**STRUCTURAL BARRIERS TO ECONOMIC GROWTH**

**WIDESPREAD INFRASTRUCTURE DEFICIT**

Despite the proliferation of programmes to remedy Africa's infrastructure deficit, the continent remains plagued by a crippling lack of energy, transport and telecommunication infrastructure. Current annual investment needs are estimated at USD 93 billion, with more than one-third remaining unfunded and insufficient maintenance creating additional needs for expensive rehabilitation. The World Bank estimates that if Sub-Saharan Africa could improve its infrastructure to the levels comparable with those in Mauritius, its growth of real GDP per capita would increase by 2.3 per cent a year.

**UNFAVORABLE GLOBAL RULES**

The unbalanced global economic system and its associated set of rules heavily disadvantage Africa. Battered subsidy regimes, quotas, as well as high tariff and non-tariff barriers constrain its potential to escape unfavourable trading patterns and diversify its economies.

**POOR MARKET QUALITY**

The majority of African markets are plagued by small market sizes, ethnic segmentation, high-percentage of informal activity, significant productivity gaps, skill mismatches, and low competitiveness. Particularly financial markets are still poorly developed.

**POOR REGULATORY ENVIRONMENTS**

Despite notable reforms in some countries, Africa remains a difficult place for entrepreneurs which face greater regulatory and administrative burdens, and less protection of property and investor rights than in other regions. Complex tax codes and high compliance burdens imposed by an inefficient tax administration are powerful incentives for small enterprises to remain informal.

**INSUFFICIENT ACCESS TO FINANCE**

FDI concentrating in the extractive sectors of a limited group of resource-rich countries, high risk ratings driving the cost of credit, and poorly developed financial markets, most Africans have very limited access to finance. The consequences are significant. Low rural access to credit hampers agricultural productivity, inadequate access to finance by SMEs impedes private sector development in industry or high-value added services, and limited access to finance constrains the diversification of exports. By remodeling risk-weighted assets, Basel II, the new framework for banking supervision on integration, may further adversely affect the cost of financing and inhibit cross-border financial flows to countries where public and private borrowers are rated at a higher level of risk such as LDCs.

**REGIONAL INTEGRATION**

Deepening regional integration holds enormous potential for economic growth and social development across the continent. According to UNCTAD, an investment of $32 billion to improve the main intra-African road network alone could generate around $250 billion in additional trade over a period of 15 years. As part of a broader development strategy, regional integration can enhance productive capacity, intensify economic diversification, and improve competitiveness. Pooled resources and economies of scale would also allow African countries to participate more effectively in the global economy.

**RENEWABLE ENERGY**

Africa has enormous potential for energy production from renewable sources – solar, hydro, wind and geothermal. Almost all Sub-Saharan African countries have sufficient renewable resources, exploitable with modern technologies. To satisfy many times their current energy demand. (See chart on page 45.)

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**AFRICAN URBAN POPULATION TREND**

- **Rise in Domestic Consumption**
  - By 2014, the number of households with income of $3,000 or more is expected to reach 106 million. Africa already has more middle-class households (defined as those with incomes of $20,000 or above) than India. Africa’s rising consumption will create more demand for local products, sparking a virtuous cycle through a growth in discretionary income. As a result, consumer-facing sectors such as retailing, banking, and telecom are set to grow fast.

- **Increasing Urbanization**
  - The high urbanization rate of the African continent which exceeds that of any other region can be a great asset by boosting productivity, demand, and investment by creating economies of scale. There is a clear need to avoid urban crowding and "slumification".

**THE GROWTH OF THE MOBILE NETWORK**

**REGIONAL DISTRIBUTION OF FDI IN AFRICA**

**Rise in Domestic Demand**

- Africa will continue to profit from rising global demand for oil, natural gas, minerals, food, and arable land. Fast growing demand for raw materials has both positive and negative effects. On the negative side, it may discourage or at least slow the build up of other sectors. On the positive side, if will induce FDI not only to explore the resources, but also to develop infrastructure to reach and transport them which are bound to have positive spillover effects.

- **Renewable Energy**
  - Whether by connecting people with each other, linking rural areas to the world, spreading knowledge, improving healthcare delivery or providing a basis for small businesses through mobile banking, the rapid spread of information and communication technologies has changed how Africa’s people interact and its economies function. But the benefits of new technologies are in other sectors, such as manufacturing, where they are allowing African countries to leapfrog development stages.