country and earn their living as pedlars, rubbish collectors, or market traders.<sup>27</sup>

### More openness has an impact

Young people in particular, who saw no future for themselves in an economy dominated by an authoritarian, nepotism-ridden state, have now brought about a change of regime through a mostly peaceful revolution. But even before that, the opening of the economy set in motion by the now-deposed Mubarak government had already started to have a visible impact. Between 1991 and 2010 direct foreign investment rose from 141 million euros to more than 8.2 billion.<sup>28</sup> The majority of this investment came from the European Union and the United States, but in the interim the BRIC states Brazil, Russia, India, and China have also increased their investment in Egypt – above all in projects in the fields of energy, chemicals, automobile suppliers, and electrical and electronics components.<sup>29</sup> The Chinese company Teda Group, for example, is currently developing a new free trade zone on the Suez Canal; the Indian Tata Group has put money into Egyptian hotels; and the Indian company Shitsu Canadian Clear Limited is building a desalination plant. Egypt is urgently in need of investments of this kind in its drinking water supply, for population growth and a higher standard of living have meant that not all Egyptians have permanent access to clean drinking water. Forty percent of the inhabitants of Cairo, for example, can only obtain fresh water from the tap for three hours a day.<sup>30</sup> Water pollution and water shortages are daily occurrences.

Direct foreign investment in Egypt, in percent 2008/2009 (Data source: Egyptian Central Bank)



### China invests in Egyptian oil

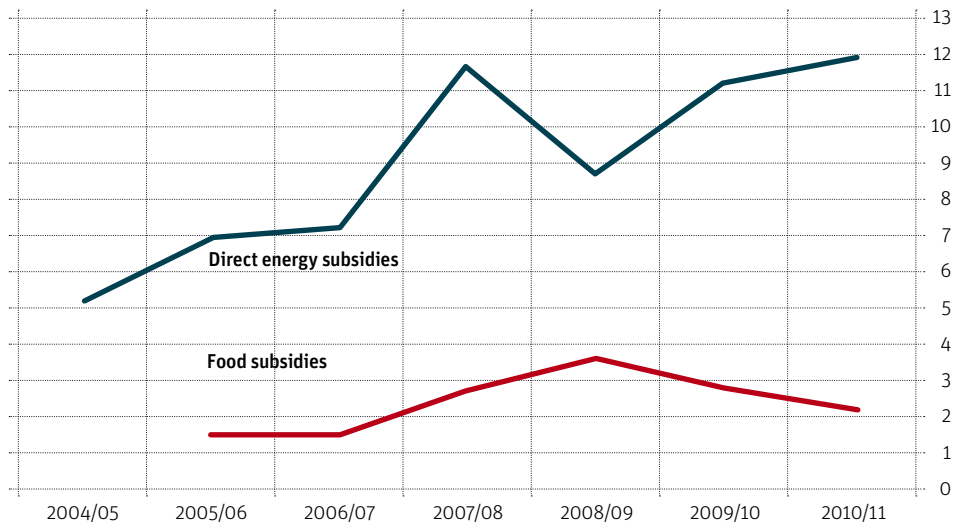
Direct foreign investment in Egypt has increased almost sixty-fold over the past twenty years. Money is flowing mainly into the Egyptian oil industry – even though Egypt’s oil reserves are relatively small. China and India in particular are anxious to secure future oil supplies. The Egyptian tourist industry, on the other hand, has attracted relatively few foreign investors, even though it is one of the country’s biggest employers.

The telecommunications infrastructure is also still waiting to be expanded. Although almost 98 percent of the population use mobile phones, only one household in three has an Internet connection.<sup>31</sup> The number of Internet users is, however, rising rapidly: between 2010 and 2011 it increased by 40 percent.<sup>32</sup> This is now even beginning to have an impact on the country’s sluggish labour market. Egypt now has 4,200 firms in the field of information and telecommunications technology, which employs 210,000 people. The number of

people employed in this sector is growing by more than nine percent a year.<sup>33</sup> Use of social media has spread considerably, not least as a result of the “Arab Spring”. But even prior to the protests, young Egyptians had founded companies in this field. After all, a young and technically savvy population requires such platforms not only in order to organise politically, but also simply to get in touch with friends or to use a sat nav app to negotiate their way through the chaos of Cairo’s traffic.

### The curse of the Pharaoh

The deposed state president Hosni Mubarak, nicknamed “the pharaoh”, has left the Egyptian economy in rather a mixed situation. Although the country was able to boast high growth rates for many years, it was increasingly paralysed by high inflation, which affects ordinary, less wealthy Egyptians most severely. In order to keep the people sweet the state, has been burdening its budget to the tune of several billion US dollars for high food and fuel subsidies.



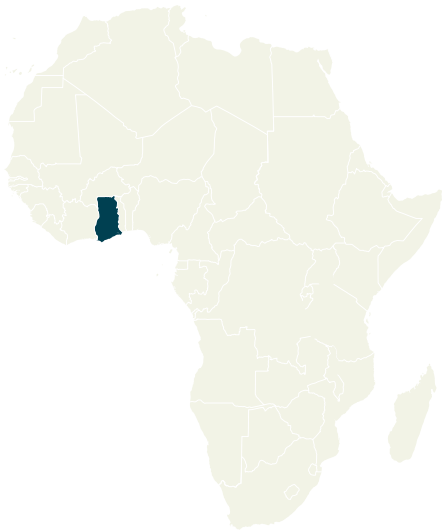
Direct subsidies, in billions of US dollars  
(Data source: World Bank, Egyptian Center for Economic Studies, for fiscal years 09/10 and 10/11 ECES estimates)



Annual inflation and GDP growth, in percent  
(Data source: World Bank, Egyptian Center for Economic Studies, for fiscal years 09/10 and 10/11 ECES estimates)

# GHANA

## The Showcase Democracy

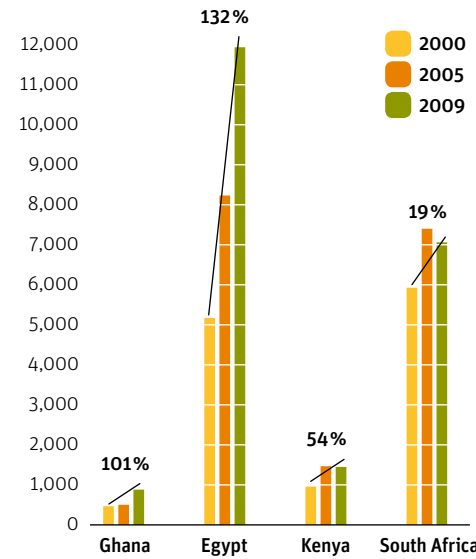


On the small tongue of land stretching out from the Ghanaian capital Accra towards the Gulf of Guinea stands a dazzling white fortress. This formidable fortification was built by the Danes in the 17th century and for a long time was used as base for trading in gold and slaves. Today the building is the official residence of Ghana's president and a popular tourist attraction. Each year, more and more tourists come to Ghana to enjoy the historic monuments, the idyllic beaches, and the "African experience". They can feel relatively safe, for the crime rate in Ghana is quite low and the political system fairly stable. Between 2000 and 2009 the annual number of visitors doubled to more than 800.000.<sup>1</sup> No other West African country attracts more tourists than Ghana.

That is no coincidence. More than fifty years ago, this former British colony, once called Gold Coast, became the first country in sub-Saharan Africa to gain independence. Ghana's legendary founding president Kwame Nkrumah then not only set about building dams, harbours, and roads in order to ensure the new state's economic independence, he also laid the foundations for what is today a reasonably functional parliamentary democracy. Although between the mid-1960s and the 1990s the country experienced several revolutions and military governments, the situation has settled down again since then and – unusually for sub-Saharan Africa, where chaos and violence are regular occurrences in the aftermath of elections – it has managed to have several peaceful changes of government.

### Political stability is good for tourism

Between 2000 and 2009, the number of tourists visiting Ghana doubled to more than 800,000 a year. No other West African country attracts more tourists. In Egypt, the traditional tourist destination, the increase was even greater over the same period, but the figures have recently gone into sharp decline because of the political unrest.



Number of arrivals and rate of increase, in percent  
(Data basis: UN World Travel Organisation)

This is one of the reasons why Ghana ranks among Africa's top nations for the indices "Political Stability" and "Rule of Law". The US research institute Freedom House awarded Ghana a "one" for civil rights on a scale ranging from one ("free") to seven ("unfree").<sup>2</sup> And in the Ibrahim Index of African Governance, which measures the quality of governance, Ghana was ranked seventh of 53 African countries in 2011.<sup>3</sup> Today, it has a more or less independent judiciary as well as an independent press. The organisation Reporters without Borders classifies Ghana's press as "free" and ranks the country in 27th place world-wide out of a total of 178 countries – that is the best ranking achieved by any African country.<sup>4</sup> Ghana's 24-million-strong population, as in many places elsewhere in Africa, consists of many different ethnic groups living alongside one another. But apart from isolated violent conflicts between two tribes in the north there have been practically no violent ethnic conflicts. This, too, is unusual for sub-Saharan Africa.



## GDP growth one of the highest in the world

Thanks to all these advantages, Ghana, which is about the size of the British Isles and is an English-speaking country surrounded by Francophone states, is considered West Africa's showcase democracy. Its political system is bolstered by a flourishing economy, which is although still small in absolute terms was able to boast average annual GDP growth of 5.4 percent between 2005 and 2010. Although this growth is slated to slow down somewhat in 2012,<sup>5</sup> Ghana remains among the world's fastest-growing economies despite the global economic crisis.

There are two main reasons for this. The impact of the crisis has been weaker in Ghana than in many of the industrialised nations because its economy is not so closely tied to world markets. Above all Ghana has profited from the continuing high prices for gold and cocoa. It is one of Africa's biggest exporters of cocoa and the second largest gold-mining nation on the continent after South Africa. A third of the country's export revenues comes from trading in gold.<sup>6</sup> Other important exports include tropical hardwoods, diamonds, manganese, and bauxite.

Overall, though, Ghana's economy is still strongly dependent on agriculture. Between 2005 and 2010, agriculture was responsible on average for 45 percent of GDP, and more than half of the country's jobs are currently in this sector.<sup>7</sup> Ghanaian farmers cultivate shea or cashew nuts or work on sugar cane, coffee, or cocoa plantations. Industry contributed only about 20 percent to GDP in 2010, although this share is increasing.<sup>8</sup> Industrial enterprises are concentrated in the harbour city of Tema and in the nearby capital, Accra. Together these two cities form part of an urban corridor that stretches 600 kilometres along the Gulf of Guinea from the Nigerian cities of Ibadan and Lagos, with their populations of millions, via Cotonou in Benin and Lomé in Togo all the way to Accra and represents the economic engine of the entire West African region.

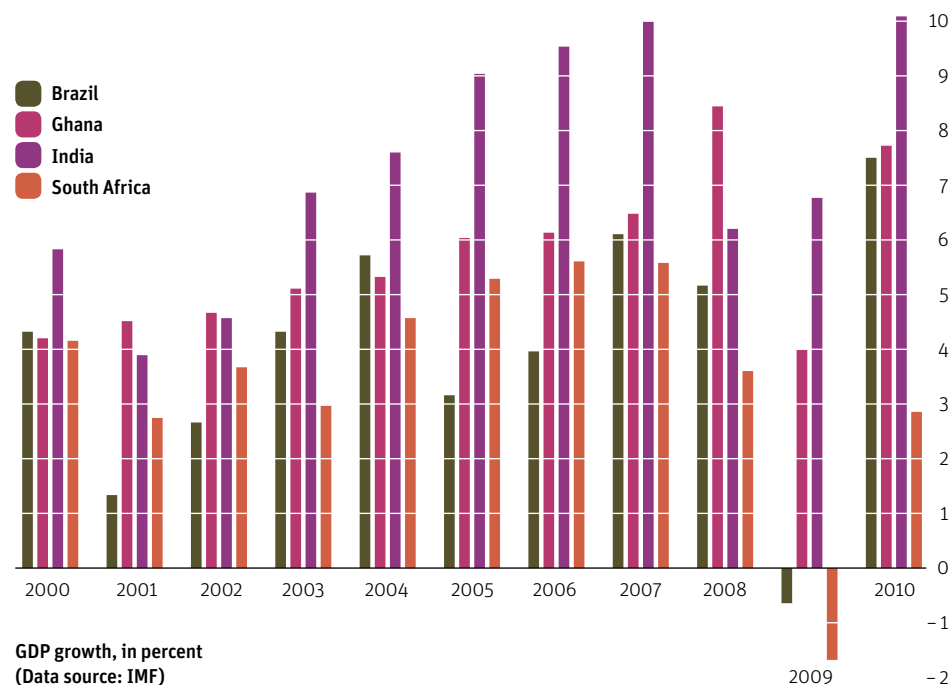
## Commodities prices fuel growth

Seen in absolute terms Ghana's economy is still comparatively small, but in terms of GDP growth it leads the African continent and is even ahead of South Africa. Internationally it was outdone in 2010 only by the booming Indian economy. Ghana benefits from the continuing high prices for its main exports, gold and cocoa.

## Only a few major cities

Accra has around two million inhabitants, with a further two million living in this urban conurbation. The Ghanaian capital is a highly developed metropolis and has three five-star hotels, West Africa's first modern shopping mall, and the giant Accra International Conference Centre, which attracts conference participants from all over Africa. Only about 30 km east of the capital lies the industrial

city of Tema, which in the 1950s was still a small fishing village. But since the opening of the ocean port in 1962 the population has grown rapidly and now numbers around 200,000. Around 80 percent of Ghana's imports and exports enter and leave the country through Tema's port. In addition it connects Burkina Faso, Mali, and Niger, all of which are landlocked, to world trade. The port is booming and the number of handled containers has more than tripled over the past ten years.<sup>9</sup> Now the facility is to receive deeper harbours and new wharfs. The port is surrounded by oil refineries and factories, including the Ghanaian branches of Nestlé and Unilever.

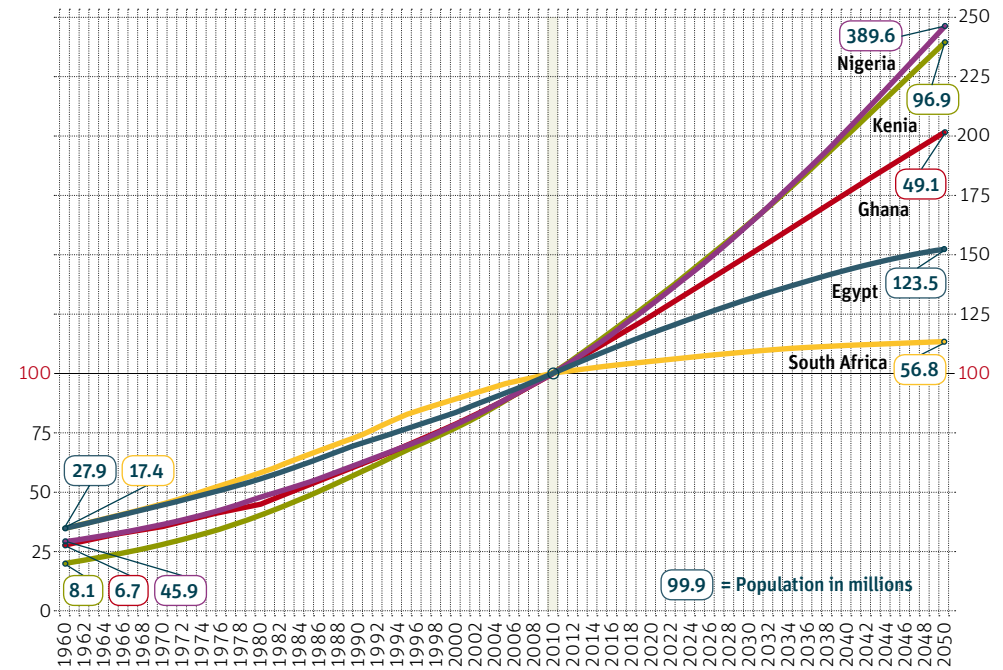


Alongside Accra, Ghana has only one other city with more than a million inhabitants: Kumasi, capital of the central Ashanti region, around 120 km away from Accra. The city of two million inhabitants is the centre of the gold industry and a hub of culture that boasts many museums and historical monuments commemorating the glorious era of the Kingdom of Ashanti, one of the most influential pre-colonial states in Africa, which put up bitter resistance to the British colonialists until well into the 19th century.

The further away one travels from the tropical coastal regions and the grass steppe of the Ashanti region to the north, the poorer, more rural, and more thinly populated the country becomes. In the dry plateaus of the mainly Muslim north on the border with Burkina Faso, red dust from the Sahara arrives regularly, carried by the desert wind Harmattan. Here many subsistence farmers still live. The region is scarcely able to feed itself and often requires food aid.

### Population growth depends on prosperity, education, and development.

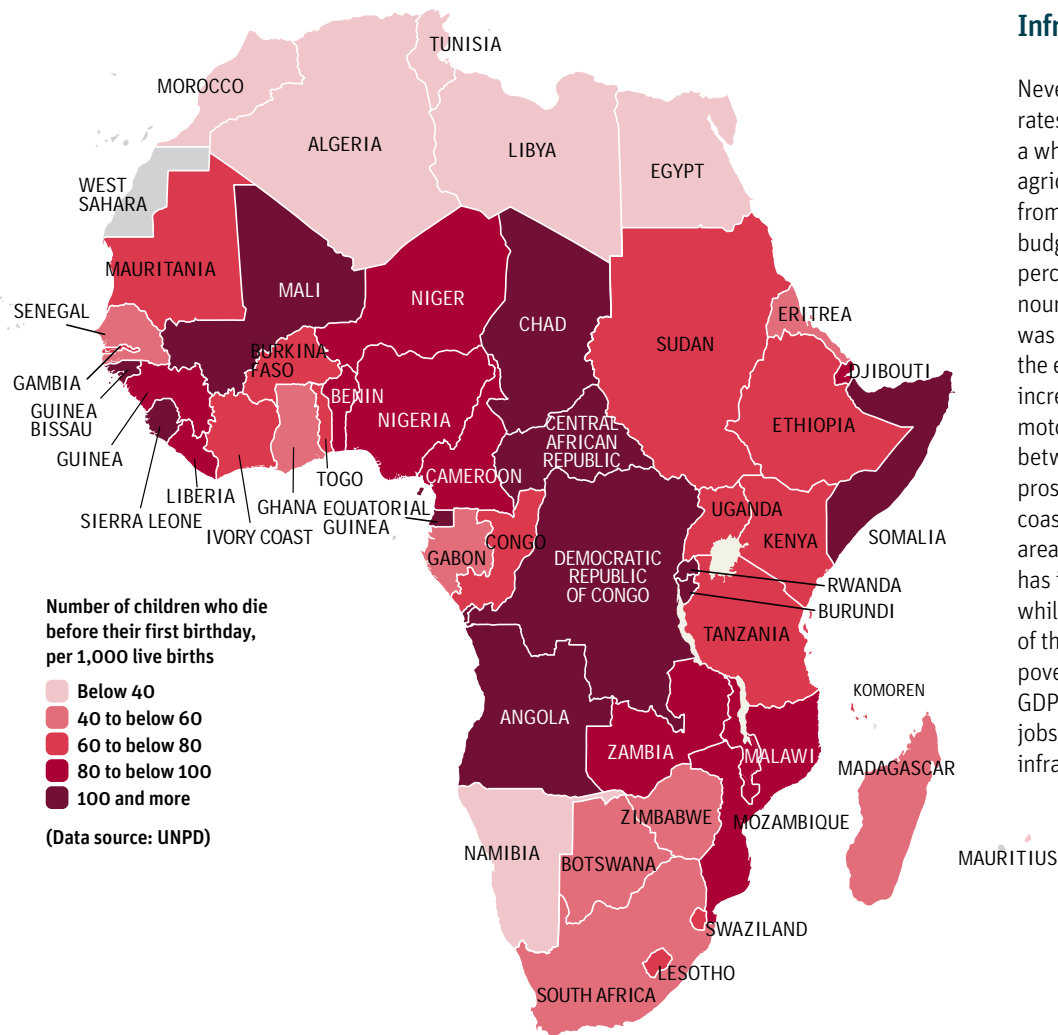
In 1960, Nigeria, Kenya, Ghana, South Africa, and Egypt all had less than half as many inhabitants as they did in 2010. Yet depending on prosperity, education, and economic development, these five countries are managing to keep population growth in check with widely varying degrees of success: whereas South Africa's population will continue to increase only slightly until 2050, the populations of the politically and economically less stable countries Nigeria and Kenya are still growing enormously. And even in prosperous Ghana the number of inhabitants is set to double by 2050.



Estimated population growth from 1960 to 2050, 2010 = 100 percent, from 2010 onwards, predicted (Data source: UNPD)

There is also a demographic divide between north and south Ghana. At around 50 deaths per thousand live births, infant mortality in Ghana between 2005 and 2010 was relatively low. By comparison, the Nigerian rate for the same period was over 96. The fertility rate of four children per woman is also relatively low for sub-Saharan Africa – in 1988 it was still 6.4.<sup>10</sup> However, population growth is unlikely to slow down much more in the future, for only a quarter of married women use contraceptives.<sup>11</sup> Population growth is still

disproportionately high in the underdeveloped north in particular: in North Province, for instance, it increased by 36 percent between 2000 and 2010.<sup>12</sup> That is more than in central Accra during the same period, where most of the increase could probably be accounted for by in-migration. In North Province 15 percent of all children under the age of five are undernourished – in contrast to only 2.5 percent of the under-fives in Accra.<sup>13</sup>



### More development, lower infant mortality

The more prosperous a population is on average, the smaller the number of children who die in the first years of life because of poor living conditions. Thus infant mortality in Mauritius, which is among Africa's economically and politically most successful countries, is the lowest on the whole continent. Infant mortality is considered to be a better indicator of living standards than, say, GDP. The latter is often made to rise by a single company, such as a diamond mine, whose profits usually benefit only a small sector of the population.

### Infrastructure hampers development

Nevertheless, despite the high GDP growth rates, we should not forget that Ghana as a whole is still one of the world's poorest agricultural states. This is evident, for example, from the fact that around a third of the state budget is dependent on foreign aid.<sup>14</sup> Five percent of the population was still undernourished in 2008, while a third of all adults was unable to read and write.<sup>15</sup> Thanks to the economic boom, prosperity in Ghana is increasing – the number of car owners and motorbike riders increased by 81 percent between 2009 and 2011.<sup>16</sup> But the growing prosperity is limited mainly to the southern coastal regions. The north remains a problem area, where the number of the very poor has increased by a million in recent years, while around 2.5 million people in the rest of the country were able to escape extreme poverty.<sup>17</sup> Broadly speaking, then, the strong GDP growth has so far not created more jobs, a better education system, or a sounder infrastructure.<sup>18</sup>

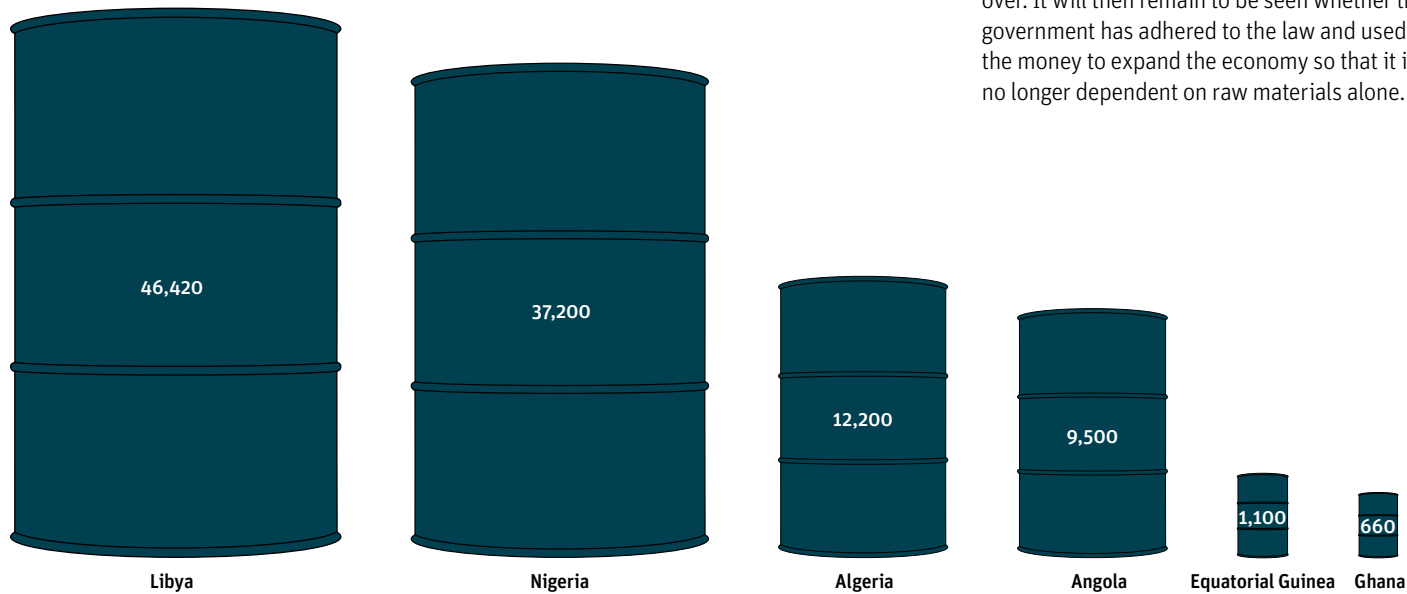
The latter in particular is acting as a brake on economic development in the entire country. Only a few long-distance roads are tarred, while small roads are un-metalled and full of potholes. While seven Ghanaians out of ten use mobile phones, and phone networks are accessible in wide parts of the country,<sup>19</sup> the share of the population that regularly surfs on the Internet lies at only 8.4 percent and hence below the African average of 13.5 percent.<sup>20</sup> The reason for this is that many Ghanaians simply do not have access to computers with an Internet connection. The Ghanaian government estimates that it would have to spend an annual 1.6 billion US dollars for ten years in order to modernise the infrastructure.<sup>21</sup>

Ghana does at least have some prospect of balancing its state budget deficit in the next few years, for in 2007 a US company discovered oil off Ghana's coast. Extraction has already begun – a further reason for the country's rapid economic growth – and the oilfield, named "Jubilee", has roused great hopes. A recent government bond issue was even oversubscribed.<sup>22</sup> The Ghanaian government is counting on oil revenues to

raise per capita income and domestic demand considerably and to create new jobs. To ensure that this happens, Ghana, at least according to official statements, is endeavouring to avoid the mistakes made by Nigeria and Angola, where the profits from oil extraction have benefited only a small minority.

To prevent this happening, the Ghanaian parliament passed a special Oil Act in 2010 stipulating that most of the profits from oil should be ploughed into improving the infrastructure and into education and health. A small proportion will go into a "stabilisation fund" designed to compensate for fluctuations in the oil price, as well as into a reserve

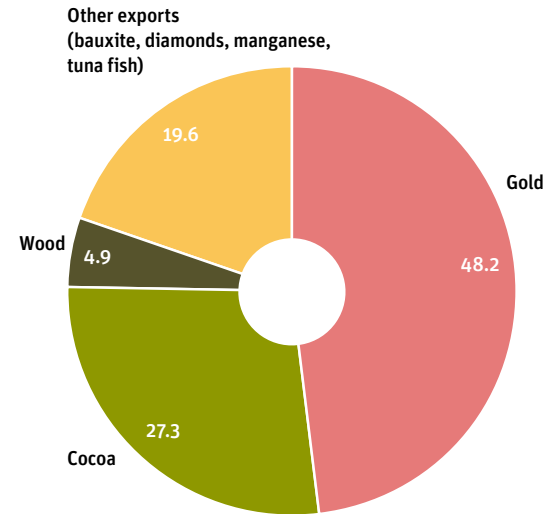
Proven oil reserves in millions of barrels  
(Data source: CIA World Factbook)



### Major exports – gold and cocoa

Ghana is one of the largest cocoa producers and Africa's second-largest gold producer after South Africa. Ghana earns more than three-quarters of its export revenues from these two commodities. Ghanaian exports of industrial goods are negligible. The industrial sector is still comparatively under-developed and accounts for only 20 percent of GDP – although this figure is rising.

fund for the period after all the oil has been extracted.<sup>23</sup> This may become necessary earlier than the Ghanaians hope: the oilfield is reported to be relatively small and to account for only a fraction of the Nigerian oil reserves.<sup>24</sup> Thus in a generation's time, so experts believe, the mini oil boom could be over. It will then remain to be seen whether the government has adhered to the law and used the money to expand the economy so that it is no longer dependent on raw materials alone.



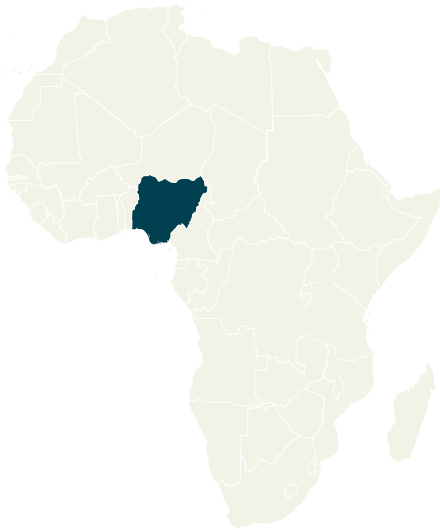
Percentage of total exports 2010  
(Data source: International Monetary Fund, Forestry Commission of Ghana)

### Great hopes, small reserves

Ghana is entertaining great hopes because oil reserves were discovered off its coast some years ago. The Ghanaian government is assuming that, thanks to oil revenues, there will be a general economic upturn. Yet by comparison with the classic African oil nations like Libya and Nigeria, Ghana's proven reserves are small. Therefore the country must use these revenues to quickly diversify the economy so as to ensure sustained growth.

# NIGERIA

## A promising heavyweight



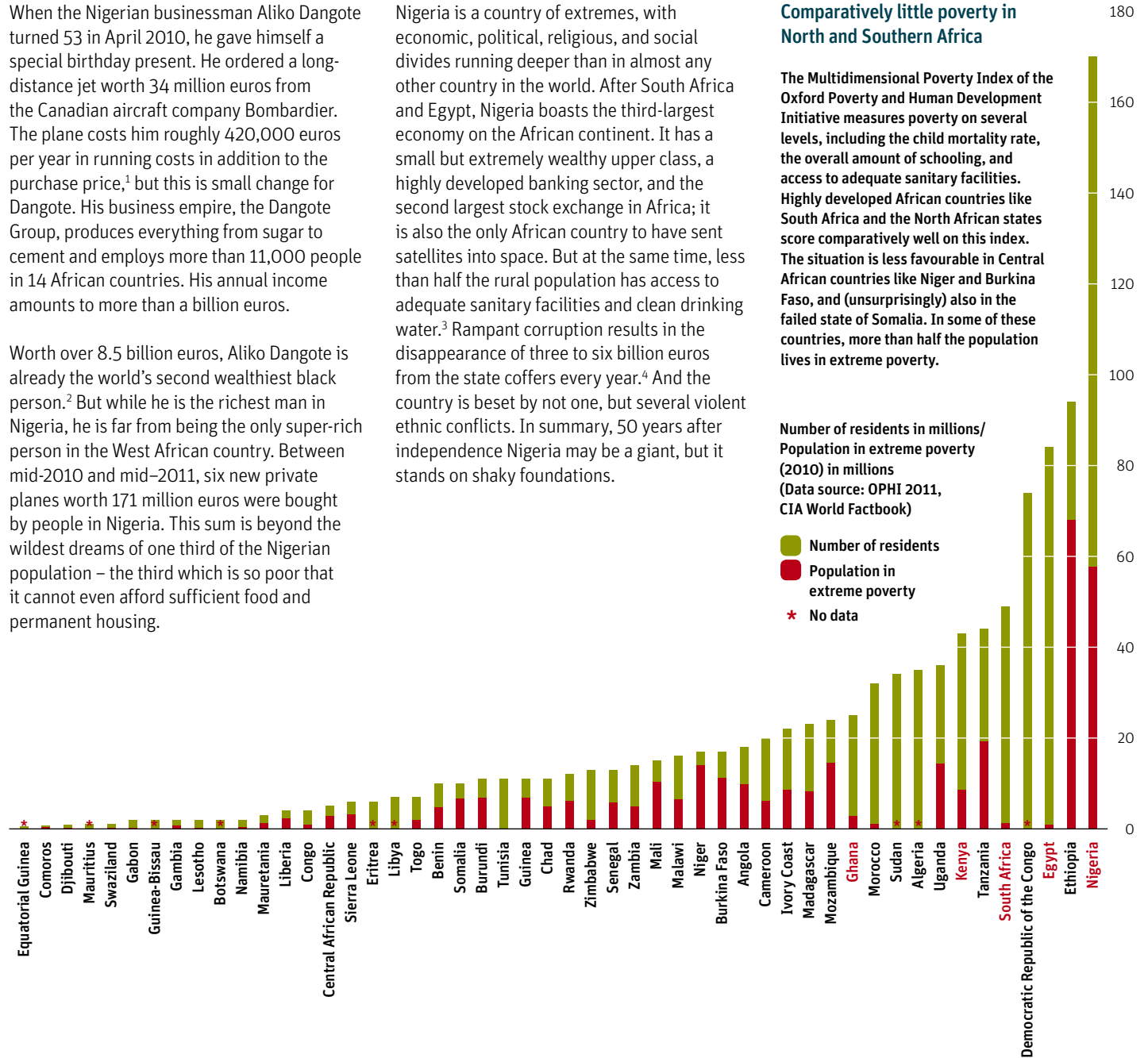
When the Nigerian businessman Aliko Dangote turned 53 in April 2010, he gave himself a special birthday present. He ordered a long-distance jet worth 34 million euros from the Canadian aircraft company Bombardier. The plane costs him roughly 420,000 euros per year in running costs in addition to the purchase price,<sup>1</sup> but this is small change for Dangote. His business empire, the Dangote Group, produces everything from sugar to cement and employs more than 11,000 people in 14 African countries. His annual income amounts to more than a billion euros.

Worth over 8.5 billion euros, Aliko Dangote is already the world's second wealthiest black person.<sup>2</sup> But while he is the richest man in Nigeria, he is far from being the only super-rich person in the West African country. Between mid-2010 and mid-2011, six new private planes worth 171 million euros were bought by people in Nigeria. This sum is beyond the wildest dreams of one third of the Nigerian population – the third which is so poor that it cannot even afford sufficient food and permanent housing.

Nigeria is a country of extremes, with economic, political, religious, and social divides running deeper than in almost any other country in the world. After South Africa and Egypt, Nigeria boasts the third-largest economy on the African continent. It has a small but extremely wealthy upper class, a highly developed banking sector, and the second largest stock exchange in Africa; it is also the only African country to have sent satellites into space. But at the same time, less than half the rural population has access to adequate sanitary facilities and clean drinking water.<sup>3</sup> Rampant corruption results in the disappearance of three to six billion euros from the state coffers every year.<sup>4</sup> And the country is beset by not one, but several violent ethnic conflicts. In summary, 50 years after independence Nigeria may be a giant, but it stands on shaky foundations.

### Comparatively little poverty in North and Southern Africa

The Multidimensional Poverty Index of the Oxford Poverty and Human Development Initiative measures poverty on several levels, including the child mortality rate, the overall amount of schooling, and access to adequate sanitary facilities. Highly developed African countries like South Africa and the North African states score comparatively well on this index. The situation is less favourable in Central African countries like Niger and Burkina Faso, and (unsurprisingly) also in the failed state of Somalia. In some of these countries, more than half the population lives in extreme poverty.



Nigeria has more than one-sixth of the total African population. With almost 160 million residents – about twice as many as Germany – it is Africa’s most populous country.<sup>5</sup> Half of the Nigerian population lives in cities, which are often very culturally diverse.<sup>6</sup> Nigeria has the largest number of languages and ethnic groups of all African nations: over 250 ethnic groups are estimated to live within its territory, which is larger than Germany and France put together. Its population density is as high as that of western Europe. At the same time, Nigeria is the world’s largest country with a population divided roughly equally into Christians and Moslems. All this makes for an extremely complex cocktail with all kinds of as yet untapped potential – potential that by far exceeds what the country has actually achieved. But the situation is as dynamic as it is unstable.

This is graphically illustrated by Nigeria’s domestic politics, which until recently consisted of nothing but an endless sequence of rigged elections, corrupt governments, and military coups. On the positive side, however, the country is currently in its fourth legislative period without a military coup. Never before in its history has the situation been so peaceful for so long. And the elections that put the current president, Goodluck Jonathan, into office in 2011 have been described as the fairest since independence.

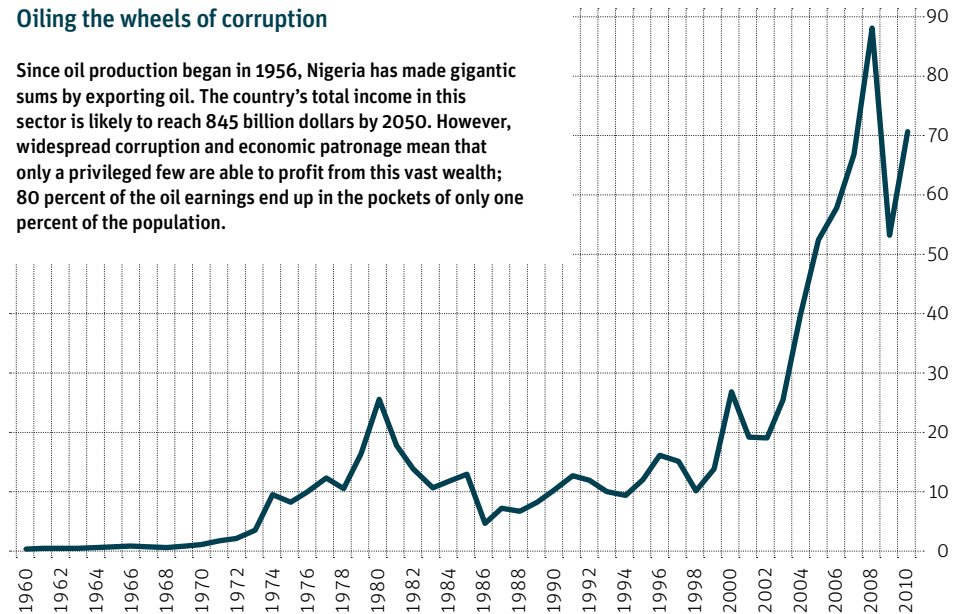
Despite difficult conditions in some parts of the interior, Nigeria plays a leading role in African affairs.<sup>7</sup> It is a founder member and an important player in the African Union. The capital city of Abuja is the seat of the Economic Community of West African States (ECOWAS) and the African Central Bank. Nigeria is the only West African country with the military and financial resources to be able to intervene in its neighbouring states if need be, and it supplies UN soldiers for several United Nations missions. It is also competing with South Africa for the position of permanent African member of the UN Security Council.

### Utterly dependent on oil

The two countries are also in competition with each other for the title of most important economy in sub-Saharan Africa, although Nigeria lags far behind in the industrial and service sectors. Unlike South Africa, Nigeria has a very small manufacturing sector and almost all its income derives from the sale of crude oil. The first time a consortium struck oil in Nigeria was in 1956. The country became a member of OPEC in 1971. Shortly afterwards, the Nigerian economy began to boom thanks to exploding market prices during the first oil crisis in 1973. Vast sums of money flooded into the country, and the erstwhile agrarian state was able to modernise at least some parts of its infrastructure within a few years.

### Oiling the wheels of corruption

Since oil production began in 1956, Nigeria has made gigantic sums by exporting oil. The country’s total income in this sector is likely to reach 845 billion dollars by 2050. However, widespread corruption and economic patronage mean that only a privileged few are able to profit from this vast wealth; 80 percent of the oil earnings end up in the pockets of only one percent of the population.



Nigeria oil export revenues in billions of US dollars (Data source: OPEC)

Today, almost all the world’s major oil companies are represented in Nigeria, drilling for oil with state-of-the-art equipment both on the mainland and off the coast. The country is the largest oil and gas producer in Africa and the tenth largest oil producer in the world.<sup>8</sup> In theory, it could produce 2.9 million barrels of oil per day.<sup>9</sup> In practice, corruption, mismanagement, sabotage, and the inadequate infrastructure prevent increases in oil production, which currently stagnates between 1.7 and 2.1 million barrels per day. Thanks to its vast reserves, the country could continue producing oil at this rate for another 40 years.

In 2010, income from the oil trade accounted for 96 percent of Nigeria’s export trade and two-thirds of the government’s income.<sup>10</sup> In other words, the country’s stability depends on the price of crude oil on the global market. The extent of this dependence is illustrated by the fact that when the oil price dropped in 1983, the consequences in Nigeria were an economic crisis followed by a military coup. But as long as oil prices continue to rise, GDP, too, reliably continues to increase and reached

roughly 150 billion euros in 2010.<sup>11</sup> The South African economy is almost twice as large, even though South Africa has less than a third of the population of Nigeria.

The lion's share of Nigeria's GDP is generated by the oil industry. In contrast, the manufacturing and service sectors together account for only 28 percent of GDP.<sup>12</sup> The manufacturing industry consists almost exclusively of a few textile manufacturers in Kano, the country's second largest city, and a Peugeot automobile plant in Kaduna in the interior. To protect the country's feeble industrial sector and to collect the high import duties that were imposed some time ago, Nigeria inspects almost all the containers that arrive in the country. But since the customs offices do not have the necessary infrastructure, this policy severely obstructs and delays the import business – along with the country's economic development, because the import duties translate into higher costs of living.

The service sector consists mainly of banks and real estate companies, which account for 6.7 percent of GDP.<sup>13</sup> The government has cleaned up this sector in recent years: several banks had to replace their management teams, while some were forced to perform mergers in return for cash transfusions and others had to close outright. In 2003, the government founded the Economic and Financial Crimes Commission, which is dedicated to combating corruption and white-collar crime. The overall service sector is growing – thanks in part to the Vision 2020 programme in which the

government invests in non-oil sectors in order to place Nigeria among the world's top 20 economies by 2020.

The agricultural sector remains the country's largest job provider, employing two-thirds of the Nigerian workforce, though productivity is usually low.<sup>14</sup> As a result, Nigeria – which was exporting cocoa, peanuts, and palm oil 25 years ago – is now dependent on food imports. Although Nigeria has large areas of fertile land, it spends approximately three billion euros per year on wheat imports and is the world's largest importer of rice.<sup>15</sup>

In contrast to the inefficiency of most other branches of industry, the overwhelmingly dominant oil industry uses modern methods and technologies, and thus provides relatively few jobs. This is the main reason why almost a quarter of all Nigerians are officially unemployed despite an economy that is strong by African standards.<sup>16</sup> Young people in particular are unable to find work. Many seek refuge in the informal sector as small businessmen in the transport, retail, and service trades. To combat widespread unemployment, the government launched its National Economic Empowerment and Development Strategy, which involves investments and privatisations to create new jobs.

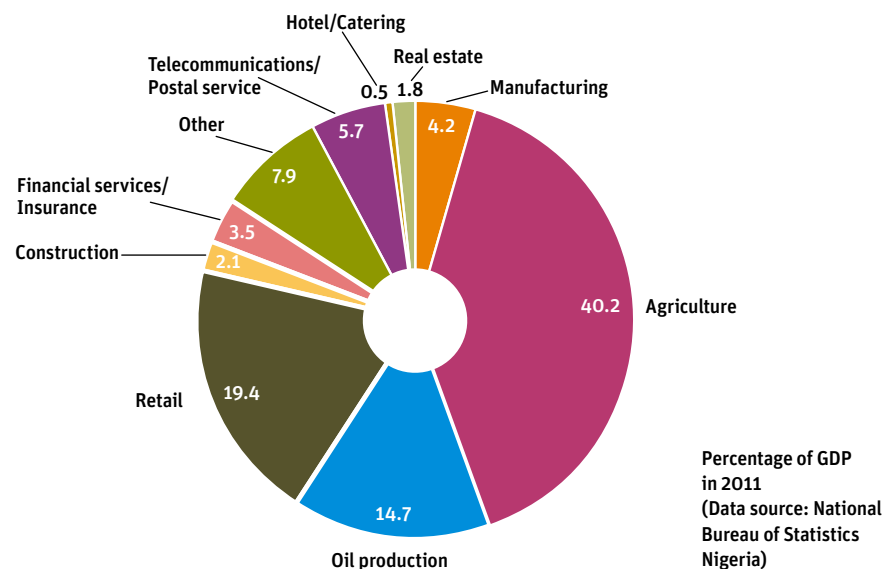
The continuing dominance of the oil industry is also reflected in incomes. While the average per capita income has risen since 2000, in 2009 it still remained lower than it was in 1970, and two-thirds of the population lives on less than a euro a day.<sup>17</sup> This is hardly surprising, since corruption and economic patronage means that an estimated 80 percent of income from oil lands in the pockets of only one percent of the population.<sup>18</sup>

That one percent typically sends its children to expensive private schools abroad. In contrast, the country's own educational system – once one of the best in West Africa – received no investment at all for many years. School buildings crumble, teachers are poorly

paid, and syllabuses are out of date. Public universities are often dominated by criminal fraternities.<sup>19</sup> On the positive side, 13 percent of Nigerians have a university degree. This is the second-highest figure in Africa after Egypt and offers hope for the country's future.

### Mainly agrarian

**Even decades after the start of oil production, Nigeria remains largely an agrarian state. The country has failed to use its vast oil revenues to increase the competitive power of other sectors. Two-thirds of the population work in the agrarian sector, typically with low productivity. Many residents, primarily in the north of the country, are still subsistence farmers. In contrast, potentially promising sectors such as the manufacturing and service industries contribute only a small proportion of GDP.**



Unemployment and poor education are currently exacerbated by rapid population growth, since Nigeria has one of the highest fertility rates in the world and the average number of children per woman is 5.7.<sup>20</sup> The population has tripled since 1971 and was still growing by 2.5 percent in 2010.<sup>21</sup> It is expected to increase from just under 160 million today to 430 million by 2050. Long-term UN prognoses predict that Nigeria will have 730 million people in 2100, making it the country with the third largest population in the world.

Already the rapid growth is causing severe environmental pollution in many regions through refuse, sewage, and unregulated settlement and agricultural areas. The country's stock of trees has been roughly halved since 1990.<sup>22</sup> The growing population has insufficient medical care, as the health system is as dilapidated as the educational system. Despite its oil wealth, Nigeria has one of the worst ratios of doctors and hospital beds to the population of any country in the world. Accordingly, the average life expectancy for men is just 51.7 years – about two years lower than the West African average and 20 years lower than in Egypt.<sup>23</sup>

### Three regions, three major ethnic groups

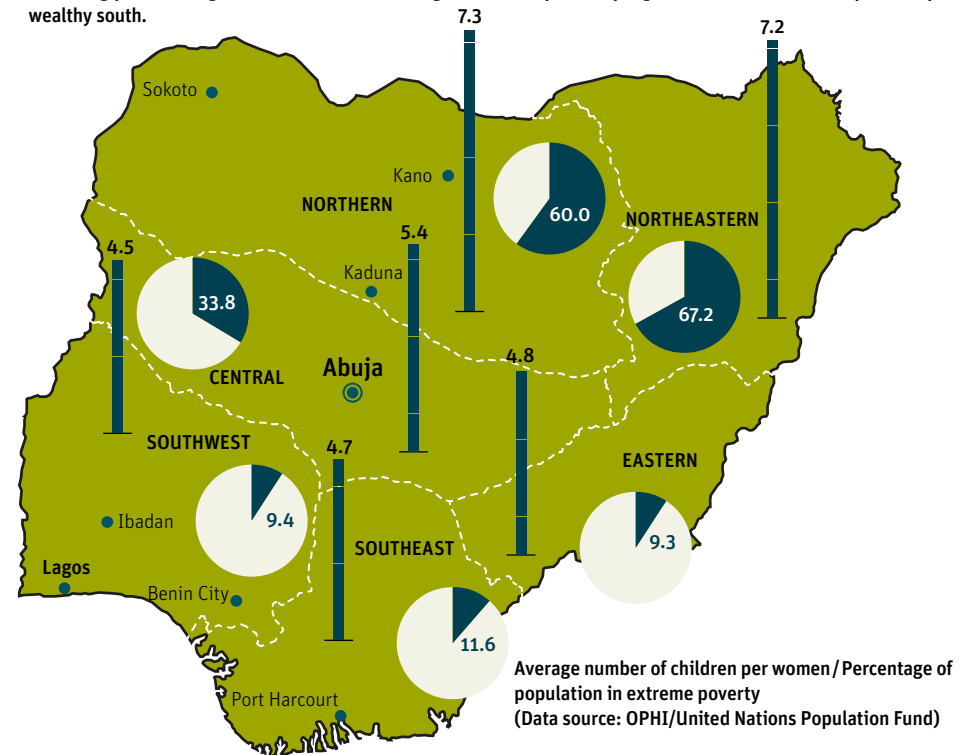
Nigeria is a multi-ethnic state dominated by three major ethnic groups. Their territories roughly correspond to the three sections into which the country is divided by the Y-shaped courses of the river Niger and its tributary, the Benue. The north is dominated by the Hausa-Fulani, who are estimated to make up almost a third of the population.<sup>24</sup> The south-east is home to the Igbo, while the Yoruba live in the south-west. Each group makes up roughly 20 percent of the population. There are also numerous minority groups, comprising approximately a third of the population, in the interior and the Niger delta.

Roughly at the geographical centre of the country, slightly north of the confluence of the Niger and the Benue, the new capital city of Abuja was built in the 1980s with the country's vast income from the oil trade. Its location in the centre of the country is supposed to signal neutrality in the multi-ethnic state. Abuja's population is increasing steadily. The city, with its modern layout, was also designed as a more organised alternative to the chaotic old capital of Lagos in the densely populated south-west of the country.

Lagos, however, remains the true centre of Nigeria. All the major banks and businesses are located here. And the city reflects the division of the country in general: while gleaming high-rise bank buildings and residential areas for the new upper class crowd the city centre, the periphery is dominated by endless slums. Two out of three residents of Lagos live in these slums, with no access to potable water, garbage collection, or electricity.<sup>25</sup>

### More poverty and more children in the north

Like many other African countries, Nigeria exhibits extreme disparities between different regions. While only about one in ten Nigerians in the south of the country is affected by extreme poverty, there are some parts in the northern, predominantly Muslim areas where two-thirds of the population lacks even adequate food and housing. Extreme poverty is often connected with poor educational levels, while both correlate with high reproductive rates. Accordingly, the average birth rates in northern Nigeria are conspicuously higher than those in the comparatively wealthy south.



And the city's growth is unstoppable. The metropolitan area proper officially has seven million residents, and there are probably twice as many more on the periphery. This makes Lagos the second largest city in Africa after Cairo, and its population is predicted to grow to 25 million by 2015.<sup>26</sup> That would make Lagos the third largest city in the world – but also the one with the worst infrastructure for its size. Unchecked and unregulated, it

encroaches ever further into the periphery and less than one in three houses even has a building permit.<sup>27</sup> At the same time, Lagos and Abuja have some of the highest costs of living in the world, thanks to the inflation caused by the oil revenues. The booming building industry puts up one new luxury residential area, shopping centre, and office block after another.



The north of the country, which is predominantly Islamic, presents a starkly different picture. While it has the large metropolis of Kano, the country's second largest city with a population of four million, as well as a few medium-sized cities, northern Nigeria is part of the dry Sahel zone and large parts of it are comparatively sparsely populated. Its residents are worse educated than average and have little wealth. In the north-western province of Sokoto, 86 percent of the population are considered very poor.<sup>28</sup> In contrast, the proportion of the very poor in the area around Lagos in the south-west is only 59 percent. As high poverty and poor education are often accompanied by high fertility rates, the differences in wealth are reflected in the birth rates in the different regions, which are moderate in the comparatively wealthy south but extraordinarily high in the north.

This environment of poor education, swift population growth, and material poverty in the northern provinces brought forth the radical Islamic group Boko Haram about ten years ago. The name translates as "Western education is sin". Its members have been involved in numerous skirmishes with security forces and have committed several attacks in the north. The militants proved their strength in 2011 in the suicide bombing of the UN building in central Abuja. Observers are still divided on whether Boko Haram could develop into a Nigerian arm of Al Qaeda and expand into international activities, or whether the group is fighting only for fairer treatment of the impoverished north by the centralised state and is therefore destined to remain a domestic problem. In either case, it could soon prove to be a serious threat to Nigeria's internal security.<sup>29</sup>

A threat of a very different nature lurks in the 70,000 m<sup>2</sup> Niger delta. This area is Africa's greatest wetland – and also the economic heart of Nigeria, since almost all Nigeria's oil comes either from the densely populated delta between Benin City and Port Harcourt or the adjacent coastal waters. While the country has not only oil reserves, but also the seventh largest natural gas reserves in the world, the

vast volumes of gas that accrue in the Niger delta as by-products of the oil production process are usually burned off in gigantic pillars of fire as the technical requirements for processing them are too complex. The result is environmental pollution.

Additionally, the highly sensitive ecosystem of the delta is severely impacted by countless oil leaks along thousands of kilometres of pipeline. The leaks result from sabotage, the dilapidated infrastructure, and thieves who tap the pipelines to steal the oil.<sup>30</sup> As a result, oil spills frequently deprive local subsistence farmers of their livelihood and thus exacerbate the tension between the many impoverished ethnic groups who live in the delta. In response to these conditions, numerous rebel groups and secessionist movements have sprung up in the Niger delta, such as the Movement for the Emancipation of the Niger Delta (MEND).

## Infrastructure hampers business

The Niger delta is not the only region with a dilapidated infrastructure. Transport routes, power lines, and water pipes are in poor or very poor condition throughout the country. The power supply in particular poses grave problems to the state and its economy: despite the country's wealth of energy sources, its power plants supply only six gigawatts of electricity. In contrast, Germany produces 25 times as much.<sup>31</sup> As a result of the electricity shortage, even the capital city of Abuja and the mega-metropolis of Lagos experiences power failures lasting several hours almost every day.

Like every private person who can afford to do so, almost two thirds of Nigeria's businesses have responded by purchasing their own generators, which burn petrol or diesel and are expensive to run.<sup>32</sup> The state-owned utility companies are unreliable, taking 260 days to install a simple electrical connection. This is far higher than the 137 days that represent the sub-Saharan average.<sup>33</sup> Even the most cautious estimates suggest that the ailing electricity supply lowers GDP by 3.7 percent.<sup>34</sup>

But Nigeria has other infrastructure problems too that prevent it from achieving its potential and drive production prices upward. The poor state of the roads prevents trade in agricultural products that would improve the food situation.<sup>35</sup> And on the railways, both

passenger and goods traffic has effectively collapsed in the past decades. Freight trains transported three million tons of goods in 1960; by 2005, that number had dropped to 15,000 tons.<sup>36</sup> In the same period, passenger numbers dropped from three million to 500,000 per year.

But modernising the infrastructure would require the government to invest over ten billion euros every year for the next ten years.<sup>37</sup> At the same time, the state could save almost two billion euros per year by managing the rail networks, power lines, water supply, and other infrastructure elements more efficiently.

### Who gets the money?

The UN's Inequality Adjusted Human Development Index records how well, or how badly, a country performs in wealth indicators such as per capita income, life expectancy, and education. It also shows whether only a few of the country's residents benefit from positive development or whether large parts of the population are able to participate in them. The upper part of the intra-African ranking, unsurprisingly, is occupied by North African countries such as Tunisia and Egypt, while Ghana and Kenya too perform comparatively well. Nigeria, however, is highly developed only in parts of the country and scores below the African average. Trailing the field are countries from the continent's interior, such as Niger and the Democratic Republic of the Congo.

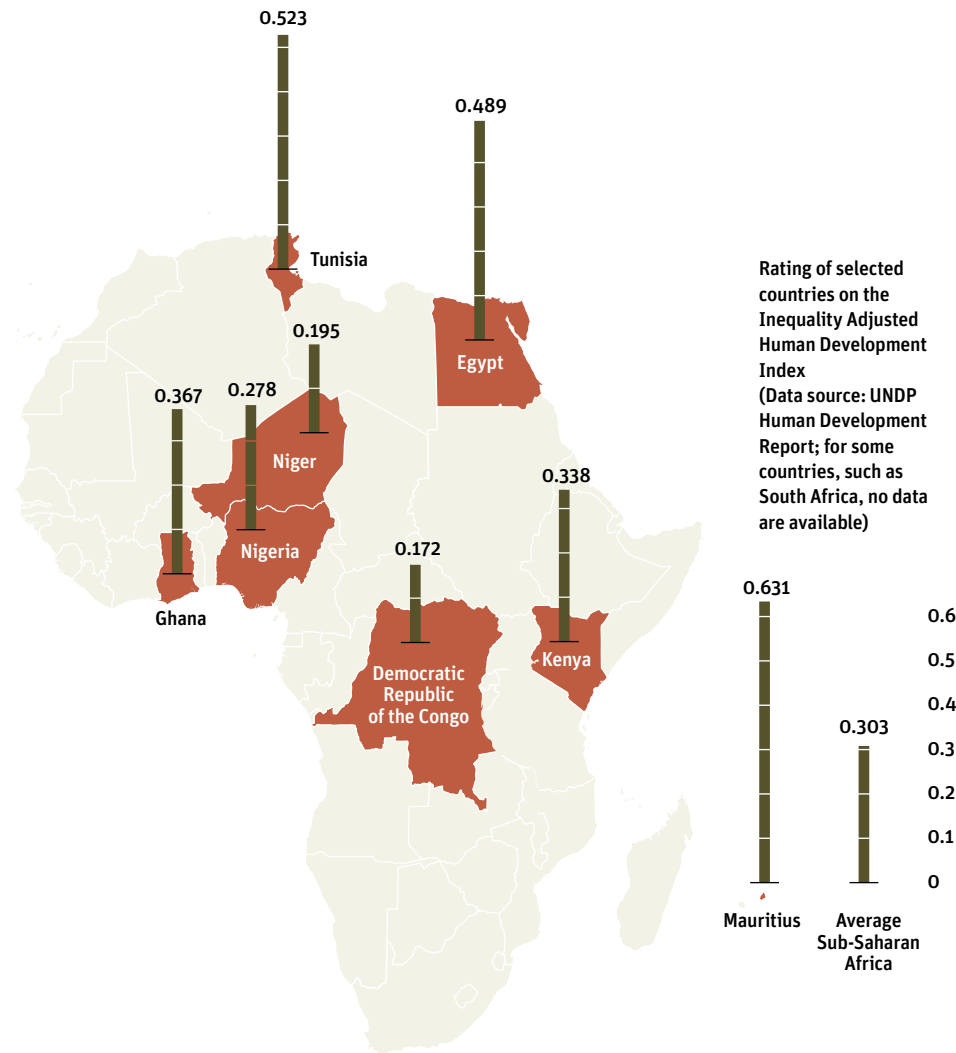
### Taking to the streets for subsidies

Nigeria also incurs other avoidable costs because it has insufficient refineries for its crude oil. The few refineries that do exist usually operate at only a fraction of their capacity.<sup>38</sup> While China has begun to close the

gap by erecting a modern refinery in Nigeria, to date the oil-rich country has been obliged to spend large sums to purchase three-quarters of its fuel requirements abroad. Even more money goes into subsidising the imported fuel so that the population can afford to buy it.

When Nigeria's president, Goodluck Jonathan, summarily abolished these subsidies, amounting to over eight million euros per year, in early 2012, the population responded with strikes and demonstrations. Young people in particular got together under the name "Occupy Nigeria" using social networks and mobile phones. The government's Vision 2020 programme calls for a larger proportion of the country's oil revenues to be used for infrastructure measures. Thus reserves from the Excess Crude Account are being used to construct roads, hospitals, and schools in the Niger delta. The investment programme as a whole is geared not only towards attracting foreign businesses, but also to boosting the domestic economy and the job market. These are efficient organisational tools in Nigeria, which represents Africa's largest mobile phone market with 90 million mobile handsets.<sup>39</sup> The movement eventually got its way when the president capitulated and restored at least part of the original fuel subsidies.

The protests had been supported not only by Nigerians affluent enough to afford a car, but also by taxi and minibus drivers dependent on subsidised fuel. For these Nigerians, the subsidies are the only way in which they can partake of their country's oil wealth. But despite these kinds of problems, Nigeria's population remains remarkably optimistic. According to a survey, 80 percent of the country's residents expect to be economically better off in the future. This is the highest rate of optimism of all the 50 countries polled worldwide.<sup>40</sup>



# KENYA

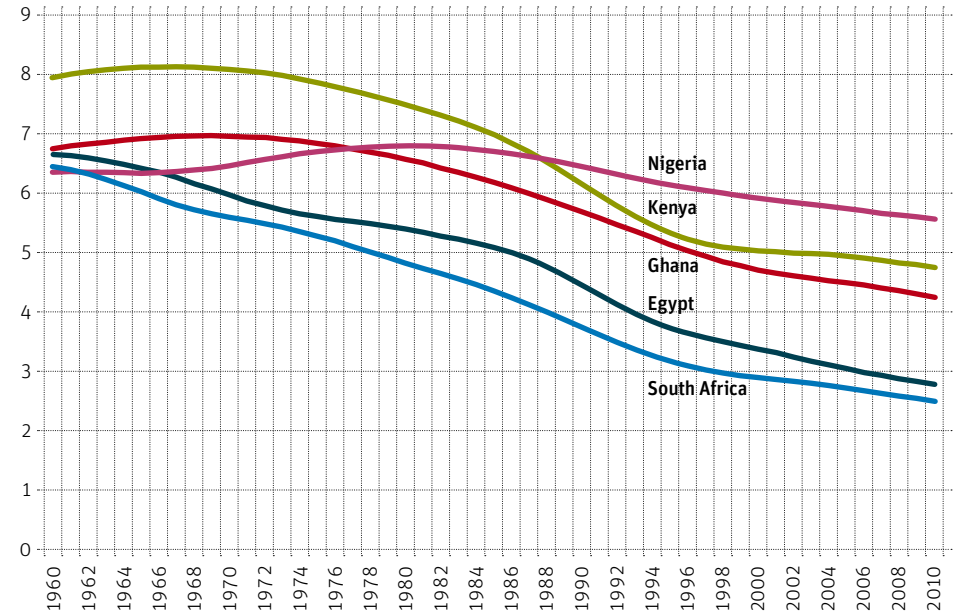
Once a model country, now starting over



Kenya is currently steering a course through stormy waters. Situated on the equator and richly blessed by mother nature, Kenya offers tourists the opportunity to go on safari against the backdrop of snow-capped Mount Kilimanjaro before swimming off the white beaches of the Indian ocean or admiring swarms of flamingos on the lakes of the Rift Valley.

The year 2012 is set to be a key year for this beautiful country, which faces a whole series of problems. The civil war in Somalia, which borders on Kenya in the north-east, has driven more than half a million refugees across the border.<sup>1</sup> Prices are being driven up by inflation, while the country's foreign trade balance is one of the worst in the world. Like the last round of elections, the presidential elections in early 2013 look set to be accompanied by unrest. High-ranking politicians, including a few potential presidential candidates, are facing charges at the International Criminal Court in The Hague. And amid all this turbulence, Kenya is also planning one of the largest administrative reforms ever seen in any country.<sup>2</sup>

Nevertheless, conditions in Kenya are better than in any other East African country. The country averaged annual economic growth of 4.8 percent between 2004 and 2011.<sup>3</sup> However, the economy often stagnates in



and after election years as investors hold back for fear of political instability. While it is true that the country has no significant natural resources, this seems to be more of an advantage than a disadvantage, since it means that Kenya, unlike oil-rich countries such as Nigeria and Angola, does not run the risk of becoming dependent on a single industry. Rather, Kenya's national economy rests on varied foundations. The main agricultural export crops are tea and coffee, and Kenya is the world's largest exporter of flowers. Tourism is a growing industry and represents one of the main pillars of the country's economy. Finance, tourism, transport, communications, and the manufacturing industry each contribute roughly 10 percent to GDP.

Number of children per woman  
(Data source: UNPD)

## Better living conditions lead to lower birth rate

Thanks to improved living conditions, Nigeria, Kenya, Ghana, Egypt, and South Africa have all experienced a reduction in birth rates. The average number of children per woman has dropped in all five countries since the 1960s, but the ranking has changed. While Nigeria had the lowest birth rate fifty years ago, it now has the highest. The sharpest drops in births per woman occurred in Kenya and especially in South Africa, the only industrial country on the African continent.

The capital city of Nairobi, which a century ago was nothing more than a colonial outpost on the railway line from Mombasa to Uganda, today hosts the African headquarters of international corporations such as Coca-Cola, Google, and General Electric. The city has over three million official residents (though the unofficial figure is closer to four million) and a stock exchange with the fourth largest trading volume in Africa. Nairobi is also the base for two United Nations programmes for human settlements and the environment, Habitat and UNEP.

Kenya maintains established trade relations with India and Pakistan, the Arab world, and the former colonial power Great Britain. Commerce is facilitated by the strategically favourable position of the international port of Mombasa and the road network, which is good by African standards and connects the coast with Nairobi – located on a plateau in the interior – and the Ugandan capital of Kampala as well as Kenya’s neighbouring countries of Tanzania and Sudan. Boasting the best infrastructure in the East African Community (EAC), Kenya is the most important transit country for trade in the region and provides indirect access to the Indian Ocean to the landlocked countries of Burundi, Rwanda, and Uganda.

Despite these comparatively favourable conditions, however, Kenya’s economy cannot be said to be running smoothly. While a five percent growth rate in 2011 may sound positive, many developing countries achieve higher rates: Kenya’s East African neighbours Uganda, Tanzania, and Ethiopia recorded

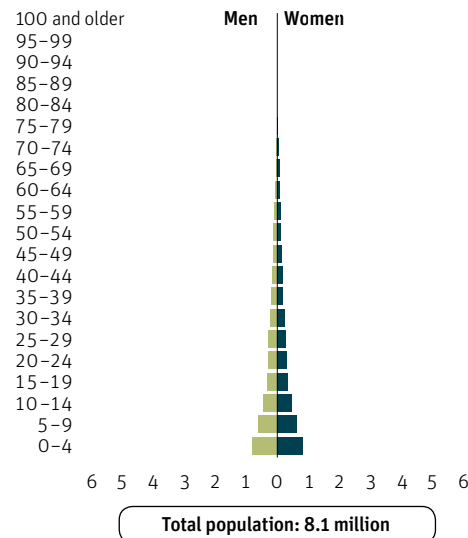
### The problems of high population growth

**Kenya has been unable to control its population growth. The population size continues to increase and will more than double by 2050. This creates major problems for the country, especially in the food supply and the health and education systems. Even today, Kenya needs enormous financial resources to expand its family planning programmes and its educational and health services.**

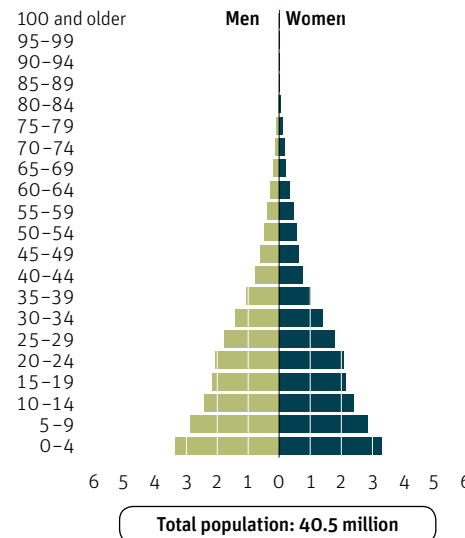
six percent, seven percent, and nine percent respectively.<sup>4</sup> The investment climate could be better too. On the international Doing Business Index, Kenya ranked 109th out of 183 countries in 2012 and lost ground slightly compared to the previous year. While it is fairly easy to obtain credit and building permits, little attention is paid to collecting taxes, and the international trade that is so vital to the country’s economy is complicated and beset with red tape. On a more positive note, the time it takes to start a business has decreased by half since 2004, dropping from 60 days to 33. The same procedure, however, takes only eight days in nearby Rwanda.<sup>5</sup>

One reason for the often crippling bureaucracy is that the country’s administration, comprising 24 ministries, is too large. Half the ministries compete with one another for development assistance in the form of foreign investments, and their individual spheres of competence are not clearly defined and distinguished from one another. As a result, the Ministries of Agriculture, Cooperative Development and Marketing, East African and Regional Cooperation, Finance, Planning and National Development, and Trade and Industry may all be involved in one and the same project.

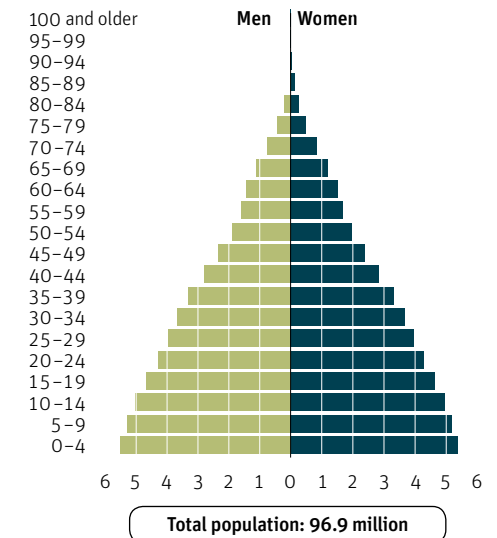
### Kenya 1960



### Kenya 2010



### Kenya 2050



Population size in Kenya in 1960, 2010, 2050 by age groups in millions (Data source: UNPD)

Most importantly, however, Kenya's economy is highly susceptible to external influences, most especially to the unstable political situation. The last presidential elections in 2007 were accompanied by bloody unrest and pogrom-like ethnic violence that left over 1,500 people dead. The economy collapsed in the wake of the conflicts and growth temporarily dropped to zero. The 2007 elections were won by a narrow margin by Mwai Kibaki, who has been in office since 2002 and is only the third president to hold office since Kenya became independent in 1964. International observers, however, hold that there was massive election fraud. The government lost ten ministers in 2005/2006 who resigned or were dismissed in the aftermath of financial scandals. It is no surprise that Kenya ranks in 154th place among 182 countries on Transparency International's Corruption Perceptions Index.

### Kenya's farmers cannot feed the country

Agriculture is the most important branch of the Kenyan economy. Between 70 percent and 80 percent of the working population are directly or indirectly employed by the agricultural sector, which generates approximately a quarter of GDP. However, knowledge about agriculture leaves much to be desired. The majority of Kenya's farmers make a living from subsistence agriculture, and artificial irrigation and terraced fields are almost completely unknown in Kenya. As a result, the success of the agricultural sector is critically dependent on rainfall,<sup>6</sup> and the situation is worsening steadily because the country's tree cover is decreasing, promoting soil erosion in hilly areas and reducing crop yields. Most farmers lack the capital to invest in technologies such as fertiliser, pest management, and quality seeds.

Even in good years such as 2010, the areas under cultivation are no longer able to feed the subsistence families, since the division of land among a farmer's children in response to high population growth has resulted in steadily shrinking plots of land for the farmers. 89 percent of Kenyan households live off less than three hectares of land, while 47 percent must make do with less than 0.6 hectares.<sup>7</sup> In this situation, a drought like the most recent one in 2011 is enough to plunge half of East Africa into famine. The per capita food supply has continually worsened since the early 1980s, and today 44 percent of the Kenyan population are considered to be malnourished.<sup>8</sup>

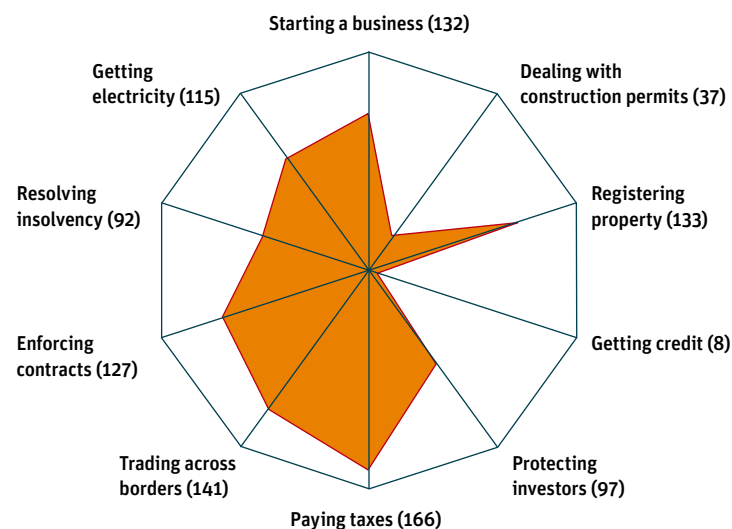
On the positive side, the tourism industry has recovered after a severe slump following the last election unrest, and tourist numbers rose to a record high of almost 1.3 million in 2011 – an increase of 15 percent over 2010.<sup>9</sup> The service sector and the construction industry are experiencing a boom driven by tourism and the enlargement of the country's infrastructure, while the telecommunications industry, too, is growing. Kenya now has more mobile phones than adult residents. In mid-2011, 12.5 million of the country's 42 million citizens were using the Internet.<sup>10</sup>

But none of these successes have so far been able to rescue the country from its financial crisis. One of the causes of the crisis is the entry of the Kenyan army into neighbouring Somalia in 2011 after attacks by Somali Al-Shabaab militiamen. The cost of this operation is estimated at 2.13 million euros for personnel alone.<sup>11</sup> The largest deficit, however, is due to the fact that Kenya produces too few goods for export while being obliged to import large quantities of food and crude oil. As the prices of both commodities have risen steeply on the global market, the discrepancy resulted in a trade deficit of almost 13 percent of GDP in 2011 – a higher deficit than that of Greece.<sup>12</sup>

### Springboard to East Africa

The lower the World Bank's Doing Business Indicators, the better for investors. The figures show that Kenya ranks in midfield as a business location. The main problems are in international commerce, tax collection, and contractual security. On the positive side, starting a new business is a relatively swift process, getting loans is uncomplicated, and building permits are comparatively easy to obtain. All these factors give Kenya the edge over its neighbours as a springboard to East Africa.

Investment climate in Kenya  
(Data source: Doing Business Database)



Kenya's four most important export goods brought in less money in 2011 than the cost of the oil imports alone. The resultant inflation had reached almost 20 percent in late 2011 and caused the Kenyan shilling to depreciate by 40 percent within a single year.<sup>13</sup> At the end of 2011, the national currency was at its lowest recorded level against the American dollar and the euro, which drove import costs still higher.<sup>14</sup> Thus the price of food and transport rose by 25 percent in the first ten months of 2011, and Kenyans pay twice as much as residents of Europe for sugar. As a result, the majority of the population has very little money for consumer goods that go beyond basic human needs.

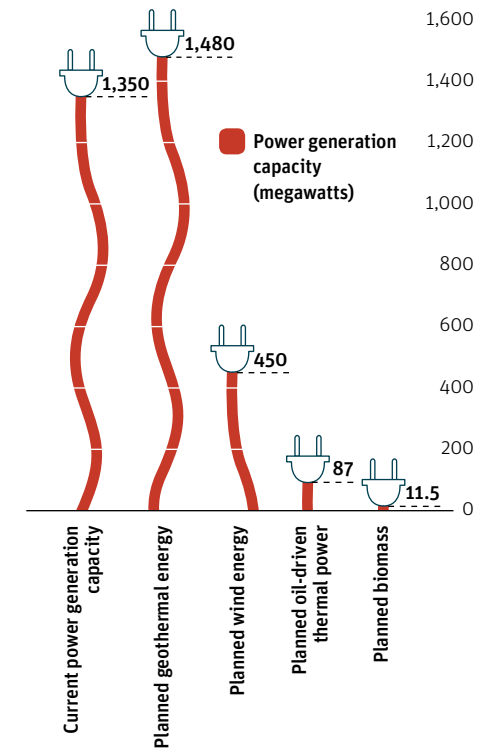
To accelerate development, the government is planning massive investments in the infrastructure. The list of projects is a long one, and the necessary investments are so enormous that experts take a sceptical view of some of the projected measures – the more so as countless smaller projects have been hamstrung by corruption in the past. The more realistic plans include the renovation of the dilapidated 2,350 km stretch of railway line between Mombasa and Kampala, which will help to divert at least a proportion of goods traffic off the hopelessly congested roads. The project is expected to cost 213 million euros and majority funding will be provided by an Egyptian investment company.<sup>15</sup>

On a much grander scale is a project worth at least 18.7 billion euros in the north-east of the country near the border to crisis-torn Somalia. The sleepy holiday island of Lamu, a UNESCO World Heritage Site that to this day has no motor cars, is to become the site of an international airport and an international harbour five times as large as that of Mombasa. A rail link and a trunk road will connect the coast with the interior. In addition to an oil terminal for super-tankers, the investors are planning a refinery that will process crude oil from the young and not yet consolidated neighbouring state of South Sudan and possibly also from Uganda. However, transporting the projected 500,000 barrels of crude per day would require the construction of an oil pipeline stretching for 1,400 km along the Ethiopian border through dangerous nomad territory.<sup>16</sup>

## Investing billions in energy

Kenya is on the threshold of becoming a producer of textiles, chemicals, and automobile parts. A reliable electricity supply would be a prerequisite for these endeavours, but only 20 percent of Kenyan households are connected to the grid, which does not in any case guarantee an uninterrupted power supply. Roughly 60 percent of the country's electricity comes from hydroelectric power stations, which – like the agricultural sector – are heavily dependent on the irregular rainfall. When the reservoirs run dry, Kenya is obliged to import costly diesel fuel to burn in the power plants. The government aims to increase energy production eleven-fold and enlarge the high voltage network by 2030.<sup>17</sup> Projects costing over 5.3 billion euros are currently being planned to generate an overall supply of 1,000 megawatts, most of which will come from renewable energy sources.<sup>18</sup>

The potential is there. Kenya has the prerequisites for building geothermal power stations that could produce as much energy as ten nuclear power plants. The East African Rift Valley has large numbers of hot springs close to the surface. And in the north-east of the country, the construction of 365 windmills with a total power generating capacity of 300 megawatts is expected to be complete by the end of 2014. This project, the largest wind farm south of the Sahara, will be funded to the tune of 700 million euros by the World Bank and the African Development Bank.



Kenya's electricity generation capacity in megawatts (Data source: Germany Trade and Invest)

## Combating the energy shortage with renewable resources

The inadequate power supply currently inhibits Kenya's economic development. But the government is planning a large-scale investment programme to remedy the situation, mostly by using renewable energy sources. Thanks to the country's geographical location on the East African Rift Valley, a deep scar in the earth's crust, geothermal energy is a promising source. Wind energy, too, will play a larger role in ensuring Kenya's energy supply in future. The largest wind farm south of the Sahara is currently under construction.

According to Kenya Power, the national energy provider, wind energy is the country's cheapest option for generating electricity.<sup>19</sup> To the east of Lake Turkana, in the poorest and most hostile zone of Kenya, the hot desert winds between the 2,300m Mount Kulal and Mount Nyiru create a stable and powerful year-round air flow that averages 11 metres per second, making the region one of the world's best wind zones.<sup>20</sup>

Fossil fuels too may have a promising future in Kenya. The British corporation Tullow Oil struck oil in early 2012 on the western shore of Lake Turkana, not far from the Ethiopian border. However, it is not yet clear when oil extraction can begin, how big the reserves are, and whether they will ever make Kenya independent of oil imports.<sup>21</sup>

What is certain is that Kenya will need all the energy it can produce. Given the fertility rate of almost five children per woman, the population can be expected to continue growing at its present swift pace. Because of the large number of births per woman, 42 percent of the population are children and adolescents under 15 years of age. The country's economic growth is largely absorbed by its 2.7 percent population growth rather than resulting in a higher standard of living.

Since 1960, the Kenyan population has increased five-fold to approximately 40 million, and is predicted to rise to almost 100 million by 2050. While population growth has slowed slightly in recent years, this is not primarily due to better family planning, but rather to the high incidence of Aids in the Kenyan population. Approximately 1.5 million people or six percent of Kenyans aged between 15 and 49 are infected with HIV, and 80,000 people die of the immune deficiency syndrome each year. As a result, the average life expectancy is 57 years, one year less than the African average, and an estimated 1.2 million children are Aids orphans.<sup>22</sup>

However, an even greater danger than HIV/Aids is posed by malaria. One-fifth of the Kenyan population lives in areas with a constant risk of malaria and 70 percent lives in areas where the risk is at least intermittent.<sup>23</sup> Of the approximately 100,000 people who die of malaria each year, 34,000 are children. The disease has an economic impact as well, as it costs the country 170 million man days per year.<sup>24</sup>

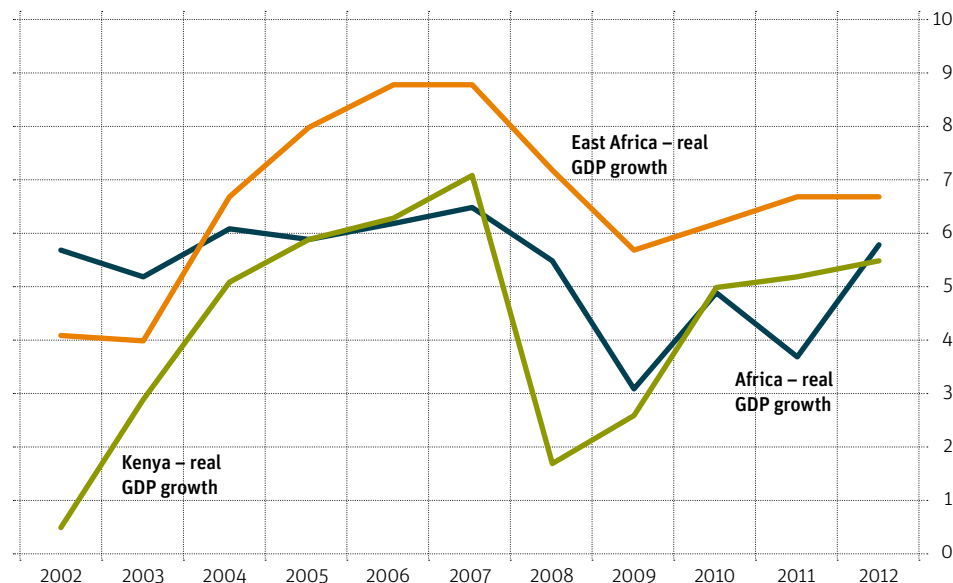
### Growth too weak

Despite favourable conditions, Kenya's economic growth lags behind that of its East African neighbours and barely reaches the African average. Red tape, tribal conflicts, and corruption all hamper development. In fact, though, Kenya seems to have what it takes to grow economically: a diversified economy and a comparatively well developed infrastructure. Its tradition of good trading relations make in a sought-after trading partner in Africa.

### Helping disadvantaged regions

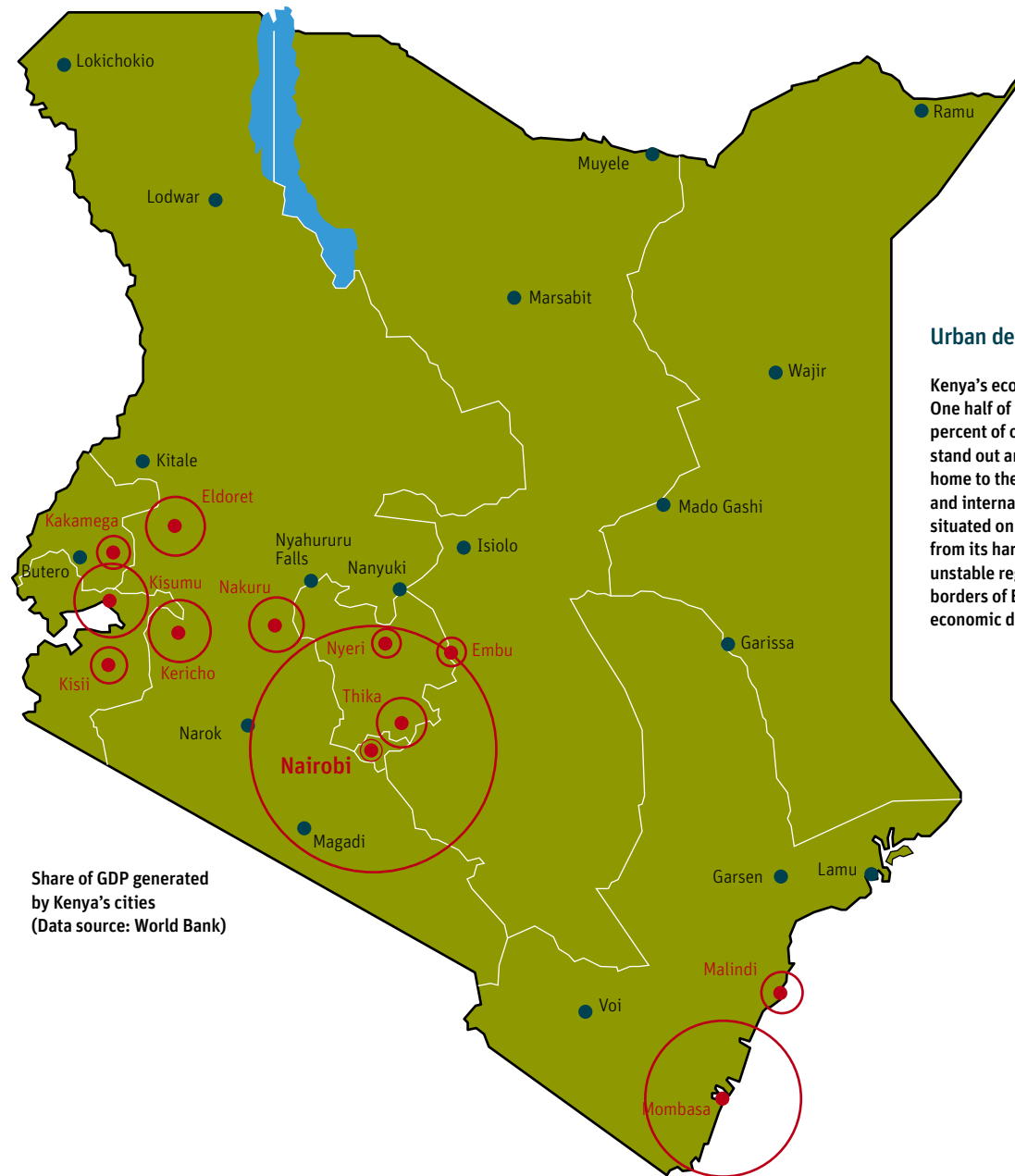
One of the country's biggest problems, however, is the enormous developmental disparity between different regions. While Mombasa and Nairobi are the homes of most of Kenya's businesses as well as a broad middle class, the poorer half of the country in the north and north-east contributes only 20 percent of the country's economic output. These economically insignificant areas are also the scene of frequent ethnic conflicts and attacks on local herdsmen. Almost the entire rural population owns weapons to protect themselves against marauding gangs from neighbouring Somalia and Ethiopia. Both the food and security situation have deteriorated steadily in this region since the 1990s.<sup>25</sup>

In response to the regional wealth gaps and economic gradients, the government has initiated an extremely ambitious programme of administrative reform that calls for a considerable proportion of administrative responsibility and financial means to be transferred from the 280 existing districts to 47 newly created districts. This is a mighty undertaking for a country with a limited number of experienced administrative experts and a high potential for corruption. The World Bank expects public services to collapse in many regions – not to mention a subsequent increase in corruption among local officials – if there are problems in implementing the radical reforms.



(Data source: IMF and data from local authorities, Africa Economic Outlook 2011. AfDB, OECD, UNDP, UNECA)

Amid its massive investments into roads and power as well as the administrative reform, Kenya is in danger of losing sight of the fundamental basis for any development: the country needs vast sums of money to enlarge its family planning programmes and health services as well as for building schools and employing teachers for the education of ever larger numbers of children. This is the only way to slow down Kenya's dangerously swift population growth while simultaneously increasing the country's human resources. And it is this that is the prerequisite for an economic upswing, for increasing the number of manufacturing companies, for producing export goods, and for developing an efficient service industry.



Share of GDP generated by Kenya's cities  
(Data source: World Bank)

### Urban development

Kenya's economic power is very unequally distributed. One half of the country's 47 districts generates 80 percent of overall GDP. The two main urban centres stand out among the rest of the country: Nairobi is home to the African headquarters of large corporations and international organisations, while Mombasa, situated on the shore of the Indian Ocean, benefits from its harbour and from tourism. The politically unstable regions in the north and north-east on the borders of Ethiopia and Somalia are far behind in their economic development.



# SOUTH AFRICA

## Industrial nation meets developing country



Thirty kilometres from the South African metropolis of Cape Town, a grey industrial building huddles alongside the surf of the Atlantic Ocean. Set right beside a white, sandy beach, the Koeberg nuclear reactor operated by the state power supplier, Eskom, began generating electricity in 1984.<sup>1</sup> The plant, with two pressurised water reactors that can put out a total of 1800 megawatts, is the only nuclear reactor on the entire African continent. While other sub-Saharan states such as Senegal, Uganda, Kenya, and Nigeria and the North African countries of Algeria, Tunisia, Morocco, and Egypt have officially declared the intention of moving into atomic energy, South Africa is alone in having acquired over 25 years of experience with this form of power. The government is now contemplating the construction of six more reactors all over the country.<sup>2</sup>

South Africa's technological advantage is typical of the country's extraordinary position in Africa. With GDP of approximately 420 billion euros, the country has the largest economy on the continent, ahead of Nigeria and Egypt. Not only is South Africa the only well-developed industrial nation in Africa, it is also transforming itself into a service economy. No other territorial state in Africa places greater weight on services and the manufacturing industry. South Africa's industry generates almost a third of the overall GDP and provides 25 percent of the country's jobs. The service sector is even larger, generating almost two-thirds of GDP and providing almost 70 percent of all jobs.<sup>3</sup>

Thanks to these figures, South Africa is the only G20 country on the continent and is officially one of the most important threshold countries – a group that previously consisted only of Brazil, Russia, India, and China and that acknowledged its most recent member by changing its name to BRICS. However, in terms of economic power, growth rate, and population size, South Africa is nowhere close to holding its own against the other four countries in the group. It was admitted into the group for political and strategic reasons, since South Africa is regarded as the gateway to the rest of southern Africa, which has a total of 250 million people and represents one of the last untapped markets in the world.

And in this region, if not on a larger scale, South Africa really is a heavyweight. As the biggest lender in the Southern African Development Community (SADC), it is the most important of the community's 15 member states. The country has the largest and most highly developed market in southern Africa and single-handedly generates approximately 25 percent of the economic output of the entire continent.

South Africa has well-developed financial, legal, and communications systems, most of which meet European standards. Its capital market is among the 20 largest markets in the world.<sup>4</sup> And its economy – unlike that of many other sub-Saharan countries that depend primarily on natural resources – rests on broad foundations. While it is true that mining is one of South Africa's largest branches of industry – the country is the world's largest producer of platinum and exports diamonds, coal, gold, and other metals – the contribution of the mining industry to GDP is decreasing and the automotive, textile, and food industries now make crucial contributions to the economy, as do the banking, telecommunications, and tourism sectors.

## High growth rates from a low baseline

In general, economic growth encourages private spending. But while African countries like Ethiopia, Malawi, and Rwanda have astronomical economic growth rates, household spending in these countries remains at a low level. The reason is that the economy in these countries is still weak in absolute terms and the upswing is not reflected by significant increases in the income of large parts of the population. The situation is different in the leading African economies in South Africa and Mauritius, where there is solid growth and consumer spending.

## Comparatively good governance and prudent financial policies

When the apartheid era ended in 1994, nobody could have predicted South Africa's economic success, because the country's first black president, Nelson Mandela, inherited an economy that was not competitively viable. It had been obstructed for decades by the sanctions and embargoes imposed by

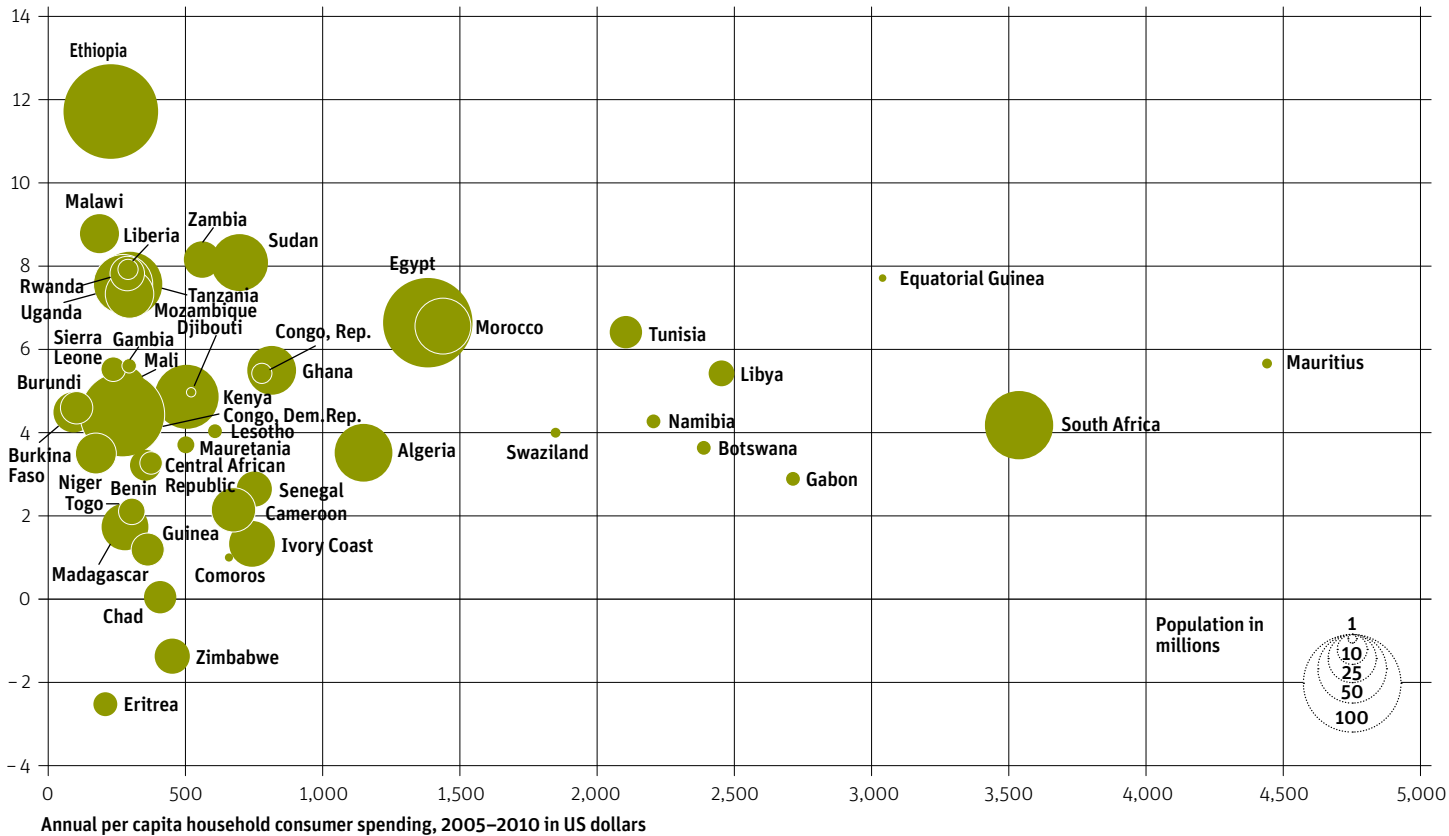
the international community because of the country's policy of racial segregation. However, the apartheid state had at least left the country with a good infrastructure.

To this day, the government utilises this infrastructure along with governance that is sound by sub-Saharan standards and shrewd financial policies in order to advance the country's economy. South Africa ranks in fifth place out of 53 African states on the Ibrahim Index of African Governance, which

measures the quality of government.<sup>5</sup> The country is outranked only by the island states of Mauritius, Cape Verde, and the Seychelles, as well as Botswana. According to the Ibrahim Index, South Africa has the best economic policy of any country on the African continent. However, the overall quality of its governance declined between 2006 and 2010.

One reason for this is that South Africa's democracy is impeded by the almost total lack of a serious opposition party to the ruling African National Congress (ANC), which has captured between 60 and 70 percent of the vote at every election since the end of the apartheid era. The result of this uncontested dominance is rampant corruption and nepotism. As a result, South Africa holds one of the lowest rankings in Africa on the Transparency International Corruption Perceptions Index.<sup>6</sup> Corruption and clientele politics have inflated the government apparatus, while dirigism and bureaucracy are impediments to direct foreign investment. And the ANC is increasingly hamstringing itself with its internal power struggles and high-ranking politicians who repeatedly become embroiled in criminal proceedings. But the country sorely needs an effective government as it battles three major problems.

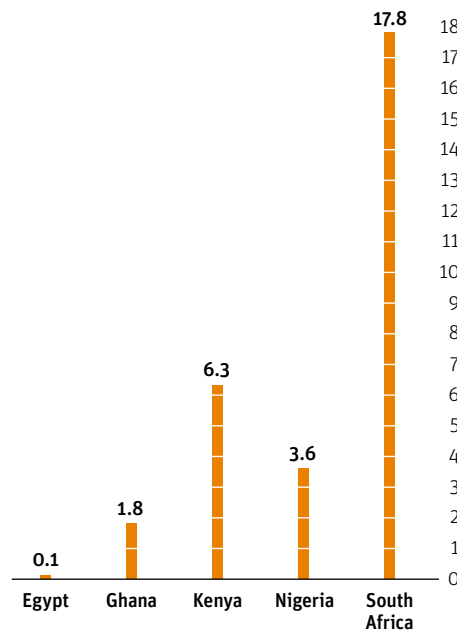
Annual economic growth 2005–2010 in percent



Annual economic growth 2005–2010 in percent/  
Annual per capita household consumer spending  
in dollars, 2005–2010  
(Data source: World Bank, no data for Nigeria)

## Infection rates high in the south, low in the north

Although HIV/Aids is often described as the “scourge of Africa”, HIV infection rates are very different in different parts of the continent. In Egypt, where Islamic sexual morality helps to limit promiscuity, only 0.1 percent of all persons between 15 and 49 are infected – approximately the same rate as in Germany. In contrast, approximately 18 percent of this age group in South Africa are infected with the virus.



HIV infections in percentage of population aged 15 to 49  
(Data source: WHO, UNAIDS)

The first of South Africa’s problems is the HIV/Aids pandemic. Approximately 18 percent of all residents between the ages of 15 and 49 are infected with HIV.<sup>7</sup> This is one of the highest infection rates in the world – surpassed only by the neighbouring states of Botswana, Swaziland, and Lesotho, which have infection rates of up to 25 percent in this age group. In contrast, the corresponding infection rate in Germany is 0.1 percent. A total of almost six million people, 330,000 of them children, in South Africa are HIV-positive – more than anywhere else in the world. Almost a million children are Aids orphans.

Because of the high infection rate, the average life expectancy in South Africa is only 52 years – very low not only compared to other industrial states, but also compared to the average in sub-Saharan Africa.<sup>8</sup> The large number of Aids deaths is one of the reasons why the population size is comparatively stable. However, at slightly over two children per woman, the fertility rate, too, is very low for an African country.<sup>9</sup> This can be taken as a positive effect of the country’s comparatively high level of socio-economic development.

## Poor education breeds high unemployment

The second major problem that affects the country’s prospects is the inadequacy of the educational system. The government spends almost one-fifth of the national budget on education,<sup>10</sup> and the proportion of adults who can read and write has risen to 89 percent, from 76 percent in 1980.<sup>11</sup> Almost half the South African population has secondary education and 11 percent have attended university – in both cases, one of the highest percentages in Africa. However, the quality of the education is so poor that companies reject many high school and university graduates as unsuitable for employment. At the same time, the economic sector is desperate for qualified employees as it transitions to the production of more complex goods and to the development of a service economy.

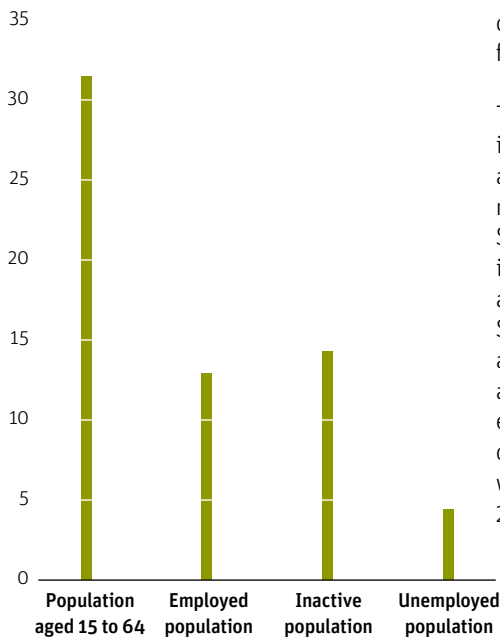
This brings us to the third major problem faced by South Africa – its strikingly high levels of unemployment, which are one of the consequences of its poor educational standards. Officially, about one-fourth of the population is unemployed. If one includes those people who have simply given up trying to find a job, the true quota could be closer to 30 percent. Young black people are hardest hit by unemployment, with half of the age group between 15 and 24 years unable to find a job.<sup>12</sup>

Despite high unemployment, only 2.4 percent of the population suffer extreme poverty that leaves them unable to afford sufficient food and housing. However, large parts of the South African population still live in simple corrugated iron shacks, many of which are located in the townships that were once constructed by the apartheid regime for the black, coloured, and Indian population groups. South Africa is simultaneously an industrial nation and a developing country. To compensate for these extremes, the country maintains a broad welfare system that includes child benefits. Overall, there are three times as many recipients of state benefits as there are taxpayers,<sup>13</sup> and this – together with salaries in the public sector, which are far higher than those of the private sector for political reasons – is fuelling the national debt.

As unemployment remains at a high level, this woeful situation is unlikely to change in the foreseeable future. Even times of economic boom have brought no improvement, as economic growth takes place primarily in sectors that employ highly qualified personnel and have efficient production systems. South Africa’s labour costs are high by threshold country standards, thanks to growing over-regulation and the efforts of influential trade unions, and this too prevents the labour market from gaining impetus. To achieve a long-term reduction in unemployment, the Organisation for Economic Cooperation and Development (OECD) estimates that the country would need annual economic growth of 6 to 7 percent over several decades.<sup>14</sup> But between 2005 and 2010, GDP exhibited only modest growth averaging 4.2 percent per year, far less than most other emerging threshold countries.

## About 30 percent unemployment

Officially, one-fourth of the South African population is registered as unemployed. This figure, however, does not include those people who have given up trying to find a job. If one includes these people, the unemployment rate could be closer to 30 percent. The hardest hit are young black people, among whom half those aged 15 to 24 are unemployed and dependent on the country's welfare system. South Africa has one taxpayer for every three recipients of state benefits.



Labour force of South Africa and employment figures (in millions)  
(Data source: United Association of South Africa, South African Employment Report 2010)

## Investment slowed by crime

Due in part to the social inequalities and the lack of prospects for many young people, South Africa has one of the highest crime rates in the world and leads the field in the murder and rape statistics. According to estimates, 40 percent of all South African women are raped at least once in their lives.<sup>15</sup> This means that a woman in South Africa has a higher probability of becoming a rape victim than of graduating from secondary school.

The prevalence of violent crime impedes investments, drives production costs higher, and thus slows the economic growth that might help to combat the causes of crime. South Africa's middle class either takes refuge in gated communities – separate residential areas with good security – or emigrates. White South Africans in particular, who represent approximately ten percent of the population and are usually more affluent and better educated than the average, are leaving the country. According to official figures, 440,000 white South Africans left between 1996 and 2010.<sup>16</sup> The true figure could be much higher.

At the same time, economic refugees from Africa's numerous impoverished states are flocking to South Africa. According to estimates, several million illegal immigrants now live in South Africa, the majority of whom are from neighbouring Zimbabwe, though some also hail from countries like Mozambique, Malawi, and Somalia. They include many qualified people in search of employment, and the competition on the job market creates social tensions that discharged themselves in 2008 with riots in many black suburbs against immigrants from other African countries.

## Fair elections, free press

It is not only economic prospects that make South Africa an attractive destination for refugees from other sub-Saharan states. South Africa is also one of the politically most stable countries on the continent. Several fair and peaceful elections have taken place since the transfer of power in 1994. The country has an influential constitutional court, a relatively free press, and an active civil society. The US Freedom House Institute gives South Africa a score of two on a scale of one ("free") to seven ("unfree") for both political and civil rights.

Ethnically South Africa is extremely diverse and is home to the largest European and Indian communities on the African continent. Only 80 percent of the population describe themselves as black.

The Broad-Based Black Economic Empowerment redistribution programme was started to impose quotas for the purpose of increasing the wealth and influence of black South Africans.

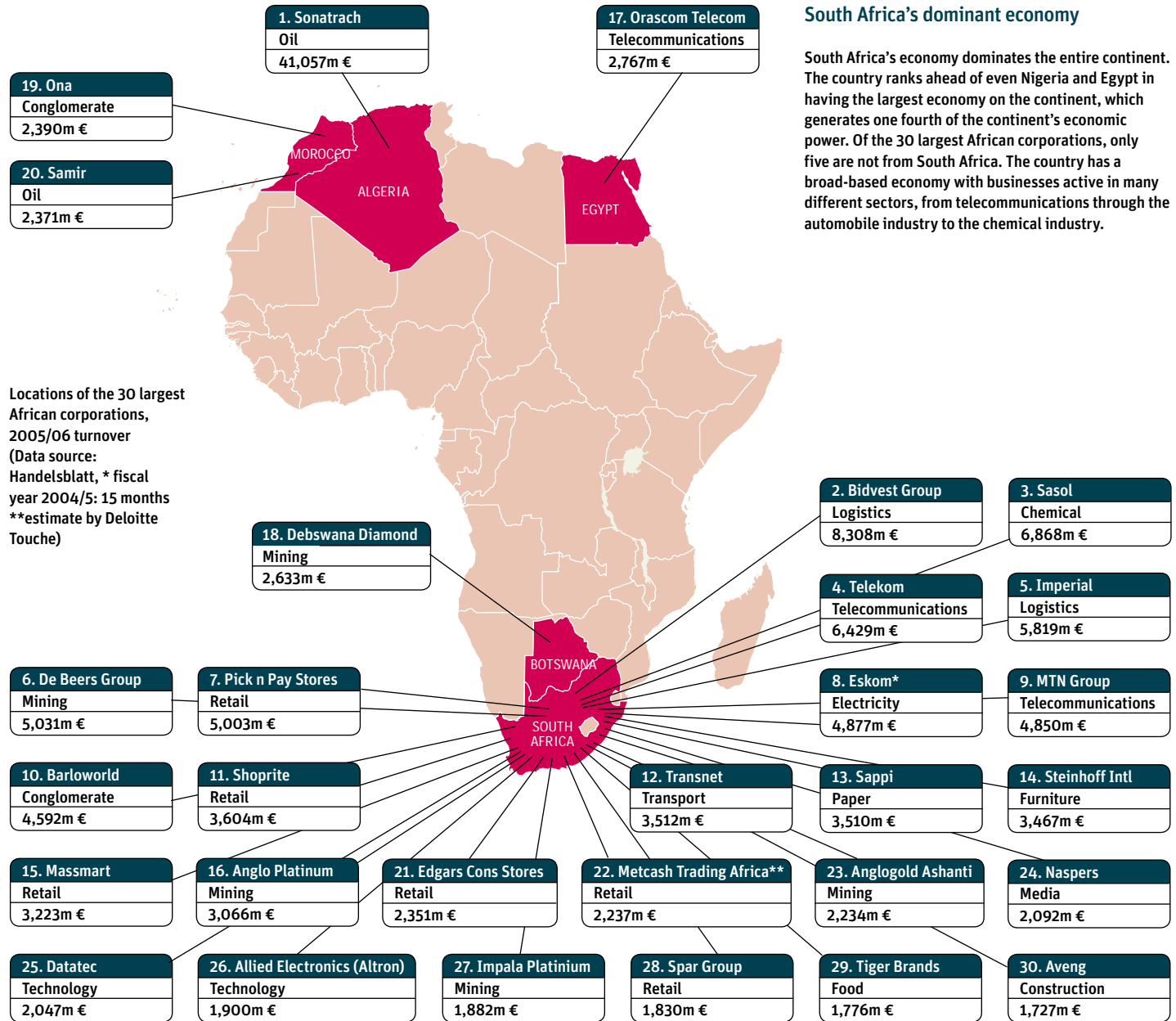
This has resulted in the creation of an extremely wealthy black upper class and a high-consumer black middle class. However, it has also fostered corruption and put many insufficiently qualified people into high positions. The economist Moeletsi Mbeki, the younger brother of former president Thabo Mbeki, is calling for the programme to be terminated as quickly as possible.<sup>16</sup>

After Mauritius, South Africa has the highest household consumer spending per capita in Africa. The telecommunications, retail, and banking sectors are more highly developed in South Africa than in any other African country. The retail sector reaches over two-thirds of the population, while in an average transitional country only 38 percent of the population has access to boutiques, shopping malls, and supermarkets.<sup>19</sup> However, partly as a result of the country's long history of political instability, the population has very low savings.

As South Africa has affluent middle and upper classes alongside large proportions of the population that suffer from unemployment and poverty, the Gini Index lists South Africa among the countries with the most unequal distribution of wealth in the world.<sup>20</sup> And despite all the redistribution efforts, there are still vast differences in wealth between the ethnic groups, and the average black person has only 13 percent of the average white person's income.<sup>21</sup>

However, these tensions have not prevented South Africa from earning a very high rating on the Ease of Doing Business Index, where it ranks after Mauritius as the second best location for entrepreneurs in Africa. Among other advantages, building permits are easier to come by and taxes are lower than in the average OECD country. South Africa also has an infrastructure that is attractive to entrepreneurs, and the government plans to invest large sums in infrastructure development in the coming years. By the time of the 2010 soccer World Cup, the first to be held in Africa, the country had invested 86 billion euros in its roads and airports and in the first express train in Africa, the Gautrain, which links Johannesburg and Pretoria with the O. R. Tambo International Airport.

In the large metropolitan areas, transregional transit, and in economically significant parts of the country, South Africa's infrastructure meets the standards of industrialised countries. Its road and rail networks, largely a legacy from the apartheid era, are the best in all of Africa. Its telephone and mobile networks and Internet service providers are among the most reliable on the continent. Only the electricity supply and other utilities that are supplied exclusively by one of the many state-owned corporations are lower quality, so much so that some of these services are poorer in South Africa than in the average sub-Saharan country.



### South Africa's dominant economy

South Africa's economy dominates the entire continent. The country ranks ahead of even Nigeria and Egypt in having the largest economy on the continent, which generates one fourth of the continent's economic power. Of the 30 largest African corporations, only five are not from South Africa. The country has a broad-based economy with businesses active in many different sectors, from telecommunications through the automobile industry to the chemical industry.

## Business centre and commercial hub

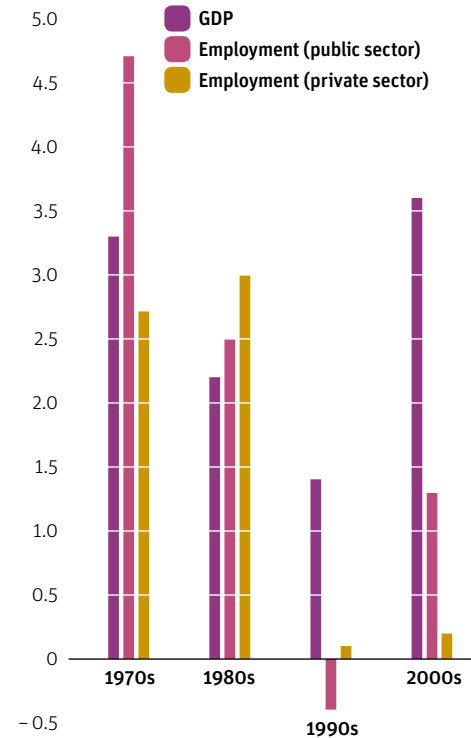
Together with the country's stable political situation and beautiful landscape, the good infrastructure attracts numerous foreign visitors, and South Africa records over eight million tourists per year.<sup>23</sup> It is easy to see the country's attraction – it is home to a wide variety of climate zones in relatively close proximity to one another, from the subtropical coast of the Indian Ocean to the semi-desert Karoo in the interior. Cape Town, a city with five million residents that offers a Mediterranean climate, is the most popular tourist destination in all of Africa. Its hinterland is wine country to which South Africa owes its place in the league of the ten largest wine producers in the world.

The South African parliament meets in Cape Town. But the seat of government is in Pretoria, situated in the heart of the country 50km away from Johannesburg, with which it forms a kind of double city. With its 11 million residents and numerous skyscrapers,

Johannesburg and the surrounding province of Gauteng form the country's business and commercial hub. Among the more than 20 stock exchanges in Africa, the largest is the Johannesburg Stock Exchange, whose trading volume is several times larger than all the other African exchanges put together.

The adjacent business town of Midrand has become the home of local computer companies and branches of many international corporations such as Canon, Siemens, and Sony as well as manufacturing facilities of BMW and Audi. And the two southern German corporations are not the only automobile companies in South Africa. Volkswagen has an assembly plant in the Eastern Cape near Port Elizabeth, a city with one million official and roughly seven million unofficial residents that is also the location of the Ford and General Motors production facilities as well as many automobile supplier plants and represents the centre of South Africa's automobile industry.

South Africa as a whole has grown into a hub for the global automobile industry. The industry is one of the largest employers in the country and contributed approximately 8 percent to GDP in 2008.<sup>24</sup> The needs of the automobile industry were one of the reasons for constructing a new deep-water harbour for large freighters, which was recently completed in Port Elizabeth. The automobile manufacturers benefit from the strategic position of the country at the southern end of the African continent, which provides easy access not only to the markets of sub-Saharan Africa, but also by sea to Asia, Australia, and the Americas. Thus South Africa serves as a hub for almost the whole world.



## A boom without jobs

As the country's economy has become largely independent of the job market, there is currently little hope for improvement in South Africa's high unemployment rates. While GDP is growing, very few new jobs are created even in boom years. Economic growth takes place primarily in sectors that are continually increasing their production efficiency and thus require fewer employees with high qualifications. The rising national debt forces cost cuts in the public sector, which was one of the largest creators of new jobs in the 1970s, so that no new jobs have been created by the state.

GDP growth/Increase in jobs in the public and private sectors in percent  
(Data source: South African Reserve Bank)

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