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Summary of the economic and social situation in Africa, 1998

Contents

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I. Introduction

1. The present report reviews the performance of the African region in 1998 from the perspective of the capability of the region to attain the developmental objective of reducing poverty by half by the year 2015. This objective derives from the post-independence commitment of African Governments to improve the standard of living of their people. More recently, a consensus has emerged among African Governments and their development partners that this goal is the overarching objective of development in the continent. The latest articulation of this objective was at the Second Tokyo International Conference on African Development held in October 1998.

II. State of the African economies in 1998

2. For the fourth consecutive year, gross domestic product (GDP) in Africa grew faster than population, contrasting markedly with a decade and a half of declining per capita income. The 3.3 per cent growth in GDP in the region, compared with 2.9 per cent growth in 1997, was the highest in the world.

3. This growth is a very welcome achievement for Africa. However, the level of growth is below that necessary to have a significant impact on poverty. If Africa is to reduce poverty by half over the next decade and a half, it will need to attain and sustain an average growth rate of 7 per cent per annum. This is the major challenge for African policy makers and their development partners.

4. Recent growth of African economies is all the more remarkable considering the declining momentum in global growth. The world economy slowed to 2 per cent growth in 1998, from 4 per cent in 1997. The slowdown in Asia triggered by the East Asian currency crises rippled through the world in three ways. Market economies in emerging countries shrank as Governments pursued restrictive fiscal and monetary policies for curative and protective reasons. Globally, there was reduced demand for exports, and there was downward pressure on commodity prices. In combination, these factors contributed to the reduction of global trade from 6 per cent in 1997 to 2 per cent in 1998.

5. Using continent-wide averages for Africa can be misleading because substantial population and GDP differences exist among the subregions of North Africa, West Africa, Central Africa, East Africa and Southern Africa, and also within subregions. The five biggest economies of the continent (South Africa, Nigeria, Algeria, Egypt and Morocco) account for 37 per cent of the population and 59 per cent of GDP. The 33 least developed countries have 45 per cent of the population and only 17 per cent of GDP. From another perspective, the 11 oil-exporting countries of Algeria, Egypt, the Libyan Arab Jamahiriya, Tunisia, Côte d'Ivoire, Nigeria, Cameroon, Gabon, the Congo, Angola and Equatorial Guinea account for 49 per cent of GDP and 36 per cent of the population.

6. Africa's positive aggregate economic performance in 1998 (3.3 per cent GDP growth, compared with 2.9 per cent in 1997) was not shared evenly across the continent. Only the North and Central African subregions grew in 1998; there were declines in the eastern, western and southern subregional rates of growth. The oil-exporting countries maintained their growth momentum as a group (3.7 per cent in 1998 versus 3.6 per cent the previous year), but growth in Gabon and Angola declined by half, while it increased in the Congo and Algeria. Largely because of the recovery in agriculture and the decline in oil prices, the non-oil-exporting countries grew at a level of 2.9 per cent, up from 2.3 per cent in 1997. It is encouraging that the 33 least developed countries increased their GDP growth rate from 2.4 per cent in 1997 to 4.1 per cent. Growth in the five largest economies (see para. 5 above) increased from 2.2 per cent to 3.1 per cent. Only two economies (the Comoros and the Democratic Republic of the Congo) had negative GDP growth in 1998 compared with four (the Comoros, the Democratic Republic of the Congo, the Congo and Morocco) in 1997. Still, only three countries (Botswana, the Congo and Equatorial Guinea) grew at levels of 7 per cent or more in 1998, the average growth rate required to reduce poverty by half by the year 2015.

7. Agriculture remains the dominant sector in Africa, and its recovery in 1998 fuelled GDP growth. Good weather and reforms, which improved the availability and distribution of modern inputs, including credit, contributed to the better performance. However, the removal of subsidies and the reduction of public extension services, which resulted from the reforms, negatively affected small producers in the agricultural sector. Constraints in the sector were aggravated by the decline in donor support for rural development projects and the reduction of investment in rural social services. These developments had a negative impact on the drive by African countries to attain food self-sufficiency.

8. The industrial sector grew by 3.2 per cent in 1998, down from 3.8 per cent in 1997. The fall in investment was one of the reasons for the drop in growth of the manufacturing subsector, from 2.5 per cent in 1997 to 2.0 per cent in 1998,

although weak competitiveness due largely to relatively low productivity were also factors.

9. The recession in emerging markets was transmitted to Africa mainly through depressed commodity prices. All of Africa's exportable products were affected, with oil experiencing the largest fall. But the decline in oil prices did benefit the oil-importing African countries.

10. There was serious pressure on the balance of payments in 1998. Export revenue declined by 17 per cent. For the first time in the decade of the 1990s, the trade balance turned negative, boosting the current account deficit to a high of $16 billion. The perennial imbalance in the services sector, driven by external debt payments and the cost of transport and financial services, continued to put pressure on the current account balance and to claim an inordinate share of foreign revenue from merchandise exports.

11. Resource flows into Africa declined to $3 billion from $4.5 billion in 1997 as a result of reduced private flows and bilateral credit. For sub-Saharan countries, net transfers declined by nearly 40 per cent. The ratio of debt stock to GDP increased moderately and the ratio to exports grew steeply because of the latter's decline. Debt service increased to $35 billion, or 31 per cent of goods and services exports. Ongoing debt reduction initiatives did not significantly affect the debt burden. Only one country of the 41 potentially eligible has benefited from the Heavily Indebted Poor Countries Debt Initiative. That country, Uganda, had its debt reduced by 20 per cent. Only four additional countries (Burkina Faso, Côte d'Ivoire, Mali and Mozambique) are currently scheduled to receive actual debt reduction in the next three years.

12. Investment as a percentage of GDP increased from 21 per cent in 1997 to 23 per cent, mainly because of a 1 per cent increase in domestic savings. Higher incomes and lower consumption, especially in the public sector, were the major contributory factors in the change in domestic savings.

13. Inflation declined from 15 per cent in 1997 to 12 per cent. Increased agricultural production and the fall in the price of imports helped to contain consumer prices. The decline in external trade resulted in an increase in government deficits due to reduced revenues from international trade taxes.

14. Medium-term prospects are brightened by the past four years of increased GDP growth. However, two key determinants of future growth are weather and the external economic environment, which are both exogenously determined. It is unlikely that good weather can be counted on every year although it has occurred for the last four. And the global economy seems unlikely to change for the better over the medium term.

III. Challenge of reducing poverty in Africa

15. Until recently, information to measure the extent and severity of Africa's poverty was inadequate for most countries . The key data used for this purpose are from surveys of household income and expenditure that are time-consuming and expensive to complete. Fortunately, sufficient data now exist for some African countries to make these calculations possible. Data used in the present report are for countries that have 60 per cent of the total population of Africa, and which accounted for 76 per cent of the continent's GDP in 1998.

16. The relevant measure of standard of living is usually taken as the per capita income of society in advanced countries and per capita consumption expenditure (including the consumption of own production) for developing countries. The poverty line can be calculated and the ratio of poor to the total population (the head-count ratio) can be derived. Alternative approaches combine indicators of well- being, such as per capita income, life expectancy, infant mortality and primary school enrolment.

17. Analysis of income distribution in Africa shows a fairly high degree of inequality. Compared with other regions of the world, Africa has the second most unequal income distribution next to Latin America. The Gini coefficient for Africa as a whole is 44.4 per cent. The highest values for inequality are for South Africa, Kenya and Zimbabwe, the lowest for Egypt, Ghana and Algeria. The picture of relatively high inequality is confirmed by shares of total expenditure by quintiles.

18. Although 44 per cent of Africa's population live below the region-wide poverty line of $39 per capita per month, the depth and incidence of poverty varies between and within subregions. In the North Africa subregion, only 22 per cent are under the poverty line of $54 per capita per month, while sub-Saharan Africa has 51 per cent below the poverty line of $34 per capita per month. Significantly more poor people live in the rural areas. The average income of the rural poor is only $14 per person per month, compared with an average of $27 per month for the urban poor.

19. To reduce poverty by half in Africa by the year 2015 will require a 4 per cent reduction in the ratio of people living in poverty each year. Change in poverty can arise for two reasons: a change due to growth in mean consumption expenditure (appropriately adjusted for the change in the

poverty line); and a change in the distribution of income (the inequality measure). For Africa as a whole, GDP growth of about 7 per cent per annum would be required to achieve this annual reduction in poverty. Increases of 5–6 per cent are needed for North Africa and Southern Africa, 6–7 per cent for Central Africa, and 7–8 per cent for the West and East African subregions.

20. For Africa as a whole, investment of 33 per cent of GDP would be needed to reach 7 per cent per annum growth, to be financed partly by domestic savings and the rest by foreign inflows. The current domestic savings rate is about 15 per cent. Thus, a further 18 per cent would be needed from external sources. Official development assistance (ODA) for the continent averages about 9 per cent, which leaves a residual financing gap of about 9 per cent.

21. Africa-wide averages hide large variations among the subregions. North Africa needs only about 5 per cent of GDP in external resources to complete the financing needed to generate a GDP growth rate high enough to halve the poverty level in the subregion by 2015. ODA to the subregion has averaged about 3 per cent of GDP, leaving a financing gap of about 2 per cent of GDP. Financing investment for needed GDP growth is most difficult in Central Africa, where the residual financing gap is about 27 per cent.

22. Recent foreign resource flows to Africa have been far short of the volume needed to meet the poverty reduction objective. Africa must address the key issue of raising domestic savings rates, but in the short run any expectation of significant change is unrealistic in view of the existing low levels of income. Given these rather stark realities, what are the key policy issues for the development of Africa? Clearly, in this globalized world, the international economic environment has an impact on Africa. Commodity prices are beyond the control of African policy makers, and ODA flows and dealing with the debt overhang can be influenced only indirectly by maintaining exemplary domestic economic management. ODA and debt issues require the assistance of Africa's development partners.

23. Policy issues that can be addressed directly by African policy makers relate to domestic savings and external resource inflows other than conventional ODA, such as foreign direct investment, and the causes of capital flight. Stabilization of the macroeconomy will stimulate savings by creating an economic environment where private agents can plan their future with a large measure of confidence. Moreover, prudent government behaviour and fiscal discipline will be expected to contribute to increased savings.

24. Financial liberalization will theoretically lead to higher savings through the effects of high real interest rates on savings. However, most empirical work suggests that the effect of interest rates on gross savings is weak or non-existent. The most important determinant of savings in Africa has been found to be the level of real income. Very poor people save little or nothing, and income must rise above the subsistence level before increases in income result in higher savings. For example, it would take 18 years of 5.3 per cent GDP growth for sub-Saharan Africa to reach the income threshold where further increases result in increased savings rates. More research is needed to advance understanding of the factors determining savings rates in sub-Saharan countries. Current understanding of the linkage between interest rates and savings indicates that African Governments have few policy instruments to increase savings in the medium run and for as long as incomes remain low.

25. Africa has suffered massive capital flight, estimated to total $22 billion between 1982 and 1991. At the end of 1991, the average ratio of capital flight to debt was estimated at over 40 per cent for a sample of 18 countries for which data were available. For four countries, the rate exceeded 60 per cent (Nigeria: 94.5 per cent; Rwanda: 94.3 per cent; Kenya: 74.4 per cent; and the Sudan: 60.5 per cent).

26. A number of former and current top African officials are thought to hold huge foreign currency denominated accounts outside their continent. Most of these assets are believed to be the result of rent-seeking and corrupt activities. Whatever the sources and wherever they are, these resources need to be invested in Africa. A difficult question is what African Governments can do to obtain the repatriation of those funds, and how the countries in which the accounts are held can be persuaded to be of assistance.

27. Foreign direct investment (FDI) is needed as a non-debt-creating form of resource inflow. But experience shows the share of FDI flows to Africa is very small and is highly biased in favour of mineral-rich countries. FDI in Africa seems to be caught in a vicious circle since it requires a hospitable economic environment and sustained high growth. Yet FDI is needed to help create that environment and achieve that rate of growth.

28. The underdeveloped human resource base — exacerbated by outmigration of skilled Africans — and the weak physical infrastructure of the continent deter foreign direct investment. Yet huge investments are needed to develop a skilled labour force and expand transport, communications, energy and related infrastructure. Domestic private sector resources are inadequate to meet these challenges. Foreign direct investment could help. However, given the large volume of investment needed and the low domestic savings rate, targeted mechanisms and special

arrangements may be required to entice FDI into these areas. In addition, strategies need to be devised to increase productivity and make judicious use of whatever domestic and foreign resources Governments can mobilize to enhance investment and growth. African countries will need to deepen and expand their reforms, while making sure that the process supports rather than constrains investment. It is important to recognize that persistently high real interest rates engendered by financial liberalization without sufficient institutional development to foster competition, and exchange rates that do not reflect the true scarcity of foreign exchange or that fluctuate wildly can distort investment incentives and decisions. Similarly, trade liberalization that confers undue advantage on foreign competitors has not been conducive to the expansion of domestic investment in the past.

29. Furthermore, political and civil instability, weak institutional capacity and inefficiencies have not created an investment-friendly climate. These conditions have had important negative implications for resource mobilization and utilization in Africa, including exacerbating capital flight. They will therefore need to be given urgent attention.

IV. Performance and sustainability of African economies

30. In 1998, Africa enjoyed its fourth consecutive year of positive GDP growth despite global financial and currency turmoil. But this favourable outcome cannot be assumed to mean that the aggregate African economy has crossed the critical threshold to a self-sustainable poverty-reducing growth path. For this to be true, the global environment and exogenous shocks would have changed permanently for the better and/or the domestic foundations for sustainable development would have been put into place. Unfortunately, the global environment and exogenous shocks are not changing in Africa's favour. ODA is stagnant or declining, little progress has been made in reducing the debt burden, protectionist tendencies continue in Africa's major markets and erratic weather conditions persist.

31. Current growth theory posits a specific group of variables and factors to constitute economic growth fundamentals. Macroeconomic stability and other steps are needed to reduce transaction costs, raise returns on investment, reduce risks to investors, improve human capital, improve international competitiveness and address the problems of poverty and inequality. To test whether or not Africa has built a critical mass of momentum towards sustained poverty-reducing growth requires the use of multiple evaluation criteria. Unfortunately, comprehensive Africa-specific composite indices needed for this purpose are not available.

32. An effective evaluation process requires a broad and consistent framework that reflects the current and future capabilities and aspirations of Africa's people and the functions and constraints of its Governments. The overall economic role of the State, it is generally agreed, is the sustainable improvement of the well-being of its citizens, which subsumes standard functions relating to economic growth and stability. Human well-being is central to the notion and measurement of economic development. Broadly speaking, economic policies and performances are deemed good if their impact on well-being is both positive and sustainable. More specifically, an evaluative framework should focus on three dimensions — the impact of policies and performance on well-being; the consistency of policies with the desirable and feasible economic functions of the State; and the sustainability of policies and performance.

33. The definition and measurement of well-being can be approached in two ways. First, by using the *constituents* of well-being, such as nutrition levels, educational attainments and life expectancy. The second is by using *determinants*, such as income levels and the availability of educational and health services. In practice, the simultaneous use of both criteria is required.

34. Four elements are used to measure the quality of life — income levels, health status, educational attainment and political and civil liberties. Thus, economic development can be viewed as a sustainable and sustained increase in real incomes; improvements in health and educational status; and widening of the freedoms of people.

35. In Africa, one way of summarizing the objective of enhancing well-being, which also translates into the main object of development, is the eradication of poverty. Poverty can be viewed as having two main dimensions — material poverty (measured in levels of income) and human poverty (measured in terms of health, education and liberties).

36. The consensus is that the State can and should promote economic development, and through it the well-being of its citizens. In a market economy, the basic economic functions of the State include maintaining law and order; ensuring macroeconomic stability and an incentives-compatible microeconomic environment; investing in basic social services (health and education) and infrastructure (transport and communications networks); and protecting vulnerable people and the environment. To the extent that these functions enlarge the economic space for efficient and effective enterprise and growth, empower citizens to make choices, protect the environment for future generations, and assist the

weak and vulnerable in living a meaningful life, they have a positive impact on well-being.

V. State of well-being, 1998

37. The well-being of Africans is measured in terms of income, health, education and freedoms — the four factors mentioned above. For the first three of these, per capita income, life expectancy at birth, infant mortality and adult literacy are the proxies measured and compared using Borda rankings. These are ordinal indices, using country scores that are the sums of the rank that a country obtains according to the level of each of the variables in the welfare index (hence, equal weight is given to each variable). The sum of the rankings for each country in terms of real per capita GDP, life expectancy at birth, infant mortality and adult illiteracy yields the Borda rank. The best performer has the highest scores, the worst the lowest. For the 46 countries with complete data, results are used to rank countries by indices and then to test for correlation among rankings. The focus is on the 10 countries with the highest scores and the 10 with the lowest scores.

38. The countries with the lowest Borda scores (in ascending order, Sierra Leone, Mali, Burundi, Mozambique, Malawi, Ethiopia, the Niger, Chad, the Gambia, Guinea-Bissau, Burkina Faso and Uganda)[1] come from all subregions except North Africa. They are mainly tropical countries with relatively low resource endowment. They include both large and small countries. Eight are landlocked (Malawi, Mali, the Niger, Uganda, Ethiopia, Burundi, Burkina Faso and Chad) although the significance of this fact is unclear since there are landlocked countries that have performed well (such as Botswana and Zimbabwe). Most have experienced recent political instability. Although the precise relationship between conflict and low levels of well-being is not quantifiable, past neglect and destruction of assets are probable factors.

39. The highest-scoring countries (in ascending order, Egypt, Gabon, Morocco, Cameroon, Botswana, Swaziland, Algeria, Cape Verde, Tunisia, the Libyan Arab Jamahiriya, South Africa, Mauritius and Seychelles)[1] are predominantly from the North and Southern African subregions. Two of them — Botswana and Swaziland — are landlocked. Population densities are not particularly high. Eight have enjoyed political stability for long periods (all except South Africa and Algeria).

40. The close relationship between income and well-being is confirmed in reference to these two indices. Eight of the 10 best performers selected by per capita income belong to the top 10 countries in the Borda rankings (the exceptions are Cameroon and Swaziland in the Borda top-10 score, replaced in per capita score by Gabon and Namibia). The sets of bottom-10 countries in the two rankings share five countries (Mozambique, Ethiopia, Sierra Leone, Burundi and Malawi). This relationship suggests that citizens of countries with higher per capita incomes are more likely to achieve better well-being. Also, the results suggest that policies targeted primarily at raising incomes can help to improve the overall well-being of communities.

41. With regard to the relationship between well-being and competitiveness, the Borda rankings are compared with the Africa competitiveness index (ACI), which was computed by the World Economic Forum and the Harvard Institute for International Development. ACI consists of a weighted average of six sub-indices covering openness to international trade, the size and role of government, finance, infrastructure, labour and institutions. The positive statistical correlation between the ACI and Borda rankings confirms that welfare and competitiveness move in the same direction. The implication is that policies that enhance the competitiveness of countries are likely to contribute to improving the welfare of their citizens.

42. It is argued that a major determinant of both FDI and capital flight is the risk perception that investors associate with individual countries and groups of related countries. The status of well-being can be expected to relate to investment through the growth-investment link. Several organizations attempt to measure and publish information on investment risk. One such ranking is the institutional investor country risk ratings (IICRR), which covers 35 African countries. A comparison of the 10 countries at the bottom of the Borda and IICRR rankings reveals only two countries in both (Sierra Leone and Mali). Nevertheless, all the bottom-10 IICRR countries for which there are Borda scores are identified as comparatively poor performers by the latter. By contrast, the two rankings share seven top-10 countries (Mauritius, Botswana, Tunisia, South Africa, Egypt, Morocco and Seychelles). It appears that countries with higher IICRR scores are also more likely to achieve better welfare outcomes.

VI. Performance and sustainability

43. A central issue in economic performance and policy evaluation is the question of sustainability, which explains why some African countries labelled "high performers" at one time drop out of the club. Sustainability is defined in terms of three attributes: the consistency of the observed short-run

outcomes with stated long-term goals; continuing replicability of observed (positive) outcomes in the future; and laying the foundations for take-off and ensuring a stable acceleration path. In the Economic Commission for Africa (ECA) indices, emphasis is given to key elements of sustainability, including macroeconomic indicators, structural diversification, dependency, transaction costs/ competitiveness and human capital development. Outcomes are also affected by non-policy factors, such as the international economic environment, initial resource endowments, external shocks (terms of trade, financial flows, weather), donor preferences and civil political conflicts. Accordingly, the indices used in the present report separate policy and non-policy factors. We plan to refine the indicators further in future reports.

44. Three indicators reported here have been newly created by ECA: the annual performance trend index; the economic sustainability index, and the economic policy stance index.

45. The annual performance trend index (APTI) measures improvement or decline in current account balance, inflation and per capita income (this is only a year-on-year measure). Its results can be presented from two perspectives: country performance, and population benefiting from performance improvements or negatively affected by decline. Thirty-two of the 50 African countries for which data were available experienced some improvement in 1998; only 17 countries were worse off. Yet only the Central and North African subregions experienced significant progress in 1998. Southern Africa was basically unchanged, and the East and West African subregions declined (the latter heavily influenced by Nigeria's performance). Fourteen countries had negative ratings, including five of the 11 oil-exporting countries (Gabon, Libya, Algeria, Angola and Nigeria).

46. It is important to note that 14 of the lowest-scoring countries recently experienced or are currently experiencing some form of civil conflict or social upheaval. From the point of view of shares of the population affected by gains and losses, through cluster analysis APTI paints a mixed picture. For the majority of the population of Africa, there was little if any improvement in economic conditions. This is because a majority of the population lives in countries that score poorly on the index, largely because of negative commodity price developments. The analysis highlights the vulnerability of African economies to exogenous economic and non-economic shocks.

47. To complement the short-term focus of APTI, the economic sustainability index (ESI) has been constructed as a measure of a country's capacity to maintain long-term economic growth. ESI is currently composed of 21 different indicators covering five categories — human capital development, structural diversification, dependency, transaction costs and macroeconomic aspects of sustainability. More indicators will be added in future reports to enhance its utility as an information resource.

48. Using ESI, Equatorial Guinea, South Africa, Botswana, Mauritius and Tunisia are the top five. Notably, three of those countries (South Africa, Botswana and Mauritius) enjoy a high level of resource endowment. Equatorial Guinea, which has enjoyed impressive performance in recent years due to a sudden oil boom, has yet to deepen and broaden its developmental parameters to confirm its capacity for sustainable growth. More data for Equatorial Guinea and Botswana on structural diversity and transaction costs would make the result more robust.

49. The countries at the bottom of the ESI rankings have some history of civil conflict (Sierra Leone, the Niger, Benin, Uganda, the Central African Republic and Rwanda). Subregionally, the Southern and North African subregions rate considerably higher than Central Africa. The East and West African subregions are at the bottom. Over two thirds of the countries are classified as having low sustainability — including large and small countries, natural resource-rich and natural resource-poor countries, countries with good policies and countries with bad policies — and are found in all parts of Africa except the Maghreb.

50. The economic policy stance index (EPSI) measures the appropriateness of government monetary and fiscal policy. Indicators relate to budgets, taxation, monetary growth and interest rates. Incomplete information has limited coverage to only 33 countries. As with ESI, countries are scored from one to 10 based on how they compare with the average of the three best. Ethiopia, Egypt, the Congo, Seychelles and South Africa fill the top five positions in the ranking. With the exception of the Congo, the policy stance of all of these countries also has relatively high approval ratings from the World Bank. No country achieved the best-practice score of seven. The top two countries scored above five (Seychelles and South Africa). In the cluster analysis, however, nearly a third of the countries scored in the cluster associated with good performance, and only a handful of countries rated as poor. This suggests the emphasis on policy reform in recent years has resulted in significant progress although there is still some distance to go.

VII. Interrelationship between indices

51. Correlation analysis is used to test the connections among the performance, sustainability and policy stance indices. APTI shows little correlation with the other variables,

suggesting that an African economy's performance in a given year is not strongly connected to sustainability or well-being. ESI shows a significant degree of correlation between most of the other variables, implying that long-term sustainability is linked to improved standards of living, reduction in poverty, and an environment more conducive to investment. EPSI correlates significantly with the sustainability, well-being, competitiveness and human development indices, suggesting that policy improvements can lead to improvements in these areas as well.

VIII. Some observations on policy implications

52. The pilot application of indices for 1998 has been limited to variables that are quantifiable and for which there are available data. Even this modest effort has yielded interesting results.

53. While four countries (Botswana, Mauritius, South Africa and Equatorial Guinea) score high on the ESI index, only three of them — Botswana, Mauritius and South Africa — satisfy the minimal requirements to sustain growth and development. These countries enjoy a high degree of human capital development, and have fairly well diversified economies and relatively low transactions cost. Equatorial Guinea scores high on the sustainability index despite the non-diversification of the economy mainly due to high macroeconomic indicators of sustainability driven by the oil revenues since the early 1990s.

54. It is of singular importance to underline the fact that an economy's performance in a particular year is not indicative of its overall strength and long-term potential. This is significant for Africa's economies since many of them are prone to exogenous shocks that could have a negative impact on their positive performance from year to year. African countries therefore need to take effective measures to plan for and mitigate the crippling effects of negative natural and environmental phenomena through better scientific and policy understanding and proactive programmes to apply science and technology in solving environmental and natural resource-based constraints. Africa must also come to grips with natural and man-made human catastrophes, particularly the scourge of civil wars and conflict and the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) pandemic, which have undermined the sustainability of development.

55. The frequency with which countries enter and drop out of the list of "high" or "good" performers has been a cause of concern. While policies are very important, they are by no means sufficient to sustain development. The unfortunate neglect of the sustainability variables — macroeconomic factors (savings-investment and exports), human capital, institutions, structural diversification, transaction costs and competitiveness, as well as environmental and ecological balance — must have been the major cause of Africa's fragile economic performance over time.

56. For most of the African countries now on the verge of recovery, the capacity to sustain growth and development over time is very low. The key mistake of the past two decades has been the focus on macroeconomic stabilization while capacity, structural and institutional elements were neglected. Achieving stabilization has entailed sacrificing expenditures needed to build the requisite institutions and infrastructure, and invest in human capital development and retention. Policies with the twin goals of macroeconomic stability and sustainability have either not been drawn up and adopted or are not being implemented. These are the urgent tasks at hand.

57. The analysis and process of constructing the indicators of performance, sustainability and policy stance underscore the many challenges facing decision makers in moving forward with the Africa development agenda — implementing and sustaining macroeconomic reforms; human capital development; diversification of the economy; institutional development; competitiveness and the capacity of the economy to internally generate resources etc. These challenges call for appropriate policy response by Africa's decision makers. While the present report focuses on key indicators of economic performance and sustainability, which have been developed by ECA, subsequent reports will, in addition to further refining the indices, address the key policy challenges for Africa underlying a particular sustainability index component or components thereof. The ultimate objective is to help focus policy advice on longer- term structural issues while responding to the shorter- term issues and measures that have tended to dominate economic policy discourse.

Notes

[1] Tied scores result in more than 10 countries being listed.