

Transforming  
Africa's  
Economies  
Economic Report on Africa 2000



Economic Commission for Africa

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# Foreword

Africa made impressive economic progress in the 1990s. In the second half of the decade real GDP growth averaged 4% a year, and several countries sustained double-digit growth. The climate became more conducive to domestic and foreign investment. Capital markets broadened and deepened. Demand for African manufactured goods increased in Europe and the United States, and export growth nearly doubled.

Despite nearly a decade of reforms in many African countries, economic growth remains fragile, and there has been little progress in reducing absolute poverty. That is the starting point for this report, which stresses that on current trends Africa will not achieve the target of reducing poverty by half by 2015. With this in mind we propose a new development agenda for Africa to kick-start growth and reduce poverty—an agenda based on the need for a structural transformation of African economies.

That transformation requires renewed emphasis on modern agriculture as a basis for resource-based industrialization. Agriculture must get new attention, both in international development cooperation and in domestic resource allocation. So must resource-based industrialization, possible only with a level playing field in international trade.

African countries must recapture their lost share of world trade by improving infrastructure—and by ending the interventions in agricultural input and product markets that hinder agricultural production. Developed countries should reduce agricultural subsidies that artificially depress the prices for Africa's agricultural produce. They should also reduce tariffs that make Africa's processed products uncompetitive in international markets.

Because only high-quality governments can deliver essential social services to those who need it most, this report places good governance at the centre of Africa's efforts to reduce poverty. High-quality governments are better able to design and implement effective policies. They are more transparent. They manage national finances soundly. And they provide citizens with peace, security, and the economic freedoms for markets to flourish.

Progress is predicated on African countries undertaking the necessary political and economic reforms to ensure their economic take-off. But rich countries have to support these reforms through long-term partnerships for more aid, for more effective aid, for deeper debt relief, and for greater access to their markets.

**K.Y. Amoako**  
Executive Secretary





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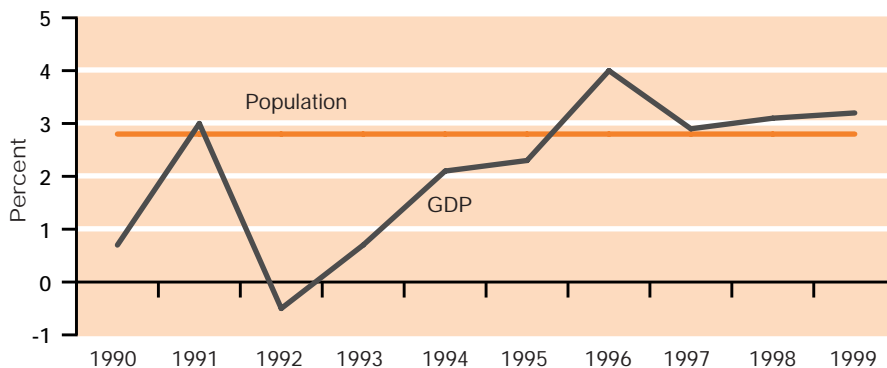
# African economies at the start of the 21st century

Africa made impressive economic progress in the 1990s. Several countries sustained double-digit growth. The climate became more conducive to domestic and foreign investment. Capital markets broadened and deepened. Demand for African manufactured goods increased in Europe and the United States. And in the second half of the 1990s real GDP growth in Africa averaged 4% a year, exceeding the continent's high population growth rate of 2.8% a year. Export growth nearly doubled to 8% a year. Real GDP grew by 3.2% in 1999, up from 3.1% in 1998.

The recent economic recovery is reason for renewed optimism. But the recovery's sustainability is fragile—for two reasons. First, strong domestic savings do not underpin it. Second, Africa's economies remain vulnerable to outside shocks. Indeed, economic growth for the decade averaged only 2.1% a year, less than population growth of 2.8% (figure 1.1) and considerably less than the 7% growth needed to reduce by half the proportion of Africans in poverty by 2015, the internationally agreed target.

For example, economic growth slumped during the first half of 1999 due to poor performance by Africa's economic indicators. While bad weather hurt the agricultural sector in many parts of the region, deteriorating primary commodity prices, declining external resource flows, and external debt servicing further depressed economic activity. Although the weather did not improve, a strong recovery in commodity prices helped reverse the trend and create positive economic growth in the second half of the year.

*The recent economic recovery is a reason for renewed optimism. But the recovery's sustainability is fragile*



Source: Economic Commission for Africa.

◀ Figure 1.1  
Growth of GDP and population, 1990–99

Despite substantial progress in reform—macroeconomic stabilization, deregulation, privatization, trade, and exchange rates—structural constraints and institutional weaknesses continue to inhibit a vigorous supply response. Most African economies still depend on primary products, exhibiting a high export concentration. Inadequate infrastructure increases the cost of doing business, making it difficult for Africa to fully tap its resources and compete effectively in the global economy. The external debt overhang severely limits the capacity for sustained policy reform. Drought, disease, civil conflict, and poor governance make the situation worse. Consequently, Africans' quality of life continued to erode in the 1990s.

Africa will reduce poverty only if it also pursues sustained economic growth, economic structural transformation, and integration of Africa's economies into the global economy, including integration into the regional and global production networks of transnational corporations. The small market size and fragmentation of African economies means that economic integration is an indispensable element for sustainable growth. Growth accompanied by structural transformation is essential to enhance economic productivity and reduce vulnerability to external shocks, sustaining economic growth.

## Poverty and income inequality are widespread and severe . . .

In Sub-Saharan Africa 52% of people live on less than \$1 a day (in 1995 dollars adjusted for purchasing power parity).<sup>1</sup> In 1998 the average monthly expenditure was only \$14 a person by the rural poor and \$27 by the urban poor. That leaves 59% of rural people below the poverty line and 43% of urban (see box 1.1 on urban poverty). Both rural and urban poverty are sensitive to income growth—a 1% increase in income leads to a 0.8 percentage point reduction in rural poverty and a 0.9 percentage point reduction in urban poverty, as measured by the head-count ratio. Rural poverty responds more to income growth than to changes in the distribution of income—but for urban poverty the reverse is true.

With a Gini coefficient of 51% Africa has the worst income distribution in the world. Income inequality is lowest in Southeast Asia, which has a Gini coefficient of 32%. The richest 20% of the population account for 40% of the expenditure while the poorest 20% of the population account for 9% of the expenditure. Africa is at the other extreme. Expenditure distribution profiles for the rural and urban sectors in Sub-Saharan Africa are not much different than those for the continent.

Africa's rural areas suffer from a highly unequal distribution of expenditure (table 1.1). The mean share of the lowest 40% of the rural population is only 16% of total expenditure, a shortfall of 24 percentage points, while the mean share of the top 20% is about 48%, an excess of 28 points over perfect equality. The share of the top 20% in total expenditure is 8 times that of the poorest 20% of the rural population. This inequality manifests in an ex-

*Africa has the worst income distribution in the world. Africa's rural areas suffer from a highly unequal distribution of expenditure*

<sup>1</sup> Dollar figures are in current U.S. dollars unless otherwise specified. Billion is a thousand million.

Urban poverty in Sub-Saharan Africa is severe. In 1997, 43% of urban dwellers lived below the poverty line (\$47 per month per person). The poverty gap ratio was 16%, the squared poverty gap ratio 8%. These results, from a survey of 21 Sub-Saharan countries, also revealed that Swaziland had the highest incidence of urban poverty, at 59%. Ethiopia, Guinea-Bissau, and Zambia were next, with 53% each. Mauritania and South Africa had the lowest incidence of urban poverty, at 30%.

Eleven countries had a Gini coefficient greater than the mean for the study sample:

- Swaziland, 62.4%.
- South Africa, 53.1%.
- Central African Republic, 51.3%.
- Kenya, 48.6%.
- Ethiopia, 48.3%.
- Zambia, 48.3%.
- Guinea-Bissau, 47.8%.
- Madagascar, 46.0%.
- Burkina Faso, 45.4%.
- Uganda, 45.0%.
- Gambia, 44.2%.

The study concludes that countries may succeed in reducing poverty without reducing inequality.

Nine countries had income shares less than the mean:

- Swaziland, 6.8%.
- South Africa, 9.8%.
- Central African Republic, 11.0%.
- Guinea-Bissau, 12.9%.
- Kenya, 13.8%.
- Burkina Faso, 13.9%.
- Madagascar, 14.1%.
- Zambia, 14.1%.
- Ethiopia, 14.3%.

And nine had shares equal to the mean: Ghana, Mauritania, Senegal, Nigeria, Côte d'Ivoire, Tanzania, Djibouti, Guinea, and Niger.

*Source: Economic Commission for Africa 1999e.*

penditure Gini coefficient of about 41.3%, which, when adjusted to reflect inequality in the distribution of income, increases to 48%.

Similarly, the mean share of the lowest 40% of the urban population is only 15% of total expenditure, a shortfall of 25 percentage points of total income. The mean share of the top 20% of the population is about 50%, an excess of 30 points. The share of the top 20% in total expenditure is nine times that of the poorest 20%. This inequality manifests in an expenditure Gini coefficient of about 43.6%, which, when adjusted to reflect inequality in the distribution of income, increases to 50%.

**Table 1.1** ►  
**Income distribution in rural and urban Africa by income quintile, 1990s (percent)**

Sector	Lowest 20%	Second lowest 20%	Third lowest 20%	Fourth lowest 20%	Highest 20%	Gini coefficient
Rural	5.95	10.43	14.75	21.19	47.68	47.90
Urban	5.56	9.75	14.10	20.75	49.84	50.19

*Source: Calculations based on World Bank 1998b.*

**Table 1.2** ►  
**Distribution of African countries by real GDP growth, 1995–99 (number of countries)**

Growth rate (percent)	1995	1996	1997	1998	1999
Negative	6	2	4	2	0
0–2.9	11	12	12	13	19
3–4.9	23	28	25	28	17
5–6.9	6	9	10	8	12
7 and above	7	2	2	2	5
Total	53	53	53	53	53

*Source: Economic Commission for Africa.*

## but near-universal growth reveals Africa's potential

**In a clear departure from the past, no country in Africa experienced negative GDP growth**

In a clear departure from the past, no African country experienced negative GDP growth in 1999, and only one posted growth of less than 1%. In that year 19 countries had growth rates between zero and 2.9%, another 17 were clustered between 3% and 4.9%, and 12 had growth rates between 5% and 6.9% (table 1.2). Equatorial Guinea and Mozambique recorded the highest growth rate: 10% (box 1.2). The number of countries with growth rates above the 7% required to reduce poverty by half by 2015 rose to five, up from two in 1998.

East and Southern Africa, which together account for 45% of the region's population and 37% of GDP, enjoyed faster growth in 1999 than in 1998 (table 1.3). North, West, and Central Africa, which account for 55% of the population and 63% of GDP, had slower growth.

◀ Box 1.2

*Mozambique's miracle?*

Mozambique is a striking example of what sound policies can achieve. Until recently, it was one of the fastest growing economies in Africa, growing at an astonishing 12% in 1998 and 9% in 1999.

The country broke from Portuguese rule in 1975 into a highly regulated economy and survived a protracted civil war. In 1987 the government committed to privatization, and since then its programme has been one of Africa's most active, restructuring or privatizing more than 900 state enterprises. The banking system was partially privatized in the mid-1990s, exchange bureaux have been legalized, and measures have been taken to liberalize the current account of the balance of payments, reducing the spread between official and parallel (black market) exchange rates. Growth of money and quasi money has slowed from more than 70% (1992) to 17% (1998). Indeed, sound monetary policy lowered inflation—rampaging at more than 50% in 1988—to less than 2% in 1999.

The government is committed to reducing poverty and improving living standards. It has also become more transparent. Information on the tax system is widely available and, with some exceptions, fiscal management responsibilities are clearly defined. A new value-added tax was introduced in 1999, and revenue is already expected to reach the equivalent of 7.5% of GDP. The government prepares a five-year fiscal outlook, revised annually, and the newly created Administrative Tribunal issues a report after the close of each fiscal year.

But the devastating floods of February and March 2000 have set back these achievements. The forecast rate of growth for 2000 had to be revised from 7% to 3.8%. It is projected to reach 10% again in 2001 and to average about 6% through 2005. Inflation increased from less than 2% in 1999 to more than 16% in 2000, reflecting the aftermath of the floods.

*Source: IMF 2000a, b; World Bank 2000b, c.*

◀ Table 1.3

*Economic growth in Africa by region, 1998 and 1999*

Region	1998			1999		
	Mean	Standard deviation	Median	Mean	Standard deviation	Median
North	4.4	2.1	4.5	3.6	1.8	2.6
West	3.6	1.4	4.5	3.3	1.8	4.5
Central	5.0	4.2	5.5	4.5	2.7	4.8
East	2.7	2.2	3.0	4.1	2.4	3.0
Southern	1.7	2.4	4.5	2.2	3.0	4.0
Africa	3.1	2.5	4.0	3.2	2.3	4.0

*Note: See annex 1 for details.*

*Source: Economic Commission for Africa.*

**The number of countries with growth rates above the 7% required to reduce poverty by half by 2015 rose to five**

The performance of the African economies based on different economic groups reveals an interesting pattern. The countries can be grouped in five categories:

- The five largest (G5) economies.
- Oil-exporting countries.
- Island economies.
- Least developed countries.
- Land-locked countries.

These groups are not mutually exclusive, and some countries fall in more than one category (see annex 2 for countries included in each group).

- **Big economies.** Growth in the G5 economies in 1999 was 10% lower than in 1998. The G5 economies account for 59% of Africa's GDP and 37% of the population. Performance increased marginally in South Africa (21% of Africa's GDP) and Algeria (12% of GDP). Growth declined in Egypt (11.2% of GDP), in Nigeria (8% of GDP), and most in Morocco (6% of GDP), depressing the overall growth rate of this group.
- **Oil exporters.** The 11 oil-exporting African countries account for 49% of GDP and 41% of the population. Their aggregate growth increased marginally from 3.6% in 1998 to 3.7% in 1999. The drastic decline in oil prices, mainly in the first half of 1999, and civil and political instability hurt this group.
- **Island economies.** The six island economies are small, contributing less than 2% of Africa's GDP and little more than 2% of the population. Their composite growth declined from 4.6% in 1998 to 4.0% in 1999. Mauritius, which accounts for 45% of the group's GDP, saw its growth rate slow from 6.4% in 1998 to 4.2% in 1999.
- **Least developed.** The 33 least developed African countries account for 17% of Africa's GDP and 47% of the population. They have been very dynamic in recent years, posting GDP growth rates well higher than the continental average. And in 1999 they grew 4.5%, up from 4.3% in 1998.
- **Land locked.** The 15 land-locked countries in Africa, with about 10% of Africa's GDP and 23% of the population, increased their growth rate from 4.2% in 1998 to 4.9% in 1999.

The sluggish economies are large. The fast-growing economies are disadvantaged—the small island economies, the least developed, and the land locked. Because the disadvantaged economies started from low GDP levels, a small addition to GDP tends to be magnified, explaining some of the high growth rates for this group (tables 1.4 and 1.5).

## External trade losses outweigh gains

The dollar value of African exports increased 2.4% from 1998 to 1999 (table 1.6). The growth in export earnings from goods was due entirely to higher volumes, which increased nearly 6% in 1999 and more than made up for the 3.2% decrease in unit price.



Group	1998			1999		
	Mean	Standard deviation	Median	Mean	Standard deviation	Median
G5	3.1	2.3	3.8	2.8	1.9	1.5
Oil exporters	3.6	4.1	3.8	3.7	2.5	4.0
Island economies	4.6	2.4	3.0	4.0	1.2	2.9
Least developed	4.3	2.7	4.4	4.5	2.4	4.5
Land locked	4.2	2.0	5.0	4.9	2.6	5.0

**Note:** See annex 2 for composition of economic groups.

**Source:** Economic Commission for Africa.

◀ **Table 1.4**  
Growth rates  
of countries  
by economic group

Group	Number of countries	Percent of African population	Percent of African GDP	Per capita income (dollars)
G5	5	37.3	58.9	1,090
Oil exporters	11	40.9	49.4	833
Island economies	6	2.4	1.6	461
Least developed	33	47.0	17.0	250
Land locked	15	22.6	9.8	299

**Note:** See annex 2 for composition of economic groups.

**Source:** Economic Commission for Africa.

◀ **Table 1.5**  
Population and income  
characteristics  
of African countries  
by economic group,  
1999

External trade	1996	1997	1998	1999
<b>Exports</b>				
Value	8.1	5.9	-14.5	2.4
Volume	5.2	10.1	3.3	5.6
Unit value	2.9	-4.3	-17.8	-3.2
<b>Imports</b>				
Value	8.4	7.7	-3.5	4.0
Volume	6.5	4.6	-5.2	1.4
Unit value	-1.9	-3.1	-1.7	2.6
<b>Terms of trade</b>	4.8	-1.2	-16.1	-5.8

**Source:** Economic Commission for Africa.

◀ **Table 1.6**  
Value, volume, and unit  
value of exports and  
imports—and terms  
of trade, 1996–99  
(percent)

Imports also increased in value and volume. The 4% increase in value came from a higher volume of imports, which increased 1.4%, and higher prices. The increase in volume, although small, is gratifying as it reversed the drastic fall of the preceding year. It contributed to the growth of domestic supply through larger imports of consumer goods and higher capacity use through the provision of inputs for the industrial sector. In 1999 terms of trade declined nearly 6% due to a fall in the unit value of exports (3.2%) and an increase in the unit price of imports (2.6%).

**Table 1.7** ▶  
**Balance of payments,**  
**1996–99**  
**(billions of dollars)**

Item	1996	1997	1998	1999
Exports	108.6	115.1	98.4	100.8
Imports	99.2	106.8	103.1	107.2
Trade balance	9.4	8.3	-4.7	-6.4
Oil balance	21.8	15.8	9.8	12.5
Non-oil balance	-12.4	-7.5	-14.5	-18.9
Services (net, excluding factor incomes)	-10.7	-10.5	-11.2	-10.9
Balance on goods and services	-2.2	-15.9	-17.1	1.6
Current account balance	-6.6	-4.9	-18.1	-20.5
Total external financing	14.9	11.5	15.9	21.6
Non-debt-creating flows	7.0	11.3	10.1	13.2
External borrowing	7.9	0.2	5.8	8.4
Official creditors	10.4	1.6	6.9	6.7
Private creditors	-2.5	-1.2	-1.1	1.7
Changes in reserves <sup>a</sup>	-5.9	-5.2	2.2	-1.1

*a. – indicates increase.*

**Source:** *Economic Commission for Africa.*

**“**  
 The dollar value of  
 African exports  
 increased 2.4%  
**”**

Export earnings from goods and services increased 2.4%, from \$98 billion in 1998 to \$101 billion in 1999 (table 1.7), mainly due to an increase in volume. The value of imports increased at the same time, up 4% from \$103 billion to \$107 billion due to volume and price increases. As a result of the combination of developments in commodity prices and export and import volumes, the trade deficit widened to \$6.4 billion from \$4.7 billion in 1998. In 1999 the trade surplus of the oil-exporting countries rose from \$10 billion to \$13 billion. At the other end are the non-oil-exporting countries, whose trade balance widened from \$15 billion to \$19 billion because of a rise in the prices of their imports, including oil prices, and the decline in the value of their exports, mainly primary commodities.

Africa's current account balance deteriorated further, from \$18 billion in 1998 to \$21 billion in 1999, a 17% increase, from lower export earnings and higher import values. While the trade deficit has been traditional for the non-oil-exporting countries, Africa's balance was positive due to the surplus of the oil-exporting countries. In 1998, however, the trade balance turned negative because of the decline in oil revenue following the drastic fall in oil prices in the world market. The perennial cause of the current account deficit? The service sector, which has a long history of massive imbalances. The deficit arises from payments for and receipts from such activities as transport, banking, and insurance.



# Progressing towards sustainable growth and poverty reduction

Africa's economic transformation requires good economic policies (measured by the Economic Policy Stance Index) and good economic performance over a long period (measured by the Economic Sustainability Index). To track progress in policy and sustainability, countries are ranked by their scores in each index, and countries from the top and bottom of the rankings are examined more closely. Then cluster analysis is used to classify countries into three relatively homogeneous groups: high (or good), middle (or fair), and low (or bad). The rankings are also used to explore simultaneous movements in policy and sustainability to shed light on their complementarity.

## Economic sustainability brings long-term results

Economic sustainability is an economy's capacity to regularly produce outcomes consistent with long-term structural change (or economic development). The Economic Sustainability Index assesses a country's medium- to long-term potential to produce and maintain good economic performance, as measured by its sustained growth, human capital development, structural diversification, transactions costs, external dependency, and macroeconomic stability. The index comprises 36 indicators. Each country receives a score between 1 (low sustainability) and 10 (high sustainability) based on how it compares with the average of three best performers in Africa.

### Sustainability is low and varied . . .

The index scores show that economic sustainability of African countries is low, even relative to the best performers on the continent (table 2.1). Of the 47 countries ranked, 24 scored below 3.5 (half the best-practice score of 7). And only five countries (Egypt, Mauritius, Seychelles, South Africa, and Tunisia) scored above 5.

Seychelles, Tunisia, Egypt, South Africa, Mauritius, Morocco, Botswana, Lesotho, Swaziland, and Algeria are the top 10—in that order. Three of them are relatively well endowed with natural resources (Algeria, Botswana, and South Africa). Two are tropical (Botswana and Seychelles). And three are land locked (Botswana, Lesotho, and Swaziland). Lesotho, Mauritius, Seychelles, and Swaziland are small countries. Only Algeria and Botswana have

*Africa's economic transformation requires good economic policies and performance over a long period*

Country	Score	Rank	Country	Score	Rank	Country	Score	Rank
Seychelles	5.62	1	Côte d'Ivoire	3.87	17	Madagascar	2.98	33
Tunisia	5.48	2	Gambia	3.86	18	Mauritania	2.94	34
Egypt, Arab Rep.	5.31	3	Kenya	3.69	19	Rwanda	2.90	35
South Africa	5.17	4	Ghana	3.67	20	Angola	2.89	36
Mauritius	5.12	5	Sudan	3.63	21	Guinea	2.89	37
Morocco	4.87	6	Congo, Rep.	3.60	22	Congo, Dem. Rep.	2.86	38
Botswana	4.84	7	Senegal	3.56	23	Mali	2.86	39
Lesotho	4.70	8	Zambia	3.48	24	Ethiopia	2.81	40
Swaziland	4.42	9	Togo	3.45	25	Uganda	2.78	41
Algeria	4.35	10	Cape Verde	3.44	26	Central African Republic	2.76	42
Zimbabwe	4.27	11	Mozambique	3.44	27	Burundi	2.74	43
Equatorial Guinea	4.17	12	Nigeria	3.32	28	Guinea-Bissau	2.71	44
Cameroon	4.02	13	Malawi	3.20	29	Niger	2.48	45
Tanzania	4.01	14	Burkina Faso	3.18	30	Chad	2.47	46
Namibia	3.93	15	Benin	3.04	31	Sierra Leone	2.25	47
Gabon	3.89	16	Comoros	3.03	32			

Source: Economic Commission for Africa.

**Table 2.1 ▲**  
**Economic Sustainability**  
**Index scores and**  
**ranking by country,**  
**1999**

population densities lower than the Sub-Saharan average. But only the island economy of Mauritius has a very high population density.

One common feature: most of them have enjoyed political stability for long periods, partly explaining their success. The major exception is South Africa—and more recently, Algeria. As expected the North and Southern Africa regions dominate the top 10. Indeed, except for Seychelles, all these countries are from the two regions.

The 10 worst performers, in ascending order, are Sierra Leone, Chad, Niger, Guinea-Bissau, Burundi, Central African Republic, Uganda, Ethiopia, Mali, and Democratic Republic of Congo. The countries are in Central, East, and West Africa and are tropical with relatively low natural resource endowments (except Democratic Republic of Congo). Six of the countries (Burundi, Chad, Ethiopia, Mali, Niger, and Uganda) are land locked.

Since there are several successful land-locked countries in Africa (Botswana, Lesotho, and Swaziland) and elsewhere, the significance of this feature has to be explored further. Most of the worst performers recently experienced political instability and civil war. Six are to varying degrees subject to internal and cross-border conflicts (Burundi, Democratic Republic of Congo, Ethiopia, Guinea-Bissau, Sierra Leone, and Uganda). Conflicts of these kinds and low sustainability are highly correlated.

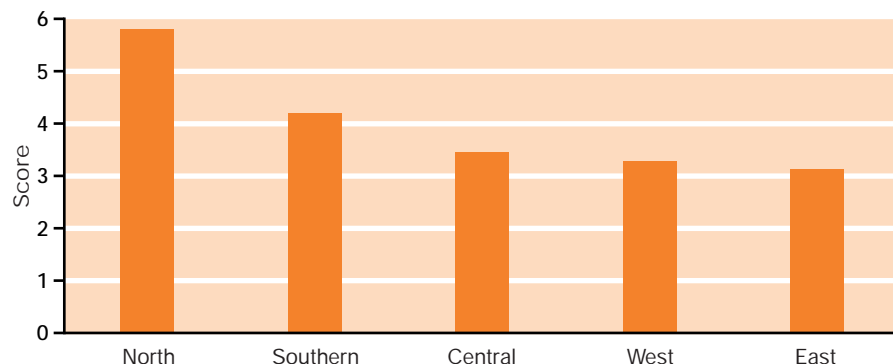
Sustainability varies across regions as well (figure 2.1). It is highest in North Africa, with a score of 5.79. Southern Africa is a distant second, with a score of 4.20. Central Africa (3.44) and West Africa (3.20) fill the next two places. With a score of 3.12 East Africa comes last, but only slightly behind West Africa. The regional ranking by Economic Sustainability Index scores corresponds roughly to that by per capita income.

Cluster analysis shows that eight countries with 20% of Africa's population have the highest potential for long-term development (figure 2.2). The "fair" cluster, with 19 countries, accounts for 30% of the population. The 20 "poor" performers have half the continent's people. That a fifth of the continent's population live in relatively more sustainable countries is encouraging. But that half of Africa's people reside in countries with low economic sustainability means that much remains to be done.

... but has improved over time

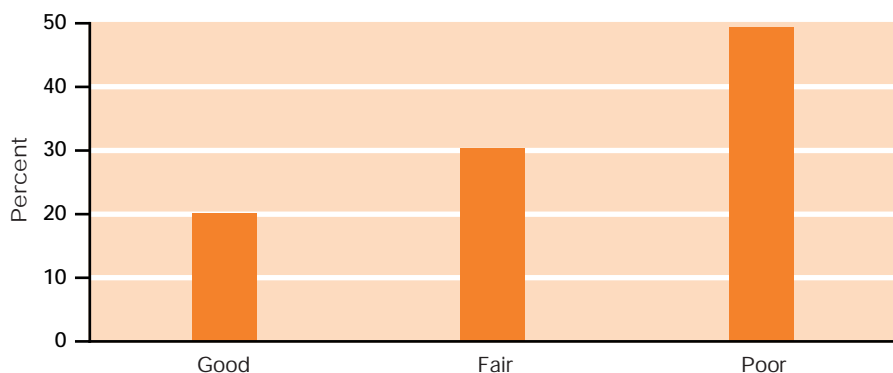
Progress since 1987 is encouraging. Africa's Economic Sustainability Index score improved by 4.8%. Of the 20 countries that registered positive changes, 18 saw increases

Eight countries with 20% of Africa's population have the highest potential for long-term development



Source: Economic Commission for Africa.

◀ Figure 2.1  
Economic Sustainability Index scores by region, 1999



Source: Economic Commission for Africa.

◀ Figure 2.2  
Population shares by cluster rating, Economic Sustainability Index, 1999

*There is a need for a broader approach to policy selection and for strategies consistent with initial conditions*

of more than 10%. Seven countries saw a decline of more than 10% (Angola, Comoros, Democratic Republic of Congo, Gabon, Rwanda, Sierra Leone, and Zambia). At the regional level West Africa scored the highest increase (12.3%), followed by North Africa (7.8%), and East Africa (4.3%). Southern Africa suffered a decline of 6.9% and Central Africa 2.8%.

All countries that recorded more than a 20% increase started from a low score (3 or less). This group includes seven countries: Benin, Chad, Ethiopia, Ghana, Mali, Senegal, and Uganda. Indeed, Benin—with a score of only 1.9 for 1987—was the lowest ranking country for that year. The annual improvement for this group ranges from 4% for Benin to 1.5% for Ghana. These results are consistent with socio-economic developments in these countries, such as deep economic reforms that directly affected the components of the index. And Chad, for example, ended a long civil war.

At the other extreme seven countries that recorded a relatively substantial deterioration in their economic sustainability (10% or more) started from a relatively high index score (more than 3). Zambia suffered the largest deterioration, with a decline of 1.9% a year. Once again these results are consistent with the socio-economic developments in these countries, such as civil conflicts, with Zambia’s misfortunes largely a result of economic management problems.

These findings reveal the challenge facing African economies to kick start and sustain a growth rate that will reduce poverty. The Economic Sustainability Index is uniformly low across the region, mainly because the inputs to the index—human capital, structural diversification, efficiency of governance (as measured by transaction cost), and macroeconomic sustainability—are very low. Thus there is a need for a broader approach to policy selection and for strategies consistent with these initial conditions.

**Table 2.2** ▼  
*Economic Policy Stance Index scores and ranking by country, 1999*

Country	Score	Rank	Country	Score	Rank	Country	Score	Rank
Mozambique	6.66	1	Congo, Rep.	5.67	10	Lesotho	5.04	19
Uganda	6.32	2	Mauritius	5.64	11	Madagascar	4.90	20
South Africa	6.11	3	Gambia	5.56	12	Ethiopia	4.89	21
Gabon	5.89	4	Zimbabwe	5.56	12	Sierra Leone	4.83	22
Namibia	5.89	4	Chad	5.17	14	Angola	4.80	23
Equatorial Guinea	5.82	6	Cape Verde	5.14	15	Central African Republic	4.71	24
Egypt, Arab Rep.	5.81	7	Cameroon	5.14	15	Kenya	4.36	25
Swaziland	5.78	8	Zambia	5.11	17	São Tomé		
Tanzania	5.68	9	Guinea	5.08	18	and Príncipe	4.27	26

Source: Economic Commission for Africa.

## Expanding the Economic Policy Stance Index

The Economic Policy Stance Index confines itself to macroeconomic policy, combining seven indicators covering fiscal, monetary, and exchange rate policies. As in the Economic Sustainability Index, countries are scored from 1 to 10 on how they compare with the continent's best performers. Data allowed for scoring of 26 African countries.

Mozambique earns the top score, bolstered by strong performance across the board (table 2.2). Uganda is second, having made significant progress towards liberalization in recent years (box 2.1). South Africa, Gabon, and Namibia round out the top five in that order—they are also the three best performers in per capita income. Sierra Leone, Angola, Central African Republic, Kenya, and São Tomé and Príncipe have the lowest scores in that order, mostly because of civil conflict and economic mismanagement.

Uganda has been implementing a successful programme of reforms since 1987, with strong support from multilateral and bilateral donors. The impact of the combination of government-led reform and development assistance has resulted in a drop in poverty. In 1992 nearly 56% of Ugandans were below the poverty line. By 1996–97 this figure had fallen to 44%.

Sound macroeconomic policies produced high growth rates, a steadily improving balance of payments, and a dynamic private sector. From 1994 to 1998 real GDP growth averaged 8% a year; inflation dropped to 5% a year during 1994–97. Although in 1997–98 heavy rains damaged agricultural production and exports, reducing real GDP growth to 5.5%, inflation stayed at 5.8%.

The government's prudent fiscal and monetary policies, together with a programme of economic liberalization, was so successful that in April 1998 Uganda became the first country to reach its completion point under the Heavily Indebted Poor Countries (HIPC) debt relief initiative. Debt relief through the HIPC initiative is \$629 million (\$357 million in net present value terms), which will cover about 54% of debt servicing to the International Development Association each year for the next 20 years. Debt service relief from all of Uganda's creditors is about \$1.3 billion (\$660 million in net present value, or about two-fifths of external debt). Including the \$650 million in the original HIPC, total debt service relief under the enhanced HIPC initiative will yield roughly \$2 billion. By reducing Uganda's debt-service obligations the enhanced debt relief will free resources for poverty reduction.

Uganda is considered a best-practice country because it has promoted good governance by establishing such institutions as the Ministry of Ethics and Integrity, the Auditor General's Office, and the Office of the Inspector General of Government. The government has also designed new regulatory structures for procuring goods and services, and in 1999 it instituted results-oriented management and outcome-oriented budgeting programs to improve service delivery. The combination of good governance, sound economic policies, and effective state regulation of the market process makes Uganda a model case.

*Source: IMF 2000a, b.*

### ◀ Box 2.1

#### *How Uganda achieved growth and poverty reduction*

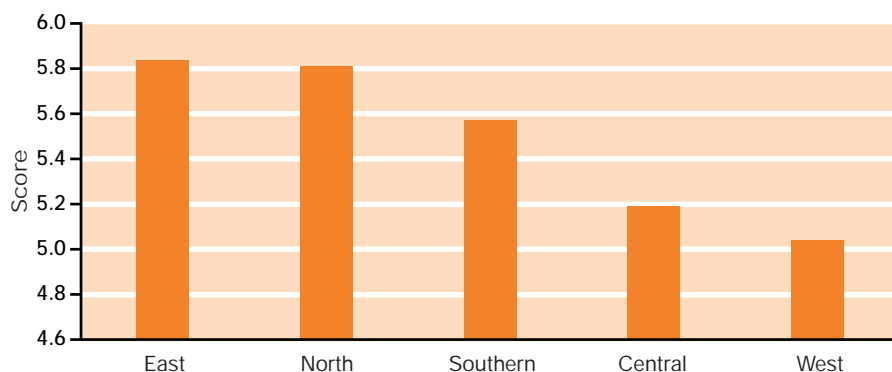
The outlook for policy appears more optimistic than that for economic sustainability

Across regions East Africa comes out ahead with a score of 5.84, followed by North Africa at 5.81 and Southern Africa at 5.57. Central Africa scores 5.19, while West Africa places last with 5.04 (figure 2.3). Because scores were obtained only for half the African countries, regional scoring may be distorted. Only in the Central and Southern regions were scores available for at least half the countries.

Cluster analysis shows that the “good” cluster consists of just three countries. The population share of each cluster is broadly similar, with the “good” cluster accounting for 37% of the population, the “fair” cluster 33%, and the “poor” cluster 30% (figure 2.4). On the basis of cluster analysis, then, the outlook for policy appears more optimistic than that for economic sustainability.

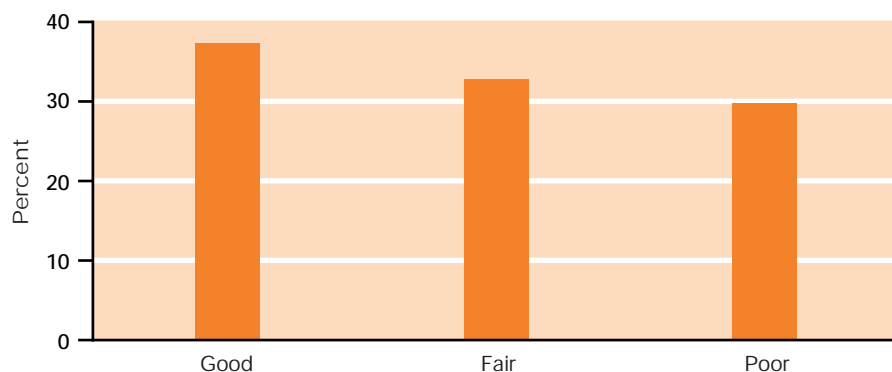
This year’s report introduces an Expanded Economic Policy Stance Index that combines the quantitative aspects of policy stance with the results of the Country Sustainability Assessment Survey completed in 21 African countries. The qualitative assessment allows for an Economic Policy Stance Index with greater breadth than one based solely on quantitative data. For example, the survey information covered policy targeting of women and

Figure 2.3 ► Expanded Economic Policy Stance Index scores by region, 1999



Source: Economic Commission for Africa.

Figure 2.4 ► Expanded Economic Policy Stance Index by cluster rating: population shares, 1999



Source: Economic Commission for Africa.



the poor, the effectiveness of property rights, and the independence of central banks. The survey drew from a sample of government employees and officials, members of the business community, resident employees of international organizations, resident employees of non-governmental organizations (NGOs), academics, and independent professionals.

Not surprising, of all groups surveyed government officials have the highest confidence in their country's economic policies, followed by employees of international organizations. Members of the business community are next, showing their growing belief in the seriousness of policy-makers' efforts to facilitate a business-friendly environment. This result bodes well for Africa's future competitiveness and growth. In contrast resident employees of NGOs have the least confidence in the effectiveness and predictability of government policies.

The respondents assessed macroeconomic policies, particularly with regard to liberalization, as good. The three highest rated categories were monetary policy, exchange rate policy, and macroeconomic policy coordination (table 2.3). Conversely, respondents rated the civil service as the worst aspect of government policy performance. This perception reflects the continuing problem of unreformed civil services in the continent. Property rights and effectiveness of the legal system were the next worst scoring categories, indicating the weakness of the law as a mechanism for resolving disputes in many countries. But this is explained in part by the relative difficulty of designing and implementing policies in these areas. Also of note is a high opinion of countries' gender policies. The idea of gender equality seems to have gained currency among policy-makers (box 2.2).

*Of all groups surveyed, government officials have the highest confidence in their country's economic policies*

Category	Average score
Monetary policy	2.30
Exchange rate policy	2.50
Macroeconomic policy coordination	2.53
Policy towards gender equality	2.55
Central bank independence	2.70
Public-private sector coordination	2.88
Trade policy	2.95
Effectiveness of sectoral policies	2.97
Financial sector policy	3.00
Product market policy	3.07
Pro-poor policies	3.12
Factor market policies	3.15
Policy towards state owned enterprises	3.15
Effectiveness of the legal system	3.22
Property rights	3.26
Civil service	4.09

Source: Economic Commission for Africa.

◀ Table 2.3  
Average qualitative raw scores by category

## Box 2.2 ►

### Moving towards gender equity

Gender inequality characterizes almost every sphere of life in Africa. But gender equity is now recognized as an overarching policy goal for the 21st century, with a specific focus on women's freedoms and interests. In collaboration with civil society, non-governmental organizations, and international organizations, governments have agreed to:

- Encourage women to become key economic players by increasing their access to and control over income and resources.
- Enhance women's capacity to participate in political institutions and promote women's perspectives in policymaking.
- Improve women's access to education, information, and technology.
- Enact effective legislation that protects women from all forms of violence. Educate women about their rights. Train judges, magistrates, parliamentarians, civil society, and government officials on gender issues and women's rights.
- Ensure that women are represented in the military and have access to decision-making bodies. Promote a culture of tolerance and peace in schools; teach the principles of human rights and international conventions.
- Produce and disseminate gender-disaggregated data with homogeneous indicators for each country; develop national statistical expertise on gender-disaggregated data.
- Strengthen programs to address sexuality, family planning, and sexually transmitted diseases, including HIV/AIDS.

*Source: Economic Commission for Africa 1999d; World Bank 2000a; United Nations 2000; UNIFEM 2000.*

The Expanded Economic Policy Stance Index scores and the corresponding country groups (good, fair, and poor) were obtained by cluster analysis. The all-sample average score of 4.27 suggests that reform has to deepen further, particularly in civil service, property rights, the legal system, and pro-poor orientation (table 2.4).

**Countries with high income growth are more likely to achieve economic sustainability**

## Sustainability and good policy stance go hand in hand

Sustainability and good policy stance are positively correlated (table 2.5). Similarly, all income variables are significantly correlated with sustainability. The correlations between sustainability and per capita income are particularly high, and the relationship between the change in sustainability from 1987 to 1999 and income growth during the same period is very strong. In contrast per capita income levels are uncorrelated with the medium-term change in sustainability. The results suggest that countries with high income growth are more likely to achieve economic sustainability than countries with low income growth. It also implies that policies that promote income growth can help improve sustainability.

Countries that improved their Economic Sustainability Index from 1987 to 1999 did not necessarily have high incomes or high sustainability to begin with. In fact the negative

◀ **Table 2.4**  
*Expanded Economic Policy Stance Index, 1999*

Country	Expanded index	Expanded index cluster	Country	Expanded index	Expanded index cluster
Botswana	8	Good	Niger	4	Fair
Namibia	7	Good	Nigeria	4	Fair
Swaziland	7	Good	Senegal	4	Fair
Mali	6	Good	Togo	4	Fair
Mauritius	6	Good	Zambia	4	Fair
Mozambique	6	Good	Central African Republic	3	Fair
Uganda	6	Good	Kenya	3	Fair
Lesotho	5	Good	Burundi	2	Poor
Malawi	5	Fair	Liberia	1	Poor
Benin	4	Fair	Sudan	1	Poor
Ethiopia	4	Fair	All-sample average	4	n.a.

*n.a. is not applicable.*

*Source: Economic Commission for Africa.*

▼ **Table 2.5**  
*Correlation matrix—change in indexes and income, 1987 and 1999*

	Medium-term change in Economic Sustainability Index	Economic Sustainability Index 1999	Economic Sustainability Index 1987	Economic Policy Stance Index 1999	Per capita income 1987	Per capita income 1999
Economic Sustainability Index, 1999	0.13 <sup>a</sup>					
Economic Sustainability Index, 1987	-0.42	0.87				
Economic Policy Stance Index, 1999	0.09 <sup>a</sup>	0.49	0.48			
Per capita income, 1987	-0.07 <sup>a</sup>	0.76	0.74	0.44		
Per capita income, 1999	-0.04 <sup>a</sup>	0.72	0.66	0.35 <sup>a</sup>	0.96	
Ten-year per capita growth <sup>b</sup>	0.76	0.37	0.16 <sup>a</sup>	0.11 <sup>a</sup>	0.32	0.28

**Note:** The correlation coefficients are significant at 5% or less.

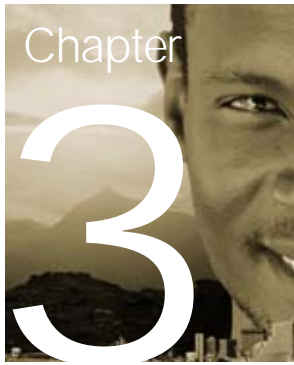
*a.* The correlation coefficient is not significant at 5%.

*b.* Refers to the average annual growth rate in real GDP per capita during 1988–97.

*Source: Economic Commission for Africa.*

correlation between Economic Sustainability Index 1987 and change in the index shows that countries with a low starting index improved more than those with a high starting index. The implication, then, is that there is potential for progress in the 21st century.

Although countries score better on the Economic Policy Stance Index than on the Economic Sustainability Index, there is no necessary correlation between policy stance and growth performance. Countries that score high on the Economic Policy Stance Index do not have sustained GDP growth rates. These findings point to the need for a broader approach to policy selection and strategies—consistent with a country's starting conditions.



# Obstacles to Africa's development

A country's growth rate generally depends on endowments, preferences, institutions, macroeconomic stability, an outward orientation, and financial market development. Indeed, the empirical and theoretical literature on growth and development has identified at least 62 statistically significant explanatory variables influencing the growth performance of different economies. Of these, three have consistently been reported as significant:

- Real per capita income, reflecting the country's stage of development and capturing the idea of convergence over long periods of time.
- Life expectancy at birth, reflecting the health dimension of human capital (figure 3.1).
- Primary school enrolment ratio, reflecting the educational dimension of human capital.

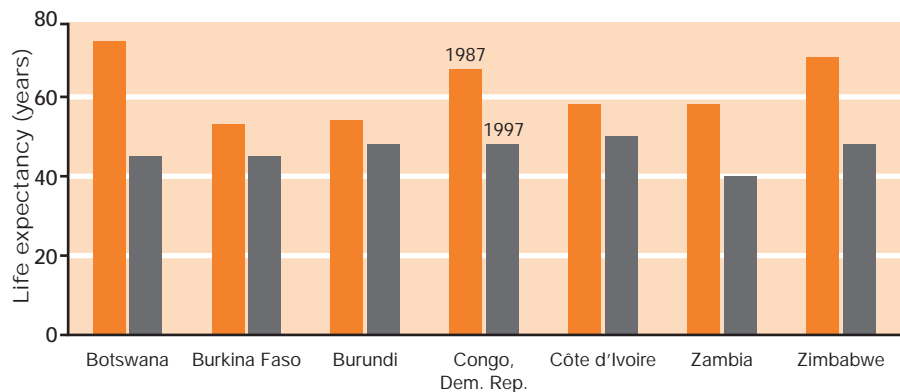
While necessary as determinants, these three are not sufficient to ensure high and robust growth and development.

A recent rigorous robustness analysis conducted on the remaining 59 variables and taking account of the above three initial conditions found only 22 variables to be robustly significant in explaining differences in growth performance among countries (Sala-i-Martin 1997). Seventeen of these are deemed relevant and can be grouped into six broad categories:

- Regional variables.
- Political structure.

Income, institutions, the political environment, and human capital are the most critical contributors to Africa's development

**Figure 3.1** ▶ Impact of AIDS on projected life expectancy for seven Sub-Saharan countries, 1987 and 1999



Source: UNAIDS 1999.

- Market distortions.
- Investment share in GDP.
- Production structure.
- Openness (trade policy) variables.

There are three regional variables. The regional dummy variables for Latin America and Sub-Saharan Africa are negatively related to growth. The third regional variable is an “absolute latitude” variable, which shows that the farther away from the equator a country is the better its growth performance.

There are six political variables: the rule of law, political rights, civil liberties (positively related to growth), and the number of revolutions, military coups, and wars (negatively related to growth).

The market distortions category includes two market distortion variables that are bad for growth: real exchange rate distortions and the standard deviation of the black market premium. The third variable, degree of capitalism, is positively related to growth.

The investment variables include equipment and non-equipment investment, both of which are positively related to growth. But the influence of non-equipment investment on growth is only about a fourth that of equipment investment.

There are two production structure variables: the fraction of primary products in total exports, negatively related to growth, and the fraction of GDP in mining, positively related to growth. An openness variable reflects trade policy and includes one variable—the number of years an economy has been open between 1950 and 1990—that is positively related to growth.

Greater initial inequality in wealth and income distribution will likely be detrimental to long-run growth. Imperfect capital markets affect agents’ investment behaviour, resulting in lower productivity and efficiency losses. Under this theoretical construct credit constraints keep the poor from investing in education and hence in human capital formation. Political economy models have also shown that initial inequality is likely to increase voter support for inefficient redistributive policies, resulting in efficiency losses and lower growth.

Economists generally agree on the critical importance of “path dependence” to long-run growth. That is, “what eventually happens to an economy depends greatly on the point of departure. There is mounting evidence that large qualitative differences in outcomes can arise from small, and perhaps accidental, differences in initial conditions and events” (Mkandawire and Soludo 1999, p. 1).

Initial conditions are important in choosing policies. Policies not derived from or anchored to initial conditions may have unintended outcomes. Initial conditions govern and direct policies appropriate to circumstance, to speed of implementation, and to sequencing (which policy is implemented first, second, and so on).

*Initial conditions govern and direct policies appropriate to circumstance, to speed of implementation, and to sequencing*

*Africa starts the 21st century as the poorest, the most technologically backward, the most debt distressed, and the most marginalized region in the world*

Given the diversity of initial conditions and the diversity of Africa, this chapter singles out income, institutions, the political environment, and human capital as the most critical contributors to Africa's development. The daunting challenges in these areas must be addressed if the continent is to claim its rightful place in the global economy and free its people from poverty. Africa has great natural resources and a large internal market. Above all it has the advantage of a late comer on the technological scene. With the right type of human capital investments in basic health and education, institutional renovation, and political commitment, there is every reason for Africa to move out of poverty onto a trajectory of sustained growth and development.

## Low initial income puts Africa behind

Africa starts the 21st century as the poorest, the most technologically backward, the most debt distressed, and the most marginalized region in the world. It accounts for 12.5% of the world's population but produces only 3.7% of global GDP (figure 3.2). Even though it exports no less than a fifth of its GDP annually, it accounts for only 1.5% of the global trade in goods and services.

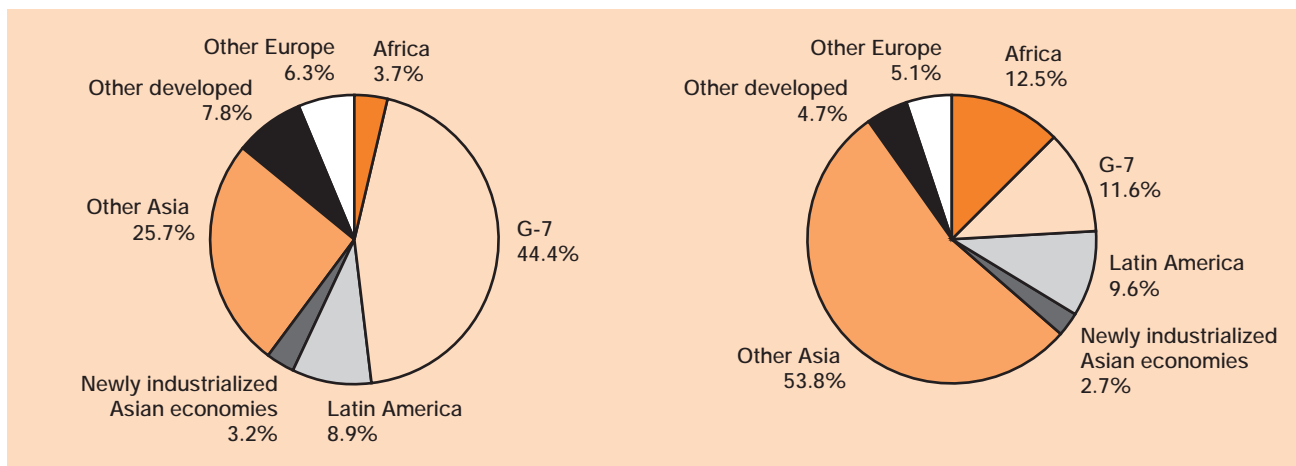
In 1998 Africa's 778 million people produced goods and services worth \$537 billion in 1990 prices (table 3.1). This amounts to a per capita income of \$691 a year, or \$58 a month, ranging from a high of \$5,975 for Seychelles to a low of \$92 for Mozambique.

**Figure 3.2** ▼  
Global GDP and population shares, 1999

At the regional level North Africa has the highest GDP at \$215 billion and per capita income of \$1,264, followed by Southern Africa's \$157 billion GDP and \$1,388 per capita

Global GDP share

Global population share



Source: IMF 1999.

income. Central Africa has the lowest GDP at \$27 billion and per capita income of \$937. East Africa, with a GDP of \$47 billion, has the lowest per capita income, \$188.

Italy's 58 million people have a GDP more than twice Africa's. The 9 million Swedes produce more goods and services than North Africa's 170 million people do. The 46 million people in the Republic of Korea produce almost as much as the five largest African economies, as well as all of Sub-Saharan Africa.

The African B5 countries are the densest (with 49 people per square kilometre). North Africa is the least dense (with 18 people per square kilometre). With the exception of Sweden, whose density approximates that of the region, the other countries have considerably more population per square kilometre than Africa does. Comparing GDP density (GDP divided by total area in square kilometre) in Africa with that in the selected countries provides interesting insights. Africa produces \$17,639 worth of goods and services per square kilometre. Italy produces 221 times this, Korea 170, Spain 62, and Sweden 31.

Africa's GDP also contrasts unflatteringly with the revenues of the largest multinational corporations in the world. The four largest multinationals (ranked by sales)—General Motors, Ford Motor Company, Mitsui & Company, Royal Dutch/Shell—had a combined revenue of \$593 billion in 1997, compared with Africa's GDP of \$518 billion. The sixth ranked company (Itochu Corporation of Japan) had sales revenue (\$118 billion) greater than Africa's largest economy (South Africa at \$115 billion) in 1997 (UNCTAD 1999).

*Africa's GDP contrasts unflatteringly with the revenues of the largest multinational corporations in the world*

▼ **Table 3.1**  
*Income and population at the end of the 20th century*

Region or country	Number of countries	Population (millions)	GDP (billions of dollars)	Per capita GDP (dollars)	Density per square kilometre	
					Population	GDP <sup>a</sup> (dollars)
North Africa	7	170	215	1,264	18	23,263
Sub-Saharan Africa	46	607	322	530	29	15,158
Sub-Saharan Africa, excluding South Africa	45	566	206	364	28	10,150
G5	5	290	316	1,090	49	52,896
Africa, excluding G5	48	488	221	452	20	8,992
Africa	53	778	537	691	26	17,639
Italy	1	58	1,171	20,190	196	3,900,000
Spain	1	39	552	14,151	79	1,100,000
Sweden	1	9	227	25,222	22	550,000
Korea, Rep.	1	46	298	6,478	470	3,000,000

a. GDP divided by total area in square kilometre.

Source: For African countries, Economic Commission for Africa; for other countries, World Bank 1998b.

## Investment gains are fragile

Increasing productivity and allocative efficiency will allow African countries to better use their limited resources

Accumulating physical and human capital leads to higher per capita incomes. In recent years there has been concern about low investment in Africa. But several African countries engineered an investment transition before the early 1980s. An investment transition is a sustained increase in the investment rate (investment to GDP ratio) of five percentage points or more. A sample of developing countries yields 47 episodes of such transitions, 25 of them in Africa. Fifteen of Africa's transitions occurred before 1973, nine between 1973 and 1979, only one in the 1980s (Rodrik 1999).

Countries that experience an investment transition go from a growth rate of 0.8 percentage point less than world average to one 1.4 percentage points more than average—an increase of 2.2 percentage points. Only a few African countries were able to preserve these growth gains in the wake of the external shocks of the early 1970s, and most African countries saw their gains reverse while the investment rate remained high.

Why did this happen? A couple of reasons. Africa had no social institutions to resolve conflicts arising from external shocks. And first-generation economic reforms led to a decline in investment rates in Africa (see, for example, Elbadawi 1992). Africa continues to be undercapitalized. Investment has declined for all regions (table 3.2). While almost all 35 countries in the sample recorded a decline between the first period and the end period, some recorded an increase in the second period before recording a decline. Six recorded an increase in the investment rate. Uganda moved from 7.6% of GDP in 1974–80 to 15.6% in 1991–96, Ghana moved from 9% to 16.1%, Mali from 15.9% to 24.2%, The Gambia from 18.2% to 20.5%, São Tomé and Príncipe from 24.9% to 51.6%, and Lesotho from 28.7% to 87.9%.

Inefficient investment has also been a problem. In countries with declining per capita growth over the past three decades, the incremental output to capital ratio—a rough proxy for the productivity of investment—was lower on average than in countries that were growing. Increasing productivity and allocative efficiency will allow African countries to better use their limited resources. To the extent that this and other resource allocations can be accomplished quickly, countries could begin to grow without immediate increases in savings and investment.

Table 3.2 ►  
*Investment rates in Africa, 1974–96 (percent)*

Location	1974–80	1981–90	1991–96
North Africa	36.4	30.1	24.2
West Africa	22.2	14.8	17.6
Central Africa	31.9	26.0	20.0
East Africa	14.9	14.7	14.6
Southern Africa	27.1	22.7	17.6
Africa	28.5	23.9	20.2
Sub-Saharan Africa	24.4	19.8	17.4

Source: Economic Commission for Africa, based on World Bank 1998b.



## Institutions and good governance are the foundation of growth

With only 50 years of experience as modern societies, African countries have experimented with governance regimes ranging from the totalitarian extreme to the liberal democratic. The attributes of the state—economic management, the rule of law, and respect for private property—have been informed and influenced by the favored ideology of the day.

All well-functioning market economies are embedded in a set of non-market institutions. Three types of market-supporting institutions are especially pertinent to Africa: property rights, regulatory institutions, and conflict management institutions.

### Property rights provide security, spur innovation

Secure and stable property rights have been key elements of modern economic growth. Entrepreneurs have little incentive to accumulate and innovate unless they control the return to the assets that they produce or improve. Formal property rights do not count for much if they do not confer control rights. And establishing secure control rights is rarely a matter of just passing legislation (Rodrik 2000). Control rights are upheld by a combination of legislation, private enforcement, and custom and tradition. They may be distributed more narrowly or more diffusely than property rights. And property rights are rarely absolute, even when set formally in law. Each society decides the scope of property rights and the restrictions on their exercise.

### Regulatory institutions need autonomy and transparency

Markets fail when participants engage in fraudulent or anticompetitive behaviour. They also fail when transaction costs prevent them from internalizing technological and other non-pecuniary externalities. And they fail when incomplete information results in cheating or poor selection of investments. In African countries with pervasive market failures, regulatory institutions may need to go beyond antitrust measures, financial and banking supervision, aviation authorities, and communication commissions (box 3.1).

The biggest challenge for regulatory design is achieving political independence and autonomy and introducing rules to ensure accountability. Regulators should be appointed on the basis of professional rather than political criteria and should have formal protection from arbitrary removal from office. The appointment process should involve the executive and legislative branches to ensure proper checks and balances.

To be autonomous, regulatory agencies must first have their own resources—from their own funding sources. Relying on budgetary transfers controlled by politicians can threaten regulators' independence. One common way of funding is through levies on regulated firms. The levies can be viewed as user fees. But autonomy must go beyond financing to staffing, so that agencies can recruit staff with high expertise.



*All well-functioning market economies are embedded in a set of non-market institutions*



### Box 3.1 ►

#### *How Mali and Senegal reduced fraud in customs administration*

Like many African countries Mali and Senegal suffer from customs fraud. But in the 1990s they were able to reduce this crime.

Mali saw swift and early trade liberalization, but progress in customs procedures has been slow. In Senegal trade liberalization and improvements in customs procedures addressed certain classic determinants of fraud, such as high taxation, low wages, and broad discretion of customs officials. National political considerations have been important in both countries. In 1991 Mali ushered in a new government fully committed to reform (and less hindered by past political alliances), and civil society is holding government officials accountable for their actions. In Senegal a pro-liberalization business lobby has developed alongside groups that still use their political influence to avoid paying import taxes.

Following standard principal-agent models of corruption, a 1997 study uses econometric tests to explore three potential determinants of fraud in the Malian and Senegalese customs administration. First, do higher import taxes increase the incentive to engage in fraud? Second, do customs procedures allow customs officials to change the tax on an import without risk of detection? Third, are customs officials' wages high enough to deter corruption?

The results: protectionist trade policies promote customs fraud by increasing the incentive for private citizens to engage in illegal behaviour and for customs officials to abuse their office for personal pecuniary gain. Donors need to support institutional reforms that reduce customs officials' discretion and improve opportunities for monitoring. Hiring a preshipment inspection company can help reduce fraud when accompanied by reforms that ensure that the company has access to proper information. To achieve this Mali and Senegal have computerized customs.

In Mali and Senegal non-wage current expenditures in the customs administration are too low to provide customs officials with the basic necessities for their job, such as cars with fuel. Mali and Senegal could expect high returns (in revenues generated) if budgetary allocations were made for increased operating expenditures.

Donors need to realise that customs fraud is a product not only of problems specific to the customs administration but also of national political and institutional failures. Strategies to reduce corruption will face difficulties unless supported by broader political change.

*Source: Stasavage and Daubree 1997.*

*Regulatory agencies must first have their own resources—from their own funding sources*

Accountability requires transparency in the regulatory agency's decision-making. It also requires clear, simple procedural rules. The rules should set deadlines for decisions and permit removal of regulators in cases of proven misconduct. There should be detailed justifications and non-political reviews of decisions to ensure that all concerned parties have the opportunity to express their views in public hearings and to appeal decisions.

Peace and prosperity require conflict management

Societies differ in their societal divisions. Some have ethnically and linguistically homogenous populations and a fairly egalitarian distribution of resources. Others have deep cleavages along ethnic or income lines. These divisions can hamper social cooperation and engender social conflict. Healthy societies have a range of institutions that help resolve conflicts: laws, a judiciary, free elections, social insurance, social partnerships, representative political institu-

◀ Box 3.2  
**Are Burundian  
 conflicts ethnic?**

Burundians share the same language and culture, live in the same geographic areas, and have no distinguishing physical features. So ethnicity appears, at most, to be coupled with regionalism. According to Ndikumana (forthcoming), the prime cause of civil conflicts in Burundi is the desire of “the minority Tutsi elite from the South” to cling to power they have had since 1966 and to keep the rents associated with it. Guichaoua (1989) notes that the Fifth Five-Year Plan allocated 98% of gross fixed capital formation to a geographic area made of Bujumbura, the capital city and its surrounding areas, and the southern province of Bururi. This disparity is noticeable through discriminatory access to education, the most effective form of exclusion from future participation in all opportunities the country offers.

The table confirms the large disparities across provinces in access to education. Excluding Bujumbura, which is a special case, Muramvya is the most privileged province, Ngozi the least privileged. All provinces in the South—Bururi, Cankuzo, Makamba, Rutana—are privileged. All provinces in the North—Kayanza, Kirundo, Muyinga, Ngozi—are underprivileged. These findings seem to confirm Ndikumana’s (forthcoming) assertion that the Fifth Five-Year Plan in Burundi may be benefiting an elite group of Tutsis from the South. This has probably contributed to violent conflicts. The policy has provided a credible excuse that rebel leaders could manipulate to motivate the uneducated populace to fight. This illustration supports Ndikumana (2000), who wrote that the causes of violence in Burundi are complex and go beyond the alleged “age-old” animosities between the Hutu and the Tutsi. Ndikumana asserts that the main cause of the conflicts is the struggle for equal participation in fair competition in economic activity.

*Healthy societies have a  
 range of institutions that  
 help resolve conflicts*

**Classification of provinces by privilege index**

	Ranking by number of students	Ranking by number of classrooms
Privileged	Muramvya (0.25), Cibitoke (0.33), Makamba (0.46), Karuzi (0.50), Bubanza (0.73), Cankuzo (0.78), Rutana (0.83)	Muramvya (0.25), Karuzi (0.37), Cankuzo (0.43), Makamba (0.61), Rutana (0.74), Bururi (0.80), Bubanza (0.91)
Consistent	Bujumbura (1.00), Bururi (1.00)	Bujumbura (1.00)
Underprivileged	Ngozi (4.52), Kayanza (2.34), Kirundo (2.00), Gitega (2.00), Muyinga (1.86), Ruyigi (1.40)	Ngozi (2.51), Kayanza (2.34), Kirundo (2.00), Gitega (2.00), Muyinga (1.86), Cibitoke (1.56), Ruyigi (1.10)

**Note:** The numbers in parentheses are privilege indices. Figures less than 1.00 suggest that the province is privileged because the number of pupils or classrooms exceeds an equitable distribution.

**Source:** Based on data from Caviezel and Fouga (1989).

**Source:** Ngaruko and Nkurunziza 2000.

tions, independent trade unions, institutionalized representation of minority groups. These institutions warn people that gains from social conflict will be limited and that the assets of those who lose will not be expropriated. The institutions tend to increase the incentives for social groups to cooperate by reducing the payoff to socially uncooperative behaviour (box 3.2).

**Countries emerging from conflict need special handling in the design of their development programs**

In the early post-independence era peace and stability emerged in several African countries. But the peace soon gave way to military coups, civil strife, and armed conflicts—all sharply increasing uncertainty and diminishing the expected profitability of investments. Studies have found that political, social, and government instability raised the investment risk in the poor-growth African countries and therefore was a disincentive for foreign investors (Collier, Hoeffler, and Patillo 1999).

Civil conflicts affect economic activity. They destroy physical and human capital, reduce savings, divert portfolios from domestic investment to capital flight, disrupt economic transactions, and distort government expenditure from public services to military expenditure. The combined impact is likely to be on the growth rate of the economy rather than a once-and-for-all reduction in output. Reduced growth, even if the inequality in the distribution of income and wealth remains the same, would increase poverty. This vicious cycle of conflict and poverty feeds on itself in a downward spiral. It is in this respect that countries emerging from conflict need special handling in the design of their development programs (box 3.3).

**Box 3.3 ►**  
**Civil conflict hinders structural transformation**

Contrary to popular belief, in the past 40 years Africa has not had many more civil war “starts” (onsets) than other regions. Civil war starts are measured by the proportion (in percentages) of all observations (for each country for each year) of a civil war start during the period covered (in this case, 1960–99). Africa scored 8% while other developing countries scored 7%. The probability of onset of civil war in Africa is similar to that in other developing countries.

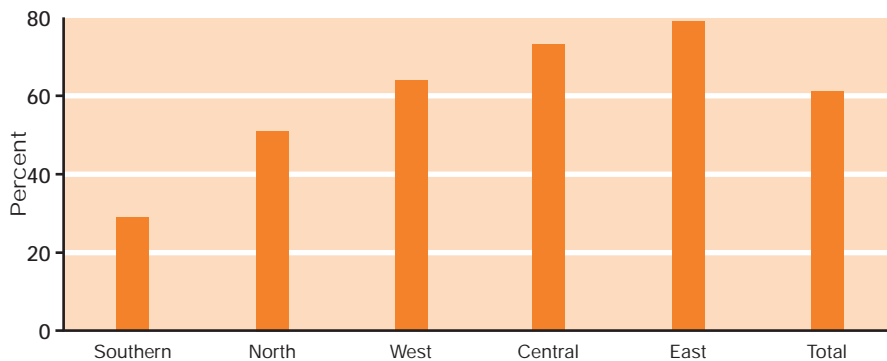
The structure and performance of African economies—low per capita income, slow GDP growth, fast population growth, and high dependence on primary commodities—increase the risk of conflict. But Africa’s social structure decreases the risk of conflict relative to other developing countries. African countries are ethnically and religiously diverse, reducing the occurrence of ethnic dominance. Political factors, such as weak democratic institutions and a lack of political and civil rights, increase the risk.

Conflict can affect an economy in different ways:

- Destroying vital physical and human resources.
- Causing social disorder, which increases the “cost of doing business” as private citizens divert scarce resources to protection and self-insurance.
- Diverting public expenditure from output-enhancing activities.
- Encouraging people to move assets (human, physical, and financial capital) out of the country.

During civil wars GDP adjusts to mirror the deterioration of the economic environment—and the effects are on the growth rate of GDP, not just the level. A recent study found that a year-long civil war reduces the annual growth rate of per capita GDP by 0.22 percentage points. Another recent study investigated the impact of civil conflicts on GDP in Uganda, revealing that civil wars shrink high-value-added sectors and enhance low-value-added sectors. This is exactly the opposite of what countries need to structurally transform an economy and enable sustainable growth.

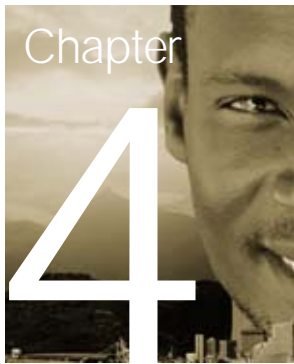
*Source: Collier and Hoeffler 2000a, b; Elbadawi and Sambanis 2000a, b; Collier and Binswanger 1999; Imai and Weinstein 2000.*



◀ **Figure 3.3**  
Africans affected  
by civil conflict, by  
region, 1963–98

*Source: Economic Commission for Africa.*

The most frequent form of conflict is civil war. In 1960–96 there were 28 civil wars in various parts of the world, half of them (and some of the longest—Mozambique and Sudan) in Africa. According to the records of the Organization of African Unity (OAU 1998), 26 conflicts erupted in Africa between 1963 and 1998, affecting 474 million Africans, or 61% of the population. No region was spared (figure 3.3). East Africa had the highest percentage of affected people (79% of the population, 189 million), followed by Central Africa (73%, 21 million), West Africa (64%, 144 million), and North Africa (51%, 87 million). Southern Africa recorded the lowest percentage (29%, 33 million).



# Human assets for Africa's development

Globalization places a high premium on scientific and technological capacity to innovate and adapt and to increase productivity and competitiveness. Growth in the knowledge-driven economy is predicated on a labour force that is healthy and well endowed with knowledge and skills. And despite the progress in education and health in Africa over the past half century, both the volume and quality of human capital are widely acknowledged as grossly insufficient to meet the challenges of the 21st century.

## Poor health perpetuates poverty

Most African countries confront serious public health challenges, such as malaria, the HIV/AIDS pandemic, and the resurgence of tuberculosis. And much remains to be done to eradicate preventable diseases and chronic protein and micronutrient malnutrition. The health disadvantages of African countries reduce wages and productivity (Strauss and Thomas 1998). Improving the health of the African people may be one of the most effective contributions to economic growth.

*Improving the health of the African people may be one of the most effective contributions to economic growth*

- HIV/AIDS has grown from epidemic to pandemic in Africa with serious economic consequences (box 4.1). UNAIDS (1999) estimates that 34 million people worldwide have HIV/AIDS, and more than 23 million of them are in Sub-Saharan Africa (figure 4.1).
- Malaria, long recognized as one of the most serious health threats in the region, kills close to 1 million people a year in Sub-Saharan Africa (WHO 1999). In contrast to other regions, Africa entered the 21st century with rising death rates from malaria.
- The World Health Organization reports that tuberculosis is the leading cause of death of people with HIV, accounting for more than a third of AIDS deaths worldwide. In 1999 Africa had an estimated 864,000 new tuberculosis cases (WHO 2001).
- Protein-energy malnutrition is common in Africa, as are deficiencies in iodine, vitamin A, and iron. Chronic protein and micronutrient malnutrition is associated with stunting and wasting and with many diseases, some of them deadly: blindness, chronic diarrhea, acute respiratory infections, goiter, anemia, and more.

Traditionally, poor health conditions in Africa have been attributed to budget constraints, deteriorating and antiquated health care systems, civil conflicts, large-scale human migrations, climatic and environmental changes, and increasing resistance to insecticides and drugs. A more recent reinterpretation also acknowledges the environmental determinism of geography. According to Sachs (1999) if it “were true that the poor were just like the rich but

#### ◀ Box 4.1

### *The economic implications of HIV/AIDS*

A deadly threat with global economic and health implications, HIV/AIDS is particularly devastating in Africa. The statistics are worse than ever anticipated (UNAIDS 1998, 1999):

- More than 13 million Africans have already died.
- Ninety percent of the 8 million children orphaned by AIDS are in Africa.
- Fifty-five percent of infected adults in Sub-Saharan Africa are women.
- African girls ages 15–19 are five times more likely to be HIV-positive than boys the same age.

HIV/AIDS is jeopardizing economic growth in Africa. One study estimates that AIDS will reduce the economies of Sub-Saharan Africa by 25% over the next 20 years (Clinton 1999). *The Economist* (2 January 1999) reported that AIDS in Namibia cost the country an estimated 8% of GNP in 1996 and that Kenya's GNP will be 14.5% lower by 2005 than it would have been without AIDS.

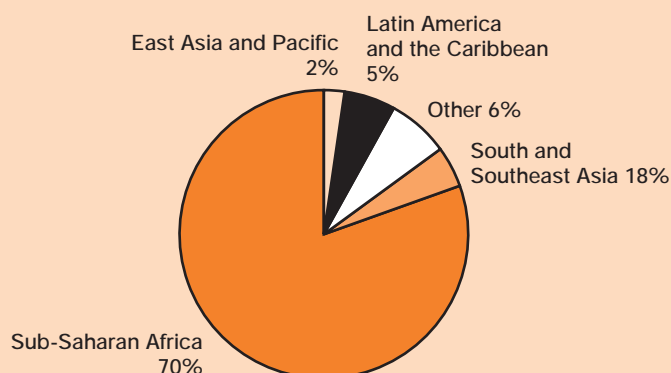
AIDS is threatening not only Africa's future but also its achievements in development. In many African countries AIDS is reducing life expectancy by more than 20 years (World Bank 1999). Infant mortality rates are rising, reversing gains in infant and child survival. In East and Southern Africa infant mortality rates are nearly 70% higher than they would have been without AIDS. In Botswana AIDS is projected to account for 64% of deaths among children younger than five within the next five years (UNICEF 1999).

In the agricultural sector the loss of workers, particularly during planting and harvesting periods, has been shown to reduce harvest sizes significantly. The loss of agricultural labour will likely cause farmers to grow less labour-intensive crops. Therefore, AIDS could affect the production of cash crops as well as food crops.

AIDS is also having a significant impact on firms by increasing expenditures and reducing revenues. Firm expenditures are increased by health care costs, burial fees, and the need to replace employees, while revenue is decreased by absenteeism due to illness, caring for the ill, attending funerals, and by time spent on training to replace employees.

Families suffer most from AIDS-related illnesses and death (Piot 1999). Average family income falls by more than half when a family member dies of AIDS. Such losses are catastrophic for those already on the brink of survival.

◀ Figure 4.1  
*People living with HIV/AIDS, 1999*



Source: UNAIDS 1999.

with less money, the global situation would be vastly easier than it is. As it happens, the poor live in different ecological zones, face different health conditions, and must overcome agronomic limitations that are very different from those of rich countries. These differences, indeed, are often a fundamental cause of persisting poverty.”

## Scientific and technological capacity is key to modern development

Africa has yet to produce a critical mass of skilled and highly trained workers

Africa has yet to produce a critical mass of skilled and highly trained workers capable of initiating and sustaining a dynamic development path. Africa’s capacity to generate knowledge and participate in the knowledge society has continued to decline. This has exacerbated the asymmetry between rich and poor and the imbalance in the structure of global governance, widening the gap between the “connected” world and “isolated” Africa (Economic Commission for Africa 1999b).

The scientific and technological capacity of nations is measured by such indicators as total expenditure on research and development and number of science and technology personnel, scientific publications, and registered patents (UNESCO 1998b). Africa’s research and development expenditure amounted at most to \$4.2 billion in 1994 (0.9% of the world total). The share of Sub-Saharan Africa, including South Africa, was only \$2.3 billion (0.5% of the world total). According to the latest information Africa’s share in total scientific publications was less than 1.5% in 1995, and Sub-Saharan Africa’s was 0.8%. Sub-Saharan Africa’s share was a mere 0.2% in European patents in 1995 and only 0.1% in U.S. patents (table 4.1).

Table 4.1 ►  
Scientific and technological capacities by region, 1995 (percent)

Region	Expenditure on research and development <sup>a</sup>	Scientific publications	European patents	U.S. patents
Western Europe	28.0	35.8	47.4	19.9
North America	37.9	38.4	33.4	51.1
Latin America	1.9	1.6	0.2	0.2
Japan and newly industrialized Asian countries	18.6	10.1	16.6	27.3
China	4.9	1.6	0.1	0.2
India and Central Asia	2.2	2.1	0.0	0.0
Arab States	0.4	0.7	0.0	0.0
Sub-Saharan Africa	0.5	0.8	0.2	0.1
Other	2.2	2.9	1.3	0.6
Total	100	100	100	100

a. Data are for 1994.

Source: UNESCO 1998b.



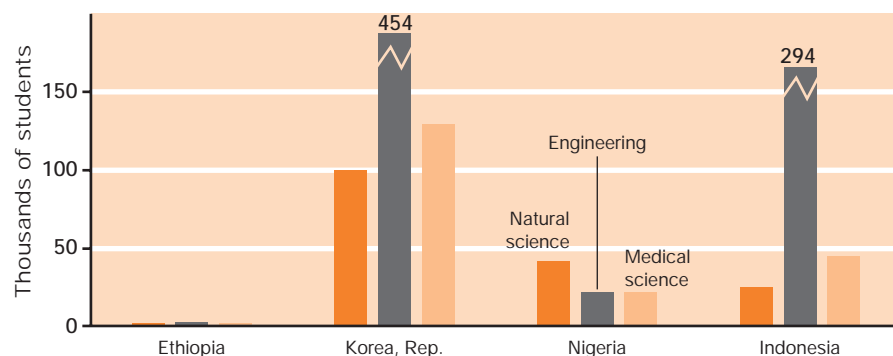
## The benefits of higher education could be much greater

Scientific work generates demand for higher education and technical expertise. The crisis in Africa's human capacity is further compounded by the fact that fewer than 10% of high school graduates advance to institutions of higher learning.

According to UNESCO (1998a), only four countries in Africa had more than 1,000 university students per 100,000 people in 1996: Egypt (1,900), South Africa (1,664), Tunisia (1,330), and Algeria (1,236). Another way to look at this is to analyse the percentage of people in a country who attend university. In 1996 only 0.06% of Ethiopians and only 0.08% of people in Burkina Faso were enrolled in universities. Compare that with 6% of people in the Republic of Korea and 3% in Chile (figure 4.2).

Another useful statistic is the absolute number of students by field of study at universities, particularly in engineering and natural and medical sciences. The differences between Ethiopia and Korea, which had similar populations and resources in 1960, are stark—as are those between Nigeria and Indonesia (table 4.2).

*Fewer than 10% of high school graduates advance to institutions of higher learning*



Source: UNAIDS 1999.

◀ Figure 4.2  
Number of university students in selected countries, 1996

Table 4.2 ▼  
Number of university students in the sciences in countries with similar populations and resources

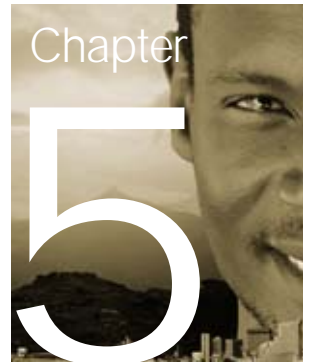
	Natural sciences		Engineering		Medical sciences	
	1960	1996	1960	1996	1960	1996
Ethiopia	106	1,730	257	3,393	46	2,080
Korea, Rep.	8,802	100,120	7,838	454,033	6,712	128,619
Nigeria	488	41,504	28	22,080	78	22,121
Indonesia	1,351	25,124	3,245	293,946	4,560	44,678

Source: UNESCO 1970, 1998b.

*Africa's paucity of employment opportunities drives its few highly trained workers to choose work abroad*

Another problem is Africa's paucity of employment opportunities, which drives its few highly trained workers to choose work abroad. Recent data show that the number of unemployed university graduates is large and growing. For example, in 1995 Algeria had three times more unemployed university graduates than new graduates (ILO 1999; UNESCO 1998a). As a result 32,557 new graduates of the class of 1995 entered a labour market with a pool of 96,830 unemployed university graduates of earlier years. In 1980 Madagascar had about 1.5 times more unemployed university graduates than new graduates, and Ethiopia had more than 4 times as many.

The exodus of doctors has been even more striking in the past two decades. More than 21,000 Nigerian doctors are practising in the United States, and 60% of Ghanaian doctors have left their country. In 1978 Sudan lost 17% of its doctors, 20% of its university lecturers, 30% of its engineers, and 45% of its surveyors (UNDP 1998).



# Structural transformation

The key to achieving sustainable growth and reducing the vulnerability of African economies to outside shocks is to transform the structure of Africa's economies. This will enable competitive industries to produce high value-added products that can compete in the global marketplace. But achieving these goals requires an investment rate of about 40% of GDP.

To elicit non-debt-creating flows, an integrated framework for development financing is indispensable. A large array of reinforcing measures should encompass debt relief, additional official development assistance, greater foreign direct investment, and more domestic savings. Integrating with the global economy is critical—in part through regional and global production networks of transnational corporations.

An economy's structural transformation changes the composition of output and the contributions of each sector to GDP and employment over time. A recent summary of the “stylized facts” of structural change confirms that economies that rely on the primary sectors (agriculture and minerals) in production and employment graduate to a structure where manufacturing and service sectors dominate—and that such transformations follow a non-linear pattern (Kongsamut, Rebelo, and Xie 1997). Initially, the employment and GDP shares of agriculture and services decrease while those of manufacturing increase. Then the share of manufacturing continues to increase and that of agriculture to decrease. Meanwhile, the share of the services sector starts to grow. These trends continue into later stages of development until the shares of manufacturing stabilize (box 5.1).

Over the past four decades the structural shift in African economies has been broadly consistent with the declining share of agriculture (table 5.1). But the nature and composition of this structural transformation depart from the general trend. The share of agriculture in GDP declined from 40% in the 1960s to 21% at the end of the century. But this decline of nearly 50% was not due to significant growth of the industrial sector in general or the manufacturing industries in particular. The share of industry increased marginally, from 26% to 30% of GDP during the intervening decades, while the share of manufacturing grew from 9% in the 1960s to 15% at the end of the century.

## Service sector growth dwarfs agriculture and industry

Agricultural performance in 1999 was mixed. Bad weather halted North Africa's high growth rate for agriculture. But in much of West Africa good weather was instrumen-

*An integrated framework for development financing is indispensable*

tal in increasing agricultural output, although some countries suffered from too much rain, which caused flooding and damaged crops. Performance was subdued in Central Africa, due mainly to the civil unrest and political instability in the Great Lakes region and pest infestation in other areas. Output in much of East and Southern Africa declined

### Box 5.1 ►

#### *Equatorial Guinea grows rapidly but does not reduce poverty*

The fastest growing country in Africa, Equatorial Guinea enjoyed GDP growth of 76.1% in 1997. Although growth in the 1980s was negative (-1.87%), average real GDP growth for the 1990s was 15.2%, the highest on the continent. GNP per capita jumped from \$390 in 1995 to \$1,170 in 1999. But this stellar performance has not improved people's standard of living.

Between 1992 and 1996 offshore oil exploration created a boom that transformed the country's economy. Oil production increased from 2,500 barrels a day in 1992 to more than 120,000 in 1999 and an estimated 200,000 in 2000. ExxonMobil and Triton Energy will continue to invest heavily in oil and gas production for at least the next 5–10 years. In the past five years agriculture's share of GDP has decreased from 51.6% to 16% and services' share from 21.2% to 8.6%, while industry's share has grown from 27.3% to 75.3%. Unbalanced growth in one sector threatens the long-term sustainable pattern of an economy.

Despite the incredible growth in GDP, poverty remains high and social indicators have not improved:

- Life expectancy is about 50 years.
- The infant mortality rate is 109 per 1,000 live births.
- The literacy rate is 50.2%.
- The richest 5% of people control 80% of the income.
- Signs of Dutch disease are appearing as agriculture declines and private consumption and public spending increase.

Equatorial Guinea has a unique opportunity to grow sustainably while reducing poverty. Well-targeted interventions and responsible public investment can help. Although excessive spending, new debt, and a growing public deficit are unavoidable, the government needs to be more transparent and accountable, and it needs to distribute resources equitably. Enhanced transparency in and macroeconomic management of oil resources are prerequisites for further donor involvement.

*Source: Edjang 1999; EIU 2000.*

### Table 5.1 ▼

#### *Structural transformation of African economies, 1960–69 and 1990–98 (percent of GDP)*

Region	Agriculture value added		Industry value added		Service value added	
	1960–69	1990–98	1960–69	1990–98	1960–69	1990–98
North Africa	39.8	18.9	23.9	29.3	36.3	51.8
Sub-Saharan Africa	45.2	23.9	21.2	25.1	33.6	49.1
Sub-Saharan Africa, excluding South Africa	51.4	24.5	20.7	24.8	27.9	50.7
Africa	40.1	20.8	25.8	29.5	34.1	49.7

*Source: Calculated from UNCTAD (various years) and World Bank (1998a).*

precipitously, a result of war, erratic and insufficient rainfall, and uncontrolled crop pests and diseases.

The industrial sector ended 1999 with a lower growth rate (2.8%) than it enjoyed in 1998 (3.8%), not surprising since the industrial sector in many African countries depends directly and indirectly on the agricultural sector. The direct dependence is through the availability of agricultural raw material for industrial processing. Textile and food industries, the predominant line of industrial activity in Africa, suffer when agriculture performs poorly (box 5.2).

*The industrial sector in many African countries depends directly and indirectly on the agricultural sector*

#### ◀ Box 5.2

#### *Food outlook grim in Sub-Saharan Africa*

In East Africa aggregate cereal production was expected to decline in 1999 from 1998 due to drought, civil strife, or both. In Somalia the 1999 main season cereal output was estimated at nearly 136,000 tonnes. In Tanzania, following a drought in major producing areas earlier in the year and erratic, poorly distributed rains during the long rains season, the 1999 cereal crop was estimated at 3.8 million tonnes, 9% below 1998. In Uganda a prolonged drought affected 1999 main season crops, with some areas almost failing altogether. In Kenya significant cereal output reductions were forecast in main growing areas due to drought and pest infestation. In Ethiopia, in addition to near-total failure of the secondary belg season crops due to drought, erratic rains and recent flooding have reduced potential yields of the 1999 main meher season cereal crops. In Eritrea, despite the generally favourable outlook for the 1999 main season cereals, thousands of farmers displaced by the war with neighbouring Ethiopia were unable to grow crops. In Sudan, despite some flooding and local droughts, prospects for main season crops were favourable. In Rwanda and Burundi, in addition to dry weather that affected food production in some areas, escalating violence in rural Burundi caused large population displacement and suspension of all humanitarian assistance, leading to grim food supply prospects.

As a result of the anticipated decline in the region's aggregate 1999 cereal production, imports in 1999/2000 were expected to increase substantially. In Kenya, Somalia, Sudan, and Tanzania import requirements for 1999/2000 were estimated at 2.7 million tonnes, of which food aid requirements were estimated at 284,000 tonnes.

Another below-average crop in South Africa, the largest producer in the region, dragged down the yield for all of Southern Africa. By contrast, in Zimbabwe wheat production was forecast at 320,000 tonnes, substantially above the 1998 level. In Zambia preliminary estimates pointed to a bumper crop of 113,000 tonnes. In aggregate the regional wheat output was forecast at 2 million tonnes, 5% above the 1998 level but well below the average for the five years before.

The region's 1999 coarse grain production was estimated at 15.3 million tonnes, an increase of 3% over 1998 but below average. Favourable rains at the beginning of the season encouraged increased plantings, but these rains became excessive and hurt yields, as did prolonged dry spells in some areas. In South Africa, the region's largest producer, maize output declined 8% from 1998 (a below-average level) to 7.5 million tonnes in 1999. Production of maize also decreased (by 15%) in Angola due to the ongoing civil conflict and in spite of

*(box continues on next page)*

Box 5.2 (continued) ►  
**Food outlook grim  
 in Sub-Saharan Africa**

favourable growing conditions. In Swaziland maize output declined by 18% from last year but remained around average. Although output increased in Botswana, Lesotho, Namibia, Zambia, and Zimbabwe, it remained well below average. There were record crops in Malawi and Mozambique, resulting in an exportable surplus in both countries.

With the exception of Angola the overall food supply situation is stable, reflecting a relatively strong commercial import capacity. The aggregate cereal import requirement for the marketing year 1999/2000 (May to April) was estimated at 5.3 million tonnes. With commercial imports expected to reach 5 million tonnes, food aid requirements amounted to 300,000 tonnes.

In West Africa generally satisfactory harvests led to the prediction that food supply would be stable during the 1999/2000 marketing year, with the exception of Guinea-Bissau, Liberia, and Sierra Leone. In some local areas of Burkina Faso, Chad, Mauritania, Niger, and Senegal people were at risk of food shortages because of flooding. In other areas two successive good harvests enabled farmers to replenish their grain stocks. In 1999 low cereal prices in local markets helped replenish national grain reserves. Deficits in some areas could be covered by transfers from surplus areas. Exportable surpluses were also available, notably in Mali and Niger.

Imports of wheat and rice remained necessary, but those of coarse grains were limited. For ongoing food aid programmes donors were urged to purchase (including through triangular transactions) coarse grains locally. The aggregate cereal import requirement in the 1999/2000 marketing year (November to October) of the nine Sahelian countries was estimated at about 1.9 million tonnes.

For the coastal countries, which have a January to December marketing year, the aggregate 1999 cereal import requirement was estimated at 4.1 million tonnes. Commercial imports were estimated at 3.9 million tonnes, while food aid needs were estimated at 200,000 tonnes. Food aid pledges as of late November 1999 amounted to 260,000 tonnes.

In Central Africa crop prospects were generally favourable in Central African Republic and Cameroon. Civil strife in the Republic of Congo and the Democratic Republic of Congo hampered agricultural and marketing activities. The 1999 cereal import requirement was almost 800,000 tonnes. Food aid pledges as of late November 1999 amounted to about 20,000 tonnes to meet an estimated food aid requirement of 31,000 tonnes (see table).

**Cereal import and food aid requirements in Sub-Saharan Africa by region  
 (thousand tonnes)**

	1998 production	1998/99 or 1999		
		Cereal import requirements	Anticipated commercial imports	Food aid requirements
East Africa	22,939	3,507	2,448	1,059
Southern Africa	18,633	5,554	5,107	447
West Africa	37,215	6,203	5,775	428
Central Africa	3,104	796	765	31
Total	81,891	16,060	14,095	1,965

Source: FAO 1999.

Agriculture's indirect effect on industry is through the availability of foreign exchange for the import of inputs as well as new investment. A second channel is through domestic demand: in countries that depend on agriculture, poor sector performance means that revenue decreases because of declining demand from the vast rural population.

Critical to the development of the African economies, industrial development is constrained by both external and domestic environments. In mineral-rich countries industry was hurt by the decline in the commodity prices of the countries' exports, which constrained import of raw materials, spare parts, and new machinery for investment. The reduced income of the agricultural communities, abridged domestic demand economy-wide, competition from cheap imports—all these drastically reduced the performance of the industrial sector.

The service sector continued to enjoy dynamic growth, posting a 4% increase in 1999, up from 3% in 1998. Although all the service subsectors are increasing their growth rates, financial and communications services in particular are enjoying unprecedented growth. The growth of finance, dominated by commercial banks, is attributable to deposit mobilization and to import trade financing, an activity that has increased since trade liberalization.

*Industrial development is constrained by both external and domestic environments*

## Sectoral dynamism boosts resource-based industrialization

Data from *World Development Indicators 1998* (World Bank 1998b) were used to compose four panel data sets with 38 countries for 1960–96: 26 Sub-Saharan countries, 4 North African countries, 5 successful African performers, and 3 Southeast Asian countries. To examine the structural transformation in Africa, the five good performers (the G5: Botswana, Mauritius, Morocco, South Africa, and Tunisia) and North Africa are each compared with three Southeast Asian countries—Malaysia, Indonesia, and Thailand. These three Southeast Asian countries are chosen because they achieved resource-based industrialization and thus provide a useful benchmark for many resource-rich African economies (table 5.2).

In Malaysia, Indonesia, and Thailand the agricultural share declined more than 5 percentage points in every decade while the industrial share increased almost 5 points. Moreover, these countries maintained average industrial growth of 9%, enabling them to pursue resource-based industrialization through incentive-driven dynamic comparative advantage.

By contrast there is no evidence of sectoral dynamism in the five successful African economies (G5), whose average 1998 income was similar to that of Malaysia, Indonesia, and Thailand (box 5.3). So these and other African economies have not been able to benefit from the positive effects of sectoral dynamism on productivity growth and economic growth.

Table 5.2 ►  
Sectoral dynamism

Group or region	Real per capita GDP	Square of real per capita GDP	Constant	Adjusted R <sup>2</sup>
G5	-0.357 (-0.21)	0.093 (0.78)	-1.17 (-0.20)	
North Africa	1.838 (2.12)	-0.072 (-1.19)	-8.467* (-2.79)	0.55
Malaysia, Indonesia, and Thailand	2.929* (3.07)	-0.181* (-2.53)	-10.98* (-3.49)	0.61

\* Significant at 1%.

**Note:** Numbers in parentheses represent *t*-statistics. This table reports on the results of pooled regression of the ratio of industrial output to agricultural output (the share of industry in real output relative to that of agriculture) on the log of real per capita GDP and the log of real per capita GDP squared.

**Source:** Cho 2000.

Box 5.3 ►  
Progress in the  
G5, G14, G18

For G14 and G18 countries the industrial sector's average growth rate was about a third of that in Malaysia, Indonesia, and Thailand

The five good performers in Africa (G5)—Botswana, Mauritius, Morocco, South Africa, and Tunisia—have demonstrated the ability to sustain reforms and achieve structural diversification, thus cushioning themselves against possible external shocks. The G5 countries show strong positive trends in core infrastructure, high and improving educational attainment, international competitiveness, and robust financial markets.

Fourteen potentially emerging Sub-Saharan countries (G14) show the prospect of a sustainable take-off. They made progress in removing macroeconomic imbalances and relative price distortions, including inflation, budget deficits, black market foreign exchange premiums, and real exchange rate misalignment. Compared with other Sub-Saharan countries, G14 countries exhibit a potential for financial sector development with less distortion in financial systems. The G14 also show greater political stability, which could contribute to the implementation of sounder policies over the projection period. Half of these potentially emerging countries belong to the African Financial Community (CFA) zone: Benin, Burkina Faso, Côte d'Ivoire, Gabon, Mali, Senegal, and Togo. The others are Ghana, Ethiopia, Kenya, Mauritania, Mozambique, Uganda, and Zimbabwe.

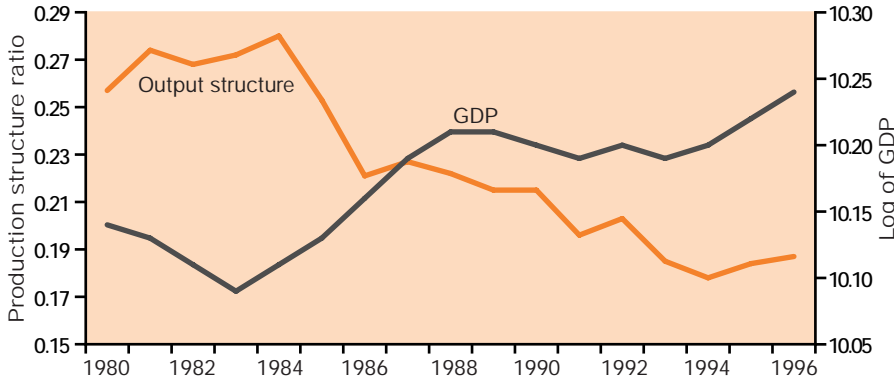
The 18 other Sub-Saharan countries (G18) do not meet the criteria for sustained improvement in economic performance. In addition to the above-mentioned differences with the G14, the G18 have significantly lower investment, less appropriate macroeconomic policies, and greater structural imbalances (related to trade and finance).

**Source:** Economic Commission for Africa.

Nor has Sub-Saharan Africa—both G14 and G18 countries—enjoyed sectoral dynamism, though there have been modest structural changes (the share of agriculture has declined slightly since the 1960s). The output share of both agriculture and industry, however, has hardly changed during the period of economic stagnation since 1974. The industrial sector's av-

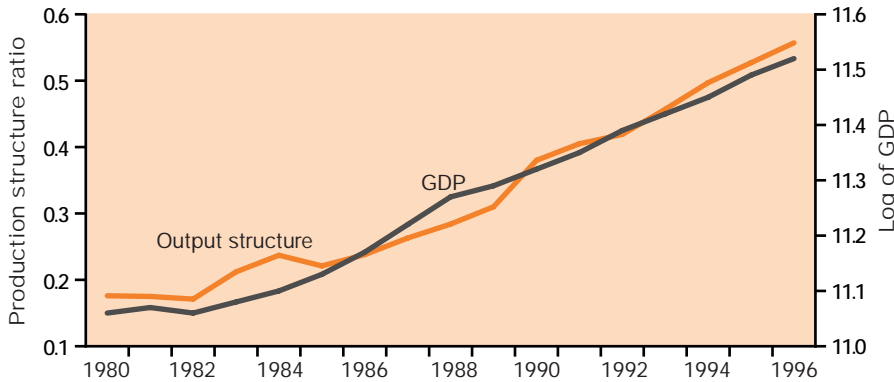


## Sub-Saharan economies



◀ **Figure 5.1**  
Evolution of output and production structure and GDP for Sub-Saharan Africa and Malaysia, Indonesia, and Thailand, 1980–96

## Malaysia, Indonesia, and Thailand



Source: UNAIDS 1999.

average growth rate was about a third of that in Malaysia, Indonesia, and Thailand. Indeed, it was either stagnant (as in the G14) or declining (as in the G18).

When labour force employed in the industrial sector is taken into account, the average growth rate of output per worker in Malaysia, Indonesia, and Thailand was about 3% a year, while that of Sub-Saharan Africa was negative. In the 1980s the cumulative rate for 10 years was 29% in Malaysia, Indonesia, and Thailand and 5.6% in Sub-Saharan Africa.

The evolution of the ratio of industrial to agricultural sector output and GDP during 1980–96 confirms the dynamic interaction between structural changes and sustained growth in Malaysia, Indonesia, and Thailand (figure 5.1). And through improvements in productivity growth this transformation substantially contributed to sustainable growth in these Southeast Asian economies. But this was not the case in Africa (except for the G5).

*The average growth rate of output per worker in Sub-Saharan Africa was negative*

## Human capital enhances productivity growth

The share of labour in agriculture declined in the G5 and in North Africa during 1961–90 (table 5.3). Moreover, the declines were deeper in 1980–90 than before. The growth of the labour share in non-agricultural sectors shows significant differences among the groups. In Sub-Saharan Africa and the G5 countries the growth rate declined at a slower rate in the 1980s than earlier, while it increased in North Africa and Malaysia, Indonesia, and Thailand, reflecting continual labour absorption and employment creation. Indeed, non-agricultural and manufacturing employment increased 1.5–2 times as fast as the aggregate working population in Malaysia, Indonesia, and Thailand. The resource-based industrialization in these three Southeast Asian countries has greatly benefited from this dynamism, especially from the labour reallocations and productivity gains.

In light of these trends in labour growth, this chapter examines the impact of labour movement on factor productivity. The discussion focuses on the effect of labour reallocation from agricultural to non-agricultural sectors because this is shown to induce the most

**Table 5.3** ►  
*Growth of labour share in agricultural and non-agricultural sectors, 1961–90 (percent)*

Sector	1961–90	1961–79	1980–90
<b>Agriculture</b>			
Sub-Saharan Africa <sup>a</sup>	-0.69	-0.66	-0.75
G5	-2.67	-2.28	-3.35
North Africa	-1.85	-1.33	-2.73
Malaysia, Indonesia, and Thailand	-1.55	-1.40	-1.81
<b>Non-agricultural</b>			
Sub-Saharan Africa <sup>a</sup>	2.31	2.68	> 1.68
G5	1.37	1.47	> 1.21
North Africa	1.83	1.63	< 2.18
Malaysia, Indonesia, and Thailand	2.31	2.49	< 2.61

*a. Comprises 26 countries for which data are available; none of the G5 is included.*

*Source: Cho 2000.*

**Table 5.4** ▼  
*Sources of factor productivity growth in the G5, annual averages, various years (percentage points)*

Country	Period	GDP growth (percent)	Total factor productivity growth	Human capital contribution	Labour reallocation contribution
Botswana	1970–96	10.1	3.4	1.0	2.0
Kenya	1961–79	6.9	2.4	1.1	0.6
Mauritius	1980–96	5.5	2.8	0.5	0.2
South Africa	1960–74	5.1	0.8	0.5	0.5
Tunisia	1970–81	7.0	1.1	1.4	0.2

*Source: Berthelemy and Soderling 1999.*

Region, group, or country	1961–90	1961–79	1980–90
Sub-Saharan Africa <sup>a</sup>	0.71	0.82	0.49
G5	0.46	0.49	0.40
North Africa	0.63	0.53	0.76
Botswana	2.63	2.98	2.04
Malaysia, Indonesia, and Thailand	15.42	12.42	20.62
Korea, Rep.	25.28	19.68	34.96

a. Comprises 26 countries for which data are available; none of the G5 is included.

Source: Cho 2000.

◀ Table 5.5  
The effect of labour reallocation on factor productivity growth, annual averages, 1961–90 (percent)

dominant productivity gains among all factor movements, including reallocation of capital (Berthelemy and Soderling 1999).

The growth of total factor productivity in the selected African economies during their high growth period shows that human capital accumulation was critical. This is partly explained by extremely low initial levels of human capital accumulation in Sub-Saharan countries. Human capital contributed significantly to total factor productivity growth (table 5.4). Reallocation of labour from agriculture to the (more productive) non-agricultural sectors also has contributed significantly to the growth of total factor productivity. In Botswana reallocation of labour has contributed more to productivity growth by inducing productivity gains of 2.6 percentage points on average in 1961–90 (table 5.5). The modest effect of labour reallocation in Mauritius could be attributed to the dominance of sugar production until the 1970s.

Human capital contributed significantly to total factor productivity growth

There was little evidence of labour reallocation from agricultural to non-agricultural sectors in the 26 Sub-Saharan countries, and these economies exhibited no significant productivity growth. Moreover, productivity gains dropped sharply in the 1980s (see table 5.3). Unexpectedly, neither North Africa nor the G5 countries enjoyed significant productivity growth, despite the relatively high rate of labour growth in their non-agricultural sectors. Presumably this was due mainly to the small increase of high value-added outputs in non-agricultural sectors and less to the migration of non-skilled labour from agricultural to non-agricultural sectors in these countries.

In contrast Malaysia, Indonesia, and Thailand enjoyed enormous productivity growth over the three decades. And they were able to double total factor productivity gains in the 1980s with the large increase in high value-added outputs and skilled labour in their non-agricultural sectors.

## Can Africa achieve per capita growth of 4.4% a year?

Malaysia, Indonesia, and Thailand provide a useful benchmark for structural transformation. They reached a turning point for industry's relative share of GDP at a

real per capita GDP of \$3,262. This level of income can thus be used as a benchmark to determine whether and when African economies might achieve a relatively mature sectoral structure—in terms of steady-state sectoral dynamism. Sub-Saharan economies (especially the G14) can reach this level by 2025 if they attain and sustain annual per capita growth of 4.4%. That growth would also enable them to halve the share of people in poverty by 2015. With a dynamic virtuous circle of growth, the G14 could attain structural maturity with growth of 3.9% a year (and raise average income to \$2,900 by 2025).

**Table 5.6** ▼  
*Shares of sectoral output and growth rate, annual averages, 1960–96 (percent)*

Sector	1960–73	1974–80	1981–90	1991–96	1974–96
<b>Agriculture</b>					
<i>Contribution to GDP</i>					
Malaysia, Indonesia, and Thailand					
G14	37.7	34.7	33.8	32.7	
Sub-Saharan Africa <sup>a</sup>	41.9	37.6	37.8	37.6	
<i>Annual growth rate</i>					
Malaysia, Indonesia, and Thailand		3.9	3.7	2.9	3.59 (3.60)
G14		2.8	2.5	3.2	2.81 (–0.57)
Sub-Saharan Africa <sup>a</sup>		3.3	2.4	3.2	2.89 (0.44)
<b>Industry</b>					
<i>Contribution to GDP</i>					
Malaysia, Indonesia, and Thailand	21.4	32.6	35.6	40.9	
G14	21.4	23.8	21.4	21.9	
Sub-Saharan Africa <sup>a</sup>	20.7	22.6	23.6	25.0	
<i>Annual growth rate</i>					
Malaysia, Indonesia, and Thailand		8.6	8.5	10.5	9.05 (2.70)
G14		3.1	2.7	3.5	3.06 (–0.55)
Sub-Saharan Africa <sup>a</sup>		4.9	3.3	2.0	3.45
<b>Services</b>					
<i>Contribution to GDP</i>					
Malaysia, Indonesia, and Thailand	42.5	40.8	44.7	44.4	
G14	40.6	41.5	44.7	45.3	
Sub-Saharan Africa <sup>a</sup>	37.3	39.8	39.1	37.3	
<i>Annual growth rate</i>					
Malaysia, Indonesia, and Thailand		8.9	6.9	7.8	7.76
G14		5.0	3.3	4.4	4.14
Sub-Saharan Africa <sup>a</sup>		4.4	2.6	0.4	2.59

**Note:** Numbers in parentheses are average annual sectoral output growth rates per worker during 1980–96.

a. Excludes G5 and G14 countries.

**Source:** Cho 2000.

## Sustainable growth is balanced growth

To account for the strong sectoral interdependence between agriculture and industry, balanced sectoral growth is recommended as a strategy for sustainable growth in African economies. In other words, it would be more effective and efficient to balance policies to include all sectors—so that economy-wide growth can gain the maximum from the virtuous cycle of growth, including the positive externalities of sectoral growth. This balanced growth strategy is supported by the experience of resource-based industrialization in Malaysia, Indonesia, and Thailand, accompanied by sustained growth in agriculture. The average annual growth rate of agriculture (in output per worker) is similar to that of the industrial sector in these economies (table 5.6).

The service sector in Africa appears to have reached a saturation point: the ratio of service sector output to total products in Africa is similar to that in the advanced economies.

Sub-Saharan economies need growth of 4.2% a year in output per worker in agriculture to balance sectoral growth (and catch up with Malaysia, Indonesia, and Thailand). That would require an incremental investment rate of 29% (about 17% without considering population growth) to be added to current investment for Sub-Saharan economies.

To catch up with Malaysia, Indonesia, and Thailand in industry, average growth in output per worker needs to be 3% a year. An incremental investment rate of 25% should be added to current investment to achieve resource-based industrialization. So for Sub-Saharan economies to reach the combined goal of balanced sectoral growth and resource-based industrialization, an aggregate incremental investment rate of 18% of GDP should be added to the current investment rate (for the G14 the required investment rate is 39% of GDP). This rate is similar to that required to achieve other development goals (table 5.7).

Closing the savings gap will promote investment and growth

Malaysia, Indonesia, and Thailand have steadily increased investment while Africa has decreased it (except for a modest recovery in the G14 and G18 in the 1990s). From almost

*Balanced sectoral growth is recommended as a strategy for sustainable growth in African economies*

Goal	Required growth (percent)	Required investment (percent of GDP)
Halve poverty	4.5 (15 years)	44 (15 years)
	4.0 (17 years)	40 (17 years)
Maximize growth	3.9	44
Achieve structural maturity by 2025	4.5	40–44
Balance sectoral growth and industrialization	4.1 agriculture 3.0 industry	39 (aggregate)

*Note:* Required growth is growth rate of per capita GDP a year.

*Source:* Cho 2000.

◀ **Table 5.7**  
*Required growth and investment to achieve sectoral growth and resource-based industrialization*

**Domestic savings in all groups of African economies declined**

similar levels in the 1970s, the gap between Malaysia, Indonesia, and Thailand and country groups in Africa in the 1990s reached more than 10% (table 5.8).

Similar to investment, domestic savings in all groups of African economies declined (except in the G5 in the 1980s and the G14 in the 1990s), while that of Malaysia, Indonesia, and Thailand showed a steady upward trend. The problem is not only that savings have declined in African economies, but also that they have declined more for poorer performing groups. In the 1970s, 1980s, and 1990s domestic savings decreased by 4% of GDP in the G5, 19% in the G14, and 44% in the G18.

The gap between savings and investment has narrowed only in the relatively high performing economies of North Africa and the G5. And in Sub-Saharan Africa, including the G14, a gap of more than 10% has remained constant across periods, underscoring the serious development financing challenges in these countries.

The G14 countries confront a residual development finance gap of 14–19% of GDP each year—with the average domestic savings rate of 11% and official development assis-

**Table 5.8** ▼  
*Domestic investment and savings, 1974–96 (percent of GDP)*

Savings and investment	1974–80	1981–90	1991–96 (1994–96)
<b>Domestic investment</b>			
Malaysia, Indonesia, and Thailand	25.9	29.7	36.3 (37.6)
North Africa	32.2	28.7	23.9 (23.0)
G5	28.1	25.3	23.9 (22.5) 32.6 <sup>b</sup>
G14	21.7	18.2	19.8 (20.7) 20.5 <sup>b</sup>
Sub-Saharan Africa <sup>a</sup>	19.8	16.2	13.7 (12.8) 14.2 <sup>b</sup>
<b>Domestic savings</b>			
Malaysia, Indonesia, and Thailand	28.2	30.3	35.0 (35.8)
North Africa	23.0	22.1	20.3 (19.5)
G5	25.7	27.6	24.1 (23.9)
G14	11.4	7.6	9.2 (11.1)
Sub-Saharan Africa <sup>a</sup>	10.3	6.9	5.7 (6.6)
<b>Gap between savings and investment</b>			
Malaysia, Indonesia, and Thailand	2.3	0.7	-1.4 (-1.8)
North Africa	-9.2	-6.6	-3.6 (-3.5)
G5	-2.4	2.4	0.2 (1.4)
G14	-10.3	-10.6	-10.6 (-9.4)
Sub-Saharan Africa <sup>a</sup>	-9.5	-9.3	-8.0 (-13.7)

**Note:** Investment in Sub-Saharan Africa excludes the Republic of Congo and Equatorial Guinea; investment in G14 excludes Mauritania. Savings in Sub-Saharan Africa exclude Gabon and Mauritania.

a. Comprises 20 Sub-Saharan countries for which data are available; none of the G5 or G14 is included.

b. Domestic investment is forecast for 15 years (estimated by Guillaumont, Guillaumont, and Varoudakis 1999).

Source: Cho 2000.

tance flows of 14% of GDP—to attain the development goals. The residual gap for all of Sub-Saharan Africa (excluding the G5) is similar to that of the G14, with savings rates of 14% and official development assistance flows of 12%. To the extent that official development assistance has a downward trend, the G18, which has the highest aid dependency ratio, is likely to face the severest financing challenge.

Africa's domestic savings are thus far too low to sustain required investment and growth at the levels needed to substantially reduce poverty, especially given the high population growth rate. The paucity of savings in Africa is due primarily to low incomes and the preponderance of subsistence activities. Most empirical findings suggest that the most important determinant of real domestic and private savings is real income. In Africa, particularly in the least developed countries, extremely low per capita incomes (\$335 in 1990 and \$690 in 1999) do not promote savings. For an economy under or around subsistence, any extra income earned tends to go to consumption rather than savings.

## The right environment can foster foreign direct investment

Foreign direct investment (FDI) flows to Africa rose to \$10 billion in 1999 from \$8 billion in 1998, in line with faster economic growth. But investments by transnational corporations in Africa are still only 1.3% of global FDI flows and 5% of the FDI to all developing countries. About 70% of FDI in Africa in 1999 was concentrated in five countries—Angola, Egypt, Morocco, Nigeria, and South Africa (box 5.4).

Total external resource flows into Africa increased from \$16 billion in 1998 to \$22 billion in 1999. Resources mobilized through borrowing amounted to \$8.4 billion, an increase of 45% from 1998. With this increment the total volume of debt amounted to \$359 billion in 1999, resulting in a debt to GDP ratio of 65%. Debt service increased from \$35.7 billion

*“About 70% of FDI in Africa in 1999 was concentrated in Angola, Egypt, Morocco, Nigeria, and South Africa”*

Foreign direct investment (FDI) rose to a record \$644 billion worldwide in 1998, 39% higher than its 1997 level of \$464 billion. Of this record amount \$166 billion (26%) went to developing countries.

But FDI to Africa declined from \$9.4 billion in 1997 to \$8.3 billion in 1998. Africa's share also decreased—from 2.0% to 1.3% of global FDI. Relative to flows targeting developing countries, Africa's share dropped from 5.4% in 1997 to 5.0% in 1998.

Africa's regional and national FDI flows are highly uneven. In 1998, 32% (\$2.7 billion) of Africa's FDI went to North Africa. Of the seven North African countries that received FDI, Algeria, Egypt, and Tunisia received the most, boasting 84% of North Africa's FDI and 27% of Africa's. Egypt alone accounted for \$1.1 billion, or 13%, of African FDI and 41% of regional.

West Africa ranks second in FDI flows to Africa—in 1998 this region attracted \$2.2 billion, or 26% of Africa's FDI. Nigeria collected most of this—\$1.5 billion in 1998, or 18% of Africa's FDI and 68% of regional.

*Source: UNCTAD 2000.*

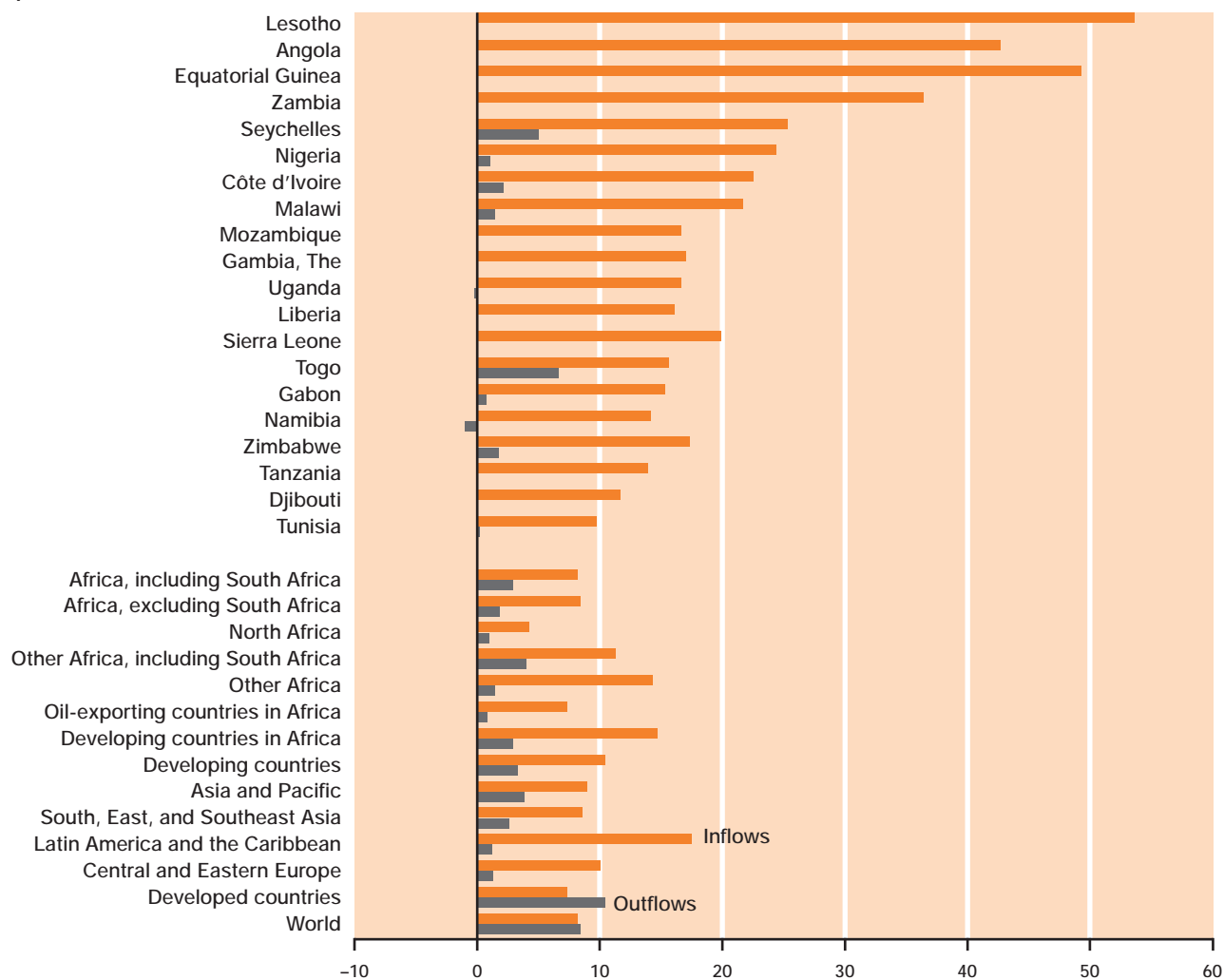
**◀ Box 5.4**  
*Foreign direct investment reaches a record high—but not in Africa*

**Table 5.9** ▶  
*Debt and debt service, 1996–99*

Category	1997	1998	1999
External debt (billions of dollars)	344	351	359
As a percentage of goods and services	222.1	282.2	273.4
As a percentage of GDP	66.4	65.7	65.2
Debt service (billions of dollars)	33.0	35.7	39.4
As a percentage of exports of goods and services	21.3	28.7	30.0

Source: Economic Commission for Africa based on country data.

**Figure 5.2** ▼  
*Foreign direct investment flows as a percentage of gross fixed capital formation, top 20 countries, 1996–98 (percent)*



Source: UNCTAD 2000.



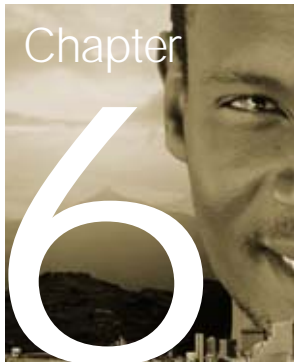
in 1998 to \$39.4 billion in 1999, and the ratio of debt service to exports increased to 30%. This additional outlay, however, did not reduce the total volume of debt but covered only the annual requirements (table 5.9 and figure 5.2).

To attract more FDI, Africa should focus on establishing a supportive macroeconomic and financial environment that includes enforcement of contracts, respect for the law, and the appropriate legal and regulatory frameworks. Investors' interests and perception of risk need special attention. Thus efforts should focus on providing efficient infrastructure facilities (economic, social, and civil). In addition, effort should go into creating opportunities for joint ventures between FDI and local enterprises and into collaboration with development partners to establish a strong information mechanism for potential partners and African countries.



*To attract more FDI,  
Africa should focus  
on establishing a  
supportive macro-  
economic and financial  
environment*





# Setting the development agenda for the 21st century

The challenges to Africa's development do not preclude rapid and sustained growth. Instead they point to the tasks ahead for Africa to develop and eradicate poverty. Growth and development can happen if African governments and their development partners work hard to reverse the long-term constraints and structural factors behind the continent's poor economic performance.

The development challenges facing most African countries at the dawn of the new century are complex and multidimensional—involving economic, sociocultural, political, and environmental factors that cannot be adequately addressed through separate and isolated interventions. In human development, socio-economic indicators have worsened, reflecting greater numbers of people in poverty and higher inequality than in other regions. Compounding this are high population growth rates, which combine with low incomes to lower per capita income growth rates and create high dependency ratios (World Bank 2000b).

An important consideration in formulating a development strategy for Africa is adopting a comprehensive approach that addresses all the key issues in a coordinated manner. The goals of development must go beyond the relatively narrow objective of increasing per capita income to include poverty reduction, equity, and social development. Every African country will need a strategy that suits its sociopolitical and economic circumstances.

The national goals and objectives are clearly identifiable:

- Reduce poverty.
- Increase incomes and reduce income inequalities.
- Substantially increase investment in human and physical capital.
- Diversify the economic structure.
- Create an environment for growth and development by strengthening governance, economic management, and conflict resolution.

Interventions should benefit all segments of a society's growth, employment, and poverty reduction. There should also be an appropriate mix of government and private interventions in areas where, due to market imperfections and failures, the state needs to intervene.

*Interventions should benefit all segments of a society's growth, employment, and poverty reduction*



## Growth must be broad-based and equitable

To make a significant reduction in poverty by 2015, Africa needs to sustain growth of at least 7% annually, far higher than the 2% growth attained by many African countries in the 1990s (Economic Commission for Africa 1999c). Estimates show that 43.5% of Africans live below the \$39 a month poverty line (table 6.1). And inequality is high. What policies can achieve more dynamic, equitable, and sustainable growth?

Fostering private sector development as the principal engine of growth is important. But high transaction costs and the perceived uncertainties of doing business on the continent have constrained private investment. To reverse this, Africa must promote an enabling environment for private sector development that would:

*To make a significant reduction in poverty Africa needs to sustain growth of at least 7% annually*

Country and years <sup>b</sup>	Area	Share of population below the national poverty line <sup>a</sup>	
		First year	Second year
Burkina Faso	Rural	51.1	50.7
1994, 1998	Urban	10.4	15.8
	Total	44.5	45.3
Ghana	Rural	47.2	34.4
1991/92, 1998/99	Urban	15.1	11.6
	Total	36.5	26.8
Mauritania	Rural	72.1	58.9
1987, 1996	Urban	43.5	19.0
	Total	59.5	41.3
Nigeria	Rural	45.1	67.8
1992, 1996	Urban	29.6	57.5
	Total	42.8	65.6
Uganda	Rural	59.4	48.2
1992, 1997	Urban	29.4	16.3
	Total	55.6	44.0
Zambia	Rural	79.6	74.9
1991, 1996	Urban	31.0	34.0
	Total	57.0	60.0
Zimbabwe	Rural	51.5	62.8
1991, 1996	Urban	6.2	14.9
	Total	37.5	47.2

a. Nutrition-based poverty lines. Comparisons between countries are not valid.

b. The dates in this column correspond to the first and second years.

Source: Demery 1999; Ghana Statistical Service 2000.

◀ Table 6.1  
*Nutrition-based poverty in seven African countries, various years (percent)*

- Engender confidence in the sustainability of appropriate macroeconomic policies.
- Create and maintain a transparent, even-handed, and efficient legal environment for enforcing contracts, competition, and bankruptcy and commercial laws.
- Protect property rights and ensure that the necessary infrastructure and qualified labour are available.
- Create a regulatory framework to promote competition and prevent monopolistic practices.

It will take time to mobilize resources while engaging all the key players. And given the resource endowments of African economies, countries will inevitably continue to depend on the expansion of resource-based production in the near future.

Primary production and manufacturing exports have unexploited potential (Wood and Mayer forthcoming). This means that export production and growth can be increased relatively quickly if African countries remove the constraints that impede the exploitation of this potential—by upgrading infrastructure and allowing economic agents to operate efficiently and competitively. Increasing output in the primary sector and in manufacturing would increase the surplus for more investment by generating more output.

The strategy should be to maximize growth in the short to medium terms while laying the foundation for long-term sustainable growth—such as by investing in education and skills development.

## Reforms can boost savings and investment

Increasing investment is important for productivity growth because investment can bring more productive technologies and higher skill levels, usually embodied in new plants and equipment. Both private and public investment will have to increase to exploit the complementarities and synergies important for growth. According to estimates of the Economic Commission for Africa (1999c), Sub-Saharan Africa's investment gap is 23%.

Raising domestic savings, a critical component of Africa's development strategy, must be seen in the broader perspective of increasing incomes. There must be mechanisms to ensure that the mobilized savings are used where they yield the most growth benefits to the economy—such as investing in plants and equipment, not in real estate and idle land.

The unavailability of financing will continue to constrain higher investment in the short and medium terms. And attaining the needed investment rates will initially require measures to attract foreign savings—both public and private.

Of all regions Africa has the largest share of its wealth held overseas by its residents. Repatriating these resources can substantially add to the financing available and reduce the reliance on foreign financing. Countries must thus undertake measures to stem and reverse capital flight. Institutional, economic, and political reforms that reduce risk and increase the returns on savings and investment are essential.

*Raising domestic savings must be seen in the broader perspective of increasing incomes*

## Human capital development should focus on quantity and quality

Low investments in education and health are major impediments to growth and development. A first step to modernize investments in human capital is to increase the shares of government budgets targeted to these sectors, complemented by private investment. Investing in education will enable Africa to attract private investment, to adopt and develop modern technologies, and more important, to learn, accept, and engender the change that must come with development. Investing in health will ensure a productive labour force.

An important consideration in human capital development will be to balance investment at all levels—primary, secondary, and tertiary. That will lay a strong foundation for economic and social transformation and help prepare for competition in knowledge-intensive sectors. The emphasis should be on increasing the quantity and quality of health and education services—and on the efficiency of resource use and the equity of provision.

Equity is particularly important because inequitable distribution of these services leaves a lot of human potential undeveloped. Equitable provision of health and education will enable Africa to tap this great potential for development (box 6.1). But simply increasing the share of the budget allocated to social sectors is insufficient. It is important that expenditures within the social sectors are targeted to projects and programmes—and not to wages and salaries (table 6.2).

## Resource-based industrialization will enable competition in the global economy

The continent must break out of its vicious circle of dependence on the production and export of primary commodities and on its traditional comparative advantage in raw materials and unskilled labour (table 6.3). These are all much less important in today's competitive and knowledge-based global economy. The challenge is to identify, support, and expand activities where value added is greater, productivity growth faster, and demand elasticities in world markets higher.

Globalization opens the world economy, making it more difficult for African countries to protect their domestic markets for infant-industry learning. Africa's industrialization strategy thus needs to be largely outward oriented. Microeconomic evidence shows that African manufacturing firms can become competitive in a more liberalized trade and exchange environment. The key to industrialization in Africa is to address the costs of poor and inefficient infrastructure, high transaction costs, and a risky business environment (Collier and Gunning 1999). And to overcome the problem of small domestic markets, industrialization will need to take a regional approach—so investors can benefit from wider investment and trading environments that provide a basis for breaking into the global markets.

*African manufacturing firms can become competitive in a more liberalized trade and exchange environment*

### Box 6.1 ►

#### *Some progress made— and more still to go— in reaching gender equity in education*

Becoming a male or a female is a biological process, but becoming a man or a woman is a cultural process related to socially learned behaviours and expectations associated with males and females. Like race and class, gender is a social category that largely establishes people's opportunities and directs their social relations with others. Universal primary education was enshrined as a human right in the United Nation's Universal Declaration of Human Rights in 1948. Forty years later the goal was not yet in sight. So in 1990 the World Declaration on Education in Jomtien, Thailand, called on donors and governments to reaffirm their commitment to universal primary education. The target for achieving this goal was 2000. How close is Africa?

A study based on internationally comparable household data sets (Demographic and Health Surveys) from 41 countries concludes that while Africa has made some progress it still perpetuates disparities in gender, household wealth, adult education, and access to schools (see table).

#### ***Gender gaps in enrolment of 6–11 years olds, various years in the 1990s***

Country	Girls enrolled in school (percent)	Male-female gap (percent)	Male-female ratio
Benin, 1996	34.1	18.0	1.53
Burkina Faso, 1992–93	23.2	8.3	1.36
Cameroon, 1991	61.4	8.5	1.14
Central African Republic, 1994–95	49.9	13.9	1.28
Chad, 1998	23.7	12.5	1.53
Comoros, 1996	43.4	5.3	1.12
Côte d'Ivoire, 1994	42.6	12.4	1.29
Egypt, Arab Rep., 1992	77.4	11.3	1.15
Egypt, Arab Rep., 1995–96	79.2	9.9	1.13
Ghana, 1993	75.2	2.6	1.03
Kenya, 1993	70.5	1.0	1.01
Kenya, 1998	86.0	-0.3	1.00
Madagascar, 1997	62.1	-2.5	0.96
Malawi, 1992	55.8	-2.5	0.96
Malawi, 1996	91.4	-0.8	0.99
Mali, 1995–96	22.6	6.5	1.29
Morocco, 1992	50.8	17.4	1.34
Mozambique, 1997	49.5	6.4	1.13
Namibia, 1992	84.4	-4.3	0.95
Niger, 1992	11.3	6.6	1.58
Rwanda, 1992	51.6	0.6	1.01
Senegal, 1992–93	27.0	6.5	1.24
Tanzania, 1991–92	34.6	-3.6	0.89
Tanzania, 1996	35.2	-4.1	0.88
Togo, 1998	64.9	9.7	1.15
Uganda, 1995	65.3	2.5	1.04
Zambia, 1992	69.0	-3.5	0.95
Zimbabwe, 1994	82.7	0.8	1.01

**Source:** Filmer 1999.

Country	Years <sup>a</sup>	Gini coefficient		Change in Gini from first to second year (percentage points)	Annual rate of change in Gini (percent)
		First year	Second year		
Côte d'Ivoire	1985, 1988	41.22	36.89	-4.33	-3.63
Ghana	1988, 1992	35.90	33.91	-1.99	-1.42
Mauritius	1986, 1991	39.63	36.69	-2.94	-1.53
Nigeria	1986, 1992	37.02	41.55	4.53	1.94
Tunisia	1985, 1990	43.00	40.24	-2.76	-1.32
Ethiopia	1994, 1997	39.00	43.00	4.00	3.30
Zambia	1991, 1996	43.51	52.40	8.49	3.63

a. The dates in this column correspond to the first and second years.

Source: Deininger and Squire 1998. For Ethiopia, see Shimeles and Kebede (1998).

◀ Table 6.2  
Quantitatively important changes in the distribution of expenditure in seven African countries, various years

Commodity	1996	1997	1998	1999
<b>Non-fuel commodities</b>				
Food	12.2	-12.2	-12.5	-15.2
Beverages	-17.4	32.6	-15.2	-21.3
Agricultural raw materials	-2.7	-6.8	-16.3	1.9
Metals	-11.9	3.0	-16.3	-1.1
Gold	1.0	-14.7	-11.1	-5.2
Average	-1.2	-3.2	-14.8	-7.0
<b>Petroleum (average crude price)</b>	<b>18.4</b>	<b>-5.4</b>	<b>-32.1</b>	<b>38.7</b>
<b>World Bank LMICs<sup>a</sup></b>	<b>-5.9</b>	<b>2.2</b>	<b>-15.7</b>	<b>-11.0</b>

a. Based on the World Bank price index for primary commodities for low- and middle-income countries.

Source: IMF various years.

◀ Table 6.3  
Changes in world commodity prices, 1996–99 (percent)

Africa's industrialization will not be complete without a policy focus on the development of microenterprise. Although not always competitive, especially in the initial phase, microenterprises contribute much to GDP, employment generation, regional development, and satisfaction of consumer needs. An "investment neutral" environment has for the most part been an impediment to the growth of microenterprises because of their inability to compete in a fully liberalized world. So business development services are needed to foster an enabling environment and enhance microenterprise competitiveness. Also important is promoting collective efficiency in clusters and networks for production and marketing (UNIDO 1999).

## Agriculture and rural development will benefit from targeted investments and fewer constraints

Over the past 15 years agricultural development in Africa has focused largely on removing distortions in incentive structures, which were seen as the main cause of poor performance.

Input and output prices were liberalized to align them with their international counterparts. Market-determined exchange rates were established. Marketing institutions were deregulated, with marketing of inputs and outputs left to the private sector.

Despite these efforts the reforms did not elicit the expected supply response, so the agricultural sector in most African countries is not growing at the rate required for rapid economic growth. Agricultural development should therefore go beyond “getting the prices right” and focus more on increasing productivity by removing the institutional and structural constraints responsible for poor performance. This calls for greater public investment in agricultural research and infrastructure and for increasing farmers’ skills and access to credit. Research investment should focus on developing technologies appropriate to the natural conditions of different regions.

Agro-ecological conditions in Africa are not uniform, blunting the power of green revolution technology, which worked well in Asia. That makes it important to develop region-specific technologies to increase yields and the likelihood of adoption by local farmers. African farmers have shown that they have the capacity to adopt new technologies and appropriate inputs if they suit the farmers’ needs and conditions (Voortman, Sonneveld, and Keyzer 2000).

## Environmental protection is part of sustainable development

African governments have to address the underlying causes of environmental degradation, including market failures, poor information, and pernicious incentives. Governments also need to promote local solutions to environmental problems based on analysis of costs and benefits and consultations with stakeholders. Only that will provide a sound basis for cost-effective resource use and local ownership of the solutions.

Official development assistance is essential for the effective implementation in Africa of Agenda 21 on the environment and development. Given the declining levels of official development assistance throughout the 1990s, the challenges remain daunting. Even so, many countries have recognized the need to deal with the intertwined challenges of economic recovery, poverty reduction, and sustainable development. This will require major changes in policies, laws, and institutional arrangements in and outside of environmental protection.

## The challenges of a global trading system are significant—but surmountable

Most global trade issues will continue to be addressed in the context of the World Trade Organization, where African countries have not benefited significantly. Ensuring that the multilateral trading system benefits Africa means addressing Africa’s constraints. These include problems of access to markets and technology and obstacles to trade and investment—

*Agricultural  
development should  
focus more on  
increasing productivity*



all intensified by international labour, environmental, and trade-related intellectual property and investment standards (box 6.2).

Tariffs in the global trading regime have been significantly reduced and replaced with new forms of protection that are harder to assess and quantify and thus difficult to contest. These include “fair trade laws,” such as antidumping and countervailing laws, as well as labour and environmental standards. Technological advances in areas where there are no agreed standards, such as genetically engineered foods, have compounded such fungibility of protection across different trade regimes.

Further liberalization, as advocated by developed countries, will increase the costs of trading to African countries. First, liberalization in the absence of complete markets does not guarantee that resources released in the affected sectors will find employment elsewhere. In Africa this translates into unemployment and poverty because social safety nets are missing. Second, liberalization often requires institutional set-ups that increase the costs of

Ensuring that the multilateral trading system benefits Africa means addressing Africa's constraints

#### ◀ Box 6.2

*Should Africa go regional or multilateral?*

In recent years policy-makers and economists have explored the relationship between regionalism and multilateralism. Are regional trading blocks “building blocks” or “stumbling blocks” to the multilateral trading system? Regionalism can promote multilateralism in four ways:

- By acting as an agency of restraint that locks in welfare-enhancing trade reforms.
- By creating larger political-economic units that can bargain effectively in international forums.
- By building pro-export constituencies to counter domestic protectionist constituencies.
- By encouraging increased competition in domestic markets to lower prices and create better quality products.

Regionalism can inhibit multilateralism by:

- Encouraging incentives to protect domestic industries.
- Manipulating through special interest groups.
- Diverting scarce trade negotiators' resources away from multilateral efforts.

African countries should promote open regionalism to enlarge market size and exploit economies of scale. This will reduce production costs while boosting international competitiveness. Africa also needs to form trade arrangements with the advanced economies to guarantee policy credibility, access to developed country markets, and foreign investment. Africa needs both regionalism and multilateralism to overcome its development challenges.

Even more important than regional trading arrangements are regional integration initiatives. A broad range of policies has been proposed to reduce trade barriers and foster regional integration. These include:

- Developing regional ports to help countries use modern shipping technologies and realize economies of scale in transport.
- Constructing regional road and rail systems to move goods and people across national frontiers.
- Using joint tenders to secure imports at more favourable prices.
- Cooperating on monetary and financial matters (including export credit guarantees).

*Source: Economic Commission for Africa.*

Regional integration is one way to help countries diversify their economies

implementation. African countries need to address these constraints as they develop a strategy to benefit from the multilateral trading system (box 6.3).

## Regional integration before global integration

A key factor that has constrained Africa's integration into the global economy is the continent's small markets, which do not permit the economies of scale that allow an economy to be competitive. Regional integration is one way to help these countries diversify their economies and reverse deindustrialization and marginalization. As observed from the Asian

### Box 6.3 ►

#### *Improving Africa's opportunities in the World Trade Organization*

African countries need to participate in the global trading system on the best possible terms. With the goal of eradicating poverty, countries have agreed to pursue actions in the following areas:

- *Agricultural exports.* Seek preferential market access for agricultural products.
- *Clothing and textile exports.* Insist on unhindered market access for least developed countries' clothing and textile exports.
- *Trade-related intellectual property.* Ensure that African countries with few resources can participate in trade-related intellectual property agreements. Actions range from reviewing the procedures for technology transfer to least developed countries to making essential drugs available at reasonable prices.
- *Trade-related investment measures.* Make these measures flexible to sustain reform efforts and ensure balanced growth. Retain the special and differential treatment measures already accorded to least developed countries.
- *General agreement on trade in services.* Incorporate special and differential treatment measures in the development of new rules, including a built-in agenda (subsidies, emergency safeguard measures, and government procurement).
- *Technical barriers to trade and sanitary and phytosanitary measures.* Change rules so that compensation is provided when the measures fail. Review agreements, keeping in mind Africa's need for technical assistance and funding programs to help build supply capacity for production, packaging, and marketing of tradable goods and services.
- *Customs valuation.* Obtain a five-year transitional period to remedy human and institutional constraints. Use technical assistance to standardize, harmonize, and simplify tariffs to guarantee transparency and predictability for traders.
- *Accession to the World Trade Organization.* Provide fast track to accession. Grant automatic special and differential treatment provisions to acceding African countries.
- *Technical assistance.* Increase Africa's budget share in dispute settlement and information technology.

**Source:** *Economic Commission for Africa 1999a.*

financial crisis, economies that depend on the production and export of a few primary commodities can be hit hard by the shocks of globalization. African countries need to diversify their economies to minimize these negative effects, and regional integration is one way to do that.

How can regional integration help Africa diversify its economies? By providing access to a wider trading and investment environment permitting economies of scale (box 6.4). Regional integration also induces backward and forward links and thus contributes to regional value added. More important, regional integration promotes the diversification of exports to regional markets, which builds experience before entering global markets. An integrated market also provides a framework for African countries to cooperate in developing common infrastructure, such as in financial services, transport and communications, and mechanisms for joint exploitation of natural resources. Efficient regional integration would allow many countries to surmount the obstacles posed by their relatively small size, permit greater economies of scale, and strengthen their ability to trade on a global scale.

Improving air infrastructure is a critical step towards Africa's integration into the world economy. Aviation increases trade, attracts investment, and boosts the tourism industry. Globalization, coupled with a reduction in transaction costs, could shift the comparative advantage towards manufacturing, raise output, and diversify the region's economy. International competitiveness in manufactures and such fresh perishables as cut flowers, fresh fish, and beef requires effective institutions linking the domestic economy with world markets.

Although the African air transport market has grown considerably since the mid-1980s, its market share of world traffic has diminished over the past decade. Absence of competition, poor management and monitoring, and a maze of anticompetitive arrangements in air infrastructure have bred corruption, fares and costs higher than the world norm, poor financial results, and unsafe airlines and airports. The percentage of planes leased is much lower in Africa (5%) than in North America (10%), Europe (15%), and Central and South America (39%). But not all African airlines are inefficient. For example, state-owned Ethiopian Airlines has made net profits for the past 14 years.

Regional approaches are a natural way to overcome many of the airlines' problems, including high fixed indivisible costs. Airports serving less than 1.5–3 million passengers operate with increasing long-term average costs. Some governments began gradually liberalizing traffic rights in 1988, calling for integration through mergers, shared exploitation, and consortia to strengthen cooperation, coordination, and integration of air services. The results have been discouraging. The 1997 task force of the African Civil Aviation Commission suggested a shift in focus to integration within Africa.

Some progress has been made in privatization, liberalization, and liquidation. Kenya privatized its state-owned airline, which is now the only Sub-Saharan African carrier fully integrated into one of the global alliances poised to dominate the air transport industry. Zambia decided to liquidate its loss-making national airline and allow private airlines. Four private companies now operate without government subsidies or financing.

*Source: ICAO 1984, 1999.*

*Regional integration promotes the diversification of exports to regional markets, which builds experience before entering global markets*

#### ◀ Box 6.4

*Regional approaches in air transport will improve competitiveness*

*The regional integration agenda should be broad and outward-oriented*

The regional integration agenda should therefore be broad and outward-oriented. The recent liberalization and reform efforts in Africa are an indication that regional integration is moving away from the inward-looking and centrally planned approach. Governments now view regional integration as a way to penetrate international markets and promote foreign direct investment. But this will require broadening integration beyond macroeconomic policy coordination, trade liberalization, and a common external tariff.

Although most of the obstacles to regional integration in Africa appear to have been eliminated, some outstanding issues remain. Distributional considerations still pose a major challenge. One or more members dominate most regional groups. States need to identify the economic and distributional consequences, then choose appropriate and equitable compensatory mechanisms. This will require political will and commitment.

## Public-private partnerships will speed science and technology development

To develop an educational and scientific base for harnessing technology, African governments need to establish the incentive structures for firms to adopt and master new technologies and other modern practices. And governments need to do this for entrepreneurship, innovation, and learning, too (box 6.5). This will entail a strong relationship among government, the private sector, and institutions of higher learning.

Thus governments need to establish the tax, credit, and labour policies, as well as an efficient and transparent legal and regulatory framework. Government-business relationships will support private sector efforts to learn about and master technologies and new practices. Highly trained technical personnel have to be available outside government bureaucracies so that their skills contribute to development. Impediments that inhibit investment in and flow of information—such as poor infrastructure and restrictive laws and regulations—should be removed.

## Successful development requires more aid—and more effective aid

Aid and debt will continue to dominate Africa's development (World Bank 2000b). Past aid has accumulated into a largely unsustainable debt stock, and the debt burden has meant low growth. High indebtedness has discouraged investment, especially foreign investment. It has also reduced the financial assistance available to fund new projects because a large proportion of new aid services past debts.

Given the low savings rates in Africa, development in the 21st century will require substantial aid flows. Yet between 1990 and 1996 official development assistance to Africa declined by 24% in real terms, a trend expected to continue (O'Connell and Soludo forthcoming). A key factor is donor fatigue, the result of the ineffectiveness of past official development

## ◀ Box 6.5

### *Telecommunication's link to poverty makes it critical to development*

The gap between rich and poor nations in advanced information communication technology—the “digital divide”—is growing. Africa has 739 million people and 14 million phone lines—fewer than in Manhattan or Tokyo. In 1999, 1 million Africans had access to the Internet, compared with 15 million in the United Kingdom. And Africa generates only 0.4 percent of Internet content; excluding South Africa, a mere 0.02%.

This is especially troubling as information communication technology becomes more important in the fight against poverty—generating revenue, providing income improving services, and avoiding poverty traps. Recent studies have found a link between telecommunications and economic development, especially through cost savings for industry and increased transport efficiency. Country studies, micro studies, and cost-benefit analyses support this finding, showing high returns to investment in the sector. And the Internet, by leveraging the potential value of computers and a telephone connection, suggests that the economic effects of networking will be far greater in the future.

Telecommunications has a direct impact on the poor. For example, employment opportunities at public call centres are enormous. The literate poor can benefit from opportunities to provide out-sourced information processing services to businesses in the Organisation for Economic Co-operation and Development countries. Information technology-enabled services, such as processing insurance claims for General Electric and transferring information from hand-written airline tickets for British Airways, already employ about 41,000 people in India.

The Internet provides an even greater opportunity for firms, farms, and entrepreneurs to reduce costs, increase market coverage, and achieve economies of scale. Villagers in central Peru are using the Internet to market organically grown oranges. Small manufacturers of traditional handicrafts are already discovering how information communication technology can be a tool for marketing and distributing their wares across the world. In Kenya the Naushad Trading Company, which sells locally produced wooden artifacts, pottery, and baskets, has seen its revenue grow from \$10,000 to more than \$2 million in the two years since it went on-line. These opportunities will only expand, allowing developing countries to trade and compete within an increasing range of industries and services and to access resources from anywhere in the world.

*Source: Wheeler 2000.*

assistance. Past assistance was not always well managed, and donors did not base it entirely on economic criteria. And despite the vast literature on the ineffectiveness of much official development assistance, there is a strong case for greater assistance to Africa. The conditions that were largely responsible for the ineffectiveness are improving, and development challenges remain great (World Bank 2000b).

*Development in the 21st century will require substantial aid flows*

## What is the government's role in managing institutions and the economy?

Markets cannot function without an effective and efficient institutional framework. The required institutional infrastructure includes the rules and regulations of a market economy, such as property rights, contract enforcement, and a regulatory apparatus for anticompeti-

tive behaviour. It also includes social and political systems that mitigate risk and manage social conflicts through good governance and the rule of law.

Africa made significant improvements in political and civil liberties in the 1990s as more and more countries became democracies. But radical social and economic transformations are weakening some institutional arrangements while creating the need for new ones. Managing the change that will come with development will require strengthening the institutional infrastructure and establishing new institutions. As the African economies move more and more to a full market economy, one area where new institutions may be necessary is in managing competition policy.

At the core of a market economy are transactions, which involve the exchange of goods and services and are governed by property rights, contracts, as well as the rules and regulations that specify these contracts and rights. So, even in a completely private market economy governments have to manage the rules and regulations that govern the economy. To ensure an even playing field governments must monitor and enforce these rules and regulations effectively and equitably. Governments also need to manage institutions that facilitate specification, enforcement, and monitoring of economic transactions. In Africa this will require strengthening the administrative and managerial capacity of the public sector, which must clearly define the government's role.

While there is no clear-cut way to determine the depth and extent of state intervention in the economy, the lessons of development experience provide important guidelines. Unfortunately, the success stories have been ignored and minimized while the failures have been well articulated, particularly by the World Bank and the International Monetary Fund. Re-visiting the success stories can reveal where state intervention can contribute to development.

## Strong leaders and key stakeholders will set the right priorities

What are the broad features and the fundamentals of Africa's development strategy for the 21st century? First, all key stakeholders should be involved in creating the strategy and identifying necessary actions. Their participation will permit ownership of the development strategy and help mobilize all stakeholders to realize the goals. Broad participation will also help policy-makers identify incentives.

Second, the development strategy must be guided by strong leadership with a vision, national commitment, and political will to mobilize society for development. Leaders should outline this vision in terms understandable to the people and devise mechanisms to influence and mobilize the people to attain the goals.

Third, there must be a clear set of priorities and an appropriate sequence of actions. In addition to setting a vision, the strategy should indicate what to do first, second, third, and so on to ensure that resources go to priority areas.

*The development strategy must be guided by strong leadership with a vision, national commitment, and political will*

Improving the political and economic environment for growth and development should be the first order of business. Africa needs better political and economic governance and new efforts to resolve conflicts. A strong state with the capacity to provide the leadership and vision to address the complex development problems facing Africa is part of this environment. A key requirement: strengthen administrative, legislative, judicial, and political institutions. For this a competent, well-remunerated, and autonomous civil service must be insulated from political influence to identify policies and interventions and advise political authorities accordingly.

With a strong and efficient state the next priority is identifying how to mobilize investment and resources. Given Africa's low income and high inequality, accumulation and allocation of productive assets will be the foundation for growth. Attention should go to human and physical capital—health, education, and such infrastructure as transport, communications, and energy. Resources must be allocated to activities that will yield the maximum benefit.

Investing in human and physical capital, while important, does not guarantee that the benefits are shared broadly across society. So it is important to ensure broad-based and equitable growth by investing in areas that benefit most people and by devising mechanisms to ensure that growth is shared. Investing in agriculture and rural development is one way to increase income and benefit most Africans, particularly in the short run.

For the long run it will be important to strategically identify high-technology sectors that could form the industrial base of African countries—and then promote them through state interventions. Human capital development, particularly education and training, should also be geared to these sectors.



*A competent, well-remunerated, and autonomous civil service must be insulated from political influence*



## Annex 1.

### African GDP and GDP growth rates by region, 1998 and 1999

Region and country	Value (millions of dollars)		Share of Africa's total (percent)		Growth rate (percent)	
	1998	1999	1998	1999	1998	1999
<b>North Africa</b>	<b>215,318</b>	<b>220,916</b>	<b>40.08</b>	<b>40.06</b>	<b>4.4</b>	<b>2.6</b>
Algeria	65,103	68,097	12.12	12.35	3.8	4.6
Egypt, Arab Rep.	61,209	64,147	11.39	11.63	5.5	4.8
Libya	26,512	27,043	4.93	4.90	0.5	2.0
Mauritania	1,444	1,530	0.27	0.28	3.0	6.0
Morocco	30,377	30,681	5.65	5.56	6.5	1.0
Sudan	12,411	12,734	2.31	2.31	6.0	2.6
Tunisia	18,262	18,700	3.40	3.39	4.5	2.4
<b>West Africa</b>	<b>92,311</b>	<b>95,726</b>	<b>17.18</b>	<b>17.36</b>	<b>3.6</b>	<b>3.7</b>
Benin	2,639	2,771	0.49	0.50	4.5	5.0
Burkina Faso	3,565	3,768	0.66	0.68	5.0	5.7
Cape Verde	490	505	0.09	0.09	3.0	3.0
Côte d'Ivoire	11,591	12,170	2.16	2.21	5.5	5.0
Gambia, The	359	383	0.07	0.07	3.8	6.5
Ghana	8,817	9,196	1.64	1.67	3.8	4.3
Guinea	3,905	4,049	0.73	0.73	5.0	3.7
Guinea-Bissau	346	371	0.06	0.07	5.6	7.0
Liberia	1,640	1,684	0.31	0.31	2.7	2.7
Mali	3,157	3,315	0.59	0.60	5.4	5.0
Niger	2,809	2,935	0.52	0.53	3.4	4.5
Nigeria	43,583	44,236	8.11	8.02	2.4	1.5
Senegal	7,125	7,588	1.33	1.38	5.0	6.5
Sierra Leone	567	573	0.11	0.10	1.1	1.0
Togo	1,719	1,761	0.32	0.32	6.0	2.5
<b>Central Africa</b>	<b>27,434</b>	<b>28,559</b>	<b>5.11</b>	<b>5.18</b>	<b>4.9</b>	<b>4.1</b>
Cameroon	13,852	14,516	2.58	2.63	5.2	4.8
Central African Republic	1,600	1,680	0.30	0.30	5.5	5.0
Chad	1,599	1,618	0.30	0.29	6.0	1.2
Congo, Rep.	3,111	3,267	0.58	0.59	8.1	5.0
Equatorial Guinea	390	429	0.07	0.08	14.7	10.0
Gabon	6,820	7,079	1.27	1.28	2.1	3.8
São Tomé and Príncipe	63	64	0.01	0.01	2.6	2.8



Region and country	Value (millions of dollars)		Share of Africa's total (percent)		Growth rate (percent)	
	1998	1999	1998	1999	1998	1999
<b>East Africa</b>	<b>44,826</b>	<b>46,639</b>	<b>8.34</b>	<b>8.46</b>	<b>2.7</b>	<b>4.1</b>
Burundi	1,070	1,102	0.20	0.20	4.4	3.0
Comoros	259	263	0.05	0.05	-1.1	1.5
Congo, Dem. Rep.	5,211	5,263	0.97	0.95	-0.7	1.0
Djibouti	466	472	0.09	0.09	1.7	1.4
Eritrea	787	814	0.15	0.15	3.0	3.5
Ethiopia	7,452	7,952	1.39	1.44	0.5	6.7
Kenya	10,786	10,969	2.01	1.99	2.7	1.7
Madagascar	3,439	3,594	0.64	0.65	3.5	4.5
Seychelles	478	488	0.09	0.09	3.0	2.1
Somalia	745	760	0.14	0.14	2.5	2.0
Rwanda	2,447	2,667	0.46	0.48	6.7	9.0
Uganda	5,769	6,115	1.07	1.11	4.0	6.0
Tanzania	5,917	6,179	1.10	1.12	5.0	4.4
<b>Southern Africa</b>	<b>157,370</b>	<b>159,573</b>	<b>29.29</b>	<b>29.94</b>	<b>1.7</b>	<b>1.4</b>
Angola	10,379	10,794	1.93	1.96	1.6	4.0
Botswana	5,942	6,477	1.11	1.17	7.0	9.0
Lesotho	852	890	0.16	0.16	6.9	4.5
Malawi	2,333	2,449	0.43	0.44	4.0	5.0
Mauritius	3,838	3,999	0.71	0.73	6.4	4.2
Mozambique	1,723	1,895	0.32	0.34	5.9	10.0
Namibia	3,259	3,373	0.61	0.61	4.5	3.5
South Africa	115,967	117,707	21.59	21.35	0.8	1.5
Swaziland	1,072	1,105	0.20	0.20	0.5	3.1
Zambia	4,194	4,256	0.78	0.77	5.5	1.5
Zimbabwe	7,812	7,812	1.45	1.42	3.5	0.0
<b>Africa</b>	<b>573,259</b>	<b>551,414</b>	<b>100</b>	<b>100</b>	<b>3.1</b>	<b>3.2</b>

*Note:* GDP figures are in 1990 prices, U.S. dollars.

*Source:* Economic Commission for Africa.

## Annex 2.

### African GDP and GDP growth rates by country group, 1998 and 1999

Group and country	Value (millions of dollars)		Share of group (percent)		Growth rate (percent)	
	1998	1999	1998	1999	1998	1999
<b>G5</b>	<b>316,239</b>	<b>324,869</b>	<b>100.0</b>	<b>100.0</b>	<b>3.07</b>	<b>2.75</b>
Algeria	65,103	68,097	20.6	21.0	3.8	4.6
Egypt, Arab Rep.	61,209	64,147	19.4	19.7	5.5	4.8
Morocco	30,377	30,681	9.6	9.4	6.5	1.0
Nigeria	43,583	44,236	13.8	13.6	2.4	1.5
South Africa	115,967	117,707	36.7	36.2	0.8	1.5
<b>Oil-producing economies</b>	<b>262,911</b>	<b>272,476</b>	<b>100.0</b>	<b>100.0</b>	<b>3.59</b>	<b>3.79</b>
Algeria	65,103	68,097	24.8	24.76	3.8	4.6
Angola	10,379	10,794	3.9	3.95	1.6	4.0
Cameroon	13,852	14,516	5.3	5.27	5.2	4.8
Congo, Rep.	5,211	5,263	2.0	1.98	-0.7	1.0
Côte d'Ivoire	11,591	12,170	4.4	4.41	5.5	5.0
Egypt, Arab. Rep.	61,209	64,147	23.3	23.28	5.5	4.8
Equatorial Guinea	390	429	0.1	0.15	14.7	10
Gabon	6,820	7,079	2.6	2.59	2.1	3.8
Libya	26,512	27,043	10.1	10.08	0.5	2.0
Nigeria	43,583	44,236	16.6	16.58	2.4	1.5
Tunisia	18,262	18,700	6.9	6.95	4.5	2.4
<b>Least developed countries</b>	<b>89,645</b>	<b>93,641</b>	<b>100.0</b>	<b>100.0</b>	<b>4.28</b>	<b>4.49</b>
Angola	10,379	10,794	11.6	11.5	1.6	4.0
Benin	2,639	2,771	2.9	3.0	4.5	5.0
Burkina Faso	3,565	3,768	4.0	4.0	5.0	5.7
Burundi	1,070	1,102	1.2	1.2	4.4	3.0
Cape Verde	490	505	0.5	0.5	3.0	3.0
Central African Republic	1,600	1,680	1.8	1.8	5.5	5.0
Chad	1,599	1,618	1.8	1.7	6.0	1.2
Comoros	259	263	0.3	0.3	-1.1	1.5
Congo, Dem. Rep.	3,111	3,267	3.5	3.5	8.1	5.0
Djibouti	466	472	0.5	0.5	1.7	1.4
Equatorial Guinea	390	429	0.4	0.5	14.7	10
Eritrea	787	814	0.9	0.9	3.0	3.5
Ethiopia	7,452	7,952	8.3	8.5	0.5	6.7
Gambia, The	359	383	0.4	0.4	3.8	6.5
Guinea	3,905	4,049	4.4	4.3	5.0	3.7
Guinea-Bissau	346	371	0.4	0.4	5.6	7.0
Lesotho	852	890	0.9	1.0	6.9	4.5
Liberia	1,640	1,684	1.8	1.8	2.7	2.7
Madagascar	3,439	3,594	3.8	3.8	3.5	4.5

Group and country	Value (millions of dollars)		Share of group (percent)		Growth rate (percent)	
	1998	1999	1998	1999	1998	1999
Malawi	2,333	2,449	2.6	2.6	4.0	5.0
Mali	3,157	3,315	3.5	3.5	5.4	5.0
Mauritania	1,444	1,530	1.6	1.6	3.0	6.0
Mozambique	1,723	1,895	1.9	2.0	5.9	10.0
Niger	2,809	2,935	3.1	3.1	3.4	4.5
Rwanda	2,447	2,667	2.7	2.8	6.7	9.0
São Tomé and Príncipe	63	64	0.1	0.1	2.6	2.8
Sierra Leone	567	573	0.6	0.6	1.1	1.0
Somalia	745	760	0.8	0.8	2.5	2.0
Sudan	12,411	12,734	13.8	13.6	6.0	2.6
Tanzania	5,917	6,179	6.6	6.6	5.0	4.4
Togo	1,719	1,761	1.9	1.9	6.0	2.5
Uganda	5,769	6,115	6.4	6.5	4.0	6.0
Zambia	4,194	4,256	4.7	4.5	5.5	1.5
<b>Land-locked countries</b>	<b>51,672</b>	<b>54,143</b>	<b>100.0</b>	<b>100.0</b>	<b>4.23</b>	<b>4.86</b>
Botswana	5,942	6,477	11.5	12.0	7.0	9.0
Burkina Faso	3,565	3,768	6.9	7.0	5.0	5.7
Burundi	1,070	1,102	2.1	2.0	4.4	3.0
Central African Republic	1,600	1,680	3.1	3.1	5.5	5.0
Chad	1,599	1,618	3.1	3.0	6.0	1.2
Ethiopia	7,452	7,952	14.4	14.7	0.5	6.7
Lesotho	852	890	1.6	1.6	6.9	4.5
Malawi	2,333	2,449	4.5	4.5	4.0	5.0
Mali	3,157	3,315	6.1	6.1	5.4	5.0
Niger	2,809	2,935	5.4	5.4	3.4	4.5
Rwanda	2,447	2,667	4.7	4.9	6.7	9.0
Swaziland	1,072	1,105	2.1	2.0	0.5	3.1
Uganda	5,769	6,115	11.2	11.3	4.0	6.0
Zambia	4,194	4,256	8.1	7.9	5.5	1.5
Zimbabwe	7,812	7,812	15.1	14.4	3.5	0.0
<b>Island economies</b>	<b>8,567</b>	<b>8,913</b>	<b>100.0</b>	<b>100.0</b>	<b>4.6</b>	<b>4.05</b>
Cape Verde	490	505	5.7	5.7	3.0	3.0
Comoros	259	263	3.0	3.0	-1.1	1.5
Madagascar	3,439	3,594	40.1	40.3	3.5	4.5
Mauritius	3,838	3,999	44.8	44.9	6.4	4.2
São Tomé and Príncipe	63	64	0.7	0.7	2.6	2.8
Seychelles	478	488	5.6	5.5	3.0	2.1

**Note:** GDP figures are in 1990 prices, U.S. dollars.

**Source:** Economic Commission for Africa.

## Annex 3.

### African population and per capita income by region, 1998 and 1999

Region and country	1998				1999			
	Population		Per capita income		Population		Per capita income	
	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)
<b>North Africa</b>	<b>170.3</b>	<b>21.91</b>	<b>1,264</b>	<b>1.92</b>	<b>175.10</b>	<b>21.91</b>	<b>1,273</b>	<b>0.70</b>
Algeria	30.18	3.88	2,157	1.39	31.03	3.88	2,195	1.73
Egypt, Arab Rep.	65.68	8.45	932	3.56	67.52	8.45	950	1.94
Libya	5.98	0.77	4,433	-2.79	6.15	0.77	4,397	-0.82
Mauritania	2.45	0.32	589	0.40	2.52	0.32	607	3.01
Morocco	28.01	3.60	1,085	4.62	28.79	3.60	1,066	-1.74
Sudan	28.53	3.67	435	3.63	29.33	3.67	434	-0.20
Tunisia	9.5	1.22	1,922	2.62	9.77	1.22	1,914	-0.43
<b>West Africa</b>	<b>225.6</b>	<b>29.02</b>	<b>409</b>	<b>1.01</b>	<b>231.93</b>	<b>29.02</b>	<b>411</b>	<b>0.42</b>
Benin	5.88	0.76	449	1.64	6.04	0.76	459	2.22
Burkina Faso	11.4	1.47	313	2.10	11.72	1.47	322	2.81
Cape Verde	0.42	0.05	1,167	0.28	0.43	0.05	1,174	0.66
Côte d'Ivoire	14.57	1.87	796	3.57	14.98	1.87	812	2.12
Gambia, The	1.19	0.15	302	1.63	1.22	0.15	314	4.06
Ghana	18.86	2.43	467	0.94	19.39	2.43	474	1.45
Guinea	7.67	0.99	509	4.19	7.88	0.99	514	0.92
Guinea-Bissau	1.14	0.15	304	3.46	1.17	0.15	317	4.48
Liberia	2.75	0.35	596	-7.80	2.83	0.35	595	-0.22
Mali	11.83	1.52	267	2.27	12.16	1.52	273	2.16
Niger	10.12	1.30	278	0.02	10.40	1.30	282	1.67
Nigeria	121.77	15.66	358	-0.46	125.18	15.66	353	-1.27
Senegal	9	1.16	792	2.21	9.25	1.16	820	3.62
Sierra Leone	4.58	0.59	124	-2.17	4.71	0.59	122	-1.73
Togo	4.43	0.57	388	3.20	4.55	0.57	387	-0.26
<b>Central Africa</b>	<b>29.27</b>	<b>3.76</b>	<b>937</b>	<b>3.75</b>	<b>30.08</b>	<b>3.76</b>	<b>953</b>	<b>1.22</b>
Cameroon	14.32	1.84	967	2.36	14.72	1.84	986	1.95
Central African Republic	3.49	0.45	458	3.29	3.59	0.45	468	2.08
Chad	6.89	0.89	232	3.08	7.08	0.89	229	-1.53
Congo, Rep.	2.82	0.36	1,103	5.15	2.90	0.36	1,127	2.12
Equatorial Guinea	0.43	0.06	907	12.03	0.44	0.06	975	7.50
Gabon	1.17	0.15	5,829	-0.78	1.20	0.15	5,899	1.20
São Tomé and Príncipe	0.14	0.02	450	1.13	0.14	0.02	463	2.89

Region and country	1998				1999			
	Population		Per capita income		Population		Per capita income	
	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)
<b>East Africa</b>	<b>238.9</b>	<b>30.73</b>	<b>177</b>	<b>-1.11</b>	<b>245.61</b>	<b>30.73</b>	<b>179</b>	<b>1.18</b>
Burundi	6.59	0.85	162	1.37	6.77	0.85	163	0.25
Comoros	0.67	0.09	387	-4.19	0.69	0.09	381	-1.40
Congo, Dem. Rep.	49.21	6.33	106	-3.06	50.59	6.33	104	-1.76
Djibouti	0.65	0.08	717	-0.96	0.67	0.08	704	-1.74
Eritrea	3.55	0.46	222	-1.04	3.65	0.46	223	0.60
Ethiopia	62.11	7.99	120	-2.68	63.85	7.99	125	3.80
Kenya	29.02	3.73	372	0.56	29.83	3.73	368	-1.06
Madagascar	16.35	2.10	210	0.32	16.81	2.10	214	1.65
Seychelles	0.08	0.01	5,975	-3.44	0.08	0.01	6,100	2.09
Somalia	10.65	1.37	70	-1.70	10.95	1.37	69	-0.78
Rwanda	6.53	0.84	375	-3.83	6.71	0.84	397	6.07
Uganda	21.32	2.74	271	1.43	21.92	2.74	279	3.10
Tanzania	32.19	4.14	104	2.78	33.09	4.14	105	1.57
<b>Southern Africa</b>	<b>113.4</b>	<b>14.59</b>	<b>1,388</b>	<b>1.79</b>	<b>116.59</b>	<b>14.59</b>	<b>1,379</b>	<b>-0.64</b>
Angola	11.97	1.54	867	-1.78	12.31	1.54	877	1.13
Botswana	1.55	0.20	3,834	4.72	1.59	0.20	4,074	6.26
Lesotho	2.18	0.28	391	4.31	2.24	0.28	397	1.66
Malawi	10.38	1.33	225	1.08	10.67	1.33	230	2.12
Mauritius	1.15	0.15	3,337	5.20	1.18	0.15	3,389	1.55
Mozambique	18.69	2.40	92	3.49	19.21	2.40	99	7.01
Namibia	1.65	0.21	1,975	1.97	1.70	0.21	1,984	0.45
South Africa	44.3	5.70	2,618	-1.38	45.54	5.70	2,585	-1.26
Swaziland	0.93	0.12	1,153	-2.30	0.96	0.12	1,151	-0.14
Zambia	8.69	1.12	483	2.93	8.93	1.12	477	-1.25
Zimbabwe	11.92	1.53	655	1.40	12.25	1.53	638	-2.69
<b>Africa</b>	<b>777.5</b>	<b>100.0</b>	<b>688</b>	<b>0.72</b>	<b>799.3</b>	<b>100.0</b>	<b>690</b>	<b>0.35</b>

*Note: Per capita income is based on GDP in 1990 prices, U.S. dollars.*

*Source: Economic Commission for Africa.*

## Annex 4.

### African population and per capita income by country group, 1998 and 1999

Group and country	1998				1999			
	Population		Per capita income		Population		Per capita income	
	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)
<b>B5</b>	<b>289.9</b>	<b>37.29</b>	<b>1,091</b>	<b>0.99</b>	<b>298.06</b>	<b>37.29</b>	<b>1,090</b>	<b>-0.08</b>
Algeria	30.18	3.88	2,157	1.39	31.03	3.88	2,195	1.73
Egypt, Arab Rep.	65.68	8.45	9,32	3.56	67.52	8.45	950	1.94
Morocco	28.01	3.60	1,085	4.62	28.79	3.60	1,066	-1.74
Nigeria	121.77	15.66	3,58	-0.46	125.18	15.66	353	-1.27
South Africa	44.3	5.70	2,618	-1.38	45.54	5.70	2,585	-1.26
<b>Oil-producing economies</b>	<b>318.1</b>	<b>40.91</b>	<b>827</b>	<b>0.43</b>	<b>327.01</b>	<b>40.91</b>	<b>833</b>	<b>0.81</b>
Algeria	30.18	3.88	2,157	1.39	31.03	3.88	2,195	1.73
Angola	11.97	1.54	867	-1.78	12.31	1.54	877	1.13
Cameroon	14.32	1.84	967	2.36	14.72	1.84	986	1.95
Congo, Rep.	2.82	0.36	1,848	5.15	2.90	0.36	1,815	-1.79
Côte d'Ivoire	14.57	1.87	796	3.57	14.98	1.87	812	2.12
Egypt, Arab Rep.	65.68	8.45	932	3.56	67.52	8.45	950	1.94
Equatorial Guinea	0.43	0.06	907	12.03	0.44	0.06	975	7.50
Gabon	1.17	0.15	5,829	-0.78	1.20	0.15	5,899	1.20
Libya	5.98	0.77	4,433	-2.79	6.15	0.77	4,397	-0.82
Nigeria	121.77	15.66	358	-0.46	125.18	15.66	353	-1.27
Tunisia	9.5	1.22	1,922	2.62	9.77	1.22	1,914	-0.43
<b>Least developed countries</b>	<b>365.1</b>	<b>46.97</b>	<b>238</b>	<b>0.22</b>	<b>375.29</b>	<b>46.95</b>	<b>243</b>	<b>2.12</b>
Angola	11.97	1.54	8,67	-1.78	12.31	1.54	877	1.13
Benin	5.88	0.76	449	1.64	6.04	0.76	459	2.22
Burkina Faso	11.4	1.47	313	2.10	11.72	1.47	322	2.81
Burundi	6.59	0.85	162	1.37	6.77	0.85	163	0.25
Cape Verde	0.42	0.05	1,167	0.28	0.43	0.05	1,174	0.66
Central African Republic	3.49	0.45	458	3.29	3.59	0.45	468	2.08
Chad	6.89	0.89	232	3.08	7.08	0.89	229	-1.53
Comoros	0.67	0.09	387	-4.19	0.69	0.09	381	-1.40
Congo, Dem. Rep.	49.21	6.33	63	-3.06	50.59	6.33	65	2.15
Djibouti	0.65	0.08	717	-0.96	0.67	0.08	704	-1.74
Equatorial Guinea	0.43	0.06	907	12.03	0.44	0.06	975	7.50
Eritrea	3.55	0.46	222	-1.04	3.65	0.46	223	0.60
Ethiopia	62.11	7.99	120	-2.68	63.85	7.99	125	3.80
Gambia, The	1.19	0.15	302	1.63	1.22	0.15	314	4.06
Guinea	7.67	0.99	509	4.19	7.88	0.99	514	0.92
Guinea-Bissau	1.14	0.15	304	3.46	1.17	0.15	317	4.48
Lesotho	2.18	0.28	391	4.31	2.24	0.28	397	1.66
Liberia	2.75	0.35	596	-7.80	2.83	0.35	595	-0.22

Group and country	1998				1999			
	Population		Per capita income		Population		Per capita income	
	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)	Number (millions)	Share of Africa's total (percent)	Level (dollars)	Growth (percent)
Madagascar	16.35	2.10	210	0.32	16.81	2.10	214	1.65
Malawi	10.38	1.33	225	1.08	10.67	1.33	230	2.12
Mali	11.83	1.52	267	2.27	12.16	1.52	273	2.16
Mauritania	2.45	0.32	589	0.40	2.52	0.32	607	3.01
Mozambique	18.69	2.40	92	3.49	19.21	2.40	99	7.01
Niger	10.12	1.30	278	0.02	10.40	1.30	282	1.67
Rwanda	6.53	0.84	375	-3.83	6.71	0.84	397	6.07
São Tomé and Príncipe	0.14	0.02	450	1.13	0.14	0.02	463	2.89
Sierra Leone	4.58	0.59	124	-2.17	4.71	0.59	122	-1.73
Somalia	10.65	1.37	70	-1.70	10.95	1.37	69	-0.78
Sudan	28.53	3.67	435	3.63	29.33	3.67	434	-0.20
Tanzania	32.19	4.14	104	2.78	33.09	4.14	105	1.57
Togo	4.43	0.57	388	3.20	4.55	0.57	387	-0.26
Uganda	21.32	2.74	271	1.43	21.92	2.74	279	3.10
Zambia	8.69	1.12	483	2.93	8.93	1.12	477	-1.25
<b>Land-locked countries</b>	<b>175.93</b>	<b>23</b>	<b>294</b>	<b>-0.002</b>	<b>180.86</b>	<b>22.63</b>	<b>299</b>	<b>1.92</b>
Botswana	1.55	0.88	3,834	4.72	1.59	0.20	4,074	6.26
Burkina Faso	11.4	6.48	313	2.10	11.72	1.47	322	2.81
Burundi	6.59	3.75	162	1.37	6.77	0.85	163	0.25
Central African Republic	3.49	1.98	458	3.29	3.59	0.45	468	2.08
Chad	6.89	3.92	232	3.08	7.08	0.89	229	-1.53
Ethiopia	62.11	35.30	120	-2.68	63.85	7.99	125	3.80
Lesotho	2.18	1.24	391	4.31	2.24	0.28	397	1.66
Malawi	10.38	5.90	225	1.08	10.67	1.33	230	2.12
Mali	11.83	6.72	267	2.27	12.16	1.52	273	2.16
Niger	10.12	5.75	278	0.02	10.40	1.30	282	1.67
Rwanda	6.53	3.71	375	-3.83	6.71	0.84	397	6.07
Swaziland	0.93	0.53	1,153	-2.30	0.96	0.12	1,151	-0.14
Uganda	21.32	12.12	271	1.43	21.92	2.74	279	3.10
Zambia	8.69	4.94	483	2.93	8.93	1.12	477	-1.25
Zimbabwe	11.92	6.78	655	1.40	12.25	1.53	638	-2.69
<b>Island economies</b>	<b>18.81</b>	<b>2.42</b>	<b>455</b>	<b>0.45</b>	<b>19.33</b>	<b>2.42</b>	<b>461</b>	<b>1.52</b>
Cape Verde	0.42	0.05	1,167	0.28	0.43	0.05	1,174	0.66
Comoros	0.67	0.09	387	-4.19	0.69	0.09	381	-1.40
Madagascar	16.35	2.10	210	0.32	16.81	2.10	214	1.65
Mauritius	1.15	0.15	3,337	5.20	1.18	0.15	3,389	1.55
São Tomé and Príncipe	0.14	0.02	450	1.13	0.14	0.02	463	2.89
Seychelles	0.08	0.01	5,975	-3.44	0.08	0.01	6,100	2.09

**Note:** Per capita income is based on GDP in 1990 Prices, U.S. dollars.

**Source:** Economic Commission for Africa.

## Annex 5.

### African sectoral distribution of GDP by region, 1980 and 1999 (percent)

Region and country	Agriculture		Industry		Manufacturing		Services	
	1980	1999	1980	1999	1980	1999	1980	1999
<b>North Africa</b>	<b>13.5</b>	<b>18.3</b>		<b>27.1</b>		<b>14.1</b>	<b>38.0</b>	<b>54.6</b>
Algeria	8.3	6.4	59.0	49.9	7.8	11.0	32.7	43.7
Egypt, Arab Rep.	19.3	18.6	41.5	26.8	13.6	8.4	39.2	54.6
Libya	2.5	9.2	64.5	53.9	3.0	10.7	33.0	36.9
Mauritania	24.3	29.9	29.2	25.1	6.3	8.0	46.5	45.0
Morocco	18.3	20.1	34.3	28.3	19.3	17.2	47.5	57.6
Sudan	36.9	36.1	15.9	15.9	7.8	9.4	47.1	48.0
Tunisia	15.6	20.1	36.6	34.6	13.6	18.4	47.8	45.3
<b>West Africa</b>	<b>25.9</b>	<b>30.7</b>	<b>35.4</b>	<b>32.2</b>	<b>6.4</b>	<b>8.5</b>	<b>36.7</b>	<b>37.1</b>
Benin	47.9	38.4	13.8	17.1	6.1	4.6	38.2	44.5
Burkina Faso	46.9	36.6	14.7	33.9	11.9	13.6	38.4	29.5
Cape Verde	20.5	20.6	27.3	30.9	5.5	7.1	52.1	48.5
Côte d'Ivoire	35.4	24.8	20.8	21.6	11.2	14.0	43.8	53.6
Gambia, The	25.4	23.9	17.4	13.5	6.7	5.8	57.1	62.6
Ghana	46.8	51.9	12.7	17.6	7.6	9.8	40.5	30.5
Guinea	45.8	22.7	21.5	34.8	3.2	4.7	32.7	42.5
Guinea-Bissau	51.0	52.3	6.0	4.6	1.7	1.2	42.9	43.1
Liberia	15.7	42.9	33.6	31.4	9.1	12.5	50.7	44.6
Mali	61.2	56.0	10.0	15.3	3.7	8.8	28.7	28.7
Niger	44.5	44.6	19.0	15.7	3.7	3.9	36.5	39.7
Nigeria	20.6	32.5	41.7	38.5	5.7	3.9	37.6	29.0
Senegal	21.1	21.2	27.7	31.9	17.2	19.6	51.1	46.9
Sierra Leone	31.9	50.0	19.5	22.3	4.5	5.7	48.6	27.7
Togo	30.5	28.1	23.4	26.5	4.9	6.8	46.1	45.4
<b>Central Africa</b>	<b>28.9</b>	<b>21.9</b>	<b>32.7</b>	<b>36.9</b>	<b>6.8</b>	<b>10.7</b>	<b>38.4</b>	<b>41.2</b>
Cameroon	30.3	23.2	28.0	34.1	8.4	13.4	41.7	42.7
Central African Republic	39.6	44.6	19.2	11.2	7.5	9.1	41.2	39.2
Chad	41.7	40.4	12.2	16.3	8.8	8.7	46.1	48.3
Congo, Rep.	9.5	12.5	49.3	26.2	6.6	8.1	41.2	45.3
Equatorial Guinea	41.5	46.2	11.9	8.1	5.1	0.4	46.6	45.7
Gabon	6.1	9.3	64.7	53.8	6.4	4.5	29.3	36.9
São Tomé and Príncipe	37.1	22.8	22.0	20.6	8.4	9.5	40.9	44.4



Region and country	Agriculture		Industry		Manufacturing		Services	
	1980	1999	1980	1999	1980	1999	1980	1999
<b>East Africa</b>		<b>36.7</b>		<b>17.6</b>		<b>8.1</b>		<b>45.7</b>
Burundi	61.1	47.9	13.5	18.9	8.2	12.2	25.3	33.2
Comoros	46.3	44.0	16.5	13.7	5.7	5.6	37.1	42.3
Congo, Dem. Rep.	34.0	33.7	25.3	29.5	2.8	1.2	40.6	36.8
Djibouti	4.6	2.0	21.1	21.7	10.1	3.0	74.4	76.3
Eritrea	-	-	-	-	-	-	-	-
Ethiopia	50.3	46.1	15.5	10.7	10.7	5.7	34.2	43.2
Kenya	32.4	26.2	21.7	18.1	12.7	11.8	45.9	55.7
Madagascar	42.6	31.9	18.0	15.0	11.5	11.3	39.3	53.1
Rwanda	44.8	42.1	19.4	19.7	14.2	12.2	35.8	38.2
Seychelles	7.8	4.8	20.4	25.9	10.5	18.8	71.8	69.5
Somalia	38.7	62.2	19.6	9.4	8.2	3.3	41.7	28.4
Tanzania	46.3	54.8	15.6	19.9	10.2	8.8	38.1	25.3
Uganda	73.8	44.3	5.2	16.4	4.4	8.1	20.9	39.3
<b>Southern Africa</b>		<b>10.0</b>		<b>39.8</b>		<b>21.7</b>		<b>50.2</b>
Angola	42.4	40.0	30.5	25.7	2.6	2.9	27.1	34.2
Botswana	13.8	3.5	46.6	52.7	6.9	4.7	39.6	43.8
Lesotho	22.6	10.9	22.7	54.5	6.0	15.5	54.7	34.6
Malawi	38.1	40.6	21.8	16.5	13.9	10.2	40.1	42.9
Mauritius	14.3	9.9	24.7	33.3	15.7	24.4	60.9	57.6
Mozambique	42.8	49.6	16.6	29.6	8.8	14.1	40.6	20.8
Namibia	-	12.7	-	34.6	-	7.6	-	52.7
South Africa	-	5.4	-	41.6	-	24.6	-	53.0
Swaziland	24.8	9.3	31.8	44.7	22.0	37.5	43.3	45.9
Zambia	14.3	28.8	34.9	39.3	17.7	29.9	50.8	31.8
Zimbabwe	16.0	17.8	36.5	29.8	25.1	20.9	47.5	52.4
<b>Africa</b>	<b>22.3</b>	<b>19.4</b>	<b>39</b>	<b>31.9</b>	<b>8.7</b>	<b>12.7</b>	<b>38.7</b>	<b>48.7</b>

- is not available.

Source: Economic Commission for Africa compilation drawn from regional development centres and country survey reports.

## Annex 6.

### *Construction of Economic Sustainability Index and Sustained Growth Index*

Three main tasks go into constructing the Economic Sustainability Index (ESI):

- Identifying the components of each composite index.
- Scoring the variables in a standardized manner so that they can be aggregated into a composite index.
- Assigning weights to the scores.

This section describes how these tasks were carried out.

#### Identifying components

The sustainability index combines variables associated with sustained good economic performance.

#### Subindices

The index contains six subindices: human capital development, structural diversification, external dependency, transaction costs, macroeconomic sustainability indicators, and sustained growth performance. Each subindex combines several relevant variables (see Soludo 1998 for conceptual and methodological details on the construction of the indices):

1. Human capital development
  - 1.1 Education
    - 1.1.1 Adult literacy
    - 1.1.2 Gross enrolment ratio
    - 1.1.3 Higher education
      - Natural and applied science enrolment (as percentage of total tertiary enrolment).
      - Research and development scientists and technicians per 1,000.
  - 1.2 Health
    - 1.2.1 Primary health
      - Under-five mortality per 1,000.
      - Infant mortality per 1,000.
      - Life expectancy.
    - 1.2.2 Health infrastructure
      - Number of doctors per 100,000 people.
      - Number of people per hospital bed.
      - Percentage of the population with access to clean water supply.
    - 1.2.3 AIDS incidence, adult percentage HIV positive
2. Structural diversification
  - 2.1 Manufacturing as a percentage of national output
  - 2.2 Largest single primary product as a percentage of total exports

- 2.3 Export Diversification Indices
  - 2.3.1 United Nations Conference on Trade and Development Diversification Index
  - 2.3.2 United Nations Conference on Trade and Development Concentration Index
3. External dependency
  - 3.1 Debt
    - 3.1.1 Total external debt as a percentage of GDP
    - 3.1.2 External debt service to GNP ratio
  - 3.2 Reliance
    - 3.2.1 Official development assistance, excluding grants, as a percentage of GDP
    - 3.2.2 Food imports as a percentage of total imports
    - 3.2.3 Share in total exports of largest single export recipient
4. Transaction costs
  - 4.1 Utilities
    - 4.1.1 Per capita electricity production capacity
    - 4.1.2 Electricity loss as percentage of total production
  - 4.2 Communications
    - 4.2.1 Number of telephone lines per 1,000 people
    - 4.2.2 Number of Internet hosts per 1,000 people
    - 4.2.3 Average cost of local telephone calls
    - 4.2.4 Ratio of demand for telephone connections to the number of connections
  - 4.3 Physical infrastructure
    - 4.3.1 Ratio of kilometres of road to land area
    - 4.3.2 Ratio of kilometres of railroad tracks to land area
5. Macroeconomic sustainability indicators
  - 5.1 Export strength
    - 5.1.1 Per capita exports
    - 5.1.2 Real per capita export growth, average of previous five years
  - 5.2 Gross national savings as percentage of GDP
  - 5.3 Gross private investment as percentage of GDP
  - 5.4 Rate of inflation
  - 5.5 Current account balance as a percentage of GDP
6. Sustained growth performance (see Sustained Growth Index below)

### Sustained Growth Index

The ESI assesses a country's medium- to long-term potential to achieve and maintain good economic performance. The potential depends partly on the country's historical growth performance. A country that sustained good growth in the past has a greater capacity to do so in the future. Hence it is appropriate to include a measure of the historical growth performance of African countries in the ESI, and the Sustained Growth Index (SGI) is constructed for that purpose.

Real growth in per capita GDP is the indicator of a country's economic growth. The SGI assesses three aspects of this growth process: level, regularity, and volatility of growth

rates. A country is said to have sustained good growth performance if it regularly records positive per capita real GDP growth. This is a minimum requirement that needs to be strengthened to accommodate the relative speed and volatility of growth. A pattern with higher and less volatile positive growth rates is better than one with lower and more volatile rates. Accordingly, countries that achieve continued positive growth at relatively high rates with low volatility score higher on the SGI than countries that do not perform as well in some or all of these aspects.

A sustained growth episode is defined as a period of five successive years with a positive five-year moving-average growth rate. The five-year moving average growth rate associated with a year is computed as the average of the growth rates over the five-year period that ends with that year. The SGI is constructed in four steps.

*Step 1. Determine whether each year in the period covered is part of a sustained growth episode.* A year is deemed an element of a sustained growth episode under two conditions:

- The average of the growth rates over the five-year period that ends with the year in question is positive.<sup>1</sup>
- The year belongs to a sequence of five years with positive moving-average growth rates.

If these conditions hold the year is given a value of 1; otherwise it gets a value of zero. For example:

$$v^i(t) = g^{a,i}(t) \times I(t)$$

where  $g^{a,i}(t) = (1/5)\sum_{j=0}^4 g^j(t-j)$  is the five-year moving average of annual growth rates of per capita real GDP in country  $i$  for year  $t \geq 5$ ;  $g^j(t)$  is the real annual growth rate of per capita GDP in country  $i$  for year  $t$ ;  $v^i(t)$  is a dummy variable that takes a value of 1 if year  $t$  belongs to a sustained growth episode and zero otherwise;  $I(t)$  is an indicator function that takes a value of 1 if  $t$  belongs to a sequence of five years with positive moving average growth rates (in other words, with positive  $g^{a,i}[\cdot]$ ) and zero otherwise.

*Step 2. Determine the relative duration of sustained growth experienced by a country.* The relative duration of sustained growth is measured as the ratio of the number of sustained growth episodes achieved by a country to the maximum number of episodes achievable during the period covered. The number of sustained growth episodes achieved is equal to the total number of years that satisfy the two conditions divided by five (the number of years in a sustained growth episode). The number of episodes achievable is equal to seven.<sup>2</sup> In short:

$$\mathcal{S} = (1/7) \{[\sum_{t=1}^{35} v^i(t)] / 5\}$$

where  $\mathcal{S}$  is the relative duration of sustained growth experienced by country  $i$ , and  $v^i(t)$  is as defined above. The sum of  $v^i(t)$  [that is,  $\sum_{t=1}^{35} v^i(t)$ ] gives the total number of sustained growth years (or the “absolute” duration of sustained growth) completed by country  $i$ .

*Step 3. Compute the raw sustained growth scores.* As noted, the definition of sustained growth relies on the minimum requirement of regular positive growth. This needs to be strengthened to allow for differences in the relative speed (mean growth rate) and volatility (standard deviation of growth rates) of growth. Towards that end, the level and variability of the growth achievements of each country are compared with those of the countries with the highest number of growth episodes. Once the second group of countries is identified, the weighted averages of the mean and variance of their growth rates over the sustained growth years are computed.<sup>3</sup> Subsequently, the mean and standard deviation of the growth rates of each country over the corresponding “absolute” duration of sustained growth are computed. Finally, the desired sustained growth raw score of country  $i$  is obtained by weighting  $\mathcal{S}$  by corresponding measures of the level and variability of the growth achievements of the country relative to countries with the highest number of growth episodes. Specifically:

$$s^i = \{(g^{m,i} / g^{m,\max}) / [\sigma^i(g) / \sigma^{\max}(g)]\} \times \mathcal{S} = [CV^{\max} / CV^i] \times \mathcal{S} = w^i \times \mathcal{S}$$

where  $s^i$  is the raw sustained growth score of country  $i$ ;  $g^{m,i}$  is the mean growth rate of per capita real GDP in country  $i$  over the years of sustained growth episodes;  $g^{m,\max}$  is the mean growth rate of per capita real GDP in the country (or countries) with the highest number of years belonging to sustained growth episodes;  $\sigma^i(g)$  is the standard deviation of the real growth rate of per capita GDP in the country (or countries) with the highest number of years of sustained growth episodes;  $CV^i$  is the coefficient of variation of the real growth rates of per capita GDP in country  $i$  over the years of sustained growth episodes;  $CV^{\max}$  is the coefficient of variation of the growth rates of per capita real GDP in the country (or countries) with the highest number of years of sustained growth episodes.  $\mathcal{S}$  is as defined above. Note that the sustained growth scores thus obtained account for the level, regularity, and variability of growth performance of countries.

*Step 4. Construct the Sustained Growth Index.* The SGI is constructed using the same procedure as for the other elements of the ESI. The average of the raw sustained growth scores of the three best performing African countries is set as the norm with a score of 7. Country SGI scores are determined by using half standard deviations of the distribution of the raw scores as boundaries.

### Scoring variables

For each variable, the average of the three best performing African countries for that variable is set as the norm with a score of 7. Boundaries were determined by using half standard deviations of the distribution of the data. Where appropriate, half standard deviations of the logarithmic transformation of the data were used instead. The scores for all variables in each subindex were averaged to get the subindex scores. The subindex scores were then averaged to determine the overall ESI.

### Assigning weights

Simple averages of the scores for each indicator in a particular variable are used to derive the variable scores (for example, health, education). The variable scores are averaged to find

the subindex scores (for example, human capital development index), and the subindices are then averaged to compute the final index.

### Medium-term change in Economic Sustainability Index

For this exercise 25 of the 36 component variables of the ESI were available for various years between 1985 and 1987. The scores for the 1987 ESI were computed in the same manner as the 2000 ESI, with the exception of the “best practices” benchmarks, which were taken from the 2000 ESI to determine a score of 7. Thus the change in ESI measures the extent to which countries have improved or worsened in relation to the best performers of 2000.

### Notes

1. This criterion is a relaxed version of a recent International Monetary Fund definition of high growth as positive per capita income growth. For more details see Calamit-sis, Basu, and Ghura (1999).

2. The period under consideration is 1960–99. There are 39 simple growth rates (starting at 1961) and 35 five-year moving average growth rates (starting at 1965). Thus there are seven potential sustained growth episodes, each five years long. In short, the maximum number of episodes =  $(T - 5) / 5 = 7$ , where  $T = 40$ .

3. It is possible to find more than one country with the highest number of sustained growth episodes. In that case,  $g^{n,\max}$  is computed as a weighted average of the mean growth rates of the relevant countries, while  $s^{\max}(g)$  is computed as the square root of the weighted average of the variances of the growth rates of the same countries. The weights used are the country per capita GDP shares in the total per capita GDP of the countries in question.

## Annex 7.

### *Construction of Economic Policy Stance Index and expanded index*

The same three tasks required for the Economic Sustainability Index (see annex 6) are required for the Economic Policy Stance Index (EPSI):

- Identifying the components of each composite index.
- Scoring the variables in a standardized manner so that they can be aggregated into a composite index.
- Assigning weights to the scores.

This section describes how these tasks were carried out.

### Economic Policy Stance Index

The EPSI summarizes the performance of countries in light of the economic policies they have pursued.

#### Identifying components

The index is divided into subindices of fiscal, monetary, and exchange rate policy, each combining one or more relevant variables:

1. Fiscal policy
  - 1.1 Government budget deficit as a percentage of GDP
  - 1.2 Taxation policy
    - 1.2.1 Ratio of taxes on international trade to taxes on income and profits
    - 1.2.2 Ratio of indirect taxes to taxes on income and profits
2. Monetary policy
  - 2.1 Growth rate of the money supply (M2)
  - 2.2 Commercial bank deposit interest rates
  - 2.3 Spread between prime lending rate and savings deposit rate
3. Exchange rate policy—ratio of parallel market exchange rate to official exchange rate.

#### Scoring variables

The EPSI follows the same scoring methodology as the ESI (see annex 6).

#### Assigning weights

Variable scores are averaged to derive the subindex scores, and the subindex scores are averaged to derive the final index.

## Expanded Economic Policy Stance Index

For the Expanded Economic Policy Stance Index the EPSI was supplemented with the results of a survey questionnaire on a qualitative assessment of economic policy completed for 21 countries (see annex 8).

### Identifying components

Survey respondents were asked to give a score between 1 (strongly agree) and 6 (strongly disagree) to a series of statements about different areas of economic policy. The policy areas were as follows:

1. Policies for sustainable growth and structural transformation
  - 1.1 Pro-poor policies
  - 1.2 Private and public sector coordination
  - 1.3 Policies for gender development
  - 1.4 Trade policy
  - 1.5 Financial sector policy
  - 1.6 Product market policy
  - 1.7 Factor market policy
  - 1.8 Administration of public enterprises
  - 1.9 Effectiveness of sectoral policies
2. Policies for market and institutional development
  - 2.1 Guarantee of property rights
  - 2.2 Legal system
  - 2.3 Civil service
  - 2.4 Independence of central bank
3. Macroeconomic policies
  - 3.1 Monetary policy
  - 3.2 Exchange rate policy
  - 3.3 Macroeconomic policy coordination

Also included in the constituents of the Expanded EPSI are the quantitative variables from the original EPSI.

### Scoring variables

Because of the difference in the distribution of quantitative indicator scores and survey responses, the best practices scoring methodology was not applied directly in aggregating the scores. Instead, the raw scores for each indicator were replaced with the respective z-scores, so that the resulting distribution of scores has a mean of zero and a standard deviation of 1. As in the ESI, the variables in each category are averaged to find the category scores, and the category scores are then averaged to find the overall raw score. The final scores of the Expanded EPSI are subsequently determined by applying the best practices methodology to the overall raw scores.



## Assigning weights

As in the ESI and the EPSI, the variable scores are averaged to find the subindex scores, which are then averaged to find the Expanded EPSI score.

## Annex 8.

### *Notes on the Country Sustainability Assessment Survey*

The Economic Sustainability Index (ESI) and the Economic Policy Stance Index (EPSI) are central components of a comprehensive evaluation of the performance of African economies by the Economic Commission for Africa. It was recognized from the outset that such an evaluation should account for the qualitative dimensions of performance, including the quality and effectiveness of institutions and the effectiveness and predictability of policies. To gather this qualitative information, the Economic Commission for Africa conducted a Country Sustainability Survey in 1999.<sup>1</sup> The results of the survey, important in their own right, are also intended to complement the quantitative data used to construct the indices.

The survey focused on the concerns and perceptions of stakeholders on sustainability and policy stance. These include the quality of governance, the extent and direction of human capital development, the type and level of transactions costs, and the nature and effectiveness of policies concerned with poverty alleviation, gender development, market development, institutional development, sectoral development, and macroeconomic stability. The qualitative information allows further refinements of the ESI and the EPSI.

The survey used two questionnaires designed by the Economic and Social Policy Division. The structure of each questionnaire is derived from the ESI and EPSI. Questionnaire 1 has 86 items and asks general questions that do not require expert knowledge of economic issues. Questionnaire 2 has 49 items and requires specialized knowledge and is aimed at respondents with some expertise in economic issues. Each question consists of a statement reflecting a positive outcome (current, past, and future when appropriate). Respondents were asked to give a score between 1 (strongly agree) and 6 (strongly disagree). The following examples illustrate the format.

1. The government designs and/or facilitates projects (such as microfinance programs, rural development programs, urban housing programs, adult literacy programs, and programs for empowering women) specifically targeted at the poor and other vulnerable groups.

Strongly agree = 1, Agree = 2, Weakly agree = 3,  
Weakly disagree = 4, Disagree = 5, Strongly disagree = 6

2. The projects/policies specifically targeted at the poor and other vulnerable groups are effective in the sense that the target groups are the main beneficiaries.

Strongly agree = 1, Agree = 2, Weakly agree = 3,  
Weakly disagree = 4, Disagree = 5, Strongly disagree = 6

3. Compared with five years ago, the government is more active in promoting policies and/or projects specifically targeted at the poor and other vulnerable groups.

Strongly agree = 1, Agree = 2, Weakly agree = 3,  
Weakly disagree = 4, Disagree = 5, Strongly disagree = 6

4. In the coming five years the government is likely to be more active in promoting policies and/or projects specifically targeted at the poor and other vulnerable groups.

Strongly agree = 1, Agree = 2, Weakly agree = 3,  
Weakly disagree = 4, Disagree = 5, Strongly disagree = 6

The survey was administered at the country level by consultants. Sub-Regional Development Centres of the Economic Commission for Africa coordinated this process by recruiting and supervising country consultants. The Economic and Social Policy Division recruited and supervised consultants for eight countries. Questionnaire 1 was administered to at least 10 non-specialized respondents in each country:

- The country consultant.
- Two government representatives.
- Two representatives from the business community (such as chambers of commerce and association of manufacturers).
- One independent member of a relevant profession (such as law and political science).
- Two members of mass organizations (such as women's associations, trade unions, and farmers' associations).
- A resident employee of one of the international organisations operating in the country (such as the World Bank, the International Monetary Fund, United Nations Conference on Trade and Development, Food and Agriculture Organization, and World Health Organization).
- A resident employee of a nongovernmental organization working in the country.

Questionnaire 2 was administered to at least 10 expert respondents in each country:

- The country consultant.
- Two experts representing the government.
- Two experts representing the business community (such as chambers of commerce and association of manufacturers).
- Two independent members of the economics profession (such as academic economists and members of local economics associations).
- An expert from a mass organization (such as women's associations, trade unions, and farmers' associations).
- A resident expert employee of one of the international organizations operating in the country (such as the World Bank, the the International Monetary Fund, United Nations Conference on Trade and Development, Food and Agriculture Organization, and World Health Organization).
- A resident expert employee of a nongovernmental organization working in the country.

The survey also was conducted at meetings organized by the Economic Commission for Africa and partner institutions, such as the biannual research workshop of the African Economic Research Consortium in 1999. The Economic and Social Policy Division asked African participants in these meetings to complete the questionnaires. This is a relatively inexpensive way of increasing the size and representativeness of the sample.

The survey covers the 53 African member states but was completed in only 21 countries (table 8.A.1). Five hundred and seventy questionnaires were returned (302 of questionnaire 1 and 268 of questionnaire 2) The report uses this information to construct the Expanded EPSI.

**Table 8.A.1** ►  
*Number of questionnaires returned by country*

Country	Questionnaire 1	Questionnaire 2
Benin	10	10
Botswana	11	11
Burundi	22	21
Central African Republic	12	10
Ethiopia	18	15
Kenya	19	12
Lesotho	12	14
Liberia	10	10
Malawi	14	13
Mali	11	11
Mauritius	12	12
Mozambique	9	9
Namibia	20	19
Niger	11	7
Nigeria	32	24
Senegal	14	13
Sudan	14	13
Swaziland	10	11
Togo	10	11
Uganda	17	8
Zambia	14	14
Total	302	268

*Source:* Economic Commission for Africa.

### Note

1. The survey's purpose and implementation were discussed at the workshop, "Methodology of the Economic Report on Africa" (12–14 July 1999). The workshop was organized by the Economic and Social Policy Division of the Economic Commission for Africa for consultations with the Sub-Regional Development Centre and other Economic Commission for Africa staff on the methodology of the report.

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