Executive summary

This short report provides a broad overview of the challenges faced by the EBRD's new countries of operation in sub-Saharan Africa (SSA) – Benin, Côte d'Ivoire, Ghana, Kenya, Nigeria and Senegal – when it comes to building economies that are competitive, well governed, inclusive, green, resilient and integrated. It compares and contrasts these challenges with those of economies in emerging Europe and Central Asia on their journeys from the legacy of central planning towards sustainable market economies.

The report builds on rich sources of data, including a unique representative household survey, the *Life in Transition Survey*, which has been conducted by the EBRD in collaboration with the World Bank since 2006. The four waves of the survey to date have covered 50 economies in emerging Europe, Central Asia, the southern and eastern Mediterranean (SEMED), select comparators and, in 2023, the aforementioned six economies in SSA.

Today, the average per capita incomes of the SSA economies are comparable to those observed in eastern Europe and the Caucasus (EEC) and Central Asia in the early 2000s. Since then, economies in emerging Europe and Central Asia have experienced relatively fast income convergence towards the levels enjoyed by major advanced economies, while the pace of income convergence in SSA has remained slow.

Building on the first wave of the *Life in Transition Survey* conducted in emerging Europe and Central Asia in 2006 and the latest, 2023 wave of the survey, which covered SSA, Chapters 2 and 3 of this report examine factors that might explain the differences in growth patterns observed across these regions before drawing forward-looking policy implications.

The strengths and weaknesses of the SSA economies bear some similarities to those of emerging Europe and Central Asia, but there are important differences. Whereas economies in emerging Europe and Central Asia enjoyed relatively high levels of skills that were deployed inefficiently by state-owned enterprises under central planning, the quality of skills in SSA economies tends to be low and educational progress has been slow by global standards. The results of the *Life in Transition Survey* show that 32 per cent of those who have finished primary school in SSA cannot read or write. Absolute educational mobility – the share of children attaining a higher level of education than their parents – is low and, unlike other emerging markets, has yet to start rising.

The poor quality of infrastructure also weighs on growth in SSA. For instance, more than a quarter of survey respondents report not having access to electricity, compared with near-universal access in EEC and Central Asia in the mid-2000s.

Levels of informality remain high, both in subsistence agriculture and in the services sector, well above those observed in emerging Europe and Central Asia in the 1990s, while the quality of economic institutions is broadly in line with economies' levels of gross domestic product (GDP) per capita.

Constraints on economic growth in SSA are partly offset by exceptional dynamism. While less satisfied with the present, for instance, survey respondents are more optimistic about the future. Such optimistic attitudes are not only associated with better physical and mental health and subjective well-being, but also greater willingness to start a business and better corporate performance.

SSA stands out for its high levels of entrepreneurship and people's willingness to move in search of economic opportunities. Startups are growing across Cape Town, Johannesburg, Lagos and Nairobi, while Accra, Addis Ababa, Dakar and Kigali are emerging as new hotspots. Technology-enabled startups in the areas of agritech, fintech and biotech tend to grow faster than the average firm.

In some economies in the region, private investment has been rising fast. In Benin and Senegal, it is now estimated at more than 30 per cent of GDP, a level associated with high-growth episodes in the past.

High levels of digitalisation (reflected in the widespread use of smartphones and online payments) point to the region's ability to "leapfrog" and embrace new technologies.

With a median age of just 19, SSA's potential demographic dividend from an increasing share of the working-age population could be substantial. Reaping this dividend will require patient work to improve the quality of education, promote the transition to formal private enterprises, build infrastructure and, as economies develop, strengthen institutions.