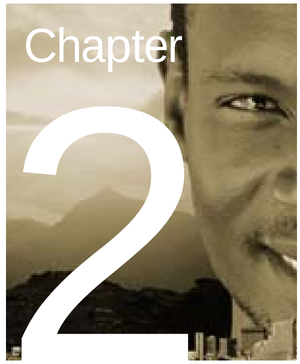



# Progressing towards sustainable growth and poverty reduction

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.

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

## 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

| 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.

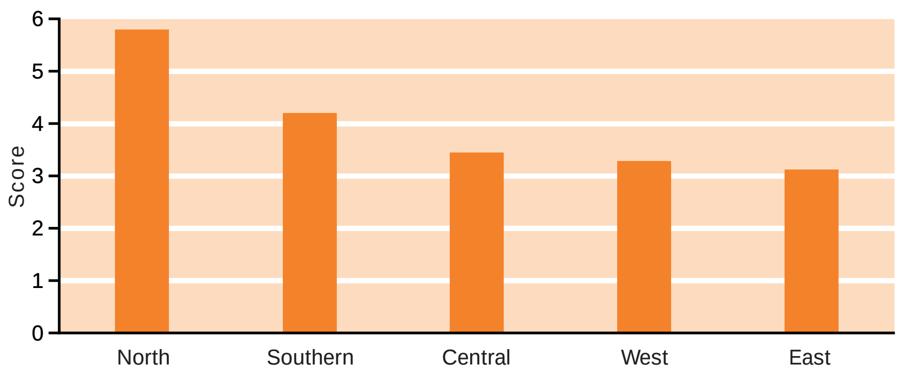
Sustainability varies across regions as well (figure 2.1). It is highest in North Africa, with a score of 5.79. Southern Africa is a distant second, with a score of 4.20. Central Africa (3.44) and West Africa (3.20) fill the next two places. With a score of 3.12 East Africa comes last, but only slightly 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.

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

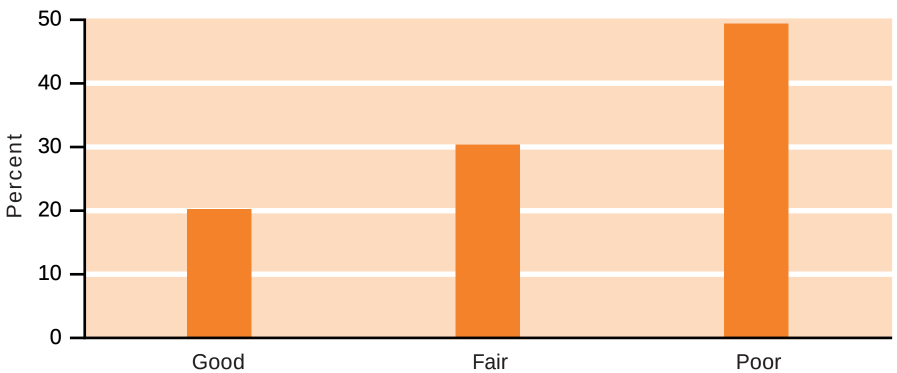
## . . . but has improved over time

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




**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*

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%.

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

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 Principe | 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 Principe have the lowest scores in that order, mostly because of civil conflict and economic mismanagement.

**Box 2.1**
*How Uganda achieved growth and poverty reduction*

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.*

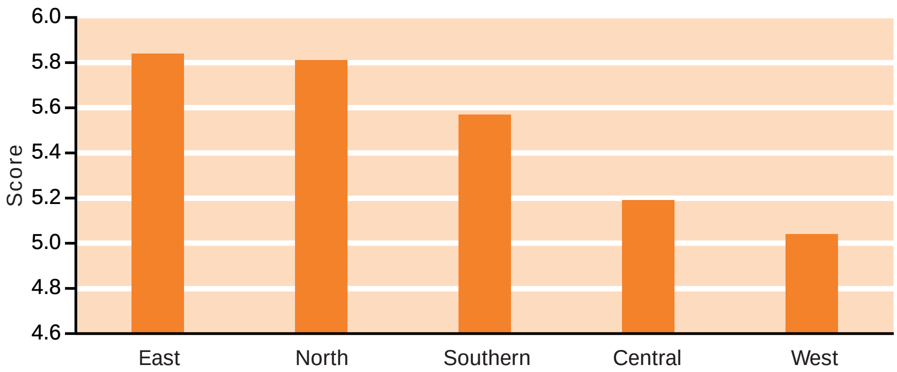
> *The outlook for policy appears more optimistic than that for economic sustainability*

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.

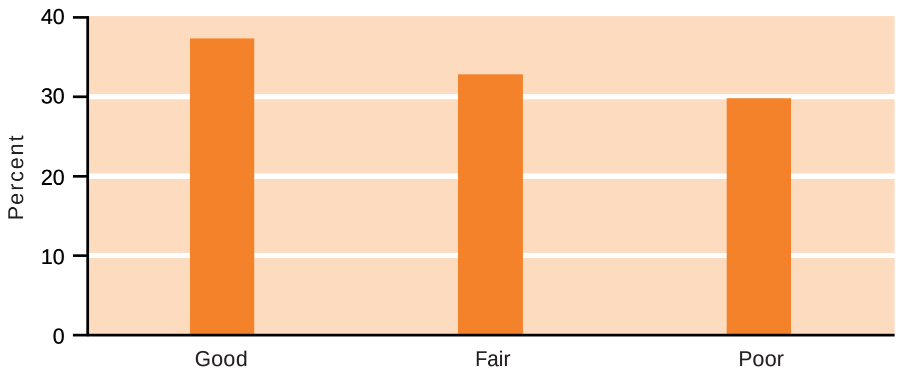
This year's report introduces an Expanded Economic Policy Stance Index that combines the quantitative aspects of policy stance with the results of the Country Sustainability Assessment Survey completed in 21 African countries. The qualitative assessment allows for an Economic Policy Stance Index with 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.

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

Table 2.3
*Average qualitative raw scores by category*

| 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.*

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[a] | | | | | |
| Economic Sustainability Index, 1987 | –0.42 | 0.87 | | | | |
| Economic Policy Stance Index, 1999 | 0.09[a] | 0.49 | 0.48 | | | |
| Per capita income, 1987 | –0.07[a] | 0.76 | 0.74 | 0.44 | | |
| Per capita income, 1999 | –0.04[a] | 0.72 | 0.66 | 0.35[a] | 0.96 | |
| Ten-year per capita growth[b] | 0.76 | 0.37 | 0.16[a] | 0.11[a] | 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.