Economic Commission
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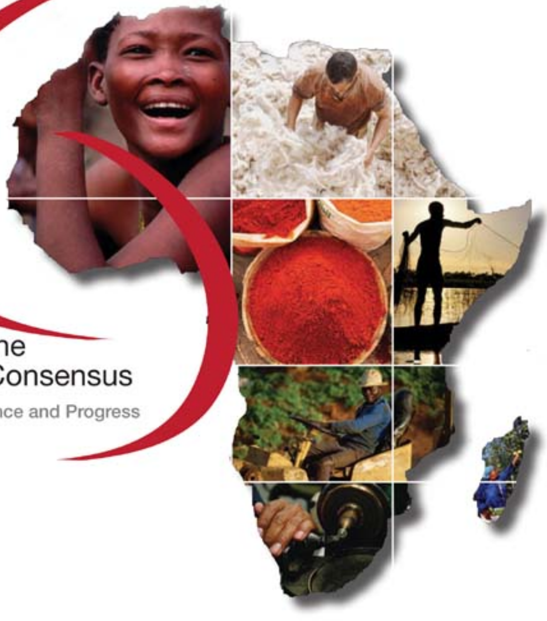
African Union

Economic Report on Africa 2008



Africa and the Monterrey Consensus

Tracking Performance and Progress

Economic Commission for Africa

African Union

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List of Acronyms

ACP	African, Caribbean and Pacific
ADF	Africa Development Fund
AfDB	African Development Bank
AfT	Aid for Trade
APP	Africa Progress Panel
AIDS	Acquired Immune Deficiency Syndrome
AMC	Aviation Levy and Advance Market Commitment
AMS	Aggregate Measurement of Support
AMU	Arab Maghreb Union
AUA	African Union Assembly
AUC	African Union Commission
CEMAC	Central African Economic and Monetary Community
CIS	Commonwealth of Independent States
CSO	Civil Society Organization
DAC	Development Assistance Committee/OECD
DDA	Doha Development Agenda
DfID	UK Department for International Development
DRC	Democratic Republic of Congo
DSF	Debt Sustainability Framework
EBA	Everything But Arms
ECA	Economic Commission for Africa
ECB	European Central Bank
EIU	Economist Intelligence Unit
EPA	Economic Partnership Agreement
EU	European Union
FDI	Foreign Direct Investment
FEPA	Federal Environmental Protection Agency/Nigeria
FEMA	Forum of Energy Ministers in Africa
FTA	Free Trade Agreement
G-8	Group of 8
G-20	Group of 20
G-33	Group of 33
GAVI	Global Alliance for Vaccines and Immunizations

GDP	Gross Domestic Product
GNI	Gross National Income
GSP	Generalized System of Preferences
HAC	Harmonization/Coordination and Alignment Group/Kenya
HIPC	Highly Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IDA	International Development Association
IF	Integrated Framework
IFFIM	International Financing Facility for Immunization
ILO	International Labour Organization
IMF	International Monetary Fund
IT	Information Technology
LDC	Least Developed Country
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MIPAA	Madrid International Plan of Action on Aging
MTEF	Medium Term Expenditure Framework
NA	North Africa
NAMA	Non-Agricultural Market Access
NEPAD	New Partnership for Africa's Development
NER	National Exchange Rate
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
OTDS	Overall Trade Distorting Support
PFM	Public Financial Management
PRS	Poverty Reduction Strategies
PRSP	Poverty Reduction Strategy Paper
REC	Regional Economic Community
REER	Real Effective Exchange Rate
RTA	Regional Trade Agreement
S&D	Special and Differential treatment
SME	Small and Medium Enterprise
UAE	United Arab Emirates
UNECA	United Nations Economic Commission for Africa
UNICEF	United Nations Children's Fund
UNITAID	International Drugs Purchase Facility

UNWTO	World Tourism Organization
USA	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WTO	World Trade Organization
WTTC	World Travel and Tourism Council

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Foreword

We are now midway between the adoption of the MDGs and the 2015 target date and available evidence indicates that African countries will not meet the goals if current financing trends continue. Consequently, the international community has now focused attention on how to scale up financing for the continent. It has been acknowledged that the implementation of the commitments in the Monterrey Consensus is critical to achieving this objective. Thus the theme of **"Africa and the Monterrey Consensus: Tracking Performance and Progress"** was chosen for Economic Report on Africa 2008, which is the second report produced in collaboration between the United Nations Economic Commission for Africa and the African Union Commission.

The evidence on the implementation of the Monterrey Consensus suggests that substantial progress has been made in a few areas, especially with regard to debt relief. In contrast, very limited progress has been made in the other core areas of the Consensus. Thus, monitoring of the commitments made by both African countries and their development partners is essential if the objectives of the Monterrey Consensus are to be realized. African leaders have recognised this and put in place a mechanism to monitor progress in the implementation of their commitments as well as those of their development partners. The recent African Ministerial Conference on Financing for Development is a bold step in this area. Ultimately it is only through the implementation of these commitments that African countries and the international community can achieve meaningful results in poverty reduction and lay the foundation for a brighter future for the African people.

The in-depth analysis in this report clearly indicates that while African countries have recently embarked on a path of strong economic performance, progress is still slow in the areas of social and human development. The report advocates for innovative economic strategies to broaden the growth base and maximize the impact of growth on poverty reduction. The report highlights key responsibilities for both African governments and their development partners for the success of these new strategies. The recommendations in this report provide valuable input into the current debates on the partnership between Africa and the international community aimed at accelerating the pace of poverty alleviation on the continent.

Abdoulie Janneh
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Overview

Structure of the Report

This report is organized into two parts. The first part comprises three chapters that review the main developments in the world economy (chapter 1), recent economic performance and growth prospects in Africa (chapter 2), and major global development challenges for Africa (chapter 3). The second part contains three chapters that discuss Africa's progress in meeting the goals of the Monterrey Consensus (chapter 4), the results of the ECA survey on African policymakers' views on the implementation of the Monterrey Consensus (chapter 5), and the way forward (chapter 6).

Developments in the World Economy and Implications for Africa

In 2007, world economic growth slowed to 3.7 per cent from 3.9 per cent in 2006.[1] High prices for oil and other inputs combined with some turbulence in financial markets have contributed to this slowdown. Globally, growth rates were highest in the Commonwealth of Independent States (CIS) as well as in East Asia, with rates above 8 per cent. Growth in developing countries declined only slightly from 7.0 per cent in 2006 to 6.9 per cent in 2007. Africa has maintained the strong growth momentum of the last few years and achieved a 5.8 per cent growth rate in 2007, up from 5.7 per cent in 2006 and 5.2 per cent in 2005. For 2008, world growth is projected to be around 3.4 per cent.

Despite continued high oil prices, global average inflation remained low in 2007 (2.8 per cent compared to 2.9 per cent in 2006), partly due to restrictions on wage increases, a tight macroeconomic policy stance in both advanced and developing countries, and the supply of cheap manufactures from China. However, inflation risks have increased as unemployment has fallen, especially in Europe, and commodity prices remain high.

1 All the growth and price data used in this report are from UN/DESA, October 2007, except for Swaziland and Seychelles, for which the data are from the EIU online database.

Current account imbalances are large but stabilized in 2007. Among developed countries, the deficit remained constant in 2007 at around $US600 billion, despite sizable surpluses in Germany and Japan. The US trade deficit declined from a record high of $844 billion in 2006 to $780 billion in 2007, due to higher exports. Oil-exporting countries have a combined surplus of $500 billion and most developing regions are running surpluses. Developing Asia's surplus exceeded $200 billion, with China being the largest contributor. The current trends are expected to continue in 2008.

The recent crises in the subprime mortgage market in the USA and its knock-on effects are a reminder of the fragility of international financial markets. Triggered by the decline in US house prices, subprime mortgage markets experienced significant losses and created the worst credit and liquidity squeeze in world financial markets in a decade. Central banks in the USA, Europe and Japan had to inject short-term liquidity to stabilize money markets. This immediate reaction slowed down the fall of stock markets but they remained volatile. The subprime mortgage crises resulted in lower than expected USA growth rates and lower demand for imports. Thus, the slowdown in the USA is exerting some negative effects on growth in other industrial countries, although these have been balanced by domestic demand-led growth in other regions.

Prices of commodities such as coffee, cocoa, cotton and tropical logs have remained stable. However, the recent promotion of the use of bio-fuels has already led to a price increase for agricultural commodities such as maize and sugar. Political support for bio-fuels in the European Union (EU) and the USA is mainly driven by concerns about future energy supply and the environment. These price increases for agricultural products have the potential to increase the income of the rural population in many African countries.

One if the important developments in the world economy that is of high relevance for Africa is the rapid increase in South-South trade and capital flows. Foreign Direct Investment (FDI) from the South increased from just 5 per cent of world outward flows in 1990 to 17 per cent in 2005. FDI to Africa is increasingly coming from Asia, especially China, India and the Gulf States. At the same time, FDI flows within Africa increased substantially in 2006, mainly originating in South and North Africa. These flows are concentrated in the natural resource and services sectors.

The intensification of ties with Asia in terms of aid, trade and FDI holds both benefits and challenges for Africa. African exports to China have more than quadrupled between 2000 and 2005 to $19.5 billion. Asian growth expands export markets for African and creates new opportunities for employment creation in local and foreign firms. However, African manufacturing firms confront the risk of loosing local markets if they are not able to compete with imports from Asia.

Recent Economic Performance in Africa

Africa sustains strong economic performance in 2007

In 2007, Africa recorded a high growth rate (5.8 per cent), slightly higher than in 2006 (5.7 per cent). As in previous years, its growth performance in 2007 was driven mainly by robust global demand and high commodity prices. Other factors underpinning growth in Africa include continued consolidation of macroeconomic stability and improving macroeconomic management, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. The continent has also witnessed a decline in political conflicts and wars, especially in West and Central Africa, though peace remains fragile in some parts of the continent.

Many African countries have implemented macroeconomic as well as microeconomic reforms that have resulted in a generally improved business environment and investment climate. In addition to increased aid and debt relief, this has helped to attract high net private capital inflows ($26.5 million in 2005, $17.3 million in 2006 and $42.1 million in 2007). These improvements need to be widened, deepened, and sustained if Africa is to accelerate and sustain growth beyond the ongoing commodity boom.

The continent also needs to promote high-quality growth that is broadly shared in terms of generating decent employment, poverty reduction and achievement of the Millennium Development Goals (MDGs). The recorded real per capita income growth rate (0.3 per cent during 1990-2002 and 3.0 per cent per cent in 2003-2007) is insufficient for Africa to make any significant progress towards achieving the MDGs. Its ability to accelerate and sustain high-quality growth hinges crucially on successful diversification of the sources of growth and mobilization of domestic and external financial resources, used to increase domestic demand in general and investment demand in particular.

Fiscal sustainability is a major concern, especially for oil-importing countries

The average fiscal position of Africa, which shows a budget surplus of 2.4 per cent of Gross Domestic Product (GDP) in 2007, is mainly a reflection of developments in the 13 oil-exporting countries that maintained an average fiscal surplus of 5.3 per cent of GDP in 2007 and 6.1 per cent in 2006. For the oil-importing African economies, the average budget deficit increased slightly from –1.1 per cent of GDP in 2006 to –1.2 per cent in 2007. The largest budget-deficit countries are generally exposed to recurrent internal shocks (e.g. rainfall irregularities and political conflicts) and also external shocks (e.g. agricultural commodity markets). They lack adequate economic diversification, needed to help them to absorb the impact of such shocks on their fiscal performance.

In most African countries, fiscal deficits remain relatively low and contained. Further privatization of public enterprises and rationalization of government consumption of oil have had a positive impact on their fiscal balances. At the same time, many countries were able to increase tax revenue thanks to GDP growth and tax reforms, including introduction of Value Added Tax (VAT) and other strategies that enhance efficiency in tax administration. Given the important adverse effects of expenditure reduction on growth and social development, it is critical that donors and the international development community at large should scale-up financial support to oil-importing African countries, especially in the form of grants and debt relief.

Inflationary pressure is intensifying due to high oil prices

High oil prices pose a major threat to Africa regarding the control of inflation in both oil-exporting and oil-importing countries. Africa seems to be more exposed to this threat than other developing regions. On average, inflation has been contained at around 7 per cent over the last 5 years, but Africa's inflation has generally been greater than that of Latin America and the Caribbean, East and South Asia and the average for developing countries. About 60 per cent of African countries recorded a 5 per cent or more inflation rate in 2007, up from 52 per cent in 2006. The respective percentages for oil-exporting and oil-importing economies are 46 per cent and 65 per cent in 2007. This underscores the mounting inflationary pressures on the continent and that inflation can be a problem for both oil importers and oil exporters.

Whereas high oil prices push production costs up for oil-importing countries causing prices to increase, rising oil revenues fuel rapid increases in domestic demand that cause prices to rise in oil-exporting countries (overheating). Intensifying inflationary pressure is a major concern for the poor, who lack adequate safety nets, as high inflation rates always have stronger impact on the price of basic consumer goods. At the same time, governments rely on tighter fiscal and monetary policies and currency appreciation to avoid acceleration of inflation at the cost of lower growth. The potential adverse growth impact of these policies makes macroeconomic management increasingly difficult and costly for oil-importing countries.

Oil-exporting countries must direct a sizeable proportion of oil revenues to finance domestic investment. This will help them to build productive capacity instead of fuelling government and private consumption. Such consumption creates excess demand while the economy still does not have the capacity to respond. Oil-exporting countries must also consider saving an appropriate part of the revenues for stabilization purposes and for the benefit of future generations.

External balances in oil-importing countries are worsening due to high oil prices

Africa's current account surplus declined from 5 per cent of GDP in 2006 to 1.7 per cent in 2007, owing to widening current account deficits in oil-importing countries (from –4.4 per cent of GDP in 2006 to –5 per cent in 2007). Due to high transportation costs and weak international competitiveness, landlocked African economies continue to have larger current account deficits compared with other African countries, but the deficits have been declining thanks to increased aid flows (especially in the form of debt relief).

As in previous years, persistent high oil prices are of major concern to oil-importing African countries in terms of current account sustainability and the ability to maintain the recent growth momentum. Rationalizing oil consumption and developing alternative sources of energy such as hydropower is one way that oil-importing African countries can reduce their import bill. In the short term, many of these countries need external support to meet their expenditure needs while minimizing macroeconomic instability. Medium- to long-term strategies must focus on increasing investment in infrastructure, building productive capacity, diversifying exports and promoting international competitiveness.

Currency appreciation threatens international competitiveness

In line with the Euro, the CFA appreciated substantially against the US dollar in nominal terms. As a result, exports of the Franc Zone are losing competitiveness outside the Euro area. Most other African currencies have also continued to appreciate against the US dollar in 2007. Since the bulk of African exports are valued in US dollars and export prices have remained fairly stable, currency appreciation, in addition to discouraging imports from Africa, implies a decline in the profitability of African export-oriented activities.

On the other hand, currency appreciation makes imports cheaper in domestic markets, putting pressure on the current account balance. This has been the case in most oil-exporting countries, with adverse effects on economic diversification and job creation. Thus, managing exchange rates is a major challenge for oil-exporters and other countries with high commodity income, such as Zambia.

Real effective exchange rate (REER) appreciation in oil-importing countries resulted from scaled-up expenditures, aid, remittances and other capital inflows, and high earnings from tourism and non-oil commodity exports. Seventy per cent of oil-exporting countries experienced REER appreciation due mainly to rising oil revenues and increasing expenditures and capital inflows. To address possible "Dutch Disease" problems, oil-exporting countries in particular may need to closely coordinate monetary and fiscal policies, increase productivity and strengthen the supply side of their economies by using the oil revenues to finance public infrastructure, which will promote economic diversification and private sector development.

The need to reduce external debt and increase non-debt generating resources

To alleviate financing constraints, Africa needs to reduce external debt and mobilize more domestic and external non-debt-generating resources. Despite debt relief initiatives, Africa's external debt remains high and unchanged, at about $255 billion in 2006 and 2007. While official debt declined considerably with the debt relief initiatives, from $205.7 billion in 1999 to $144.5 billion in 2007, the debt owed to banks and other private creditors rose from $92.4 billion in 1999 to $110.2 billion in 2007.

As domestic resource mobilization is insufficient for Africa to finance the investment needed for achieving the MDGs, African countries continue to rely on external capital inflows (mainly Official Development Assistance (ODA), FDI and remittances) to fill the resource gap in the near future. However, FDI inflows tend to go mainly to resource-rich countries to finance investment in extractive industry, whereas more ODA flows are directed to financing development in non-oil economies. The international community is urged to meet its commitments to scale-up aid to Africa under various initiatives such as the Multilateral Debt Relief Initiative (MDRI). In the meantime, African governments should ensure that external assistance is used to build productive capacity and deliver public services.

Sectoral performance

The service sector had the largest share in Africa's GDP (44.7 per cent) in 2006, followed by industry (41.5 per cent) and agriculture (13.8 per cent). In 2006, all the three sectors continued to grow. Despite modest growth in the manufacturing subsector, the industrial sector had the highest growth rate (5.7 per cent), followed by agriculture (5.0 per cent). Growth in industrial output in 2006 was underpinned by high commodity prices, especially for oil and gas, and the increasing output of non-manufacturing industries (mining and quarrying) in many African countries.

Africa's tourism potential remains largely unexploited, while tourism is becoming a dominant sector of economic activity worldwide. Africa as a whole attracted fewer than 4.6 per cent (or 37.3 million) of the 802 million world tourist arrivals. In terms of receipts, Africa accounted for 3.2 per cent (or $21.6 billion) of the total $678 billion international tourism receipts in 2005. Only four African countries (Egypt, South Africa, Morocco and Tunisia) are listed in the top 50 worldwide destinations in terms of both arrivals and receipts. To exploit the potential for economic diversification through manufacturing and tourism, African countries must improve national and regional infrastructure, while reducing barriers to movement of people, goods and services between countries.

Economic growth recovery in Africa has not yet translated into meaningful social development and inclusion of vulnerable groups

Growth in Africa has not yet led to substantial employment generation, particularly in the formal sector. At the same time, vulnerable groups such as the aged, youth and people with disabilities also face particular challenges in participating in Africa's economic recovery. African women and girls often experience various forms of discrimination and social exclusion.

Even though Africa is referred to as the youngest continent in terms of the age structure, the number of older people is changing more dramatically than in other regions and will continue to do so over the coming decades. This is important for policymakers because older people experience higher rates of poverty as a consequence of low levels of education and the burdens imposed by the HIV/AIDS epidemic. This predicament needs to be tackled by financing social protection schemes targeted at the aged.

Most Africans with disabilities face the prospect of being excluded from participating in society, and, consequently, are more likely to experience poverty. Despite this, there has been inadequate recognition of disability issues in the mainstream development agenda. Women with disabilities in Africa thus experience two levels of discrimination, based on gender and on disability. It is estimated that around 10 per cent of the world's population has some form of disability, of which some 80 per cent live in low-income countries. However, there is a severe lack of data at the country-level, which constrains analysis of disability issues on the continent.

African governments and their development partners need to put policies, legislation, and resources in place to promote the rights of people with disabilities and those of their families. In particular, governments need to sign and ratify the United Nations Convention on the Rights of Persons with Disabilities, and implement the recommendations of the African Union Continental Plan of Action for the African

Decade of Persons with Disabilities, 1999-2009. African countries need to increase their efforts to target such socially excluded groups, to achieve the MDGs and promote an inclusive society.

Prospects for 2008: brighter outlook despite risks

Real economic growth in Africa is projected to slightly improve to 6.2 per cent in 2008 compared with 5.8 per cent in 2007. It is expected that the slowdown in the US economy will not have a substantial effect on Africa and that robust commodity demand and prices will continue with high growth in Asia and no significant drop in growth in Europe. Continued effective macroeconomic management and the improving governance and security situation is another factor that contributes to a positive economic outlook in 2008 and beyond, though many parts of Africa still suffer from conflicts and insecurity.

On the downside, there are many risks to Africa's growth over the medium term. Any substantial slowdown or adverse adjustment in the global economy could cause demand for Africa's exports to contract. A fall in demand and prices would have negative effects on Africa's growth outlook. Fluctuations in oil prices would also have adverse growth impacts on oil-importing countries.

The continent also needs to manage risks to growth prospects emanating from unpredictable fluctuations in capital flows (especially aid) and from currency appreciation that can adversely affect international competitiveness. Unpredictable weather changes, conflicts and epidemics (HIV/AIDS and malaria) are additional factors that influence Africa's growth prospects in 2008.

Development Challenges for Africa in 2007

The Doha Round edges closer to an agreement but serious issues remain

The year 2007 saw progress towards finalization of the Doha Round of the World Trade Organization (WTO). The focus was on tackling the divergences on liberalization in the areas of agriculture and industrial goods. The negotiations sought to resolve the triangular differences between the USA, EU and the advanced developing countries. The market access and domestic support pillars of the agriculture negotiations were two of the convergence points sought in this triangle, with the level of liberalization under Non-Agricultural Market Access (NAMA) constituting the third point.

Overall, convergence occurred as deliberations on the two agriculture pillars moved towards the 2005 proposals by the G-20 countries. This proposal had sought an improved market access offer from the EU and more ambitious reduction in domestic support by the USA. Nevertheless, a deal is yet to be reached since both EU and the USA have continued to link their respective final offers in agriculture tariff cuts and reductions in domestic support to further liberalization of industrial goods by advanced developing countries.

From the perspective of African countries, the remaining challenges are to ensure that the negotiations result in a final agreement with concrete reductions in agriculture tariffs, domestic support and liberalization of industrial goods. In addition, the negotiations still have to deal conclusively with the twin issues of sensitive and special products in the agriculture chapter. For African countries, exclusion of sensitive products from tariff cuts, is a severe limitation to liberalization of agricultural trade. For special products, the issue is how developing countries can meaningfully contribute to global agricultural trade reforms while safeguarding their ability to protect rural livelihoods, ensure food security and promote rural development. Only after the challenges in agriculture and NAMA negotiations have been resolved will concrete steps towards conclusion of the Doha Round be effectively made. While the other areas of the negotiations such as services and rules among others are making progress, it is important to emphasize that development gains and effective special and differential (S&D) treatment will only accrue from the agriculture and NAMA negotiations.

This is the case for African countries, which are still expecting to achieve reasonable gains through increased trade as a result of a pro-development Doha Round outcome. In the meantime, operationalization of the Aid for Trade (AfT) initiative has started, to prepare African economies to develop and reinforce supply-side capacities in order to maximize gains from the Doha Round.

A general mood among World Trade Organization (WTO) members is that the AfT must be operationalized, as it will play a major role in promoting the development dimensions of global trade reforms. The AfT review that was jointly organized by ECA, AfDB, and WTO in Dar-es-Salaam, Tanzania, 1-2 October 2007, focused on Africa and identified several crucial issues:

- There is now consensus that AfT matters for Africa, after increasing realization that products from the region lose their competitiveness when they enter international markets;

- African countries need to have a range of projects and programmes at the national and regional level aimed at enhancing the competitiveness of their products , through the AfT initiative;
- There is a broad array of areas where AfT support is required, especially among the Regional Economic Communities (RECs). This calls for clear prioritization. African priorities identified in the review are in three key priority areas: infrastructure, trade facilitation, and standards. AfT resources targeted at the three areas would help address the paradox of African products, which are competitive at the factory and farm-gate, but uncompetitive on most global markets; and
- Success in implementation of competitiveness-enhancing strategies is contingent upon strengthening the human capital development on the continent and deepening private sector involvement.

Accelerating progress towards the MDGs remains a challenge in 2008

Currently, few countries in the region are on track to meeting the MDGs. However, there have been positive developments in recent years that give hope that the challenge of meeting the MDGs on the continent is not insurmountable. Progress requires scaling-up of efforts both at national and international levels.

Commitment to the MDG agenda has been strong at the highest decision-making levels in Africa. AU has placed them at the centre of the New Partnership for Africa's Development (NEPAD) vision. It concretely expressed its commitment to facilitating acceleration of progress through its adoption of a Common Position at the 2005 Summit.

Acceleration of progress towards the MDGs is constrained by a number of important challenges that require the concerted efforts of African governments and their development partners. These challenges include climate change, infrastructure bottlenecks and rising inequality. Climate change poses a major threat to Africa's future and is likely to have a significant impact on biodiversity and to increase the vulnerability of poor people to natural disasters. The poor state of infrastructure in Africa is a major impediment to domestic market and regional integration, to equitable access to social services, and to growth. Expansion of infrastructure has positive growth effects that would help the continent accelerate progress towards the MDGs.

Evidence suggests that income inequality is rising in African countries, with the continent ranking second to Latin America as the region with the most unequal distribution of income. Rising inequality constrains growth while reducing the gains from growth for the poor, thus undermining progress towards poverty reduction.

Tracking development finance commitments in Africa

The slow pace of implementation of commitments on financing for development has led African governments to take initiatives to improve monitoring of the implementation of their own commitments as well as donors' commitments towards the continent. The first bold step towards setting-up a framework to monitor translation of commitments into action was taken at the African Ministerial Conference on Financing for Development in Abuja, Nigeria, in May 2006. The theme of the Conference was "*Financing for Development: From Commitment to Action in Africa*".

African countries committed to taking the leadership in monitoring development financing commitments and to setting up a number of initiatives, including ten-year education plans, establishment of mechanisms to increase transparency, efficiency, and accountability in budgeting processes, and a call for new innovative financing mechanisms to meet the large investment requirements for the fight against major diseases and epidemics (malaria, HIV, tuberculosis).

In May 2007, African governments held the second Ministerial Conference on Financing for Development, which was devoted to "*Infrastructure for Growth: The Energy Challenge.*" This was a follow-up to the summit of the Forum of Energy Ministers of Africa (FEMA) in Mozambique in March 2007. The Forum aimed at giving political direction and advocacy to increase access, and better utilization and management of energy resources for sustainable development. It called on African countries to prioritize energy in national budget allocations and mainstream energy into the Poverty Reduction Strategy Papers (PRSPs). The conference explored various options for financing Africa's infrastructure needs and underscored the importance of regional integration in promoting cross-border trade in energy. Governments also committed to mobilizing more resources through new financing instruments, appropriate energy pricing and payment mechanisms, reforming regulation of the energy sector and encouraging private sector participation in the energy sector.

Given the need for continuous monitoring of implementation of commitments, the Accra Ministerial Conference agreed to set up a permanent secretariat tasked with organizing the annual Ministerial Conference on Financing for Development, and with monitoring and following up the meeting of commitments. These initiatives are expected to strengthen the framework for monitoring and implementing development financing mechanisms both at the national and international level, and contribute significantly to accelerating progress towards the MDGs.

Post-Monterrey economic performance has improved but remains insufficient to finance the MDGs

Since the dawn of the new millennium, several promises have been made by Africa's development partners as part of an overall effort to scale-up resources for development in the continent. The Monterrey Consensus, the World Summit Outcome, the Paris Declaration and the G-8 Gleneagles Declaration capture the main commitments in this area. These commitments were all driven by the need to accelerate progress towards meeting the MDGs.

Midway between the adoption of the MDGs and the 2015 target date, the available evidence indicates that the vast majority of African countries will not meet the goals if current financing trends continue. Consequently, the international community has now focused attention on how to scale-up financing for the continent. It has been acknowledged that implementation of the commitments in the Monterrey Consensus is critical to achieving this objective.

Against this background, it is important to assess the progress in meeting the commitments to Africa in the six core areas of the Monterrey Consensus, namely:

- Mobilizing domestic financial resources for development;
- Mobilizing international resources for development;
- Promoting international trade as an engine of development;
- Increasing international financial and technical cooperation for development;
- External debt relief and sustainability; and
- Addressing systemic issues.

Modest improvement in mobilizing domestic resources

In the area of domestic resource mobilization, there has been a modest increase in domestic savings, although it has not led to an increase in investment. This observation from macroeconomic data is consistent with findings from the ECA Survey of African Policymakers on the Monterrey Consensus, which shows that mobilization of domestic resources for development has been rather modest. Most of the respondents identified weak financial infrastructure, weak governance and extensive corruption as some of the major factors hampering effective mobilization of domestic resources. Another key factor contributing to weak domestic mobilization efforts is the reluctance of commercial banks to set up branches in the rural areas, which renders them ineffective in savings mobilization.

There is, therefore, a need to reform the banking sector with a view to improving efficiency as well as increasing rural household access to financial services. African countries should also pay attention to the potential role that micro-finance institutions and mechanisms can play in mobilizing savings and channelling them to productive investment. Concerted efforts must also be made in promoting capital market development. Given the small size of African stock exchanges, it is advisable to pursue a regional approach to capital market development.

Furthermore, given the negative implications of trade liberalization for domestic resource mobilization, trade reforms must be accompanied by fiscal policy reforms to offset any loss in tax revenue. An international environment that supports a gradual approach to trade liberalization in Africa would be welcome.

Some progress has also been made in the mobilization of international resources for development. Net FDI flows to the continent increased from an average of $11.9 billion in the pre-Monterrey period (1998-2001) to $18.1 billion in the post-Monterrey period (2002-2005). However, FDI continues to be concentrated in the extractive sector and in a few countries.

The results from the ECA survey indicate that 68 per cent of the respondents believe they have national frameworks for attracting FDI. However, they consider that support from regional and international institutions for attracting FDI to infrastructure and other priority development areas is still inadequate.

There has also been an increase in remittances. African countries need to adopt a coherent and comprehensive policy aimed at attracting such Diaspora capital to complement domestic resources and external aid. African countries also have to harness the potential of remittances for development and improve access to financial services to make it easier and more cost efficient for people to use the banking system and other formal channels to receive remittances from abroad.

To increase their shares of investment from global FDI flows, African countries need to develop not only better infrastructure but must also improve investment climate. In addition, they need to be selective in the type of investment they seek to attract. Most needed are FDI flows into sectors with high-value added, high potential for employment creation, and environment- friendly impact. Efforts should also be made to give non-discriminatory treatment to domestic investors in the drive to attract private capital flows.

Limited progress in promoting international trade as an engine of development

The share of exports in GDP increased from 29 per cent in the pre-Monterrey period to 33 per cent in the post-Monterrey period, but Africa's share in international trade remains low, and there has been little progress in improving its international trading environment. The findings from the survey show that, of all the areas of the Monterrey Consensus, African countries are most concerned about the lack of progress in international trade.

African policymakers view the lack of market access and supply-side constraints as the key factors limiting Africa's export growth potential. In this regard, the countries must take measures to address obstacles to export promotion such as poor infrastructure and lengthy customs procedures that increase transaction costs. These must be complemented by measures at the international level such as the provision of stable and adequate funding for trade capacity building.

There is also an urgent need for development partners to ensure that any potential trade deals under the Doha Round address the development concerns and needs of African countries. The recent AfT initiative of the WTO has an important and welcomed role to play. There is an urgent need for all parties involved in the initiative to fast-track its implementation so that valuable time is not lost in increasing the capacity of African countries to take advantage of existing opportunities in the multilateral trading system.

Aid quantity has improved but is still below the levels required to finance accelerated and sustained growth

Macroeconomic data indicate notable progress in terms of increasing aid quantity and improving aid effectiveness. Results from the Survey of African Policymakers on the Monterrey Consensus that was conducted by ECA in 2007 show that a substantial majority (76 per cent) of respondents somewhat or strongly agreed with the statement that there has been a significant reduction in the proportion of tied aid. Aid remains concentrated in a few countries, with emergency assistance and debt relief accounting for the bulk of aid flows.

Thus, African countries have not received the promised additional injection of resources for financing development. More disconcertingly, there is a wide gap between the actual aid flows and the donor commitments that were made. The quantity of aid is still below what is needed to ensure accelerated and sustained growth in the continent.

Another concern of African policymakers is the unpredictability of aid flows, which undermines budget planning and implementation of development projects. More remains to be done to increase aid effectiveness in line with the Paris Declaration on Aid Effectiveness. This calls for, among other measures:

- Better division of labour among donors to reduce the transactions costs of managing and delivering aid;
- Decentralization of decision-making by donors to field staff;
- More accountability to local stakeholders; and
- More donor support for new and innovative sources of financing such as the International Finance Facility for Immunization (IFFI), and the Air Ticket Levy.

Progress in the area of debt relief is encouraging

In the area of debt relief, significant progress has been made over the last two years, thanks to the implementation of the Heavily Indebted Poor Countries (HIPC) initiative and the MDRI. It is, therefore not surprising that African policymakers consider this to be the only area of the Monterrey Consensus where progress has been significant. Thanks to these debt relief initiatives, many of them now view their country's external debt situation as sustainable.

With respect to the sources of external debt, the survey shows that the majority of respondents identified excessive borrowing and low growth rates as factors contributing to the external debt crisis. Despite improvement in the external debt situation of some African countries, there are a number of heavily indebted African countries that are not eligible for HIPC debt relief. Therefore, there is a need to extend eligibility for current debt relief programmes to non-HIPC African countries. It is also important to reduce the number of years it takes for countries to move from decision to completion points in the HIPC programme. Furthermore, African countries need to ensure that borrowing from new creditors does not lead to a new cycle of unsustainable debt.

Africa's participation in global economic governance institutions remains marginal

On systemic issues, progress has been very limited. African countries still lack fair representation on the decision-making organs of international institutions. This is confirmed by the findings from the survey, which shows that the majority of the respondents (57 per cent) view the current economic governance structures as not facilitating their effective participation in the global economy. African Least Developed Countries (LDCs) are even more skeptical, with two-thirds of respondents expressing the view that the current structure of global economic governance does not allow for their effective participation in the decision-making and norm-setting of key financial, monetary and multilateral trading institutions.

In this context, efforts should be made by the international community to increase the role of African countries at the IMF, World Bank and WTO. This will increase the sensitivity of these institutions to the needs and concerns of African countries and make them more accountable to the continent.

Conclusions

The first main conclusion of this Report is that African countries have recorded strong economic performance for the third consecutive year, with an average growth rate of 5.8 per cent. This strong performance is due to a range of factors, including high commodity demand and prices and increased output in key sectors such as agriculture and services.

The second is that despite high growth rates in recent years, this strong performance has not translated into meaningful gains in terms of social development. African governments need to increase investments in social sectors, and also improve the efficiency of social sector expenditures. At the same time, gains from growth need to increase, by better targeting of employment creation through broader and more flexible macroeconomic frameworks and sectoral policies.

The third is that persistently high oil prices remain an important challenge to growth and macroeconomic stability in the medium term. Increased energy costs are constraining investment and growth in many oil-importing African countries that are also confronted by macroeconomic instability, including intensified inflationary pressures and increasing fiscal and current account deficits. In addition to good macroeconomic management, oil-importing countries will need increased external support to maintain growth and reduce growth volatility. Oil-exporting countries on their part need to manage oil revenues to ensure diversification of the sources of growth and of the export base and avoid excessive currency appreciation and build-up of reserves.

Fourth, African governments and partners need to establish strategies to ensure that economic growth benefits socially excluded groups, including women, youth, the aged, and people with disabilities. Besides increasing public investment in social services that target these groups, African governments need to consider policies that promote their access to education/training and health facilities, their participation in the labour market, and in general, their human rights. At the same time, development partners need to use their assistance programmes to support these objectives. In the longer term, a more inclusive society will help countries remain politically and socially stable and enhance their growth potential.

Finally, the evidence on implementation of the Monterrey Consensus suggests that substantial progress has been made in the area of external debt relief. In contrast, very limited progress has been made in the other core areas of the Consensus. Monitoring of the commitments made by both African countries and their development partners is essential if the objectives of the Monterrey Consensus are to be realized. African leaders have recognized this and put a mechanism in place to monitor progress with implementation of their own commitments as well as those of their development partners.

The recent institutionalization of an African Ministerial Conference on Financing for Development by African leaders is a bold step forward in this area. The international community has also put mechanisms in place to monitor donor performance. For example, they have established the African Partnership Forum (APF) and the African Progress Panel (APP), both of which will monitor progress with implementation of key development finance commitments.

Ultimately, the effectiveness of these monitoring mechanisms will be assessed in terms of how they are able to turn the promises made by development partners into deeds. For it is only through the implementation of these commitments that African countries can achieve meaningful results in poverty reduction and lay the foundation for a brighter future for its peoples.

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Part 1

Recent Economic Trends and Prospects for 2008

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Developments in the World Economy and Implications for Africa

Recent developments in the world economy are likely to benefit African economies but they also pose some challenges and risks. The international economic environment for developing countries has so far not been affected by the global financial turmoil originating from the mid-2007 subprime mortgage crisis in the USA, with trends in international trade and finance remaining largely favourable.

Asian economies again are the fastest growing, with a growth rate of more than 8 per cent per annum. In contrast, growth in advanced economies remains modest and is declining in the USA due to the housing and mortgage crises. Key constraints to growth include the massive global macroeconomic imbalances as well as record high oil prices that undermine growth in both developed and developing countries, through high production costs.

"Massive global macroeconomic imbalances and record high oil prices undermine growth"

Some positive developments in the world economy are likely to sustain growth in African countries, especially through the high demand for African export commodities and the relatively low costs of external borrowing. Rising inflows of foreign direct investment (FDI) are still dominated by resource extraction but they have started to diversify. The closer links between Asia and Africa based on complementarities as well as similarities are providing mutual benefits but they also pose some challenges for African economies.

1.1 World growth slowed in 2007 mainly due to weak US growth

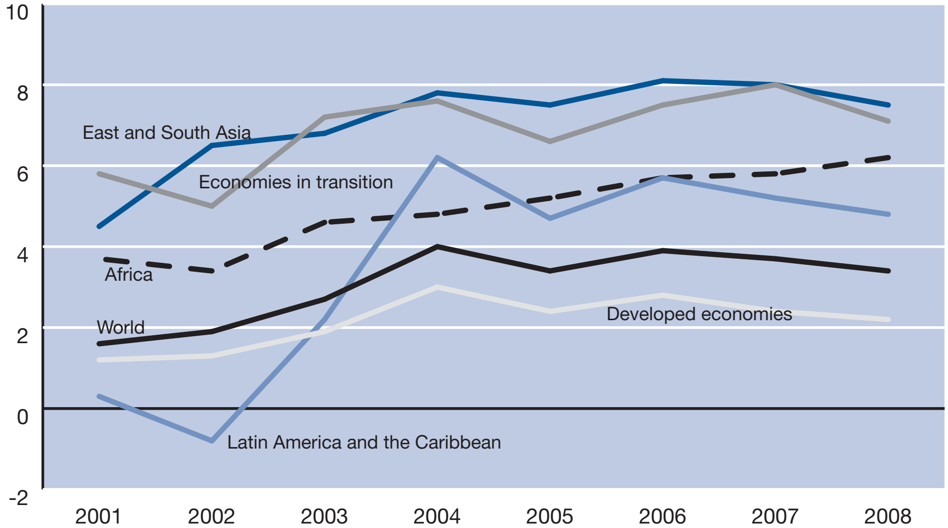
In 2007, world economic growth slowed only slightly to 3.7 per cent from 3.9 per cent in 2006 (figures 1.1 and 1.2)1. High prices for oil and other inputs combined with some turbulence in financial markets have contributed to this slowdown. Globally, growth rates were highest in the Commonwealth of Independent States (CIS) countries as well as in East Asia, with rates above 8 per cent. Growth in developing countries declined only slightly from 7.0 per cent in 2006 to 6.9 per cent in 2007 (UN 2008). For 2008, some further slowdown is expected in all regions (except

1 The analysis is based on data from UN-DESA's WESP 2008, as of October 2007.

Africa and Central America), leading to a decline in world growth from 3.7 to 3.4 per cent.

Figure 1.1

GDP growth rates of major regions, 2001-2008



Source: *UN 2008. Estimates for 2007; forecasts for 2008.*

Note: *The reported estimates of growth rates for world gross product are obtained using country gross domestic product at market prices in dollars as weights. For comparison, world growth rates estimated using purchasing power parity-based weights would be 4.9 per cent for 2007 and 2008.*

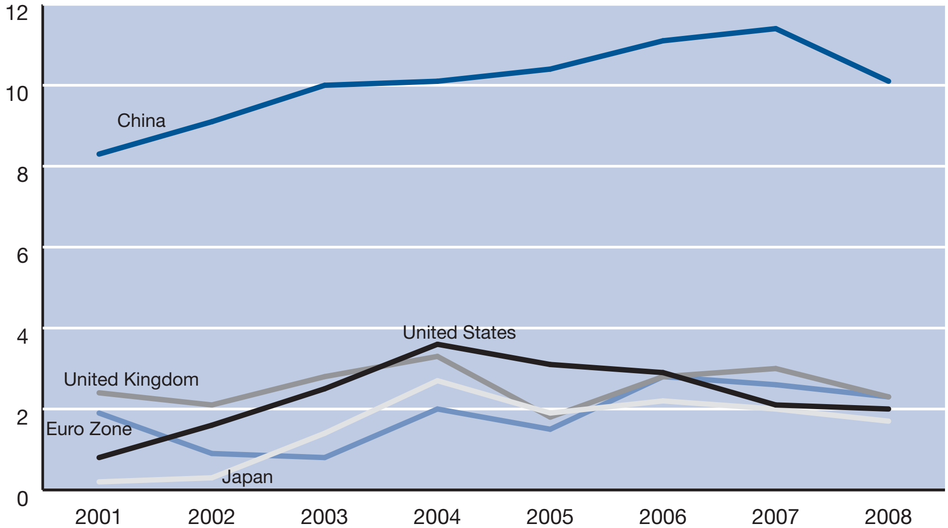
Growth in the USA slowed considerably in 2007 to 2.1 per cent, down from 2.9 per cent in 2006. The weakness is partly due to the decline in house prices and the crisis in the subprime mortgage sector, which together with high household debt has weakened consumer spending. Likewise, business capital spending has weakened since late 2006. For 2008, no major change is expected (UN 2008).

Growth in the European Union (EU) remained virtually unchanged in 2007 at 2.9 per cent compared to 3 per cent in 2006. This relatively good performance was driven by higher domestic demand, particularly investment expenditure and strong export performance. In 2008, a decline to 2.5 per cent of GDP growth is expected, as the Euro remains strong. Growth in Japan remained stable in 2007 at 2.0 per cent, compared to 2.2 per cent the previous year, but is expected to slow down in 2008 (to 1.7 per cent). In both cases, improved labour market conditions contribute to overall performance (UN 2008).

Growth in East and South Asia remained strong with 8.0 per cent in 2007, almost unchanged from the 8.1 per cent in 2006. For 2008, it is expected that growth will slow down somewhat to 7.5 per cent. This good performance is driven mainly by exports but also by recovery of domestic demand. With continued strong growth at 11.4 per cent in 2007, China continued to gain in importance as an export destination for other East Asian countries. Growth in India slowed in 2007 to 8.5 per cent, down from 9.4 per cent in 2006, mainly due to high capacity utilization, inflationary pressures and continued monetary tightening (UN 2008).

Figure 1.2

GDP growth rates of major economies, 2001-2008



Source: *UN 2008. Estimates for 2007; forecasts for 2008.*

Growth in Western Asia increased considerably to 5.7 per cent in 2007 from 4.6 per cent the previous year. Oil exporters in the region, such as United Arab Emirates (UAE) and Qatar experienced growth above 7 per cent, supported by higher-than-expected non-oil production, most notably in the construction and finance sectors (UN 2008).

Growth in Latin America and the Caribbean declined slightly to 5.2 per cent in 2007, down from 5.7 per cent in 2006, but is still quite robust due to strong external and domestic demand, especially in the three largest economies (Brazil, Mexico and Argentina). For 2008, only a slight decline in GDP growth is expected (UN 2008). In Africa, growth continued to increase and stood at 5.8 per cent in 2007. For 2008, it is expected to remain high, although there are some downside risks for all regions as discussed in detail in chapter 2.

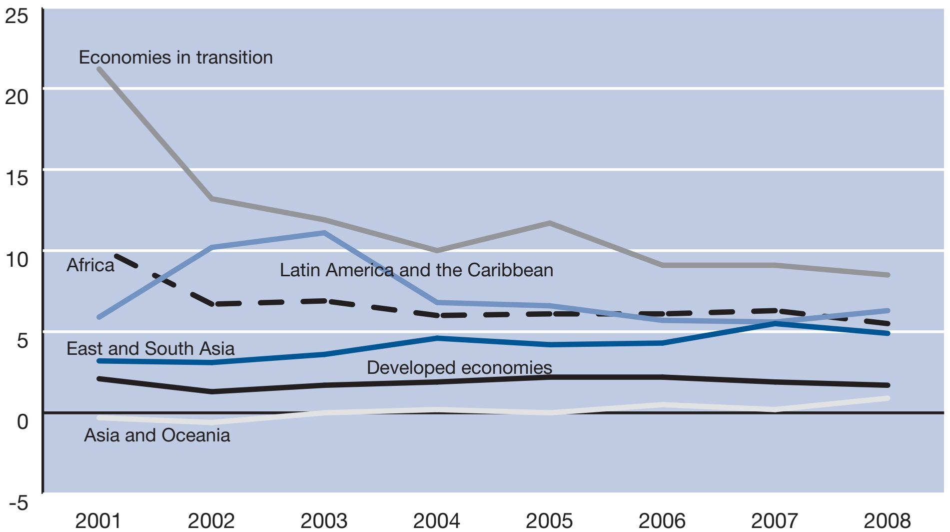
1.2 Macroeconomic policies in major regions are improving

> *Despite continued high oil prices, global average inflation has remained low*

Despite continued high oil prices, global average inflation has remained low and even declined slightly in 2007 (figure 1.3), partly due to restrictions on wage increases, a tight macroeconomic policy stance in both advanced and developing countries, and the supply of cheap manufactured goods from China. However, the prospects for the Organization for Economic Cooperation and Development (OECD) countries are characterized by scant spare capacity and unemployment rates close to their structural levels, as well as high energy prices and increasing food prices, which might trigger increases in interest rates, especially by the European Central Bank (ECB) (OECD 2007b).

Figure 1.3

Inflation rates in major regions and economies, 2001-2008



Source: *UN 2008. Estimates for 2007; forecasts for 2008.*

In general, there is little concern about overheating in most developing economies.2 However, inflation increased in South Africa from 8.4 per cent to 9.9 per cent mainly due to reduced subsidies for fuel and increases in food prices. This has led to a tightening of monetary policies in these countries. In Africa, average inflation remained low and stable, averaging 6.3 per cent in 2007 relative to 6.1 per cent in 2006. In general, inflation risks have increased as unemployment has fallen, especially in Europe, and many commodity prices remain high (UN 2008; OECD 2007a).

2 Overheating means that an economy is growing too fast and that its productive capacity cannot keep up with demand, implying rising inflation.

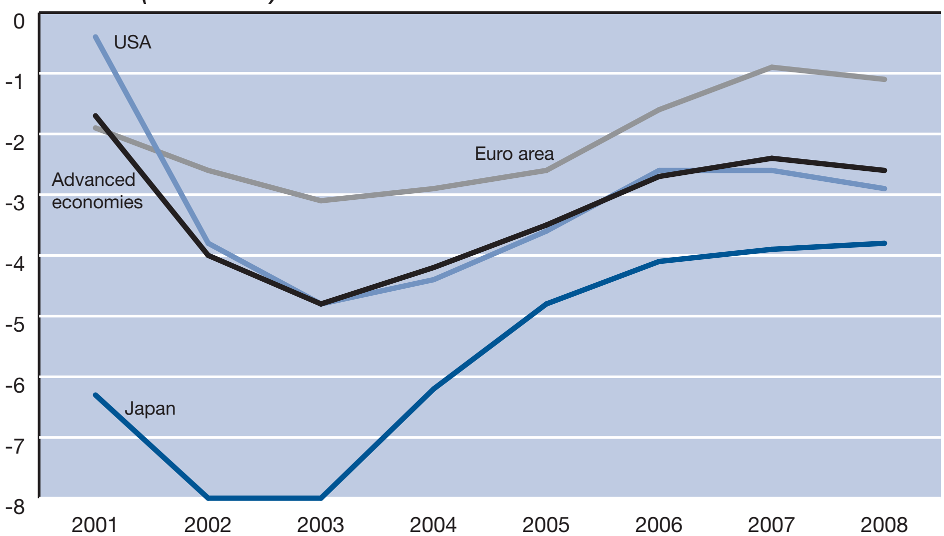
Recently, business cycles in most major economies except Japan have converged, with these economies moving into a position of excess demand. While this presents opportunities for countries that are able to meet this demand, a convergence of business cycles is likely to increase global macroeconomic volatility. As a consequence, monetary policies across most developed countries show a greater similarity, with increases in interest rates (OECD 2007a).

Many industrial countries have experienced higher government revenues due to higher growth over the past few years leading to a steady reduction in fiscal deficits (figure 1.4). In 2007, the average fiscal deficit of OECD countries remained constant at 1.6 per cent of GDP. The deficit in the USA also remained flat, while the deficit in the Euro area was reduced to 0.9 per cent in 2007 against 1.6 per cent in 2006. This overall reduction in fiscal deficits is expected to stop in 2008, due to lower growth expectations (UN 2008).

“Convergence of business cycles is likely to increase global macroeconomic volatility”

Figure 1.4

Central government fiscal balance for selected regions and economies, 2001-2008 (% of GDP)



Source: *IMF 2007. Estimates for 2007; forecasts for 2008.*

1.3 World macroeconomic imbalances remain large

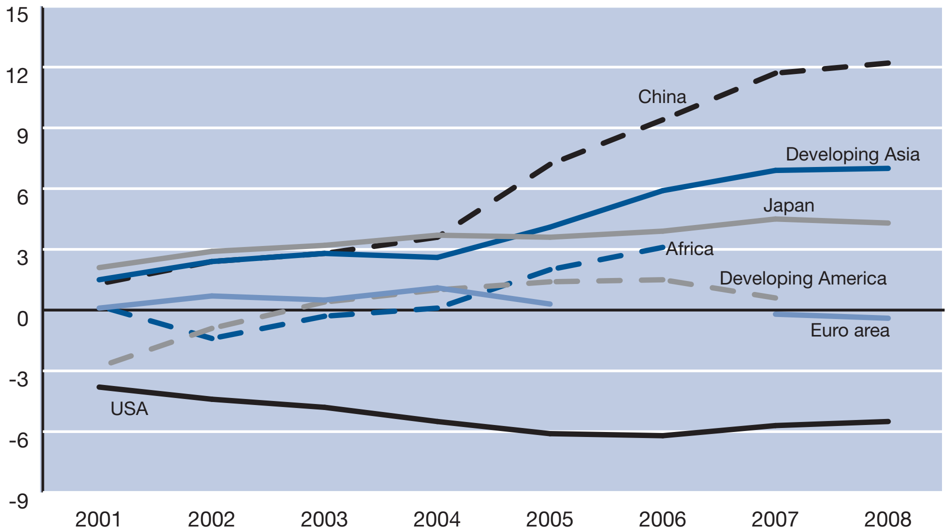
Widening macroeconomic imbalances constitute a major concern for future growth prospects and economic stability. These imbalances cause uncertainty and increase the risk of financial instability, which have negative effects on economic growth.

Recently, equity, commodity and currency markets have become more volatile while short-term capital outflows from some emerging markets have increased. This has raised fears of a new global financial crisis. However, the turbulence is limited to a number of countries with high current account deficits (UNCTAD 2006a).

"Widening macroeconomic imbalances constitute a major concern for future growth prospects and economic stability"

Figure 1.5

Current account balance for selected regions and countries, 2001-2008 (% of GDP)



Source: *IMF 2007. Estimates for 2007; forecasts for 2008.*

Imbalances in the current accounts are large but have stabilized in 2007 (figure 1.5). In developed countries, the deficit remained constant in 2007 with around $600 billion, despite sizable surpluses in Germany and Japan. The US trade deficit declined from a record high of $844 billion in 2006 to $780 billion in 2007, due to higher exports. Oil-exporting countries have a combined surplus of $500 billion. Most developing regions are running surpluses. Developing Asia's surplus exceeds $200 billion, with China being the largest contributor (UN 2008). The current trends are expected to continue in 2008.

Despite the stabilization of current account imbalances, the risks of a disorderly adjustment remain significant, as the US deficits have accumulated to more than $3 trillion by the end of 2006. As growth in the USA is less robust than in most other developed countries, further depreciation of the US dollar is expected (the effects of the depreciation of the dollar for African economies are discussed in chapter 2). To overcome these risks, there is need for international policy coordination in deficit and surplus countries, ranging from fiscal consolidation in the USA to increased public expenditure and exchange rate adjustments in surplus countries (for more details see UN 2008).

Developing countries have continued to accumulate foreign reserves with the aim of providing a buffer against external shocks and reducing vulnerability to volatilities in capital inflows. However, the costs of excessive reserves are significant, including high fiscal costs from sterilization. The considerable risk of depreciation of reserve currency poses a challenge with respect to management of reserves. For example, China had accumulated more than $1.2 trillion at the end of the first quarter of 2007. With the appreciation of the Chinese currency and the low nominal interest received on the dollar assets, the domestic value of these reserves has declined. Thus, China plans to diversify its reserves away from US bonds (UN 2008; OECD 2007a).

"Supervision of subprime mortgage markets has been insufficient and more transparency in credit markets is needed"

The recent crisis in the subprime mortgage market in the USA and its knock-on effects is a reminder of the fragility of international financial markets. Triggered by the decline in US house prices, subprime mortgage markets experienced significant losses and created the worst credit and liquidity squeeze in world financial markets in a decade. Central banks in the USA, Europe and Japan had to insert short-term liquidity to stabilize money markets. This immediate reaction slowed the fall of stock markets but they have remained very volatile. As mortgages have become more expensive in the USA, more house owners have had to sell their houses, leading to oversupply and a further decrease in prices. The construction sector was also severely affected. Together with the decline in consumer spending, these effects resulted in lower than expected growth rates in the USA and lower demand for imports.

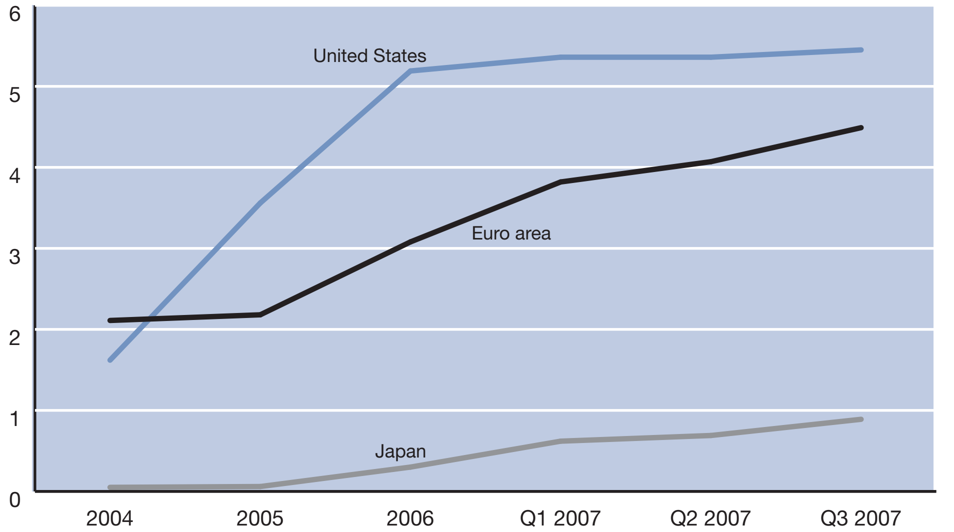
The losses from the subprime mortgage markets also affected the balance sheets of foreign banks, leading to increasing financial nervousness and risk aversion. The recent developments are a sign of imperfections in credit markets as financial innovations spread the risk from mortgage lending to many investors worldwide. Excessive leverage amplified the risks in sub-prime lending and spread them to other segments of the credit market. Supervision of subprime mortgage markets has been insufficient and more transparency in credit markets is needed.

As many emerging economies have accumulated large foreign exchange reserves and current account surpluses and have also made exchange rates more flexible, they are less affected by withdrawal of foreign investors. However, in Europe the banking sector was severely affected. As house prices in some European countries had been increasing extremely fast, the risk of a house price bust also increased (OECD 2007b; UN 2008).

The global financial turmoil that started in mid-2007 has led to monetary easing in the USA and in other major developed economies (figure 1.6). Thus, the monetary policy stance remains roughly neutral in most developed economies. Low benchmark interest rates in world capital markets imply that the costs of borrowing for developing countries are favourable.

Figure 1.6

Money market interest rates: average 3-month deposits (2004-2007)



Source: *ECB 2007.*

> *Global demand for oil has grown fast, especially driven by China's high performance*

1.4 High world prices for African export commodities

In 2007, commodity producers continued to benefit from high prices. Global demand for oil has grown fast due to global growth, especially driven by China's high performance. In addition, conflicts in main oil-producing countries such as Nigeria have contributed to the high level and volatility of oil prices. The global shortage in refining capacity also continues to affect oil prices as investment is more geared towards gas and oil exploration (UN 2008).

The prices of most other commodities have further increased in 2006 but are expected to moderate with increased volatility. Mineral, ore and metal prices have increased by 178 per cent between 2000 and 2006. The price increase was highest for copper at 261 per cent but it was also considerable for other important export commodities such as aluminum and gold. The increase in metal prices continued in 2007 but is expected to reverse in 2008 (see table 1.1; UNCTAD 2007a; UN 2008).

Table 1.1

Indices of selected primary commodity prices, 2001-2006 (2000 = 100)

Commodity	2001	2002	2003	2004	2005	2006	2007	2008
ALL COMMODITIES	96.4	97.2	105.1	125.5	140.8	183.6		
Crude petroleum	86.7	88.4	102.4	133.8	189.1	227.8		
Food and tropical beverages	100.4	100.8	103.1	116.7	127.0	149.6		
Maize	101.2	111.7	118.9	124.9	109.9	136.8	184.7	195.8
Rice	84.7	94.1	97.9	120.6	141.2	149.0	157.9	165.8
Sugar	105.6	84.2	86.7	87.6	120.9	180.6	121.0	117.4
Coffee	70.2	71.8	80.6	92.3	131.8	144.8	149.1	137.8
Cocoa	122.7	200.3	197.7	174.5	173.3	179.4	211.7	205.3
Palm oil	92.1	125.8	142.9	151.9	136.1	154.2	237.5	261.2
Agricultural raw materials	96.1	93.8	112.4	123.5	132.3	152.2		
Cotton	81.0	78.1	107.1	103.6	91.5	97.0	101.4	111.5
Tropical logs	106.4	95.2	114.3	136.3	136.7	130.2	152.3	156.9
Rubber	85.9	114.3	162.0	194.9	224.4	315.2	334.1	317.4
Minerals, ores and metals	89.2	86.8	97.6	137.3	173.2	277.7		
Aluminum	93.2	87.1	92.4	110.8	122.5	165.9	174.2	165.5
Copper	87.0	85.8	96.6	152.8	198.4	361.2	382.9	344.6
Gold	97.1	111.1	130.3	146.6	159.4	216.6		

Source: *UNCTAD 2007a; Estimates for 2007 and forecasts for 2008 based on UN 2008.*

"The recent promotion of the use of bio-fuels has led to a price increase for some agricultural commodities"

The prices of agricultural commodities have been diverging, with the prices of maize and sugar increasing remarkably in 2006, while the prices of other commodities, such as coffee, cocoa, cotton and tropical logs, remained stable or even declined. The increase continued for some agricultural products in 2007 but is expected to reach a plateau in 2008. So far, traditional causes such as weather-related shocks and changes in global stocks are mainly responsible for the price developments. Growth in rice consumption is expected to be in line with population growth as per capita consumption in most developing countries is stable. However, rice stocks worldwide have declined and the global rice trade has expanded (see table 1.1; UN 2008; OECD and FAO 2007).

The recent promotion of the use of bio-fuels has already led to a price increase for some agricultural commodities and is expected to change market structures. The price of maize is growing despite an increase in production. Political support for bio-fuels in EU and the USA is mainly driven by concerns about future energy supply and the environment. In the USA, maize production for ethanol production is expected to double between 2006 and 2016. In EU, both bio-diesel and ethanol production are expected to increase to reach the target of 5.75 per cent share in total transport fuel consumption.

China is also expected to more than double its ethanol production, mainly based on maize, whereas ethanol production in Brazil is based on sugar. The production of oilseeds for bio-fuel is also increasing in Latin America. As bio-fuels will replace other crops in most industrial countries, it is expected that new land will be cultivated in many developing countries. Investment in processing capacity is expected to be particularly strong in India and China (OECD and FAO 2007).

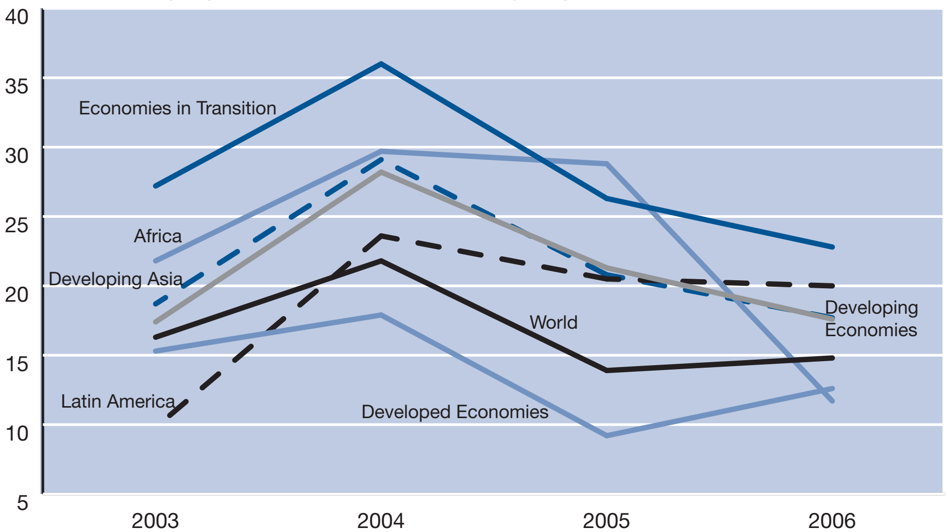
Income growth is also driving the fast growth in demand for vegetable oils. It is expected that the prices for rice, oilseeds, vegetable oils, sugar and diary products will increase further in the coming decade. While this has great potential to benefit African farmers, it might pose problems for net-food importers, especially the urban poor (OECD and FAO 2007; UN 2007).

1.5 Globalization trends and implications for Africa

The high growth of world exports that reached 14.8 per cent in 2006 is moderating in 2007, due to a decline in import demand in the USA. In 2006, export growth in developed countries was relatively high, at 12.6 per cent (see figure 1.7).

Figure 1.7

Annual average growth rates of exports by region (%)



Source: *UNCTAD 2007a.*

EU exports benefited particularly from increasing sales to oil-exporting countries in West Asia and in CIS. The USA also registered the highest export growth since 2000 in 2006, at 10 per cent, partly due to the depreciation of the dollar.

However, export growth was higher in developing countries at 17.6 per cent and even higher in transition economies at 22.8 per cent. Exports of Latin American and Caribbean countries grew fastest of all developing regions in 2006, at 20 per cent, followed by Asia at 17.7 per cent. This was largely driven by China (27.2 per cent) and India (21.5 per cent). Export growth in Africa slowed from around 30 per cent in 2004 and 2005 to 11.7 per cent in 2006 (UNCTAD 2007a and 2007b). Trends in African trade, especially inter-African trade, are discussed in chapter 3)

> *A recent development with important implications for Africa is the large increase in FDI originating from the South*

Global FDI flows have once more increased substantially, by 38 per cent in 2006, after an increase by 27 per cent in 2005. All major regions except Latin America have benefited from this large increase in net FDI inflows (figure 1.8). The EU share in world FDI inflows remained high at 43 per cent in 2006. Inward FDI to the USA recovered from its recent decline and grew by 73 per cent in 2006. The share of Asia declined slightly in 2006 for the first time since 2000. Net inward FDI to China also declined for the first time by 4 per cent in 2006, due to a large increase in outflows. FDI to Africa increased by 20 per cent in 2006, which is in line with the increase for developing countries on average, leaving its share in world investment almost unchanged. (The role of FDI in financing for development is discussed in Part II of this report.)

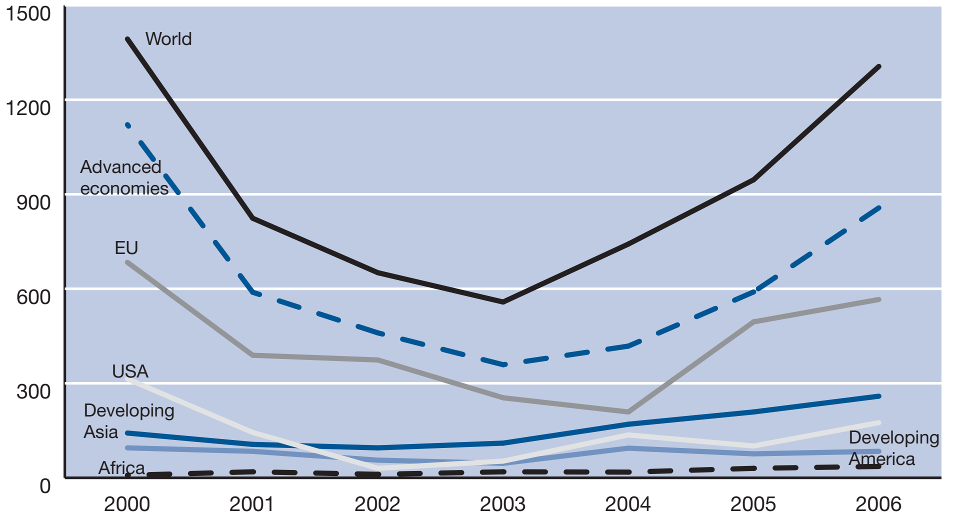
A recent development with important implications for Africa is the large increase in FDI originating from the South, which increased from just 5 per cent of world outward flows in 1990 to 17 per cent of the total in 2005. For example, China's outflows of FDI amounted to $16.1 billion in 2006 (up by 32 per cent over the previous year), resulting in a stock of FDI (excluding the financial sector) of $73 billion. This is partly a result of the "going abroad" strategy that was launched in 2000 by the Chinese Government (WAIPA 2007).

In addition, firms from oil-rich West Asian countries are investing in the services sector in Africa, especially in telecommunications, construction and port and terminal operations. For example, Investcom from United Arab Emirates (UAE) operates GSM mobile networks in Benin, Ghana, Guinea-Bissau, Liberia and Sudan (UNCTAD 2006). Investors from the Gulf States have also signed large agreements with North African countries in real estate development, tourism and telecommunications. For Tunisia alone, these agreements amount to more than $20 billion in the coming years (EIU 2007).

At the same time, FDI flows within Africa increased substantially in 2006, mainly originating from South and Northern Africa. These FDI flows are mostly in the natural resource and services sectors. In North Africa, Egypt has the largest outward investment. In 2004, ten South African firms were among the world's top 100 non-financial transnational companies from developing countries. Their operations range from mining to chemicals, metals and paper to retail, telecoms, media and transportation. The expansion of South African state-owned enterprises such as Eskom and Transnet reflects the Government's effort to improve infrastructure in Southern Africa in the context of the New Partnership for Africa's Development (NEPAD) (UNCTAD 2006; 2007).

> *"China has stepped up its aid mostly in the form of technical assistance, including training in Chinese institutions"*

Figure 1.8
FDI inflows by region, 2000-2006



Source: *UNCTAD 2007b.*

1.6 Asia - Africa exchange relations: benefits and challenges

The links between Asia and Africa have deepened significantly over the past decade in the areas of trade, investment and aid. China has stepped up its aid mostly in the form of technical assistance, including training of Africans in Chinese institutions. It also provides loans with an interest subsidy. As of 2006, existing loans and credit lines were estimated to be about $19 billion. However, this aid is concentrated in a small number of oil and mineral exporters, namely Angola, Equatorial Guinea, Gabon, Republic of Congo, and Nigeria.3 In addition, China cancelled an estimated $260 million in debt for the Democratic Republic of the Congo (DRC), Ethiopia,

3 China does not provide details about the level and terms of its aid to other countries.

Mali, Senegal, Togo, Rwanda, Guinea, and Uganda. It plans to double aid to Africa by 2009. The assistance is largely in infrastructure, such as energy, telecommunications and transportation, and construction. Most of the aid is provided in kind by Chinese companies, using Chinese inputs, including labour (Jacoby 2007).

India also offers some aid to Africa, mostly in the form of technical assistance, notably in the information technology (IT) and health sector. It set up a $50 million grant in 2005 for the establishment of a pan-African satellite/fibre optic network to establish effective communications and connectivity with all African countries. India is also making great strides in extending its economic influence to Africa's health sector and in pharmaceuticals by providing low-cost retrovirals, particularly to South Africa. In addition, it is supporting many African countries in developing their agricultural capacities, with improved seeds, soil nutrition methods and irrigation facilities (Singh 2007).

> *"Asian sourced imports, particularly in the clothing and furniture sectors, have had detrimental impacts on local industries"*

Trade between Africa and Asia has been growing very fast since 2000, both in terms of exports and imports. African exports to China have more than quadrupled between 2000 and 2005 to $19.5 billion. African imports from China have risen a bit slower to $14.9 billion in 2005. Thus, China accounts for 7 per cent of Africa's exports and 6 per cent of its imports. It accounted for about one fifth of total African export growth between 2000 and 2005 and has become Africa's third largest trading partner (27%), after the US (32%) and EU (29%) (UNCTAD 2007a).

So far, African exports to China and India have consisted mostly of raw materials, corresponding with the investment focus. For example, Nigeria is India's biggest African trading partner, with 96 per cent of imports from Nigeria being oil. Exports of agricultural commodities are also significant. Chinese cotton imports contributed to 41 per cent of the growth of cotton exports of all cotton-producing countries in Africa. These exports contributed to 1.1 per cent of the GDP growth of these countries. China has also announced its intention to boost trade access for most least developed African countries by raising the number of their export items that receive zero-tariff treatment from 190 to 440, thus improving the prospects for diversification of exports (for more details on trade preferences see chapter 3; Jacoby 2007; ECOWAS-SWAC/OECD 2006).

In contrast, African imports from Asia consist mainly of manufactured products. India exports mainly pharmaceutical products, manufactured goods, rice and cereals. China's exports of cheap manufactured goods such as electronics and household items have increased competition for domestically manufactured goods. Asian-sourced imports, particularly in the clothing and furniture sectors, have had a detrimental impact on local industries. For example, more than ten clothing factories have shut down in Swaziland, causing a loss of up to 12,000 jobs (ECOWAS-SWAC/OECD 2006; Jacoby 2007; Singh 2007).

The biggest opportunities and challenges appear to be in the area of Asian investment in Africa. The volume of FDI from India is much larger than that from China, with about four times the stock in 2002. Moreover, Indian investment in Africa is more diversified and focused on the domestic market. Chinese state-owned companies often enter into joint ventures with African firms to secure sources of commodities. More than 700 Chinese enterprises are now operating in Africa, mainly in resource sectors.

"International policy coordination is critical to avoid disorderly adjustment and the spread of the financial crisis"

Closer relations with Asia could also provide new opportunities for African economies. Given the increasing population with a higher disposable income in many Asian countries, tourism is expected to grow. China has already identified 16 African nations as tourist destinations and this resulted in travel to Africa by 110,000 Chinese tourists in 2005, an upsurge of 100 per cent from 2004. This inflow of tourism is further facilitated by the expansion of air transportation between African and Asian cities (Shinn 2006).

African firms could benefit from cooperation with Asian counterparts through technology transfer. Transfer of technology and management should be easier from Asian firms than those from the industrial countries. In addition, Asian firms have successfully entered western markets, through meeting technical and quality standards from which African firms could learn. However, to maximize these benefits, the impact of Asian investment on employment of local labour needs to increase. Thus, African countries also need to invest in education and skills acquisition to meet the induced labour demand (Jacoby 2007; Singh 2007).

1.7 Conclusions

Whereas the international environment for growth in Africa is still favourable, risks from global imbalances, especially the subprime mortgage crisis in the USA, have increased. International policy coordination is critical to avoid disorderly adjustment and the spread of financial crisis.

Continuing high oil and mineral prices have increased revenues for many African countries. In the medium term, price expectations for a number of agricultural commodities are high due to increasing demand from Asia and the increasing use of biofuels. This has the potential to increase the income of the rural population in many African countries.

The intensification of ties with Asia in terms of aid, trade and FDI holds both benefits and challenges for Africa. Through these channels, Asian growth provides African governments with increased revenues through exports and thus, the possibility to spend more on achieving the Millennium Development Goals (MDGs). It also improves opportunities for direct employment and better conditions for local firms.

However, African manufacturing firms risk losing local markets if they are not able to compete with imports from Asia. African countries need to improve their business environment and increase investment in skills development to be able to benefit more from the relations with Asia. In turn, Asian companies should employ more local people, allowing for more learning by doing to take place.

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Growth and Social Development in Africa in 2007 and Prospects for 2008

2

Economic performance in Africa continued to improve in 2007. The continent recorded a high level of growth, improved fiscal and current account balances, a relatively stable macroeconomic environment and increasing domestic savings and investment rates. However, these improvements were mainly due to high oil revenues in oil-exporting countries and remain insufficient for Africa to meet the MDGs. The continent needs to sustain high levels of growth in order to achieve meaningful economic and social development.

> *As in previous years, Africa's growth performance in 2007 was driven mainly by robust global demand and high commodity prices*

2.1 Growth performance

2.1.1 Africa sustains strong economic performance in 2007

Africa has maintained the strong growth momentum of the last few years and achieved a 5.8 per cent growth rate in 2007, up from 5.7 per cent in 2006 and 5.2 per cent in 2005.[1] As in previous years, the growth performance in 2007 was driven mainly by robust global demand and high commodity prices. Other factors underpinning the sustained growth momentum include continued consolidation of macroeconomic stability and improving macroeconomic management, greater commitment to economic reforms, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. Africa has also witnessed a decline in political conflicts and wars, especially in West and Central Africa, though peace remains fragile in some parts of the continent.

African exports of goods and services recorded a 15.2 per cent increase in value in 2007 compared with a 13.2 per cent increase in imports (UN-DESA, October 2007a). Many African countries have implemented macroeconomic as well as microeconomic reforms that have resulted in a generally improved business environment and investment climate. Increased aid and debt relief have helped the continent to attract high net private capital inflows ($29 million in 2005, 25 million in 2006

1 All the growth and inflation data are from UN-DESA, October 2007, except for data for Swaziland and Seychelles, which come from the Economist Intelligence Unit (EIU).

and 22 million in 2007). Also macroeconomic stability, among other factors, has contributed to an increase in the domestic savings rate; from 25.3 per cent in 2006 to 26.3 per cent in 2007 (see IMF 2007a).

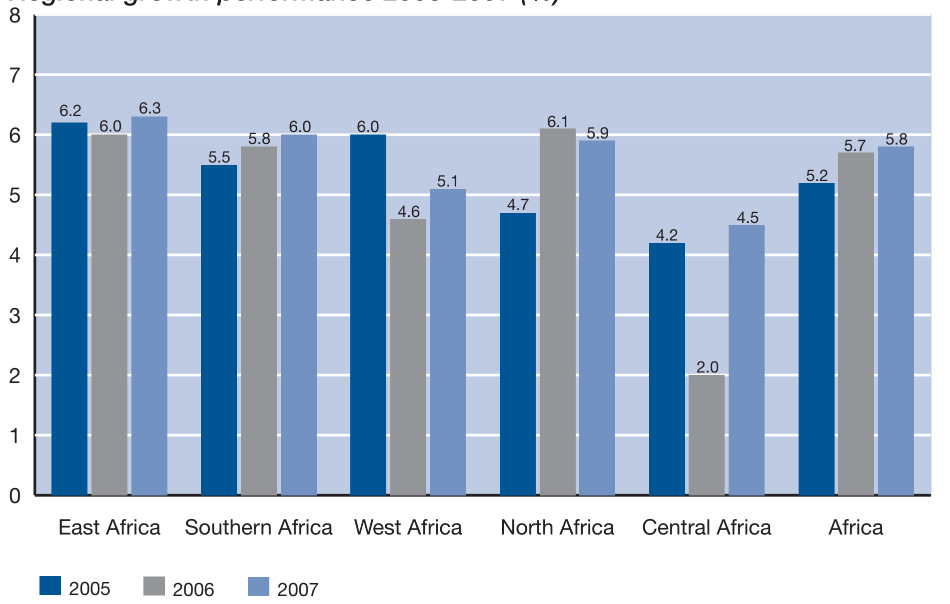
Growth in Africa is widely shared across regions

These improvements need to be widened, deepened, and sustained if Africa is to accelerate and sustain growth beyond the ongoing commodity boom. The continent also needs to promote high-quality growth that is broadly shared in terms of generating decent employment, helping to reduce poverty and achieving the MDGs. The recorded real per capita income growth rate (0.3 % during 1990-2002 and 3.0% in 2003-2007) is insufficient for Africa to make any significant progress towards achieving the MDGs. The continent's ability to accelerate and sustain growth hinges crucially on its progress towards diversification of its sources of growth and success in mobilizing domestic and external financial resources for increasing domestic demand in general and investment demand in particular.

2.1.2 Regional performance

Whereas growth performance slightly decelerated in North Africa, all other regions experienced higher growth in 2007 compared with 2006 (figure 2.1). This indicates that growth in Africa is widely shared across regions. East Africa, a non-oil region with limited mineral exports, continued to lead economic performance in Africa, whereas Central Africa lagged behind all other regions over the same period.

Figure 2.1
Regional growth performance 2005-2007 (%)



Source: *UN-DESA, October 2007a.*

Strong commodity demand and continued high prices combined with favourable rainfall and accelerated growth in agriculture boosted economic activity in the industrial and services sectors as well as overall growth in most of East Africa. Ethiopia led the region with a 9.5 per cent real GDP growth rate in 2007, followed by Tanzania (7.0%), DRC (6.5%), Madagascar (6.4%), Kenya (6.1%), Uganda (6.0%) and Seychelles (5.8%). Other growth factors in the region include increased government investment in infrastructure, policies to encourage private sector development, investment in manufacturing, and rising FDI and tourism receipts. However, it is worth noting that failure to manage post-election violence in Kenya could have an important adverse impact on East Africa's growth in 2008.

"East Africa's growth remains constrained by inadequate infrastructure, especially roads and power supply"

The end of fighting boosted agriculture and growth in DRC, while Kenya recorded broad-based growth involving most economic sectors. The three least-performing countries in the region continue to suffer from the same factors that constrained growth in previous years: civil conflict in Somalia (-3.5%), political instability and excessive economic controls by the central government in Eritrea (2.0% growth) and low vanilla export prices and tourism receipts in Comoros (1.0%). Despite progress, East Africa's growth remains constrained also by inadequate infrastructure, especially roads and power supply, which raises production costs and undermines international competitiveness.

With increasing oil production, Angola continued to lead Southern Africa in terms of real GDP growth (21.0% in 2007) despite its weak physical and human infrastructure and poor legal and regulatory environment. Malawi sustained the high growth of 2006 to record 8.5 per cent in 2007, owing to continuing agricultural recovery. Macroeconomic stability and continued donor support assisted Mozambique in maintaining high growth (7.5% in 2007). The factors driving growth in many countries of the region include the improved performance of the agricultural, mining and tourism sectors and expansion in manufacturing and construction.

Economic performance in South Africa remains robust (4.8%), thanks to expansion in construction and mining and increased investment in the corporate sector. Zimbabwe and Swaziland continue to be the least performing countries in Southern Africa owing to political instability in Zimbabwe and the impact of drought and declining production in the textile industry in Swaziland.

As in previous years, North Africa's growth remained high (5.9% in 2007) with increased oil and gas production and high oil prices. Additional growth factors include increased FDI flows (to Sudan for example) and increased public investment (Algeria and Libya). Sudan recorded the highest growth rate (11.0%) in 2007 followed by Egypt (7.0%) and Tunisia (6.0%). Economic reforms that stimulated domestic investment and a rebounding tourism sector underpinned growth in Egypt, while growth in Tunisia benefited from expansion in industry and the services sectors, which contributed to faster economic diversification. Real GDP growth rate declined sharply in Morocco (from 7.9% in 2006 to 3.0% in 2007) due to adverse weather conditions and declining agricultural output. In Mauritania, real GDP growth went from 11.4% in 2006 to 1.0% in 2007, because of the contraction in oil production caused by technical problems at the Chinguetti field.

"Economic reforms that stimulated domestic investment and a rebounding tourism sector underpinned growth in Egypt"

Accelerated growth in Senegal and Guinea-Bissau in 2007 relative to 2006 and sustained recovery in Liberia and Sierra Lone underpinned the rise in GDP growth in West Africa this year (5.1%, up from 4.6% in 2006). The region as a whole benefited from good rainfall and strong agricultural performance as well as from high commodity prices, despite the negative effect of high energy costs on oil-importing countries.

Côte d'Ivoire and Guinea are the two countries in the region with the lowest growth rates in 2007, at 2.0 and 1.5 per cent, respectively. Political instability, depleted infrastructure and weak economic institutions adversely affected investment and production in Côte d'Ivoire, especially in the cocoa and petroleum sectors. In addition to political instability, growth in Guinea remains weak due to poor performance in agriculture, poor infrastructure and the burden of high oil prices.

Although still lagging behind other regions, real GDP growth in Central Africa jumped from 2.0 per cent in 2006 to 4.5 per cent in 2007. Increased oil and gas production and revenue stimulated non-oil activity and pushed growth to 10.0 per cent in Equatorial Guinea and 4.9 per cent in Gabon in 2007. However, owing to lower oil production, growth decelerated from 6.1 per cent in 2006 to 4.0 per cent in 2007 in the Republic of Congo and from 0.5 per cent to -0.5 per cent in Chad. This underscores the need for economic diversification away from the resource-extractive sector, to accelerate and sustain growth.

Expansion of oil-related services and the continued construction and tourism boom underpinned the strong economic performance in Sâo Tome and Principe (6.5%), while a weak business environment inhibited growth in Cameroon. Political instability continued to discourage investment and constrain the provision of essential public services in the Central African Republic. Addressing security problems and achieving high and sustained growth in Central Africa will require substantial investment in infrastructure to induce private sector activity and economic diversification.

2.1.3 Resource-rich vs. non-resource-rich countries: challenges and policies

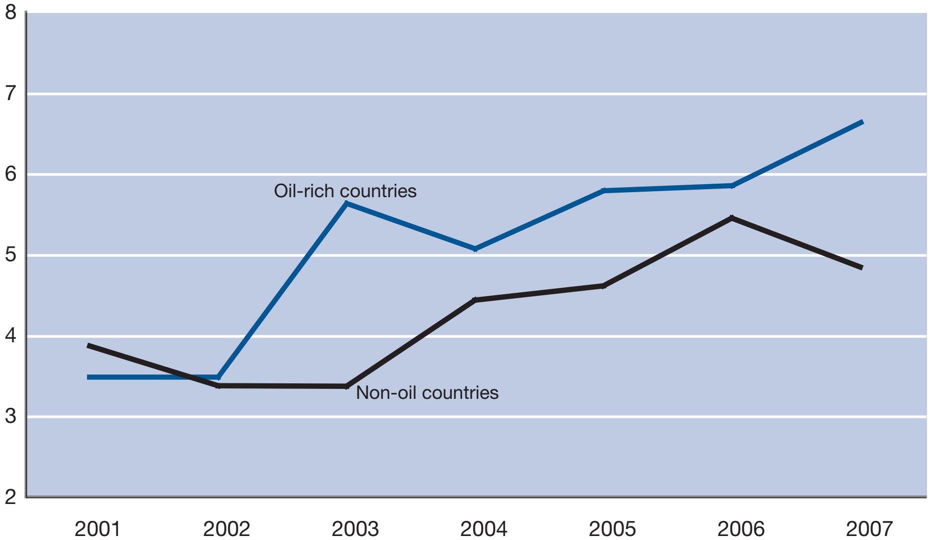
Africa's economic performance in 2007 is a continuation of the growth cycle driven by the commodity boom, particularly due to high oil prices. This cycle started in the late 1990s and gathered momentum after year 2000. Although both oil-importing and oil-exporting African countries have sustained relatively high and increasing growth rates during this period, economic growth in the former group was generally lower than in the latter (figure 2.2). The contribution of the 13 oil economies to Africa's GDP growth increased from 55.5 per cent in 2006 to 61.5 per cent in 2007.

Increased oil production and revenue underpinned the high growth rate (6.6%) recorded by oil-exporting countries in 2007 compared to 2006 (5.8%). Governments can use oil revenue to finance increased domestic investment to boost infrastructure and energy supply and to improve access to, as well as the quality of public services. This can stimulate domestic demand and production in the non-oil sector, especially in the services and construction sectors. The multiplier effect of oil revenue can be large given the right economic environment and policy.

"The contribution of the 13 oil economies to Africa's GDP growth increased from 55.5 per cent in 2006 to 61.5 per cent in 2007"

Figure 2.2

Real GDP growth in Africa, oil vs. non-oil economies

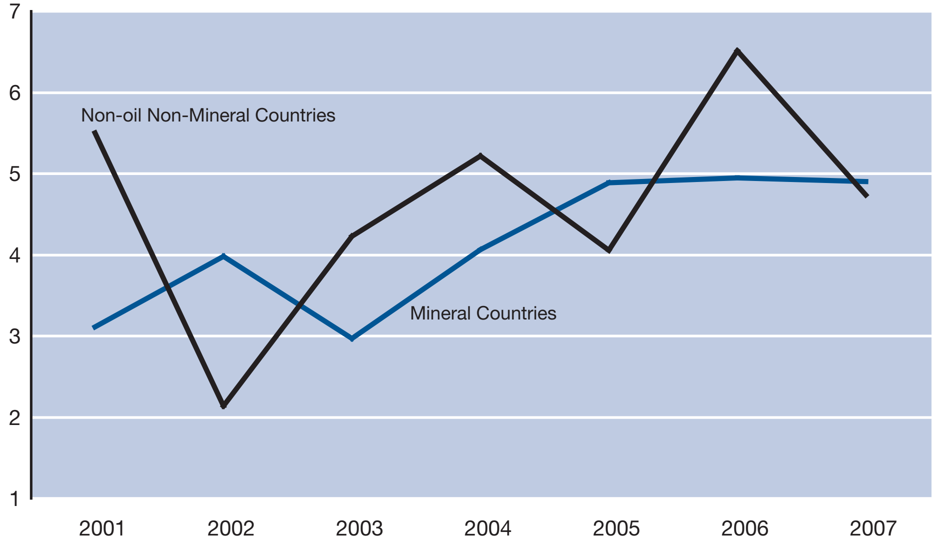


Source: *UN-DESA, October 2007a.*

Adequate strategies for managing commodity revenue should focus on how to increase productive capacity and avoid the accumulation of low-return excess foreign exchange reserves that has characterized many oil-exporting countries in recent years. Failure to adequately manage commodity income can lead to a concentration of economic activity in the commodity sector as well as the Dutch Disease problem that undermines expansion in other sectors.2 This seems to be the case in mineral-rich African economies. Despite huge windfall income as a result of high commodity prices, these countries as a group achieved a lower growth rate over the medium term (2002-2007) compared to non-mineral and non-oil-exporting African economies (figure 2.3).

Figure 2.3

Growth in mineral-rich vs. non-oil, non-mineral-rich African countries, 2002-2007 (%)



Source: *UN-DESA, October 2007a.*

High oil prices constrain growth in oil-importing countries because they are unable to improve infrastructure and public services to stimulate private sector development

However, sustained high oil prices pose even greater challenges to oil-importing African countries with regard to macroeconomic management that is, maintaining sound macroeconomic balances while mobilizing enough resources to finance public expenditure. So far, economic performance in oil-importing African economies has been resilient despite high oil prices, thanks to strong global demand for other commodities (tea, coffee, oil, ores, and metals), prudent macroeconomic management, relatively high official capital flows, and remittances.

High oil prices constrain growth in oil-importing countries because they are unable to improve infrastructure and public services to stimulate private sector development. Consequently, they remain highly vulnerable to external shocks. As discussed in detail in previous ECA reports, oil-importing African economies need external assistance over the short to medium term to face the challenges of high oil prices,

2 Dutch Disease refers to a situation where high commodity exports and revenue cause currency appreciation that reduces the competitiveness of the non-commodity sector.

before they can develop effective alternative sources of energy and adapt to persistently higher import bills (UNECA/AU 2007a).

The vulnerability of Africa's growth to developments in commodity markets and political instability can be easily seen from a cursory look at the list of top and least performers in 2007 (figure 2.4). Six of the top performers are oil- or mineral-rich economies (Angola, Sudan, Egypt, Equatorial Guinea, Mozambique and Tanzania), while one country (Liberia) is a post-conflict recovery case. The structure of the remaining top-performing economies is heavily dominated by agriculture (Ethiopia and Malawi) or services (Gambia).

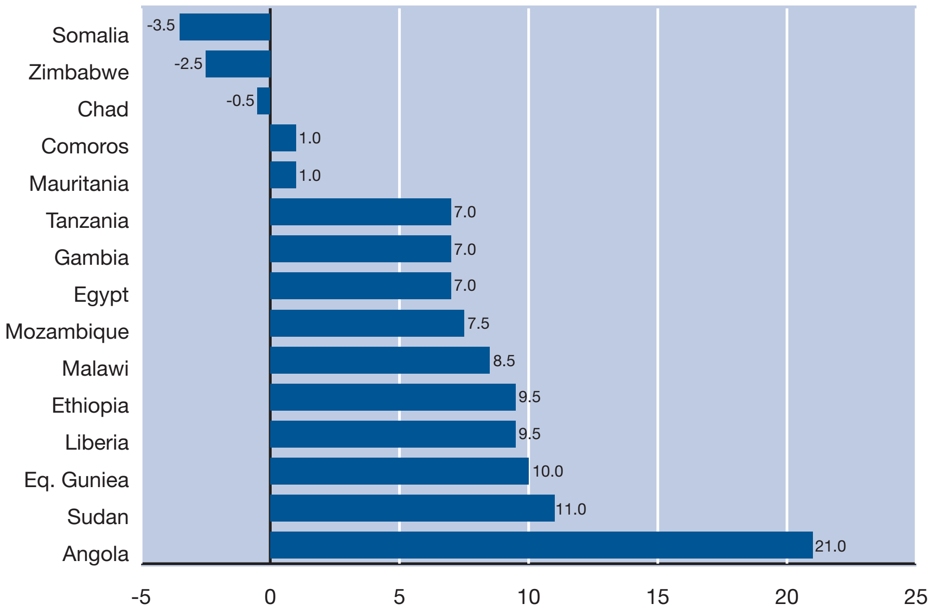
"Even top-performing economies are characterized by extremely limited diversification in terms of manufactured output and exports"

Aside from Egypt, the top-performing economies are characterized by extremely limited diversification in terms of manufactured output and exports and lack the requirements for sustaining growth. It is interesting to note that the least-performing five economies share similar characteristics to the top performers. Mauritania and Chad are oil-rich countries while Zimbabwe is a mineral-rich country.

However, Somalia and Zimbabwe have suffered from political instability and this has had adverse consequences on economic performance. Chad, Comoros and Mauritania are confronted with declining commodity output and exports, a situation that illustrates the urgent need for economic diversification on the continent.

Figure 2.4

Top 10 and bottom 5 performers in Africa in 2007 (% annual growth)



***Source:** UN-DESA, October 2007a.*

2.1.4 Fiscal sustainability is a major concern especially for oil-importing countries

High oil prices put pressure on the fiscal balances of oil-importing African economies

On average, Africa maintained an overall budget surplus amounting to 2.4 per cent of GDP in 2007 compared with 2.8 per cent in 2006. However, the average fiscal position is mainly a reflection of developments in the 13 oil-exporting countries that maintained an average fiscal surplus of 5.3 per cent of GDP in 2007 and 6.1 per cent in 2006. Only 15 of the 42 African countries with available data had a budget surplus in 2007 and while over 60 per cent of oil-exporting countries had fiscal surpluses, 76 per cent of oil-importers had deficits (table 2.1).

Table 2.1

Distribution of fiscal deficits in Africa (42 countries), 2007

	Oil countries	Non-oil countries	Mineral-rich	Non-oil, non-mineral-rich
Countries with surpluses	**8**	**7**	**3**	**4**
Less than 5%	**1**	**4**	**2**	**2**
5% to 10%	3	2	1	1
More than 10%	4	1	0	1
Countries with deficits	**5**	**22**	**7**	**15**
Less than 5%	4	15	3	12
5% to 10%	1	6	4	2
More than 10%	0	1	0	1
Total number of countries	13	29	10	19

Source: *EIU, October 2007.*

Note: *Due to data limitations, only 42 countries are covered. The 11 excluded countries are Central African Republic, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Republic of Congo, Sierra Leone, and Somalia.*

Based on average fiscal balance, the percentage of oil-importing countries having a deficit was even higher (93%) over the period 1998-2007 (table 2.2). Evidently, high oil prices put pressure on the fiscal balances of oil-importing African economies, where the average budget deficit increased from –1.1 per cent of GDP in 2006 to –1.2 per cent in 2007.

Table 2.2

Distribution of fiscal deficits in Africa by resource group, 1998-2007 (average)

	Oil countries	Non-oil countries	Mineral-rich	Non-mineral-rich
Countries with surpluses	**7**	**2**	**1**	**1**
Less than 5%	2	2	1	1
5% to 10%	3	0	0	0
More than 10%	2	0	0	0
Countries with deficits	**6**	**27**	**9**	**18**
Less than 5%	5	18	6	12
5% to 10%	1	7	2	5
More than 10%	0	2	1	1
Total number of countries	13	29	10	19

Source: *EIU, October 2007.*

Note: *Due to data limitations. only 42 countries are covered. The 11 excluded countries are Central African Republic, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone, and Somalia.*

The list of the 10 highest fiscal surplus countries and the 10 largest deficit countries confirms the role of oil and minerals in determining the fiscal position of African countries (table 2.3). All the highest surplus countries are oil-rich, mineral-rich or both. The countries with the largest budget deficits are mostly countries that are exposed to recurrent internal shocks (e.g. rainfall irregularities and political conflicts) and external shocks (e.g. agricultural commodity markets). These countries (including Eritrea, Ghana, Guinea, Malawi, Sâo Tome and Principe and Zimbabwe) lack adequate economic diversification for absorbing the impact of shocks on their fiscal performance.

It is worth noting that although most oil-importing African countries had to live with budget deficits over the last decade, the average deficit has been small relative to GDP. Successful response to the fiscal challenge of high oil prices was possible in many countries because they abandoned the policy of fuel subsidies and allowed exchange rates to adjust. This meant that the changes in oil prices were ultimately borne by the consumers.

Further wide-scale privatization of public enterprises and rationalization of government consumption of oil have undoubtedly assisted in containing the impact of high oil prices on fiscal balances. At the same time, many countries were able to increase tax revenue thanks to GDP growth and tax reforms, including introduction of VAT and other strategies that enhance efficiency in tax administration.

Containing the effect of high oil prices on fiscal balances does not necessarily eliminate their negative impact on the economy in general. Indeed, reduced public expenditure has meant less spending on basic public services and slow progress towards achieving the MDGs. Most African countries allocate only 3 to 4 per cent of GDP to health and education and fall short of the benchmark of 20 per cent of government budget earmarked for education and 15 per cent for health (World Bank/IMF 2005; UNECA 2007b).

"Reduced public expenditure has meant less spending on basic public services and slow progress towards achieving the MDGs in many countries"

Table 2.3

The 10 countries with the largest fiscal surplus and the 10 countries with the largest deficits, 1998-2007 (average)

Country	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average (1998-2007)
					Surplus countries						
Libya	-3.2	6.7	14.4	-0.8	10.8	10.1	14.6	32.8	38.3	36.0	19.8
Equatorial Guinea	-1.4	2.0	8.3	15.5	12.9	6.3	11.8	21.1	27.4	22.7	19.0
Algeria	-3.8	-0.5	9.7	3.7	1.2	4.9	5.3	13.7	14.9	13.3	8.1
Congo, Repub.	-19.5	-5.6	1.1	-0.9	-8.2	-0.1	3.9	16.4	15.9	15.2	7.1
Gabon	-13.8	1.2	11.6	4.1	2.0	7.4	7.7	8.7	9.8	10.0	6.1
Botswana	-6.4	5.9	9.7	-2.9	-3.7	-0.3	1.2	8.1	11.3	9.5	4.4
Cameroon	3.5	6.9	-0.6	1.4	2.5	1.5	-0.3	4.0	6.1	4.6	3.2
Lesotho	-3.8	-5.2	-3.3	-0.6	-5.6	0.8	8.5	2.9	14.4	6.5	3.1
Angola	-11.4	-35.1	-8.4	-3.6	-9.0	-6.4	-1.6	7.3	14.8	6.1	1.9
					Deficit countries						
Gambia	-2.4	-3.5	-1.4	-13.9	-4.6	-5.5	-5.8	-9.1	-5.2	-1.0	-5.1
Morocco	-4.0	0.9	-7.8	-10.3	-5.6	-6.5	-6.0	-7.2	-4.1	-2.7	-5.2
Cape Verde	-4.1	-13.0	-20.3	-4.5	-2.8	-3.5	-3.8	-5.1	-3.8	-3.6	-5.6
Malawi	-5.1	-5.6	-6.4	-8.5	-12.6	-8.6	-5.8	-2.7	-3.8	-2.6	-6.0
Ghana	-7.0	-6.5	-9.7	-9.0	-6.8	-4.4	-3.6	-2.1	-7.8	-6.3	-6.0
Sâo Tome and Principe	-30.5	-25.9	-16.7	-22.1	-13.2	-17.0	-26.6	53.7	-20.0	16.6	-6.0
Guinea	-3.6	-5.3	-5.5	-7.5	-8.2	-6.2	-5.0	-6.5	-7.8	-8.8	-6.5
Egypt	-	-	-	-	-8.7	-7.8	-7.6	-8.3	-7.9	-5.5	-7.5
Zimbabwe	-9.5	-9.7	-21.5	-8.9	-4.3	-1.2	-6.1	-1.6	-11.3	-8.4	-12.5
Eritrea	-36.6	-52.1	-13.5	-15.6	-22.5	-18.7	-15.4	-15.5	-16.5	-17.1	-21.5
Africa*	**-3.5**	**-2.2**	**-0.2**	**-2.1**	**-3.0**	**-2.0**	**-1.3**	**1.7**	**2.8**	**2.4**	**-0.1**
Africa, excl. NA	**-3.4**	**-3.6**	**-2.5**	**-2.3**	**-2.8**	**-2.3**	**-1.9**	**-0.2**	**0.5**	**0.0**	**-1.4**

Source: *EIU, October 2007.*

Note: *Due to data limitations, only 42 countries are covered. The 11 excluded countries are Central African Republic, Comoros, DRC, Djibouti, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Sierra Leone, and Somalia.*

Expenditure reduction has a substantial adverse multiplier effect on growth in Africa because budget cuts usually target capital expenditure, resulting in slower growth of public infrastructure and poor maintenance of existing infrastructure. This in turn undermines private investment and productive capacity utilization. As a result, maintaining fiscal stability in the face of high oil prices remains a major concern for many governments that rely heavily on donor support. It is important that donors and the international development community at large scale up financial support, preferably through grants and debt relief, for oil-importing African countries to maintain fiscal stability.

Recent increases in aid flows to Africa were largely due to the debt relief delivered to a select group of countries, while FDI inflows were concentrated in resource-rich countries. Therefore, donors have the responsibility not just to live up to their commitments to increase the quantity of aid but also to improve its quality (see Part II).

"High oil prices pose a major threat to Africa in terms of controlling inflation in both oil-exporting and oil-importing countries"

2.1.5 Inflationary pressures are intensifying due to high oil prices

High oil prices pose a major threat to Africa in terms of controlling inflation in both oil-exporting and oil-importing countries. Africa seems to be more exposed to this threat than are other developing regions. While Africa's average inflation has been contained at low levels over the last 5 years (6.3% in 2007), there are wide cross-country variations. Table 2.4 shows that about 60 per cent of African countries recorded a 5 per cent or more inflation rate in 2007, up from 52 per cent in 2006. The respective percentages for oil-exporting and oil-importing economies are 46 per cent and 65 per cent in 2007. This underscores the fact that inflation is edging up in both oil-importing and oil-exporting African countries.

Table 2.4
Distribution of inflation rates in Africa, 2007 (53 countries)

Range	Africa	Oil countries	Non-oil countries	Mineral-rich	Non-mineral-rich
Less than 5 %	21	7	14	3	18
Between 5 and 10 % (10% excluded)	20	5	15	8	12
Between 10 and 20 % (20% excluded)	9	1	8	3	6
20% and higher	3	0	3	2	1
Total number of countries	53	13	40	16	37

Source: *UN-DESA, October 2007a.*

> *Intensifying inflationary pressure is a major concern for the poor who lack adequate safety nets*

Whereas high oil prices push production costs up for oil-importing countries, causing prices to increase, increased oil revenues cause rapid increases in domestic demand, which cause prices to rise in oil-exporting countries (overheating). Thus, the list of high inflation countries includes oil- and mineral-rich countries (e.g. Angola and DRC) as well as countries such as Ethiopia, Eritrea and Zimbabwe that were subjected to strong exogenous shocks (mainly drought and food shortages) during the period 2000-2007 (table 2.5). In fact, only one country (Côte d'Ivoire) among the 10 lowest inflation countries in 2006-2007 is classified as an oil-exporting country. Owing to unfolding political crisis, ineffective macroeconomic policies and recurrent drought, Zimbabwe sustained the highest inflation rate in Africa over the last 10 years.

Intensifying inflationary pressure is a major concern for the poor, who lack adequate safety nets, as high inflation rates always have stronger impact on the price of basic consumer goods. At the same time, governments rely on tighter fiscal and monetary policies beside currency appreciation to avoid acceleration of inflation at the cost of lower growth. The potential adverse growth impact of these policies makes macroeconomic management increasingly difficult and costly for oil-importing countries.

Oil exporting countries need appropriate policies to avoid economic overheating. To do so, they must direct a sizeable proportion of oil revenues to finance real domestic investment. This will help them to build productive capacity instead of direct increases in government and private consumption that create excess demand when the economy does not have the capacity to respond. They must also consider saving an appropriate part of the revenues for stabilization purposes and for the service of future generations.

Table 2.5

The 10 countries with the largest inflation and the 10 countries with the lowest inflation, 2000-2007 (average)

Country	2000	2001	2002	2003	2004	2005	2006	2007	Average 2006-2007
				High inflation countries					
Zimbabwe	55.6	73.4	133.2	365.0	350.0	237.8	1016.7	6840.0	3928.4
Guinea	6.8	5.4	3.0	12.9	17.5	31.1	34.7	24.0	29.4
Eritrea	21.0	12.4	17.4	22.7	25.1	12.5	17.3	23.5	20.4
São Tomé and Príncipe	12.2	9.2	10.1	9.9	13.8	17.1	23.6	15.0	19.3
DRC	550.0	360.0	25.0	12.8	4.0	21.4	13.2	17.8	15.5
Somalia	10.0	10.0	10.0	12.0	12.0	12.0	14.0	15.0	14.5
Ethiopia	8.0	-8.2	1.6	17.8	3.3	11.6	13.5	14.5	14.0
Mozambique	12.7	9.0	16.8	13.5	12.6	6.4	13.2	13.2	13.2
Angola	325.5	152.6	108.9	98.2	43.5	23.0	13.3	12.6	13.0
Kenya	10.0	5.7	2.0	9.8	11.7	10.3	14.5	9.3	11.9
				Low-inflation countries					
Morocco	1.9	0.6	2.8	1.2	1.5	1.0	3.4	2.1	2.7
Cote D'Ivoire	2.5	4.3	3.1	3.3	1.4	4.0	2.6	2.5	2.6
Seychelles	6.3	6.0	0.2	3.3	3.9	0.9	-0.4	4.4	2.0
Burkina Faso	-0.3	5.0	2.3	2.0	-0.4	6.4	2.8	1.1	2.0
Guinea-Bissau	8.9	3.2	3.9	-3.5	0.9	3.4	1.9	1.4	1.7
Senegal	0.7	3.0	2.3	0.0	0.5	1.7	1.9	1.4	1.7
Benin	4.2	4.0	2.5	1.5	0.9	5.4	3.0	0.2	1.6
Togo	1.9	3.9	3.1	0.9	0.4	6.8	2.0	1.1	1.6
Mali	-0.7	5.2	5.0	-1.3	-3.1	6.4	1.2	0.3	0.8
Niger	3.0	4.0	2.6	-1.6	0.2	7.8	0.4	0.6	0.5
Africa		**10.4**	**6.9**	**7.0**	**6.5**	**5.6**	**6.1**	**6.3**	**6.2**
Africa, excl. NA		**17.6**	**11.5**	**10.2**	**7.1**	**7.5**	**7.0**	**6.8**	**6.9**
North Africa		**1.1**	**1.0**	**2.8**	**5.8**	**3.2**	**5.0**	**5.6**	**5.3**

Source: *UN-DESA, October 2007a.*

2.1.6 External balances of oil-importing countries are worsening due to high oil prices

High and volatile oil prices often translate into highly volatile external balances, especially for oil-exporting countries. Africa's current account surplus declined from 5.0 per cent of GDP in 2006 to 1.7 per cent in 2007 (figure 2.5). This decline was the result of widening current account deficits in oil-importing countries (from –4.4 per cent of GDP in 2006 to –5.0 per cent in 2007), as well as falling surpluses in oil-exporting countries (from 13.4 per cent in 2006 to 9.5 per cent in 2007). Despite high oil prices, the current account surplus in oil-exporting countries declined due to lower oil production and exports in some of these countries. The current account balance has worsened for Africa excluding NA, from a surplus (0.5 per cent of GDP) in 2006 to a deficit (-2.6 per cent) in 2007.

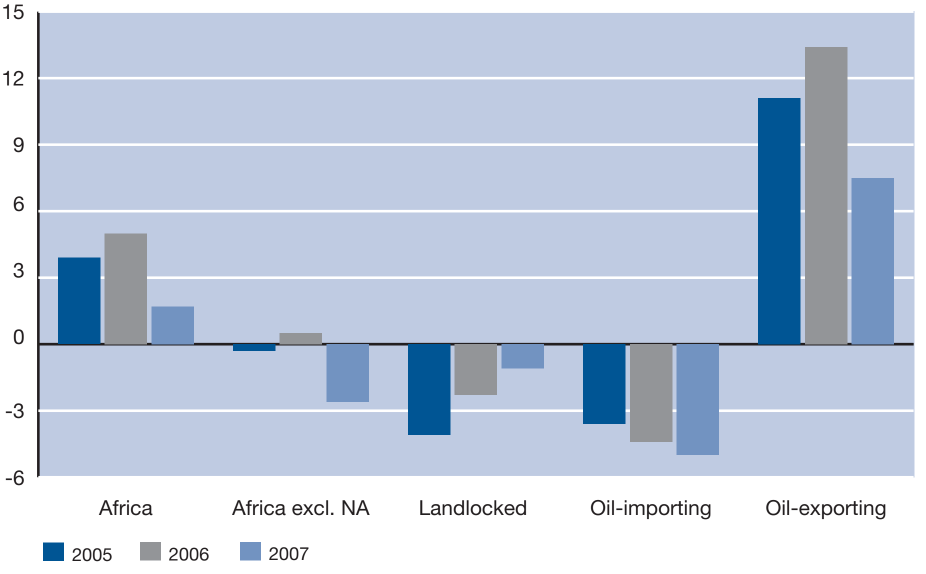
"The current account balance has worsened for Africa excluding NA"

Due to high transportation costs and weak international competitiveness, landlocked African economies tend to have larger current account deficits compared with other African countries. However, these deficits have declined in 2007 (to –1.1 per cent of GDP, from –2.3 per cent in 2006), thanks to increased aid flows, mostly in the form of debt relief.

As in previous years, sustained high oil prices are a major concern to oil-importing African countries in terms of current account sustainability and the ability to maintain the recent growth momentum. Together with other indicators, this underscores risks to macroeconomic stability and growth prospects especially for landlocked African economies. Rationalizing oil consumption and developing alternative sources of energy such as hydropower is one way that oil-importing African countries can reduce their import bill. In the short term, these countries need external support to meet their expenditure needs while minimizing macroeconomic instability. Medium- to long-term strategies must focus on increasing investment in infrastructure, building productive capacity, diversifying exports and promoting international competitiveness.

Figure 2.5

Current account balance in Africa by category, 2005-2007 (% of GDP)



Source: *IMF, World Economic Outlook Database, October 2007.*

Note: *Excluding Somalia due to lack of data.*

2.1.7 Currency appreciation threatens international competitiveness

In line with the Euro, the CFA appreciated substantially against the US dollar in nominal terms. As a result, exports of the Franc Zone are losing competitiveness outside the Euro area. Most other African currencies have also continued to appreciate against the US dollar in 2007. Since the bulk of African exports are valued in US dollars and export prices have remained fairly stable, in addition to discouraging imports from Africa, currency appreciation implies a decline in the profitability of African export-oriented activities.

> *Currency appreciation, implies a decline in the profitability of African export-oriented activities*

Meanwhile, because it makes imports cheaper in domestic markets, this puts pressure on the current account balance. This has been the case in most oil-exporting countries, with negative effects on economic diversification and job creation. Thus, managing exchange rates is a major challenge for oil-exporters and other countries with high commodity income.

Based on real effective exchange rate (REER), 23 of the 36 African countries with available data experienced currency appreciation over 2002-2007. However, only 3 countries recorded more than a 10 per cent average annual currency appreciation rate, and none of the countries considered experienced a REER depreciation of more than 10 per cent per annum. Zimbabwe, Angola, Zambia, Sudan and South Africa were the 5 African countries with the highest REER appreciation rates in 2002-2007, whereas Seychelles, Malawi, Tanzania, Madagascar, and Libya were the 5 countries with the highest depreciation rates. This shows that both oil-exporting and oil-importing countries can be confronted with large REER depreciation or appreciation.

Increasing domestic price levels have been the main source of REER appreciation in countries such as Zimbabwe where the Nominal Exchange Rate (NER) depreciated substantially.[3] Conversely, in other countries such as Libya, the REER depreciated despite NER appreciation. Libya maintained a low domestic price level relative to foreign price levels and experienced deflation between 2000 and 2004.[4]

REER appreciation in oil-importing countries resulted from scaled-up expenditures, aid and other capital inflows, remittances and high earnings from tourism and non-oil commodity exports. Seventy per cent of oil-exporting countries experienced REER appreciation due mainly to rising oil revenues and increasing expenditures and capital inflows. To address possible Dutch Disease problems, oil-exporting countries in partic-

3 The Zimbabwean dollar, for example, depreciated from 162 to the US dollar in 2006 to 250 in 2007.

4 The REER index is defined as [Pd/Pf*NER], where Pd is the domestic price level, Pf is foreign (US) price level, NER is the official exchange rate expressed in terms of the domestic currency price of the US dollar (period average). Thus, REER represents the quantity of foreign goods that can be purchased with one unit of domestic goods.

ular may need to coordinate monetary and fiscal policies closely, increase productivity and strengthen the supply side of their economies by using the oil revenues to finance public infrastructure, which will promote private sector development (IMF 2007b).

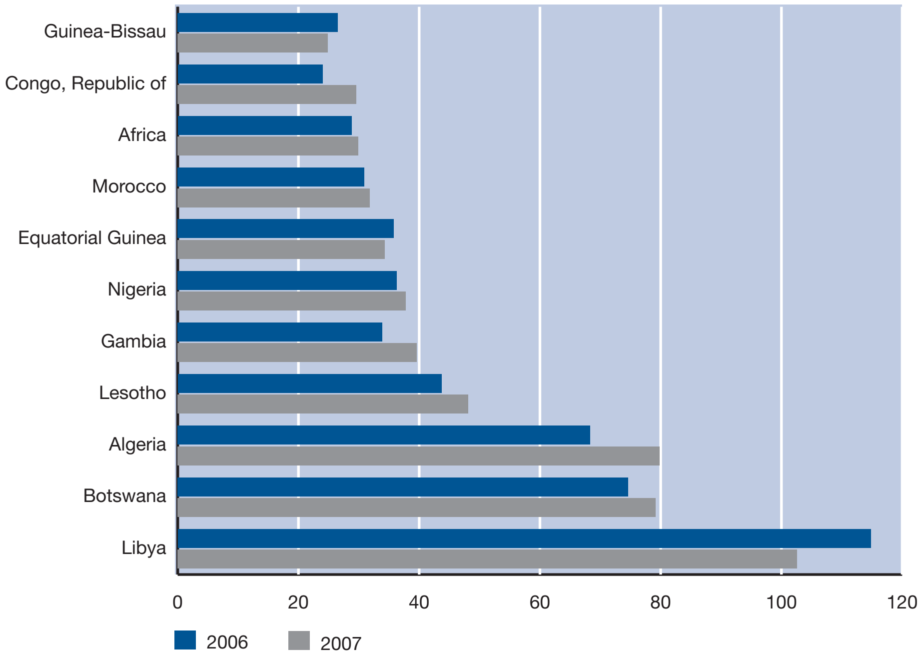
Reserves build up may generate excess liquidity and require sterilization measures to avoid inflationary pressures or overheating

The issue of management of oil revenue is critical in light of the fact that most resource-rich countries are accumulating large amounts of foreign exchange reserves, resulting from current account surpluses as well as FDI and ODA inflows (figure 2.6).[5] On average, foreign exchange reserves exceeded 29 per cent of Africa's GDP over 2006-2007.

Most African countries maintained adequate reserves; only 6 of the 48 countries with available data had a ratio of reserves to short-term debt of less than one in 1998-2005. Reserves build up may generate excess liquidity and require sterilization measures to avoid inflationary pressures or overheating. Close coordination of fiscal and monetary policy is therefore essential for governments to manage reserves effectively and avoid disruptive volatility in exchange rate, inflation and output growth (UN-DESA 2007b).

Figure 2.6

Top 10 countries in terms of foreign reserves (% of GDP)



Source: *IMF, 2007c.*

Note: *Excluding the following countries due to lack of data: DRC, Cape Verde, Djibouti, Eritrea, Guinea, Liberia, Mauritania, Rwanda, São Tomé and Príncipe, Somalia, and Zimbabwe.*

5 Ranking countries according to holdings of foreign exchange reserves as a ratio of GDP shows that high reserves originate mainly from commodity revenues and private capital flows and that none of the top 10 high reserve countries is a high aid-recipient country.

2.1.8 The need to reduce external debt and increase non-debt-generating resources

The analysis of the level and quality of Africa's growth and financing constraints points to the strong need for the continent to reduce external debt and mobilize more domestic and external resources (also see Part II for further discussion on this topic). Despite debt relief initiatives, Africa's external debt remains high and unchanged at $255 billion in 2006 and 2007. Long-term debt accounted for about 94 per cent of the total debt in 2007. However, while official debt declined considerably with the debt relief initiative, from $205.7 billion in 1999 to $144.5 billion in 2007, the debt owed to banks and other private creditors rose from $92.4 billion in 1999 to $110.2 billion in 2007.

> *Despite debt relief initiatives, Africa's external debt remains high*

Improved economic performance in Africa over the last 5 years was associated with notable increases in domestic savings and investment rates. For Africa as a whole, savings rose from 19 per cent of GDP in 1998-2001 to 22 per cent in 2002-2005 and 26 per cent in 2007, while domestic investment increased from 19.7 per cent to 20.1 and 22.1 per cent over the same period (see table 4.2 in chapter 4). Both savings and investment rates rose considerably in North Africa compared with moderate increases in Africa excluding NA.

To maintain this momentum, African governments should continue to widen and deepen reforms aimed at developing national and regional financial markets and greater integration into the global market. They also need to further improve the business and investment climate so as to halt capital flight and foster domestic investment and private sector development.

In this regard, the United Nations Economic Commission for Africa (ECA) has encouraged African countries to adopt a regional approach to capital market development. This should go hand in hand with development of other regional financial institutions that can foster trade and regional integration through macroeconomic coordination, exchange rate management and monetary union (see UNCTAD 2007).

Domestic resource mobilization remains insufficient for Africa to finance the investment needed for achieving the MDGs and African countries continue to rely on external capital inflows (mainly ODA, FDI and remittances) to fill the resource gap in the near future. While FDI inflows go mainly to resource-rich countries to finance investment in extractive industry, more ODA flows are directed to non-oil economies (table 2.6). Workers' remittances are almost of the same magnitude as FDI. As argued in detail in Part II of this report, the international community is urged to live up to its commitments to scale up aid to Africa under various initiatives such as the Multilateral Debt Relief Initiative (MDRI). In the meantime, African governments should ensure that external assistance is used to build productive capacity and deliver public services, reduce poverty and accelerate progress towards meeting the MDGs.

African governments should ensure that external assistance is used to build productive capacity and deliver public services to reduce poverty and accelerate progress towards meeting the MDGs

Table 2.6

External flows, domestic saving and investments, 1998-2005[a] (average)

Indicator	Oil economies	Non-oil economies	Africa
ODA and official aid ($ billion)	6.9	16.0	22.9
FDI, net inflows ($ billion)[b]	11.1	5.5	16.7
Workers' remittances and compensation of employees, received ($ billion)[c]	8.4	6.0	14.4
Gross Domestic Investments (per cent of GDP)[d]	22.2	19.1	20.6
Gross Domestic Savings (per cent of GDP)[e]	26.7	15.6	20.9
External debt (per cent GDP)[f]	53.2	5.7	49.3
External debt (per cent total exports)[g]	150.2	162.5	155.8

Source: *World Development Indicators, 2007; OECD (online database) February 2008; IMF World Economic Outlook database, April 2007; OECD 2007 (online database) October 2007.*

Notes: *a: For FDI and ODA the data are for 1998-2006. The remaining indicators are for 1998-2005. The following countries have been excluded due to lack of data: b. Libya and Namibia; c. Angola, Central African Republic, Chad, DRC, Djibouti, Equatorial Guinea, Eritrea, Liberia, Seychelles, Somalia, Zambia, Zimbabwe; d. Central African Republic, Equatorial Guinea, Liberia, Libya, and Somalia; e. Central African Republic, Equatorial Guinea, Liberia, Libya, and Somalia; f. Libya, Namibia, Somalia; g. Equatorial Guinea, Libya, Namibia, and Somalia.*

2.2 Sectoral performance

African economies are experiencing a structural shift whereby the service sector is becoming an important driver of growth. However, as a result of high oil and gas prices, the contribution of this sector declined from the average of 47.8 per cent of GDP in 2000-2005 to 44.7 per cent in 2006. The industrial sector contributed 41.5 per cent of GDP in 2006 compared to only 36.5 per cent in the previous six years, while the share of agriculture declined from 15.7 per cent in 2000-2005 to 13.8 per cent in 2006 as a result of higher annual growth of the secondary and tertiary sectors. In 2006, all three sectors continued to grow. The industrial sector recorded the highest growth rate in 2006 (5.7 per cent), but the manufacturing subsector grew at only 4.3 per cent. Developments within each sector and for each region are discussed in more detail below.

2.2.1 Agriculture sector

The contribution of agriculture to GDP is relatively diverse, ranging from a high of more than 32 per cent in East Africa to 8.7 per cent for Southern Africa. However, the importance of the agriculture sector is more pronounced for Africa excluding NA where it employs some 70 per cent of the work force and generates an average 30 per cent of GDP (table 2.7). As shown in table 2.8, agriculture recorded a 5 per cent average growth and all five regions recorded positive growth rates in agricultural output, led by North Africa (7%).

African economies are experiencing a structural shift whereby the service sector is becoming an important driver of growth

Table 2.7
Agriculture sector share in GDP

	2002	2003	2004	2005	2006
North Africa	15.8	16.3	15.1	13.4	13.6
West Africa	29.6	27.1	21.0	31.6	32.6
Central Africa	26.7	27.2	27.3	20.8	22.1
East Africa	32.6	32.4	32.9	26.7	26.7
Southern Africa	8.3	8.0	7.8	8.9	8.7
Total Africa	16.4	16.3	14.9	14.0	13.8

Source: *WDI 2007.*

Table 2.8
Agriculture sector growth rate

	2002	2003	2004	2005	2006
North Africa	2.2	8.1	-2.5	0.5	6.9
West Africa	1.8	-1.8	-18.7	4.1	4.6
Central Africa	4.4	5.0	3.9	4.8	4.9
East Africa	-5.9	1.4	8.1	2.3	3.5
Southern Africa	9.8	0.3	1.6	2.3	0.8
Total Africa	2.3	3.3	-3.9	3.4	5.0

Source: *WDI 2007.*

Africa is a net food-importing region, except for some countries such as South Africa. The largest share of imported products consists of food products (cereals, livestock, dairy products, and to a lesser extent, fruits and vegetables). Exports of agricultural products represent an important source of foreign currencies for several African countries. Its contribution to total merchandise exports is also relatively diverse ranging from more than 80 per cent for Burundi to less than 1 per cent for Gabon and Equatorial Guinea. Their leading export destination is EU, to which an important share of agricultural commodities is exported. The most important commodities exported fall within the groups of fish and crustaceans, fruits and nuts, cotton, and vegetables.

Table 2.9 shows that commodity production in Africa registered a 1.8 per cent increase in 2006. Performance for the main agricultural products exhibits high variation across regions. North African agriculture profited from a good rainy season and achieved exceptional results especially for "strategic products" such as wheat and olive. East Africa also performed well, especially for exportable commodities such as green coffee and cocoa beans. West Africa presents the worst situation. Total commodity production decreased by 3.8 per cent. This decrease was registered in products linked to food security such as rice and cassava and in exportable commodities such as cocoa beans, green coffee and cottonseed.

The year 2006 was a particularly good year in terms of commodity production. Crops production registered a 1.5 per cent increase. Wheat and barley registered high performance levels, with increased production by 20 and 33 per cent respectively. Some exportable commodities such as cocoa beans and green coffee have also registered improved production performance.

Table 2.9

Commodities production growth rates, 2006

	Central Africa	East Africa	North Africa	West Africa	Southern Africa	Total Africa
Commodities	-1.3	1.7	4.3	-3.8	3.6	1.8
Crops:	-3.6	2.2	7.2	-7.0	5.2	1.5
Wheat	0.0	16.7	22.4	8.4	6.9	20.0
Barley	0.0	2.9	51.9	4.1	0.0	33.7
Rice	-1.6	1.9	5.8	-14.3	8.7	5.0
Oil seeds:	-5.6	0.4	7.4	0.4	-1.9	-0.6
Olive	0.0	0.0	20.5	0.0	0.0	20.5
Groundnuts	-25.4	-1.3	-0.3	10.0	1.3	0.7
Fruits and Vegetables:	1.2	0.3	1.5	-0.3	4.3	2.3
Cassava	1.9	-0.9	0.0	-0.8	8.4	3.9
Citrus fruit	-0.5	0.0	0.0	0.0	-6.2	-5.7
Date	-7.6	-91.4	-1.7	0.0	11.4	-2.0
Bananas	-0.6	-1.0	1.1	-0.8	14.8	1.1
Animals products	-0.6	8.5	0.7	2.8	2.6	3.1
Others:	-17.7	6.5	3.6	-14.0	-2.4	-2.0
Cocoa beans	-7.4	6.3	0.0	-9.6	4.4	3.6
Coffee, green	-7.1	23.0	0.0	-30.1	-18.7	4.0
Cottonseed	-25.0	-8.9	2.8	-11.2	-5.8	-6.8

Source: *FAOstat 2007.*

2.2.2 Industrial sector

The industrial sector represented 41.5 per cent of the African GDP in 2006, which represents a significant improvement over the period 2000-2005 (36.5%). This improvement in the contribution of the industrial sector to GDP in 2006 is due to the combined results of sustainable high world prices for raw materials, mainly oil and gas, and the importance of non-manufacturing industries (mining and quarrying) in most countries of the continent.

> *The shift towards more capital-intensive industries in some African countries continues*

The manufacturing sector accounted for only 10.9 per cent of GDP, down from an average of 12.8 per cent over 2000-2005. The underdevelopment of the manufacturing sector, manifested by a lower annual increase of manufactured GDP compared to the rest of the economy, largely explains the limited contribution of industry to GDP growth.

Industrial policy remained largely unchanged in African countries over the last few years. The most diversified economies (Egypt, Morocco, South Africa and Tunisia), continued to focus on traditional industries, such as food processing and textiles, except for South Africa, which is more industrialized than any other African country. The recent shift towards more capital-intensive industries in some African countries is continued in 2006 and 2007. In Tunisia, for example, there is continued development in electrical and electronics industries, while the textiles and clothing sector is experiencing a continued decline in importance. In the oil-producing countries, there has also been gradual production development in intermediate and oil-based industries, particularly chemicals, petrochemicals, fertilizers, plastics, and energy-intensive industries.

Overall, African industry is still dominated by mining and crude oil in terms of production and exports. To promote and diversify the African industrial sector, African countries have to seek participation in regional and international trade agreements and also improve the investment climate through sound infrastructure for transport and efficient public services.

2.2.3 Energy sector

In 2006, Africa's production of crude oil averaged 8993.2 million barrels per day, which was 2.2 per cent higher than the 2005 average (table A2.2). Algeria, Angola, Libya, and Nigeria are the main oil producers, with a share averaging 75 per cent in 2006. Other oil producers are Cameroon, Chad, the Congo, Côte d'Ivoire, Egypt, Equatorial Guinea, Gabon, Sudan, and Tunisia.

Africa's production of natural gas averaged 189,724 million standard cubic metres in 2006, which represents an increase of 9.9 per cent from 2005 (table A2.3). This raised Africa's share in world gas production from 6.1 per cent in 2005 to 6.5 per cent in 2006. Algeria accounted for almost 50 per cent of the continent's total production of gas, followed by Egypt, Libya, and Nigeria, together accounting for about 44 per cent in 2005. The increase of African production of natural gas is explained by two main factors. The first is related to acceleration of the level of substitution of crude oil by natural gas in the generation of electricity around the world, which increases the level of global demand for natural gas. The second reason is the high level of international prices for both oil and gas, which have increased the level of extraction of gas on the continent.

“Africa continues to be a net exporter of crude and refined oil products”

At the end of 2006, Africa's proven reserves of crude oil represented 9.8 per cent of the world's total, while its reserves of natural gas accounted for only 7.8 per cent of the world total. Algeria, Libya, and Nigeria lead in terms of proven reserves with a share of 76 per cent of total African reserves in 2005, followed by Angola, Egypt, Gabon and Sudan with a combined share of 18.4 per cent.

Africa continues to be a net exporter of crude and refined oil products. In 2005, its exports of crude oil reached 6556.3 million barrels per day, which represented an increase of 1.3 per cent from 2005. However, the continent's share in the global exports of crude oil did not change between 2006 and 2005, at the level of 15.1 per cent. For refined products, its exports grew by 1.3 per cent compared to 2005. This growth confirmed the increasing tendency observed in 2005, after three successive years of decline of African exports of refined products as a result of the higher growth of domestic demand for these products than for refining capacity.

In fact, in 2006, African consumption of refined products grew by 3.8 per cent compared to 2005 while the refining capacity decline by 1.2 per cent during the same period. This was manifested by an increase of African imports of refined products by 2.4 per cent in 2006 compared to 2005.

Fives countries dominate the African demand of refined products: Algeria, Egypt, Nigeria, Libya, and Tunisia, accounting for almost 65 per cent of total African consumption of refined products in 2005. Overall, African exports of crude oil products grew by 1.3 per cent relative to 2005, compared to 1.6 per cent for the world, while the exports of refined products increased by 2.3 per cent in Africa compared to 1.3 per cent in the world. This recent trend shows a continent-wide structural bottleneck in refining capacity.

2.2.4 Services sector

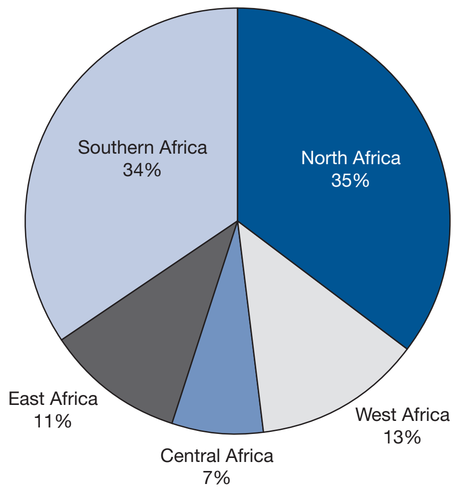
As mentioned earlier, services had the largest share in Africa's GDP (44.7%) in 2006. This performance consolidates the trend that has been observed in recent years showing the increasing importance of this sector in African economies. Indeed, over the period 2000-2005, the services sector grew at a rate of 4.9 per cent on average at the continental level, much higher than the growth rates of other sectors such as agriculture, which grew at 3.8 per cent on average for the same period.

> "Africa has not yet managed to realize its full tourism potential"

In 2006, the services sector grew at 5.6 per cent, higher than the 4.4 per cent recorded in 2004. The North and Southern African regions have the largest service sectors, representing 35 per cent and 34 per cent of the continent's output (figure 2.7).

Figure 2.7

Regional contribution to the African service sector (2006)



Source: *WDI 2007.*

In terms of performance, all the five regions have registered growth rate levels above 3 per cent in this sector, starting respectively with North Africa (5.6%), followed by Central Africa (5.06%), West Africa (4.91%), East Africa (4.15%) and Southern Africa (3.44%).

2.2.5 Tourism sector

Tourism is becoming a dominant sector of economic activity worldwide. Currently, over 8 per cent of all jobs are estimated by the World Travel and Tourism Council (WTTC) to depend on travel and tourism, which is forecast to create over 3.5 million jobs per year over the next decade. Africa, though recognized internationally for the quality of its resource endowment for tourism, has not yet managed to realize its full potential. Indeed, according to the World Tourism Organization (UNWTO), Africa as a whole attracted just fewer than 45.5 million of the 802 million world tourist arrivals. In terms of receipts, the continent accounted for $21.6 billion of the total $678 billion international tourism receipts in 2005. Only four African countries (Egypt, South Africa, Morocco and Tunisia) are listed in the top 50 worldwide destinations in terms of both arrivals and receipts (table A2.4).

"The main drivers for tourism growth include global economic prosperity and the improvement of transport services"

In 2005, in terms of international tourist arrivals, Egypt ranked number one, ahead of South Africa, Tunisia, Morocco and Zimbabwe. As the top destination in Africa, Egypt accounted for 18 per cent of total arrivals and 26 per cent of receipts in Africa. Within Africa, the North Africa region registered the highest market share of tourism activity on the continent in 2005.

In 2005, nine major destination countries received over a million international tourist arrivals compared to seven destinations in 2004. These countries were Egypt (8.2 million), South Africa (7.5 million), Tunisia (6.3 million), Morocco (5.8 million), Botswana (1.8 million), Zimbabwe (1.5 million), Kenya (1.5 million), Algeria (1.4 million), and Nigeria (1.01 million).

The five top major tourism earners were South Africa with $7.3 billion, followed respectively by Egypt with $6.8 billion, Morocco with $4.6 billion, Tunisia with $2.06 billion, and Mauritius with $0.8 billion in 2005 (table A2.5).

There is an increasing recognition that tourism contributes to job creation and poverty reduction. The main drivers for tourism growth include global economic prosperity and the improvement of transport services such as development of low-cost airlines and upgrading transport infrastructure. Despite tourism's growing importance as a source of foreign exchange earnings for African countries, the industry remains underdeveloped mostly because of poor tourism infrastructure, inadequate information and marketing on the attractions, strict entry visas requirements, high airport taxes, poor destination management by local tour operators and high health risks.

Political and social instability also constitute major deterrents to tourism in some African countries. In addition, the insufficiency of air transport between Africa and the rest of the world and between African countries themselves, as well as limited promotional airfares, continue to be a crucial constraint to tourism. Another key challenge faced is the negative image of Africa portrayed by the world media, often on the basis of exaggerated facts and plain ignorance.

2.3 Social development trends in Africa

2.3.1 Overall assessment

As stressed in this chapter, Africa has maintained robust economic growth over the last few years. Though this is an encouraging trend, there is still no clear evidence that this growth has created a substantial number of decent jobs, and subsequently, significantly reduced poverty. This situation is most pronounced for marginalized and vulnerable groups including women, the aged, youth, and people with disabilities. The overall exclusion of these groups from society is reflected not only in their lower incomes and poorer outcomes on the labour market, but also in terms of their lower educational attainment rates, poorer health status and under-representation in political processes and policymaking. Of course, these dimensions of development are also interrelated in a complex, dynamic fashion, which has important implications for policymakers.

"Promoting a more inclusive development process increases the longer-term growth potential of African countries"

This situation underscores that progress in terms of social development requires not only economic growth but also depends on more equitable distribution of the benefits of growth and on elimination of such barriers to participation as discrimination. Promoting a more inclusive development process in turn increases longer-term growth potential. This link between economic and social development has been recognized for some time, although social development and poverty reduction have been largely envisaged as a product of economic growth. Even the MDGs, which were the culmination of several international initiatives to put social development issues at the heart of the development agenda, do not capture key aspects relevant to social exclusion and the status of vulnerable groups.

This section aims to highlight issues relevant to the MDGs such as social exclusion, and health and employment trends. It also reports on the situation of two socially excluded groups: the aged and youth. Gender, a crucial dimension to social development, is considered here as a crosscutting factor in all areas. Finally, the situation of people with disabilities in Africa is presented in more depth to underscore the type of issues facing them as some of the socially excluded in Africa. The issues raised in this section are also relevant to other vulnerable groups such as refugees.

2.3.2 Crosscutting issues: health and employment

Health

Poor health is a major constraint to economic and social development in Africa. The health problems in Africa are due to the high incidence of infectious diseases in some areas, such as HIV/AIDS, malaria, and tuberculosis, inefficient health systems that lack financial, human and technical resources, and a low level of health knowledge and awareness among the people. In most Africa countries, large inequities remain in access to health services, with socially excluded groups receiving considerably lower standards of health care, which subsequently leads to an increased risk of chronic poverty.

"An estimated 4.8 million children are projected to die in Africa excluding NA before the age of five every year"

The poor health situation in Africa is evident in a number of areas of physical well-being. An estimated 4.8 million children are projected to die in Africa excluding NA before the age of five every year. In terms of the AIDS epidemic, Africa excluding NA continues to be the worst affected region, with 24.7 million people living with HIV in 2006, of which around 59 per cent are women (UNAIDS/WHO 2006). Overall, some progress has been made in terms of the health-related MDGs, though the situation in most African countries remains a major constraint to economic and social development.

The challenges of the disease burden in Africa were the subject of discussion at the Third Session of the African Union Conference of Ministers of Health held in April 2007. Deeply concerned with the health situation, the African Ministers of Health declared their commitment to implementing the Africa Health Strategy 2007-2015, which calls for strengthening the health systems with the goal of reducing the disease burden through improved resources, systems, policies and management. This will contribute to equity through a system that reaches the poor and those most in need of health care. Investment in health will impact on poverty reduction and overall economic development (AU 2007). To achieve this goal, governments will need to increase public investment in health, funded by both ODA flows and domestic resources.

Employment

The creation of decent jobs is the most effective and sustainable solution to the persistent levels of poverty and social exclusion in Africa, since having a job provides an individual and his or her family not only with a source of income but also a basis for dignity and self-respect. The problem facing many African countries, however, is that though economic growth is being sustained at higher levels, it has not yet led to strong employment generation, particularly in the formal sector. Consequently, many Africans continue to work in the informal economy or remain unemployed, surviving on the support of family members (ECA 2005).

Since the 1990s, the unemployment rate in Africa excluding NA has persisted at around 10 per cent, falling marginally to 9.7 per cent in 2006. In contrast, the unemployment rate in North Africa has come down from 14.0 per cent in 1996 to

11.5 per cent in 2006. While the unemployment rate of women is similar to men in the other regions, it is consistently around seven percentage points higher for women in North Africa, reflecting the barriers they face in the labour markets of these countries (ILO 2007).

Given the limitations of using unemployment as an indicator for the labour market conditions of a developing country, it is also important to investigate trends in terms of other employment characteristics. In fact, the main challenges facing Africans in the labour market are the lack of decent jobs in the formal sector, underemployment, particularly in rural areas, and working poverty.

"The main challenges facing Africans in the labour market are the lack of decent jobs in the formal sector, underemployment and working poverty"

Looking at working poverty, defined as individuals who are working but nonetheless live in households that are below the poverty line, reveals that there is some progress in Africa excluding NA in terms of the $1.00 a day poverty definition. However, the $2.00 a day working poor share in total employment has decreased very slowly over the last decade from 87.7 per cent in 1996 to 86.2 per cent in 2006. In comparison, the share has fallen much faster in North Africa, from 51.7 per cent to 42.2 per cent (ILO 2007).

To improve labour market conditions, governments need to promote both domestic and foreign investment in sectors that have a large direct and indirect impact on employment, supported by an appropriate macroeconomic policy framework that encourages investment and economic growth.

2.3.3 Status of socially excluded groups: the aged and youth

The aged

Although Africa is referred to as the youngest continent in terms of the age structure, the numbers of older people will change more dramatically than in other regions over the coming decades. In 2005, people aged 60 and above accounted for only 5.2 per cent of the population. However, this share is projected to rise to over 10 per cent by 2050. This aging process is proceeding more rapidly in North and Southern Africa, and more slowly in West, Central and East Africa.

More importantly, the total number of elderly in Africa will rise from approximately 48 million in 2005 to 205 million in 2050 (UN-DESA 2006). So, while the proportions may be small relative to other regions, the absolute number of older Africans is growing fast. In general, growth in the size of the aging population is occurring much faster than what was the case in developed countries over the last one hundred years or so.

> To improve labour market conditions, governments need to promote domestic and foreign investment in sectors that have a large impact on employment

While the challenges posed by increasing numbers of older persons are significant in all regions, they are more important in Africa than elsewhere in the world because Africa is the continent with the highest levels of poverty and HIV prevalence rates, which affect the quality of life of every individual, especially that of the elderly. As a result of the HIV/AIDS epidemic in Africa excluding NA, the elderly have found themselves losing their support from their own children, who are either sick due to the illness or have died from it. Consequently, the elderly are now taking on roles as income earners and active caregivers to their children and grandchildren.

As stressed in this section, notable economic growth in Africa in the recent past has not been matched by commensurate reductions in poverty levels and increase in social development. This signals a need for timely social development policies and programmes geared towards building a "society for all ages" on the continent. Progress towards this commendable goal adopted by the international community in the Madrid International Plan of Action on Aging (MIPAA) and the African Union Policy Framework and Plan of Action on Aging would require, among other things, adopting or strengthening existing social protection systems targeting the elderly in Africa within the framework of development financing.

In addition, policymakers and development partners need to have greater awareness of aging issues and conduct country-specific research and activities to sensitize stakeholders about the fundamental challenges facing the aged in Africa, particularly with regards to poverty and the HIV epidemic.

Youth

Accounting for around 20 per cent of the African population, youth aged 15-24 represent both a challenge and a solution to the continent's development issues. Firstly, African youth, especially young women, are more vulnerable than the adult population to unemployment, poor health, particularly HIV/AIDS, and the ravages of conflicts. At the same time, it has been increasingly recognized that youth themselves are motivated, creative and inspiring individuals who are capable of contributing to promoting economic and social development in Africa. This has been acknowledged in recent events such as the Fifth African Development Forum (ADF-V) on "Youth and Leadership in the 21st Century" held in November 2006, which was jointly organized by ECA and AUC.

Recent trends indicate that the situation of youth on the continent is improving in certain dimensions. For example, the youth literacy rate reached 73 per cent in 2006 in Africa excluding NA, up from 64 per cent in 1990 (UNESCO 2007, World Bank 2007). However, once out of school, Africa's youth continue to experience barriers in the labour market, despite the strong economic growth recorded in recent years.

The youth unemployment rate in Africa excluding NA in 2006 is estimated to be at 17.8 per cent, around the same level witnessed a decade before, and continues to be around three times higher than the adult rate in the region. The rate is even higher in North Africa, reaching 25.7 per cent in 2006, the highest of all developing regions (ILO 2007). The unemployment rate of young females is 17.3 per cent in Africa excluding NA, which is marginally lower than the male rate. However, the unemployment rate is almost 8 percentage points higher for young females than for young males in North Africa, reaching a global maximum of 33.6 per cent. Besides the persistent unemployment experienced by African youth, the lack of opportunities in the formal sector forces young people, who have no other means of support, to take on informal employment, which is low paid and subject to harsher conditions (UNECA 2005).

"There should be emphasis on addressing the skills mismatch affecting the employment chances of youth"

Creating decent jobs for Africa's youth, especially for young women, clearly remains one of the most important and stubborn challenges facing governments and development partners. In order to do this, there should be emphasis on addressing the skills mismatch affecting the employment chances of youth, along with specific initiatives to create opportunities for them such as public works schemes.

2.3.4 Special issue: disability and development in Africa

What does it mean to have a disability?

It is estimated that around 10 per cent of the world's population has some form of disability, of which some 80 per cent live in low-income countries (WHO 2005). As a result of congenital defects, illnesses, accidents and war, these people live with various forms of disabilities such as blindness, deafness, quadriplegia/paraplegia and intellectual disabilities. The number of people with disabilities is on the increase as a consequence of conflict, land mines, chronic diseases and AIDS, along with such demographic factors as population growth and medical advances that prolong life (WHO 2005).

There has been inadequate recognition of disability issues in the mainstream development agenda, including the MDGs, despite the fact that people with disabilities constitute a highly marginalized and socially excluded group that faces considerable barriers to participating in society, not just as a result of their disability, but also due to discrimination.

In developed countries, this is evident in the lower labour force participation rates and higher unemployment rates of people with disabilities, even though most OECD countries provide programmes and subsidies to support their participation in both the mainstream labour market and in sheltered workshops (Verick 2004). In the absence of employment, people with disabilities in such countries are provided with income support, though this is usually not fully compensatory (OECD 2003).

In developing countries, people with disabilities also face the prospect of being excluded from participating in economic, social and political activities. Without access to income support and other measures, they are also more likely to experience poverty than the non-disabled (United Nations 2007). It is estimated that between 15 and 20 per cent of the poor in developing countries have some form of disability (Elwan 1999). The relationship between disability and poverty is complex and dynamic since disability is both a cause and an outcome of poverty.

Though data are scarce, available evidence indicates that having a disability reduces access to education and training. For example, Filmer (2005) finds that in a sample of 11 developing countries, including Burundi and Mozambique, young people with disabilities are less likely to start school and stay on to higher levels of education. Consequently, the disabled have fewer chances of getting a decent job, especially in the formal economy (Hoogeveen 2005, WHO 2005).

Some estimates indicate that in developing countries, less than 20 per cent of people with disabilities have a job in the formal sector (Handicap International 2006). Those without any form of employment are often forced to beg for a living. At the same time, the disabled have poorer access to health, rehabilitation and support services. All these factors contribute to the higher rates of poverty evident amongst people with disabilities and households headed by such people.

It is also important to stress that woman with disabilities in Africa experience two types of discrimination, namely, gender and disability. They therefore experience heightened degrees of social exclusion and poverty (DFID 2000).

Looking at the other side of the equation, poverty leads to malnutrition, which is a major cause of childhood disabilities. As underscored above, the poor in developing countries also have limited access to health services, putting them at risk of developing a disability through injuries and illnesses (Elwan 1999).

Despite the social and economic costs of excluding people with disabilities from society, these issues have been largely absent in the mainstream development agenda. Governments and development partners are only slowly acknowledging the need to rectify the barriers and discrimination experienced by people with disabilities, recognizing their rights to participate fully in society.

2.3.5 Translating commitments into action to improve the conditions of people with disabilities

Considering the social exclusion and poverty experienced by people with disabilities and their families, governments and development partners need to put both legislation/policies and resources in place to promote the rights and abilities of this group. Box 2.1 summarizes the key international and regional frameworks adopted to support countries in achieving this goal.

"Governments and development partners need to put policies and resources in place to promote the rights and opportunities of people with disabilities"

To translate these commitments into concrete action, African governments need to:[6]

- Develop policies to improve the access of people with disabilities to education and training, and health and rehabilitation services, particularly at the community level, also with a focus on prevention;
- Implement policies to support the participation of people with disabilities in the labour market including quotas, subsidies and training measures;
- Mainstream disability issues in policymaking and involve the disabled in all processes, particularly in the design of poverty reduction strategies;
- Consider measures to provide social protection to the disabled including insurance schemes;
- Set up funds and policies to provide microfinance to people with disabilities to assist them in establishing their own businesses;
- Legislate anti-discrimination laws to protect the rights of people with disabilities;
- Collect better data on disabilities to improve policymaking by inserting questions on disability in censuses and surveys, and harmonize the definition of disability following the guidelines provided by the United Nations Statistics Division;
- Sign and ratify key international frameworks, particularly the United Nations Convention on the Rights of Persons with Disabilities, and translate these international commitments into national legal frameworks; and
- Implement the recommendations of the African Union Continental Plan of Action for the African Decade of Persons with Disabilities 1999-2009, along with monitoring and evaluation of current initiatives.

6 See DFID (2000), Handicap International (2006), ILO (2002) and OECD (2003)

Box 2.1

International and regional frameworks to promote the rights and development of people with disabilities

There are three key United Nations frameworks that directly address people with disabilities: the World Programme of Action Concerning Disabled Persons (1982); the Standard Rules on the Equalization of Opportunities for Persons with Disabilities (1993); and the more recent Convention on the Rights of Persons with Disabilities, which was adopted in December 2006. The Convention seeks to promote the human rights and fundamental freedoms of people with disabilities, bringing these issues into the core of the development agenda. As of September 2007, 28 African countries had signed the Convention out of a total of 102 countries.* However, no African country has yet ratified the framework, which is a constraint to the implementation of the recommendations of the Convention at the country-level.

The International Labour Organization (ILO) has also developed a number of relevant international frameworks. The key ILO instrument for people with disabilities is ILO Convention No.159 on Vocational Rehabilitation and Employment (Disabled Persons) of 1983. Once ratified, countries are required to develop national policies on the employment and vocational rehabilitation of people with disabilities. As of September 2007, 13 African countries had ratified ILO Convention No.159 out of a total of 79 countries.

African member States adopted the African Decade on Disabled Persons (1999-2009) at the OAU Assembly of Heads of State and Government in Algiers in 1999. In 2002, a Plan of Action was adopted to guide countries with the implementation of the Decade's objectives. This Plan called on governments to formulate or reformulate policies and national programmes that encourage the full participation of persons with disabilities in social and economic development, amongst other actions.

Source: *www.un.org/esa/enable; www.ilo.org; www.africa-union.org*

* *African countries yet to sign the Convention: Algeria, Burkina Faso, Burundi, Cape Verde, Central African Republic, Republic of the Congo, Cote d'Ivoire, Egypt, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Mali. Morocco, Mozambique, Namibia, Niger, Nigeria, Senegal, Seychelles, Sierra Leone, South Africa, Sudan, Tanzania, Tunisia, and Uganda.*

"If African countries increase their efforts to target socially excluded groups, they will increase their chances of reaching the MDGs as they promote an inclusive development process"

Overall, if African countries increase their efforts to target socially excluded groups including people with disabilities, they will in turn increase their chances of reaching the MDGs as they promote an inclusive development process.

2.4 Prospects for 2008: a brighter outlook despite risks

Real economic growth in Africa is projected to slightly improve to 6.2 per cent in 2008 compared with 5.8 per cent in 2007 (figure 2.8). East Africa is expected to continue to lead the five regions with a growth rate of 6.6 per cent, followed by West Africa (6.4%), Southern Africa (6.3%), North Africa (6.1%), and Central Africa (5.4%). West Africa is projected to have the largest increase in GDP growth, owing to increased oil production and solid growth in Nigeria.

Africa's growth prospects in 2008 depend on a number of internal and external factors. The realization of Africa's projected growth rate will be influenced by the extent to which the slowdown in the US economy affects the global economy. It is assumed that robust demand for Africa's commodity export and high prices will continue with high growth in Asia and in the absence of a significant drop in growth in Europe.

Other growth factors for Africa include continued effective macroeconomic management. This will help governments to contain inflationary pressures and avoid the temptation, especially for oil-exporting countries, of allowing excessive exchange rate appreciation. Therefore, domestic interest rates and prices as well as exchange rates are expected to remain fairly stable over the forecast period.

> *"To achieve accelerated and sustained growth, African governments should adequately manage commodity revenues to promote infrastructure, investment, innovation and institutional capacity"*

To achieve accelerated and sustained growth, African governments should adequately manage commodity revenues to promote infrastructure, investment, innovation and institutional capacity. It is encouraging to note in this regard that, along with increased aid and FDI flows, both domestic saving and investment rates have risen in Africa over the last few years. Improving institutional capacity and the business environment is essential for the continent to increase saving and investment, stimulate private sector development and enhance economic diversification away from the resource sector (UNECA/AU 2007a). Improving governance and security situation is another factor that contributes to a positive economic outlook in 2008 and beyond, though many parts of Africa still suffer from conflicts and insecurity.

On the downside, there are many risks to Africa's growth over the medium term. Any substantial slowdown or adverse adjustments in the global economy might cause demand for Africa's exports to contract. A fall in demand and prices will have negative effects on Africa's growth outlook. Fluctuations in oil prices will have conflicting growth impacts on oil-exporting and oil-importing countries. Any significant increase in the current level of oil prices will exert further pressure on the fiscal and current account balances of oil-importing countries and threaten macroeconomic stability and growth prospects.

On the other hand, a sharp fall in oil prices will adversely affect growth in oil-exporting countries. While oil-exporting countries might have the means to mitigate the impact of lower oil prices on their macroeconomic balances in the short term, oil-importing countries need external support if they are to meet the challenges of sustained increases in oil prices. It is worth stressing that the international donor community has the responsibility not only to honour existing commitments regarding aid and debt relief, but also to assist the continent to conclude trade negotiations successfully and expand export production and market access.

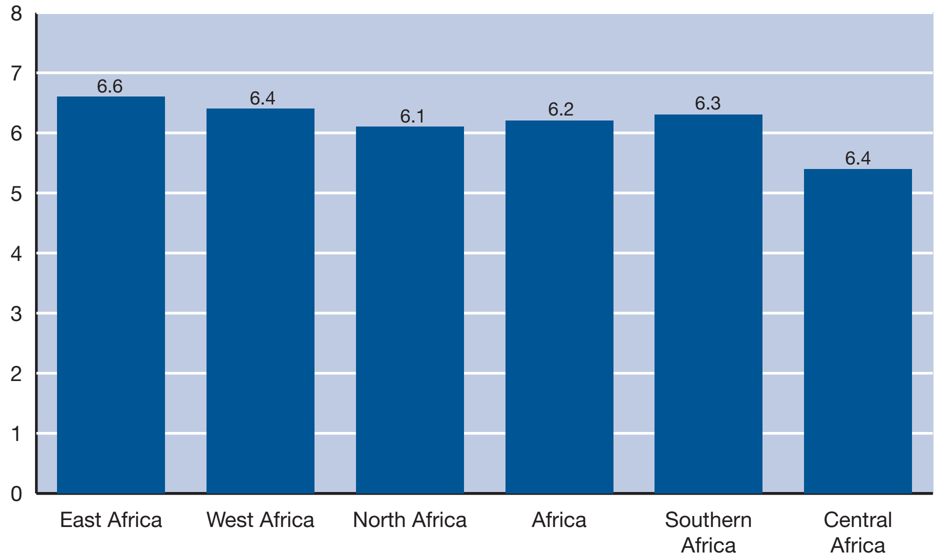
With concentration of production and exports in a few commodities, Africa remains vulnerable to shocks and unable to create jobs to reduce unemployment

Moreover, with concentration of production and exports in a few commodities, Africa remains vulnerable to shocks and unable to create jobs to reduce unemployment and accelerate progress towards meeting the MDGs. As highlighted before, this makes economic diversification a top priority for Africa (UNECA/AU 2007a). The continent also needs to manage risks to growth emanating from unpredictable fluctuations in external capital, especially aid, and currency appreciation that can adversely affect international competitiveness.

Unpredictable weather changes and conflicts are additional factors that can undermine the upward growth momentum on the continent. In fact weather changes often exaggerate environmental and household vulnerabilities, which in turn may exacerbate conflicts and political instability, in a vicious circle. Besides efforts to diversify sources of growth, Africa should introduce effective medium-to-long-term strategies to combat epidemics such as HIV/AIDS and malaria, and to mitigate their economic and social impact.

Figure 2.8

Projected real GDP growth by region for 2008 (%)



Source: *UN-DESA, October 2007.*

2.5 Conclusions: key economic and social issues in Africa

Recent macroeconomic trends in Africa highlight a number of important economic and social issues that deserve the urgent attention of policy makers and the development community at large. The first critical issue relates to growth volatility and insufficiency. Analysis by ECA shows high disparities in GDP growth across countries and over time. Growth volatility has been greater in resource-poor countries and in Africa excluding North Africa due to high vulnerability to weather shocks and terms of trade changes.

> *"African governments and partners need to ensure that economic growth benefits socially excluded groups, including women, youth, the aged, and people with disabilities"*

Despite high dependence on oil, North Africa had relatively weak growth volatility over 1980-2007 due to higher degree of economic diversification. Among other things this has enabled North Africa to progress faster towards achieving the MDGs compared with the rest of Africa. Reducing growth instability requires long-run development strategies including economic diversification. As noted earlier, growth rates in Africa remain low relative to the level (about 7.0% per annum) required for meeting the MDGs by 2015.

Persistent high oil prices represent the second important economic issue to Africa. Increased energy cost is constraining investment and growth in many oil-importing African countries that are also confronted with other threats to macroeconomic stability, including intensifying inflationary pressures, and increasing fiscal and current account deficits. In addition to good macroeconomic management, oil-importing countries will need increased external support to maintain growth and reduce growth volatility in the foreseeable future. On the other hand, oil-exporting countries need to manage oil revenues to ensure diversification of sources of growth and exports and avoid excessive currency appreciation and build up of reserves.

Overall, African governments and partners should ensure that economic growth benefits socially excluded groups, including women, youth, the aged, and people with disabilities. Besides increasing public investment in social services that target these groups, the governments need to consider policies that promote their access to education/training and health facilities, their participation in the labour market, and in general, their human rights. At the same time, development partners need to look at how their aid programmes can support these objectives. In the longer term, a more inclusive society will help countries remain politically and socially stable and enhance their growth potential.

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Appendix

Table A2.1

Africa's external debt by maturity and source ($billion)

Year	Total debt	Maturity		Type of creditor		
		Short-term	Long-term	Official	Banks	Other private
1999	298.1	34.3	263.8	205.7	63.0	29.4
2000	286.8	13.7	273.1	205.4	55.3	26.0
2001	275.4	11.6	263.8	203.9	51.5	20.0
2002	284.6	14.9	269.7	217.0	46.5	21.1
2003	309.2	15.8	293.4	233.1	51.9	24.1
2004	325.0	17.7	307.3	240.1	56.9	28.1
2005	298.8	15.6	283.2	209.8	58.2	30.8
2006	255.5	14.9	240.6	148.5	70.2	36.8
2007	254.8	15.0	239.7	144.5	72.1	38.1

Source: *IMF, Statistical Appendix. July 2007.*

Table A2.2

Africa's reserves and production of crude oil

	1990	2000	2001	2002	2003	2004	2005	2006	% change 06/05
Proven Crude Oil Reserves (mb)									
Africa	58,598.7	93,380.2	96,891.5	102,064.3	112,345.2	113,263.6	117,457.8	117,572.4	0.1
World	985,031.2	1,090,619.6	1,121,402.0	1,151,844.1	1,169,725.6	1,177,514.1	1,189,139.2	1,195,318.0	0.5
Africa percent-age	5.95	8.56	8.64	8.86	9.60	9.62	9.88	9.84	
Production of Crude Oil (1000 b/d)									
Africa	5,961.6	6,754.9	6,609.6	6,433.7	7,294.0	8,324.8	8,797.9	8,993.2	
World	59,101.8	65,871.3	65,383.2	64,022.9	67,304.8	70,556.2	71,612.0	71,995.7	
Africa percent-age	10.09	10.25	10.11	10.05	10.84	11.80	12.29	12.49	
Refinery Capacity, 1990-2006 (1000 b/d)									
Africa	2,826.4	3,257.7	3,247.3	3,278.3	3303.8	3263.8	3278.8	3240.6	-1.2
World	73,142.8	82,288.8	82,751.1	83,058.5	83,081.10	84486.7	85333.6	86735.1	1.6
Africa percent-age	3.86	3.96	3.92	3.95	3.98	3.86	3.84	3.74	
Consumption of Refined Products (1000 b/d)									
Africa	1,452.0	1,764.0	1,891.7	1,947.5	1,976.2	2,108.5	2,219.1	2,302.7	3.8
World	63,565.5	71,434.4	72,157.1	72,685.6	73,945.1	76,351.4	77,352.2	78,254.3	1.2
Africa percent-age	2.28	2.47	2.62	2.68	2.67	2.76	2.87	2.94	
Exports of Crude Oil (1000 b/d)									
Africa	4,348.4	5,209.0	5,098.0	5,135.3	5,767.6	6394.0	6474.1	6556.3	1.3
World	27,135.3	38,797.7	38,063.9	37,305.8	39,124.7	42328.6	42811.6	43493.1	1.6
Africa percent-age	16.02	13.43	13.39	13.77	14.74	15.11	15.12	15.07	
Exports of Refined Products ,1990-2006 (1000 b/d)									
Africa	1561.4	2898.6	3030.6	2912.2	3149.7	3497.5	3693.4	3776.8	2.3
World	12894.2	17189.0	17421.7	17623.3	18265.9	19370.2	20345.7	20610.1	1.3

	Proven Crude Oil Reserves (mb)								
	1990	2000	2001	2002	2003	2004	2005	2006	% change 06/05
Africa percent-age	12.11	16.86	17.40	16.52	17.24	18.06	18.15	18.32	
Imports of Crude Oil ,1980-2006 (1000 b/d)									
Africa	576.8	784.4	777.0	778.0	731.5	761.1	792.1	824.7	4.1
World	27,700.0	38,907.0	38,848.9	38,105.9	40,494.4	42,790.0	45,609.3	48,923.8	7.3
Africa percent-age	2.1	2.0	2.0	2.0	1.8	1.8	1.7	1.7	
Imports of Refined Products,1990-2006 (1000 b/d)									
Africa	311.7	533.1	527.8	532.7	575.0	631.7	657.8	673.4	2.4
World	11,156.6	14,826.9	14,806.6	14,434.6	15,899.1	16,905.2	17932.2	19089.5	6.5
Africa percent-age	2.8	3.6	3.6	3.7	3.6	3.7	3.7	3.5	

Source: *OPEC Statistical Report 2006.*

Note: *b/d = barrels per day; mb = million of barrels.*

Table A2.3

Trends in basic indicators for the natural gas sector in Africa

Region	1990	2000	2001	2002	2003	2004	2005	2006	% change 06/05
Proven Natural Gas Reserves , 1990 –2006 (Thousand Million Standard Cubic Metres)									
Africa	8,524.0	12,463.0	13,133.0	13,782.0	13,893.0	14,215.0	14,132.0	14,165.0	0.2
World	132,206.0	162,826.0	176,066.0	177,735.0	180,039.0	180,545.0	181,065.0	180,899.0	-0.1
Africa percentage	6.45	7.65	7.46	7.75	7.72	7.87	7.80	7.83	
Marketed Production of Natural Gas , 1990-2006 (Million Standard Cubic Metres)									
Africa	70,890	125,589	130,270	134,344	145,102	151,907	172,645	189,724	9.9
World	2,081,040	2,492,969	2,551,275	2,598,985	2,691,974	2,766,145	2,858,795	2,943,055	2.9
Africa percentage	3.41	5.04	5.11	5.17	5.39	5.49	6.04	6.45	
Natural Gas Exports by Country, 1990-2006 (Million Standard Cubic Metres)									
Africa	32,570	68,223	66,455	67,127	72,740	74,537	89,896	103,961	15.6
World	304,330	530,548	553,464	585,285	631,355	687,530	720,740	747,995	3.8
Africa percentage	10.70	12.86	12.01	11.47	11.52	10.84	12.47	13.90	
Imports of Natural Gas by Country, 1990-2006 (Million Standard Cubic Metres)									
Africa	1,200	1,730	1,580	2,290	2,090	1,300	1,300	1,300	0.0
World	304,330	530,548	553,464	585,285	631,355	687,530	720,740	747,995	3.8
Africa percentage	0.39	0.33	0.29	0.39	0.33	0.19	0.18	0.17	

Source: *OPEC Statistical Report, 2006.*

Table A2.4

Top 20 tourism destinations in Africa ('000 of tourists)

Country	2000	Rank	Country	2003	Rank	Country	2004	Rank	Country	2005	Rank
South Africa	6,001	1	South Africa	6,640	1	Egypt	7,795	1	Egypt	8,244	1
Egypt	5116	2	Egypt	5,716	2	South Africa	6,815	2	South Africa	7,518	2
Tunisia	5,058	3	Tunisia	5,114	3	Tunisia	5,998	3	Tunisia	6,378	3
Morocco	4,278	4	Morocco	4,761	4	Morocco	5,477	4	Morocco	5,843	4
Zimbabwe	1,967	5	Zimbabwe	2,256	5	Zimbabwe	1,854	5	Botswana	1,834	5
Botswana	1,104	6	Botswana	1,406	6	Botswana	1,523	6	Zimbabwe	1,559	6
Kenya	899	7	Algeria	1,166	7	Algeria	1,234	7	Kenya	1,536	7
Algeria	866	8	Kenya	927	8	Kenya	1,199	8	Algeria	1,443	8
Nigeria	813	9	Nigeria	924	9	Nigeria	962	9	Nigeria	1,010	9
Mauritius	656	10	Mauritius	702	10	Mauritius	719	10	Swaziland	839	10
Namibia	656	11	Namibia	695	11	Senegal	667	11	Senegal	769	11
Tanzania	459	12	Tanzania	552	12	Ghana	584	12	Mauritius	761	12
Zambia	457	13	Ghana	531	13	Tanzania	566	13	Mozambique	578	13
Ghana	399	14	Senegal	495	14	Zambia	515	14	Uganda	468	14
Senegal	389	15	Swaziland	461	15	Uganda	512	15	Ghana	429	15
Lesotho	302	16	Mozambique	441	16	Malawi	471	16	Lesotho	304	16
Swaziland	281	17	Malawi	424	17	Mozambique	470	17	Angola	210	17
Cameroon	277	18	Zambia	413	18	Swaziland	459	18	Cape Verde	198	18
Malawi	228	19	Lesotho	329	19	Lesotho	304	19	Benin	176	19
Uganda	193	20	Gabon	222	20	Angola	210	20	Burundi	148	20

Source: *World Tourism Organization Database, 2007.*

Note: *The data for Malawi, Tanzania and Zambia were not available in the UNWTO report of 2006. Therefore, the latest classification of these countries is not captured in this table.*

Table A2.5

Top 20 tourism earners in Africa ($millions)

Country	2000	Ranking	Country	2003	Ranking	Country	2004	Ranking	Country	2005	Ranking
Egypt	4,345	1	South Africa	5,523	1	South Africa	6,282	1	South Africa	7,327	1
South Africa	2,675	2	Egypt	4,584	2	Egypt	6,125	2	Egypt	6,851	2
Morocco	2,039	3	Morocco	3,225	3	Morocco	3,924	3	Morocco	4,617	3
Tunisia	1,683	4	Tunisia	1,582	4	Tunisia	1,970	4	Tunisia	2,063	4
Mauritius	542	5	Mauritius	696	5	Mauritius	853	5	Mauritius	871	5
Tanzania	377	6	Tanzania	647	6	Tanzania	746	6	Ghana	796	6
Ghana	335	7	Botswana	457	7	Botswana	549	7	Tanzania	796	7
Kenya	283	8	Ghana	414	8	Kenya	486	8	Kenya	579	8
Botswana	222	9	Kenya	347	9	Ghana	466	9	Botswana	562	9
Uganda	165	10	Namibia	330	10	Namibia	403	10	Namibia	348	10
Namibia	160	11	Senegal	209	11	Uganda	266	11	Uganda	270	11
Senegal	144	12	Libya	205	12	Libya	218	12	Libya	210	12
Seychelles	139	13	Uganda	184	13	Zimbabwe	194	13	Algeria	181	13
Zimbabwe	125	14	Seychelles	171	14	Algeria	178	14	Seychelles	192	14
Madagascar	121	15	Zambia	149	15	Ethiopia	173	15	Ethiopia	168	15
Zambia	111	16	Mali	128	16	Seychelles	172	16	Mozambique	130	16
Nigeria	101	17	Ethiopia	114	17	Zambia	161	17	Cape Verde	127	17
Algeria	96	18	Algeria	112	18	Mali	130	18	Madagascar	111	18
Benin	77	19	Benin	106	19	Madagascar	105	19	Zimbabwe	99	19
Libya	75	20	Swaziland	101	20	Swaziland	95	20	Swaziland	96	20

Source: *World Tourism Organization Database, 2007.*

Development Challenges for Africa in 2007

3

This chapter discusses two important global challenges facing Africa: issues in international trade and challenges in accelerating progress towards reaching the MDGs. The new major development in the area of international trade is the launch of the Aid for Trade (AfT) initiative and the regional review, which was organized jointly by ECA, AfDB, and World Trade Organization (WTO).

On the MDG front, progress is still slow but commitment is high both at the national level and among international development partners. This has been clearly affirmed in various high-level forums, including the recent meeting of African Ministers of Finance on Development Financing, held in Accra, Ghana in May 2007.

"Africa's share in world exports is only rising marginally and remains close to historic lows"

3.1 Trade issues: trade policy, aid for trade, trade negotiations

3.1.1 Introduction: general trends in Africa's trade performance

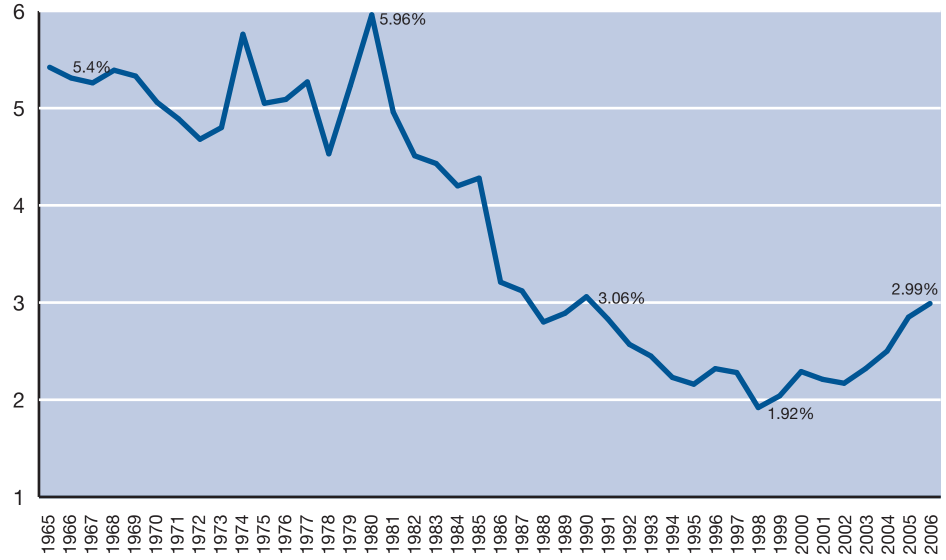
On the back of continued high-commodity prices and strong world growth, African exports progressed further in 2006 to reach $US 360.9 billion, up 21 per cent from 2005. This has been the fourth year in a row that Africa's exports grew by more than 20 per cent.

In 2006, world exports increased by 15.2 per cent, compared with a progression of 21 per cent for Africa. Despite this steady progress, Africa's share in world exports is only rising marginally and remains close to historic lows. As exemplified in figure 3.1, the continent's share of world total exports reached 2.99 per cent in 2006. Albeit somewhat higher than its lowest record in 1998 of 1.92 per cent, this remains way below the levels of the 1960s and 1970s (above 5 per cent). Africa remains a marginal player in world trade.

Africa's export performance remains dominated by that of oil-exporting countries

Figure 3.1

Africa's share of total world export (per cent)



Source: *WTO, 2007c.*

In 2006, as in 2005, the top five exporters were South Africa, Algeria, Nigeria, Libya and Angola. As highlighted in table 3.1, the top ten exporters accounted for 81 per cent of the continent's total exports in 2006.

Table 3.1

Top 10 African countries in exports in 2006

Top 10 exporters	Exports in $US million	Cumulative share of Africa's total exports
South Africa	58 412,00	16%
Algeria	52 822,00	31%
Nigeria	52 000,00	45%
Libya	38 300,00	56%
Angola	35 100,00	66%
Egypt	13 702,00	69%
Morocco	12 559,00	73%
Tunisia	11 513,00	76%
Equatorial Guinea	8 900,00	79%
Côte d'Ivoire	8 715,00	81%

Source: *WTO, 2007c.*

Africa's export performance remains dominated by that of oil-exporting countries. Oil-exporting African countries[1] continued to increase their share of total exports in 2006. At $208 billion, their exports accounted for close to 58 per cent of Africa's total in 2006. Non-oil-exporting African countries – including South Africa - saw their exports increasing by 16 per cent in 2006; as in 2005, their export growth was just above the world average.

Table 3.2

Growth rate of exports, 1997-2006 (per cent)

Country	Growth rate	Country	Growth rate
Chad	59.03	Cameroon	9.00
Sierra Leone	47.49	Niger	8.75
Equatorial Guinea	40.12	Tunisia	8.63
Mozambique	32.48	Côte d'Ivoire	8.57
Sudan	32.07	South Africa	8.00
Angola	28.92	Ethiopia	7.94
Morocco	27.13	Dem. Rep. of Congo	7.92
Zambia	22.35	Sao Tome and Principe	7.77
Libya	20.59	Uganda	7.40
Algeria	19.70	Botswana	7.04
Congo, Republic of	19.56	Kenya	6.38
Nigeria	19.19	Senegal	6.22
Egypt	16.69	Cape Verde	5.89
Seychelles	16.36	Lesotho	5.83
Comoros	12.16	Togo	5.39
Mali	10.82	Mauritius	4.11
Guinea-Bissau	10.82	Burundi	3.87
Tanzania	10.70	Benin	3.76
Madagascar	10.70	Djibouti	3.03
Swaziland	10.42	Malawi	2.89
Burkina Faso	10.28	Gambia	0.61
Mauritania	10.03	Zimbabwe	0.20
Ghana	9.75	Liberia	-3.02
Namibia	9.63	Central African Republic	-3.09
Gabon	9.37	Guinea	-4,75.
Eritrea	9.36	World	9.24
Rwanda	9.35		

Source: *WTO, 2007c.*

"Half of the African countries performed better than the world average in terms of average annual export growth between 1997 and 2006"

1 Algeria, Angola, Chad, Republic of Congo, Equatorial Guinea, Gabon, Libya, Nigeria and Sudan.

It is interesting to observe in table 3.2 that half of the African countries (27) performed better than the world average in terms of average annual export growth between 1997 and 2006. The top performers are, again, largely oil exporters: Chad tops the list (+59 per cent average annual export growth over the past ten years). Among the good performers also are post-conflict countries such as Sierra Leone. Interestingly, other countries have also performed well, including Mozambique (+32%), North African non-oil exporting countries (Morocco +27%, and Egypt +16.7%) as well as mineral products exporters (Zambia: 22.3%, Mali: +10%). At the other extreme, Guinea, Liberia and Central African Republic all suffered negative annual growth rates in exports, with Guinea and Liberia showing recent signs of improvement.

From the above, it appears that African trade performance is still vastly dominated by the impact of terms of trade for oil and a few minerals. Better governance and political stability also play a large role, as highlighted by the improved performance of reformers and post-conflict countries.

The levels and variations of the world price of a few commodities remain important in African trade performance and hence, in the role that trade can play as a tool for poverty reduction. Moreover, extractive industries are usually capital rather than labour intensive, which translates into a limited impact in terms of employment and poverty reduction. Diversification of African exports should therefore remain one of the top objectives of Africa's trade policymakers.

It has been argued that enhanced regional trade integration can play a positive role to foster diversification in Africa. Indeed, African firms – and in particular, small and medium enterprises (SMEs) - are more likely to be able to compete favourably and diversify their production at the regional level than they are on international markets where the competition is fiercer.

Unfortunately, and despite anecdotal evidence of changes in some African regions, African regional trade integration remains low.

Table 3.3
Share of intra-regional trade, average for 1996-2005 (per cent)

	Africa (all regions)	CEMAC	COMESA	ECOWAS	SADC	WAEMU	AMU
Average share of intra-regional trade (1996-2005)	9,56	1,56	6,01	9,17	10,17	12,32	2,58
Average annual intra-regional export growth (1996-2005)	9	7	11	13	7	10	7
Average annual growth of total exports (1996-2005)	12	17	14	13	9	8	14

Source: UNCTAD, 2006.

The table above shows that intra-African trade accounted for just less than 10 per cent of the continent's total exports. What is more, between 1996 and 2005, African exports to the world have grown faster than trade within the continent. The least integrated regional economic communities (RECs) appear to be the Central African Economic and Monetary Community (CEMAC) and the Arab Maghreb Union (AMU) where exports to the rest of the world are also growing much faster than within the region. West Africa (ECOWAS), Southern Africa (SADC) and East Africa (COMESA) are somewhat more integrated and there is less difference between growth of total exports and intra-regional trade.

"Intra-African trade accounted for just less than 10 per cent of the continent's total exports"

In ECOWAS, exports to the world and within the region grew at approximately the same rate. WAEMU (UEMOA), the customs and monetary union of 8 West African States is faring better both in terms of integration, with more than 12 per cent of intra-regional trade, and a higher pace of growth for intra-regional trade. However, even for WAEMU, the level of intra-regional trade is far lower in comparison to other regions (over 70% within EU).

In order to foster diversification and enterprise development, as well as regional stability, African countries should step up their efforts to foster regional trade integration. Tariffs have to be effectively eliminated where they are still applied, and other barriers such as deficient physical and institutional infrastructure also have to be tackled.

3.1.2 Trade negotiations: the state of play

Trade is one of the crucial pillars in the development-financing framework. However, African economies have not yet maximized the potential that trade holds in this regard. The constraints to optimal use of trade in development financing lie both in the structure of African economies, and the international trading environment in which African exports have to compete.

> *African economies stand a better chance of diversifying if they can exploit the trading opportunities that exist in the continent*

Africa's regional and global trade

In this section, the report presents a synopsis of the recent developments in Africa's trade both within the region and with the rest of the world. This analysis is important for two reasons. First, it highlights the recent performance of intra-African trade, given the crucial role this component of trade plays in deepening regional integration on the continent and in providing economic and geographic space for building competitive economies. Then, it highlights continental policy initiatives to deepen intra-African trade.

Continuing the diversification theme in *Economic Report on Africa 2007* (see UNECA/AU 2007b), African economies stand a better chance of diversifying if they can exploit the trading opportunities that exist in the region. In the analysis of intra-African trade, attention is drawn to two aspects that affect its performance, the level of protection that trade among African countries encounters on one hand, and on the other, trade facilitation bottlenecks beyond border protection.

This section also analyses recent developments in trade with the rest of the world and the structural changes that could address the deep-seated concerns about the level of integration of African economies in global trade, and the value, sustainability and composition of the trade. The section also discusses the state of play in the two main negotiations on which African countries have been pinning much hope, Doha Round and Economic Partnership Agreements (EPAs), given their potential to unlock trade as a development pillar for the continent.

However, the potential is only realizable if the development support and flexibilities in favour of African countries in the Doha Round and EPA negotiations are fully exploited. The link between the performance of African trade in the global economy and market access barriers in the rest of the world provides a good foundation for assessing the prospects for the continent in the recent Doha Round negotiations.

The Doha Round: making sense of the modalities

ECA (2007b) provided a chronology of the timeline in the negotiations since they were launched in Qatar, Doha in November 2001. This report provides an assessment of the state of play of the Doha Round of trade negotiations in the context of the expectations of African countries since the resumption of the talks in July 2006.

The main conclusion drawn is that the developments that have occurred in WTO negotiations over the last year have mainly focused on achieving progress in agriculture and non-agriculture market access (NAMA) modalities.

State of play in the Doha Round and challenges for African countries

The breakthrough to resume the negotiations occurred at the end of January 2007, on the sidelines of the World Economic Forum in Davos. A group of Trade Ministers from WTO member States decided to resume formal negotiations in Geneva and give the Doha Round a new dynamic. Gathered in an extraordinary session in the same week in Addis Ababa (and in the presence of representatives of the G-6, and the Director-General of WTO), Ministers of Trade of the African Union gave their own impetus to the Round.

African countries have emphasized the importance of the Round to the world economy and the need for it to end in just and well-balanced agreements. Up to this point in the negotiations, although the original Doha mandate has eroded over the last six years, there is still an expectation of modalities that integrate the development dimension, according to the principles of the Doha Ministerial Declaration, the July Framework and the Hong-Kong Ministerial Declaration. .

Unlocking the negotiations and the Lamy triangle

The reality of the Doha Round before the suspension was that major actors had different positions on key negotiations issues. As the talks hit deadlock, it turned out that efforts needed to be concentrated on three key actors and their positions in these areas. The Director-General of WTO, Pascal Lamy, was mandated to talk to the key actors so that convergence could be achieved and allow the multilateral talks to resume. The period between the suspension and the resumption therefore focused on what came to be known as the Lamy triangle:

- The EU needed to move on agriculture tariff cuts from its lower average tariff cut offer, to the Group of 20 (G-20) average of 54 per cent;

- The USA needed to offer cuts in its overall domestic support to its agricultural producers such that the final spending would be between $12 to 18 billion; and
- Advanced developing countries, the third side of the triangle, needed to adopt the Swiss formula coefficient of 20 in terms non-agriculture market access, such that the final highest tariff after the formula is implemented would be 20 per cent.

Agriculture negotiations

Looking at the modalities proposals that were published in July 2007, it is evident that some concessions have been made, but the principles in the Lamy triangle are yet to be agreed. The rest of this section takes a closer look at the convergence of modalities as of July 2007, starting with the domestic support pillar (see box 3.1 for definitions).

Overall Trade-Distorting Domestic Support (OTDS)

The OTDS is the combined total of the amber box, de minimis, and the blue box. There are two crucial issues here of relevance to African countries. The first was definition of the starting point from which the cuts would be made for those countries providing the support. The base period has an implication on the impact of the final OTDS on the international markets. The second issue was the level of the cut. A

Box 3.1
Domestic support in WTO

- Amber Box: These are the trade-distorting subsidies subject to reduction and include support prices, or subsidies directly related to production quantities. Reductions expressed in "Total Aggregate Measurement of Support" (Total AMS), which includes product-specific and non-product specific supports in one single figure.
- Blue Box: These are production-limiting programmes based on no more than 85% of the base level of production. At present, they are allowed without limits.
- Green Box: These are non- or minimally trade-distorting subsidies including direct/decoupled payments, environmental programmes, food aid, insurance, income safety nets, etc. At present, they are allowed without limits.
- *De minimis:* These are trade-distorting subsidies exempted from reduction if they represent less than 5% of the value of production (10 % for developing countries).
- Special and differential treatment box (Article 6.2): These are for developing countries only. They include investment and input subsidies, and domestic support to encourage diversification from illicit crops. There are no reduction commitments.

tiered formula has already been agreed with three bands, and the negotiations have been focusing on the level of cuts. Table 3.4 shows the modalities that are currently being negotiated and also indicates which countries fall under each of the bands.

Table 3.4

Modalities proposals for tiered formula for OTDS cuts

Bands	Thresholds ($US billion)	Cuts
3	> 60 (EU)	75% or 85%
2	10 – 60 (US and Japan)	66% or 73%
1	0 – 10 (all developing countries)	50% or 60%

Source: *WTO, 2007a.*

The above cuts will translate to the following for EU and the USA:

- EU, which is in the highest tier, will reduce its total support from Euro 110.3 billion to either Euro 27.6 billion or Euro 16.5 billion. The Common Agricultural Policy reforms, which have implications also for the commodities protocols under the Cotonou Agreement, will accommodate the desired cuts.
- For the USA, this means a reduction from $48.2 billion to either 16.4 billion or $13 billion. The formal US offer is to reduce the OTDS to $23 billion, which is above its current spending of $10.6 billion. Moreover, the G-20, which has the support of the Africa Group, would like to see the US final bound level at between $11 and $12 billion. It is not clear what the final US offer will be as its new Farm Bill is still under discussions.

Developing countries that do not have aggregate measurement of support (AMS) will not apply any cuts and this includes several African countries. Where developing countries have AMS commitments, the proposals are for them to cut the developed countries rate by two-thirds. Net food-importing developing countries including many from Africa will not be expected to have any cuts.

Final bound total AMS and product-specific AMS caps

As table 3.5 shows, EU is in the top tier and is expected to cut its support by 70 per cent The US, in the second tier, is expected to reduce Amber Box support from $19.1 billion to $7.6 billion. This is a cut that the new Farm Bill will have to facilitate and it is not yet certain whether this will be agreed. It is important to note that Amber Box practices are the most trade distorting and it is going to be a major effort for the US to comply. In the EU case, the caps reforms will make the expected cuts easier.

Table 3.5
Modality proposals for final bound total AMS (Amber Box)

Bands	Thresholds ($US billion)	Cuts
3	> 20 (EU)	70%
2	12 – 20 (USA and Japan)	60%
1	0 – 12 (all developing countries)	45%

Source: *WTO, 2007a.*

A crucial proposal that has implications for commodities trade is that the new modalities suggest an amendment in the agreement on agriculture to allow for product-specific AMS caps. These will improve the disciplines on the domestic support commitments. It has been a contentious area and a major issue now is the base period that will be selected, with most countries, including African countries, in favour of the Uruguay Round implementation period (1995-2000).

De minimis

Some African countries use the support measures allowed under *de minimis*. The modalities have converged to a requirement for 50-60 per cent cuts, which means reducing both the product-specific and non-product-specific *de minimis* from 5 to 2.5 or 2 per cent There are country exemptions, including most of the developing countries that are currently allowed 10 per cent *de minimis* - especially those that use these measures to support subsistence farmers.

The Blue Box and New Blue Box

The major development in the domestic support pillar is the expectation that there will be a new Blue Box. This will allow utilization of the Blue Box for direct payments where countries do not currently have production limiting requirements. The new Blue Box will accommodate the USA. The old Blue Box was under use by countries such as EU, Japan, and Norway, among others.

However, there are some new disciplines that the Africa Group in Geneva has been advocating and that are now in the modalities proposed. A welcome proposal is the requirement for capping of Blue Box spending including for individual products. At the same time, attempts have been made in the new disciplines in the Blue Box to limit the proportionate share of any single product out of the total support under this box.

Another important development in the modalities is a provision that allows developing countries, which have not been using the Blue Box, to start using it by shifting some of their support, where it exists, from the Amber Box. For the developed countries, the modalities presume that any increase in Blue Box spending will be compensated with an equivalent reduction in the Amber Box.

"The African cotton sector is likely to benefit from more effective reduction of trade-distorting support"

African cotton and domestic-support measures

The African cotton sector is likely to benefit from more effective reduction of trade-distorting support, in the sense that twice as much reduction in the Amber Box will be required in the case of cotton for any increase in the Blue Box. This therefore discourages the shifting of domestic support from Amber Box to Blue Box. The most important development for the international cotton trade is the proposal to adopt the cotton-4 countries[2] proposal that requires higher reduction[3] in AMS for cotton. In addition, stricter caps (one-third of the general agreement) would apply for cotton. At the same time, a much shorter time would be given to implement the reductions in Amber and Blue Box spending that applies to cotton. Specifically, one-third of the time is proposed.

The Green Box

African countries have actively argued for effective disciplines under the Green Box. A crucial concern has been that box shifting might occur, leading to a shift in domestic support from the Amber and Blue Boxes to the Green Box where no reduction commitments are expected. Yet, it is generally accepted that Green Box subsidies do not necessarily reduce production and help prices to rise; on the contrary, they cause distortion, albeit minimally, through wealth effect and cross-subsidization; farmers expectations about future policies; and incomplete decoupling.

The modalities proposed are in the direction that the African countries have been advocating in that amendments are sought that will extend the Green Box towards development measures while at the same time trying to limit introduction or revision of the direct payments made to farmers.

2 The cotton-4 countries are Benin, Burkina Faso, Chad, and Mali.

3 The African countries in WTO/TN/AG/SCC/GEN/4 of March 1, 2006, *Proposed Modalities for Cotton under the Mandate of the Hong Kong Ministerial Decision*, have a formula applied on average payments to the cotton sector using the 1995-2000 base, which means that if the AMS cut is 60 per cent in general, this would amount to more in the case of cotton.

The Market Access Pillar

As in the case of domestic support, a tiered formula has been agreed already in this pillar. The modalities discussions have been on the thresholds and the depth of cuts in each tier. Ideally, the original offers before the Hong Kong Ministerial meeting worked out to an average reduction of 85 per cent for the US offer and 60 per cent for the EU offer in the case of the highest tariffs. The width of the bands for developing countries was also a sticking point. Table 3.6 presents the modalities development situation as at July 2007. Convergence is now towards the original G-20 proposal.

The modalities have reached narrower ranges. The key upper band with tariffs above 75 per cent would be reduced by between 66 and 73 per cent Developing countries would institute cuts that are two-thirds of those expected of the developed countries. At the same time, much wider bands would apply for developing countries in each of the tiers, a reflection of attempts to institute the special and differential treatment.

Table 3.6

Tiered formula coefficients in the July 2007 draft modalities

Tariff band (%)	Cuts by developed countries	Tariff band (%)	Cuts by developing countries
0-20%	Between 48 and 52%	0-30%	Between 32 and 34.6%
20-40%	Between 55 and 60%	30-80%	Between 36.6 and 40%
50-75%	Between 62 and 65%	80-130%	Between 41.3 and 43.3%
Above 75%	Between 66 and 73%	Above 130%	Between 44 and 48.6%

Source: *WTO, 2007a.*

Sensitive products

The introduction of sensitive products for developed countries has been a key issue of negotiations. On the one hand, there has been a feeling that such products exclusion would be used to limit market access. On the other side of the argument, it has been stated that, on the contrary, sensitive products would allow developed countries to achieve more in the non-excluded sectors. ECA studies have shown that even minimum percentages of tariff exclusions would limit the economic and social benefits expected from high tariff cuts (see ECA 2006).

However, the status of negotiations on this issue have converged to the point where developed countries will have the right to designate 4 per cent or 6 per cent of their dutiable tariff lines as sensitive. In case these countries have over 30 per cent of their tariff lines in the top tier (band), then they may designate 6 per cent or 8 per cent as sensitive. This latter proposal hopes to lessen the effect of the deep cuts expected from such countries. Developing countries will be able to designate one-third more tariff lines over those of developed countries as sensitive.

A key point worth recalling is that treatment of sensitive products has been a contentious issue. The modalities presume that developed countries will deviate in the case of sensitive tariffs from an agreed cut by a minimum of one-third and a maximum of two-thirds. Since this deviation will reduce the tariff cut[4], it is proposed that some form of payment will have to be given through tariff quota expansion.

"The introduction of sensitive products for developed countries has been a key issue of negotiations"

Special products: limited progress so far

African countries have been very active in the negotiations on special products. Unlike the sensitive products, special products have criteria. According to the Hong Kong Ministerial Declaration, developing countries have flexibility to self-designate an appropriate number of tariff lines as special products guided by indicators based on the criteria of food security, livelihood security and rural development.

Unfortunately, as of July 2007, limited progress had been achieved and there is no agreed list of indicators for designating special products. The Group of 33 (G-33) has made a proposal on these indicators, including coverage of 20 per cent of tariff lines. African countries have taken a position that is in line with the G-33 proposal.

A contentious issue in current modalities texts is the treatment of special products. It is proposed that, as in the case of sensitive products, there should be some reduction in tariffs, including the possibility of using a simple Uruguay Round-type of overall tariff reduction target.

Other issues in the market access pillar

There are other issues in the market access pillar of critical importance to African countries. One is the special safeguard mechanism. So far, there has been no consensus, especially on the triggers and remedies. Tariff escalation is another important issue for African countries as it greatly hampers their exports, and there has been no progress on how to deal with the matter. Commodities-dependent African countries are affected most by the tariff escalation, in which case the negotiations on commodities and the tariff escalation issue are related. Other issues include tariff sim-

4 Consider the 66 per cent lower bound tariff cut of the top band shown in table 3. If a developed country designates a tariff line in this band as sensitive, what this means is that the implemented cut for this line can deviate by between 22 and 44 percentage points. This deviation ought then to be compensated by some expansion of tariff quota.

plification, special agricultural safeguards, tropical and diversification products, and preference erosion, among others.

Tariff escalation is another important issue for African countries as it greatly hampers their exports

Export competition

Unlike the domestic support and market access pillars, there has been substantial convergence in the export competition pillar. Indeed, since July 2006[5], there has been much agreement on most issues and over the last year, there have not been any changes other than conversion into legal text of what has been agreed. The issues under this pillar include export subsidy elimination commitments, export credits, export credit guarantees or insurance programmes, agricultural products exporting, state trading enterprises, international food aid, and cotton.

What is worth highlighting is that developed countries have pledged to eliminate their remaining export subsidies by the end of 2013. This will be on the basis of reducing budgetary outlay commitments by 50 per cent by end 2010, with the remaining budgetary outlay commitments eliminated in equal annual installments. This means that all forms of export subsidies should be eliminated by end 2013 (WTO 2007a).

Negotiations on non-agricultural market access (NAMA)

The sense of the formula

Negotiations on NAMA also made some progress. The most significant contribution to the NAMA debate was paragraph 24 of the Hong Kong Ministerial Declaration[6], which instructs negotiators in Geneva to ensure that there is "a comparably high level of ambition in market access for agriculture and NAMA," and added that this ambition "is to be achieved in a balanced and proportionate manner consistent with the principle of special and differential treatment." This responds to two key developing country concerns.

The first is their view that the negotiations must narrow the current gap in market access for agricultural and industrial products, therefore requiring greater effort in reducing agricultural tariffs than those for industrial goods. In contrast, most industrialized countries, and EU in particular, have repeatedly said that unless developing countries start moving on NAMA and services, further progress will not be possible

5 See *Draft Possible Modalities on Agriculture,* WTO, TN/AG/W/3, 12 July 2006.

6 The Ministerial Declaration is available on the following website: http://www.wto.org/english/thewto_e/minist_e/min05_e/final_text_e.htm

in agriculture. An important factor in the development of NAMA modalities is the exemption of many African countries, and all the Least Developed Countries (LDCs) from any tariff reductions.

The negotiations have so far retained a Swiss tariff reductions formula, entailing reductions more important for the highest tariffs combined with a harmonization effect. A simple Swiss formula with two coefficients should be adopted: one coefficient for developed country and the other for developing countries. With regard to the coefficients in the formula, the extreme positions propose a difference of 5 and 25 points between developed and developing countries.

> *Developing countries' view is that negotiations must narrow the current gap in market access for agricultural and industrial products*

Some developing countries have tried to replace the Swiss formula with a linear formula. Such proposals are viewed with considerable concern by developed countries, which view the Swiss formula as the principal achievement of the NAMA mandate. The principle of proportionality in the tariff reductions was also highlighted in the Hong-Kong Declaration and confirmed in the revised draft on NAMA modalities paper (see WTO 2007b). According to the July 2007 *Draft NAMA Modalities*, developing countries should be authorized to proceed to tariff reductions that are not as deep as those of the developed countries (WTO, 2007b). However, the exact level of the coefficients of the Swiss formula remains undetermined.

This is crucial, because it determines the scale of the tariff reductions and allows one to know if the reduction goes beyond a simple reduction of the variation[7] between the applied tariffs and the bound one or is translated into a real reduction of the applied rates. The fact that two coefficients apply, depending on whether a country is developed or developing, somewhat satisfies the requirements for special and differentiated treatment through the formula.

Unbound tariffs and the expectations of African countries

Progress has been made in the discussion on unbound tariff lines. On a practical level, these negotiations have referred mostly to the constant mark-up methodology to establish base rates. A non-linear mark-up approach envisages the addition of a certain number of percentage points to the applied rate of the unbound tariff line in order to establish the base rate on which the formula is to be applied. In the context of such discussions, the number for the mark-up has ranged from 5 to 30 percentage points (WTO, 2007b).

Some ECA studies, among them Ben Hammouda et al. (forthcoming), have shown that although African countries could increase their welfare through an ambitious

7 A positive difference between bound and applied tariffs is technically referred to as binding overhang, and is also sometimes referred to as "water in the tariffs".

liberalization scenario, there is a risk of experiencing de-industrialization of the continent in favour of specialization in agricultural production. Exception was made for some important products still protected by high tariffs in developed countries, as the potential gains in terms of scale of the tariff reductions seem more important in the other developing countries.

Numerous simulations, among them those carried out in Ben Hammouda et al. (2007), underline that Africa should take advantage of the process of liberalization if there is special and differential treatment (S&D) and not necessarily equal reciprocity. Indeed, the S&D dimension has to constitute an essential component of a tariff structure favourable to industrial development in Africa. This new tariff structure should also facilitate improved access for African countries to world trade, while accelerating the process of diversification of the African economies and the construction of their competitiveness (Ben Hammouda et al. 2006).

Finally, it should boost the process of industrial development of the continent by assuring the African industries adequate protection and by allowing a bigger opening of the developed countries markets (Ben Hammouda et al. 2007). The AfT Initiative should also increase these capacities.

Other negotiation issues

Progress in other areas under negotiations in the Doha Round is contingent upon the success of the agriculture and NAMA negotiations. As a result, there has been little change to what the negotiations had achieved prior to July 2006. In the area of services, there is still contention about the scope of liberalization that can be achieved. This will depend on the level of response from advanced developing countries. It is to be hoped that the level of support given by developed countries to the domestic support and market access pillars will be commensurate to their aspirations in the services negotiations.

Another important area under negotiations is trade facilitation. There has been no overt contention as in other areas, but progress has remained slow and efforts have focused on the agriculture and NAMA modalities. Under the single undertaking character of Doha Round, it is expected that breakthroughs in agriculture and NAMA will catalyze other areas such as trade facilitation. The final trade facilitation modalities will also be influenced by operationalization of the AfT initiative.

An important area of negotiations that has a bearing on the EPA negotiations and is an area in which African countries made a proposal through the ACP Group is the mandate under paragraph 29 of the Doha Mandate. The negotiations here have been seeking to clarify and improve discipline and procedure under the existing WTO provisions that apply to regional trade agreements (RTAs). Article XXIV of GATT addresses this subject. The main development in this area has been the establishment of a Transparency Mechanism for RTAs. This will have implications for the EPAs currently being negotiated, as well as for the regional integration programmes on the continent.

Another area where there has been some progress and which is of relevance to Africa especially is the Enhanced Integrated Framework (IF). As with AfT, a Task Force has been established under the IF Working Group. A report has also been prepared with recommendations on how the IF, which favours the LDCs, a majority of whom are African countries, could be operationalized.

3.1.3 EPA negotiations: state of play

The EPA negotiations were agreed between the African, Caribbean and Pacific (ACP) States and EU in the Cotonou Agreement of 23 June 2000, which was amended on 25 June 2005. There are four groups in Africa negotiating EPAs with EU. Whereas four different REC Secretariats[8] spearhead the negotiations in Africa, the EPA configurations do not conform in terms of REC membership composition. Year 2007 is expected to be the final year of the negotiations. Failure to conclude the negotiations, as feared, would expose the EU-ACP trading arrangements to challenge under WTO rules, since the waiver granted by other WTO members expires on 31 December 2007.

Comprehensive review of the EPA negotiations

One of the main developments in the EPA negotiations in 2007 was the comprehensive review of the negotiations undertaken by African countries in accordance with Article 37.4 of the Cotonou Partnership Agreement. The main objective of the review was to examine the level of progress and whether more time was need to conclude the negotiations. At the same time, the review was expected to identify measures necessary for ensuring that the negotiations are concluded on time.

The main finding of the review was that there has been limited progress in the negotiations as per the agreed roadmaps for negotiations and significant areas of differences remained. ECA 2007a presents the outstanding issues in each region in detail and also provides a synthesis of those issues that cut across all the African groupings. Some of the outstanding issues that remain unresolved in the final year of the negotiations include:

8 The respective REC Secretariats spearheading the negotiations are as follows: COMESA for ESA EPA with 16 countries; SADC for SADC EPA with seven countries; ECOWAS for ECOWAS EPA with 16 countries; and CEMAC with six countries.

There has been limited progress in the EPA negotiations as per the agreed roadmaps for negotiations

- In all the African regions, differences with the European Commission (EC) remain, in relation to product coverage, transition periods, rules of origin, sensitive products, and preference erosion among others in the areas of market access and agriculture.
- There is still no clear resolution of how EU countries will handle African exports come January 1, 2008. The negotiations have not conclusively resolved the risk that African trade with Europe will be disrupted in the event that no agreement is reached. Transition arrangements were not being discussed in any of the negotiating groups and it has been assumed that if no agreement is reached, global rules would kick in to regulate the Africa-EU trade.
- There was no agreement between EC and the African groupings on the scope of negotiations on services.
- There was divergence between and within African groupings on the one hand and between the groups and EC on the other, with regard to trade-related issues. Differences still persisted on the treatment of investment, competition and government procurement.
- On the major expected selling point of the EPAs, that is, the development focus, differences still persisted on the scope of development provisions, additionality of resources, and the legally binding commitments from the EC and EU member States, among other areas.
- The linkage between the EPAs and RECs, in the context of Africa's integration agenda under AU was also unresolved. As ECA (2004) demonstrated, diversion of intra-African trade remains an important issue with which EPAs have to contend. In terms of empirical analysis, ECA (2004) clearly showed that trade creation under EPAs in each region would outweigh trade diversion, both intra-African and with the rest of the world.
- Article 37.6 of the Cotonou Agreement envisaged that alternatives would be provided to those countries not covered by EPAs come January 1, 2008. This issue of alternatives was still unresolved and was not exhaustively explored. It therefore emerged as a key outstanding issue both for LDCs and non-LDCs in the African negotiating groups.

In summary, it was clear from the review that the development issue and the possible impact of EPAs on regional integration in Africa have remained contentious, and have tended to slow progress in the negotiations. Indeed, the areas outlined above where convergence has been difficult to achieve in the EPA negotiations are attributable to different interpretations by the EC on one hand, and the African countries on the other, on how they perceive their different positions.

Looked at closely, an inherent paradox persisted in the negotiations even as the deadline approached. On the one hand, EPAs were expected to be compatible to WTO rules. On the other, the African, Caribbean and Pacific (ACP) countries were adamant that the WTO rules to which EPAs are expected to comply were not conducive to the pro-development objectives of EPAs, in their current form.

The submission by the ACP Group to the WTO Negotiating Group on Rules[9] can be interpreted in this light, as these countries presented proposals aimed at securing the negotiating space for concluding pro-development EPAs. The relationship between EPAs, and between EPAs and RECs, is not clear, and as such, the EPA-stated aim of building regional markets is not assured in the eyes of the African countries.

> *"Trade creation under EPAs in each of the regions would outweigh trade diversion, both intra-African and with the rest of the world"*

EPA conclusions

ECA (2007a) identified a number of issues that have delayed EPA negotiations. The report went further and identified measures that would speed up the negotiations. As the deadline of 31 December 2007 approaches, negotiations can be said to have speeded up. To a limited extent, this speeding up has been helped by the EC's duty-free quota-free market access.

Unfortunately, the causes of the delays as enumerated in ECA 2007a and the suggested measures that would speed up the process were never dealt with. In particular, recommendations for more time for negotiations beyond the deadline and the need for more resources for negotiations and to prepare African economies for EPAs went unheeded. Instead, the joint declarations from the EU-ACP review of the negotiations re-affirmed commitment to complete the negotiations as per the deadline.

Many of the outstanding issues outlined above remained unresolved even as the deadline approached. Yet, EPA Declarations outlining African common positions have consistently identified the issues that would make the EPAs achieve their desired objectives (see AU 2003, AU 2005, AU 2006 and AU 2007). Critically, these African common positions have been aimed at ensuring that EPAs are development tools and catalysts for competitive regional markets. They should serve as platforms for Africa's integration into the global market and be compatible with WTO rules.

ECA (2007a) and Bilal (2007) discussed some of the alternative scenarios that Africa could face in the event that EPA negotiations failed to meet the deadline. Although EU and ACP countries committed themselves to conclude the session on time, UNCTAD leveled criticism at the regional cooperation trade frameworks (2007) of the developed and developing countries. These scenarios must be highlighted as they

9 See WTO document TN/RL/W/155.

will form an important starting point if and when the review of EPAs takes place. The first two alternatives are in line with the WTO rules.

The African LDCs could avail themselves of EU's Everything But Arms (EBA) initiative, which is in line under the enabling clause of GATT. The African non-LDCs are faced with a choice between two options, also WTO-compliant. The first option is for them to accede to the Generalized System of Preferences (GSP), which would limit their EU market access but would be more favourable when compared to the most-favoured tariffs that EU grants. The second option, which is more conditional on environment, labour and governance issues, is the GSP+, which represents EU improvement of its GSP programme.

While the trade aspects of EBA and the Cotonou Preferences are similar in terms of market access possibilities, the same does not apply for non-LDCs. The GSP would erode the preference margins that African non-LDCs are currently enjoying. Empirical results are also divided on the erosion of preference gains between the Cotonou preferences and those of the GSP+, with studies such as Perez (2006) indicating that the latter might be better. .

ECA (2007a) proposed the extension of the negotiations deadline in order to allow for conclusion of comprehensive EPAs that address all the issues. At the same time, ECA (2007a) noted proposals from African negotiating groups that suggested conclusion of those EPAs that dealt with such priority areas as market access and development while the other issues could be considered post-January 2008.

As negotiations approached December 2007, this suggestion of phasing the EPAs, focusing first on market access and development clusters, gained currency. This was seen as a good alternative in case there were no transition measures to prevent disruption of African exports to the EU market. An agreement on remaining clusters such as services and fisheries, among others, was to be reached through a continued post-January 2008 programme of negotiations.

As at the time of writing, there was no African region that was able to conclude a comprehensive EPA with the EU. However, several interim EPAs were signed as a way of avoiding trade disruption between the EU and some of the non-LDCs African countries that were negotiating the agreements. For instance, in the West African region, Ghana and Cote d'Ivoire signed individual interim EPAs while the rest of the ECOWAS countries declined to sign the interims. In Southern Africa, interim agreements were signed by Botswana, Namibia, Lesotho and Swaziland while South Africa which was part of the negotiations declined. In the Eastern and Southern Africa (ESA) region, the East African Community (EAC) Countries signed as a group with the remaining ESA countries initialling different interim agreement. In Central Africa, Cameroon also initialled an interim agreement as the other countries that were negotiating under CEMAC held out. There seems to be an implicit agreement between the parties that have been negotiating that comprehensive EPAs will be concluded latest by mid-2009.

EPA continental coordination

The different EPA texts being negotiated individually by the four African groups have the potential of undermining the continent's overall development and integration goals. The outcome of these two possibilities will depend on the extent to which the four regions take the common African positions on key crosscutting issues into account as presented in the various EPA declarations under AU auspices (see AU 2003, AU 2005, AU 2006 and AU 2007).

Review of the progress made in the different regions both under the comprehensive review and from existing texts indicate that there are still sharp differences between individual groupings and EU, on crosscutting issues. Pan-African coordination is necessary in the following areas:

- *Development:* African countries should have the same concept of additional and separate EPA resources and delivery mechanisms in favour of regional funds, among other issues.
- *Market access:* African countries, while welcoming the duty-free quota-free market access offer from EU, should coordinate their response, especially with respect to any concerns they might have. This will allow them to coordinate their sensitive products also so that intra-African trade is not harmed. The pre-eminence of African free trade areas (FTAs), custom unions, and common markets suggests that these need to have similar transition periods (including commodity-specific). Furthermore, the coverage of exclusion lists dictate that the four regions should coordinate their response.
- *African integration:* Once again, given that the current groupings are not *pareto-optimal* compared to an Africa-EU EPA, coordination is needed so that the objectives of African integration are maximized. In this regard, there should be a pan-African position on the accession of an African country to an existing EPA. Similarly, there should be coordination on how two EPA groupings would relate to each other, including making mergers feasible.
- *Rules of origin:* As African countries have realized, even with preferences, rules of origin can limit effective market access. However, they can also be used as trade policy instruments for promoting trade linkages and hence, deepening integration. Yet, they can still be abused as trade remedy measures. Having a pan-African view on rules of origin can help in the diversifi-

There has been consensus that development of regional frameworks is essential for benefitting from competition

cation of African economies as various EPA regions deepen trade with each other.

- *Singapore issues:* These are the trade-related issues including competition, government procurement and investment. Pan-African coordination is crucial especially if any African grouping agrees to have rules in the final EPA texts, before conclusion of the negotiations. It is imperative that whatever rules are formulated in one African region do not impede future cooperation with other African EPAs. More importantly, there has been consensus that development of regional frameworks is essential for benefiting from competition.
- In this regard, African countries should coordinate and share the support provided by EU in developing these regional frameworks, given that they will be the basis of any cooperation with the rest of the world in the future, including EU itself.
- *Services:* There is consensus that development of services is central to rapid achievement of EPA development objectives. Pan-African coordination is necessary within such priority areas as mode 4, including a common approach. Similarly, African countries can coordinate to ensure that the services framework for liberalization does not impede intra-African trade and development in services.
- *Agriculture:* A common position was agreed with respect to agricultural commodity protocols in the light of the EU duty-free quota-free market access offer that excluded for instance sugar, rice and beef.
- *WTO compatibility:* A common interpretation of the definition of WTO compatibility can ensure that the EPA texts across the four groupings achieve the same results in terms of exploiting the flexibilities provided by WTO rules.

3.1.4 The Aid for Trade initiative

As already seen, the Doha Round has not achieved the expected rapid progress in many of the substantive areas of negotiations. Even where progress was made the compromises might end up being costly to the level of earlier expectations. This notwithstanding, the AfT initiative witnessed some useful developments (see box 3.2). There is a general mood in the negotiations that no matter what the outcome of the Doha Round may be, the AfT must be operationalized, as it will play a major role in assuring the development dimensions of global trade reforms. In this section, the report summarizes the key AfT developments that took place in 2007, the most important being the global AfT review.

Box 3.2

Aid for Trade and Africa: an African perspective on its elements and financing characteristics

African countries have played a crucial role in the development of the Aid for Trade (AfT) initiative. The key elements identified for the initiative are to:

- Assist African countries to enhance their productive capacities, through increased productivity, and addressing the necessary regulatory reforms, and human resource and physical infrastructure needed to make African economies competitive;
- Assist African countries to invest in removing impediments to business that drive up costs for exporters, thereby promoting international competitiveness;
- Help African countries to deal effectively with the adjustment costs associated with trade liberalization, such as rising food prices for net-food-importing countries, preference erosion, reduction in tariff revenues, and other economic and social costs;
- Assist African countries to integrate trade policy in their overall development strategies and create strong public-private sector partnerships; and
- Support regional integration initiatives

These objectives cannot be realized without the following AfT financing characteristics:

- AfT should play a catalytic role and be an engine of accelerated growth, development and poverty reduction in Africa;
- The funds provided under AfT should be additional, predictable and sustainable;
- The funding of AfT should be provided in grant form;
- The AFT Initiative should be carefully designed, adequately funded, efficiently managed and effectively implemented;
- There should be wide stakeholder involvement in the design and implementation of AfT programmes at the national and regional levels;
- AFT should also be supportive of regional integration initiatives
- AFT should be used to strengthen and develop trade policy and enhance trade negotiation capacity at national, regional and continental levels; and
- AFT should complement and not substitute for the development promises of the Doha Development Agenda (DDA), for example, the funds made available under ODA, EU's EDF and the USA Millennium Challenge Account.

The three regional reviews of Aid for Trade (AfT)

Three regional review meetings were held in Latin America, Asia and Africa in September and October of 2007. The results of the three meetings fed into the global review meeting at Geneva in November 2007. The overall goal of the three review meetings was the need to move the AfT initiative from Task Force recommendations to actions. The following were the key objectives of the meetings:

- Underline trade's central importance to the achievement of Latin America, Asia and Africa's development goals;
- Identify the key priorities for strengthening capacity and increasing trade;
- Emphasize the importance of comprehensive trade strategies (regional as well as national);

- Highlight the need for increased and effective financing; and
- Secure political commitment on the way forward.

AfT is necessary, as it would help the countries to diversify and reduce production costs

Key issues from the African regional review of the AfT Initiative

The African review meeting was organized jointly by ECA, WTO and AfDB in Dar-es-Salaam, Tanzania, 1-2 October 2007. It brought together African Ministers of Finance, Ministers of Trade, bilateral and multilateral donors and the private sector. Several key points can be summarized from the discussions that took place among the policymakers, the private sector, regional development banks and international partners.

First, there is now consensus that AfT matters for Africa. This consensus is underpinned by the realization that African products are competitive at the factory and farm-gate level when compared with those of Asian countries. However, the African products lose their competitiveness when it comes to placing them on international markets.

The African review meeting concluded that for the continent to be able to compete and succeed in the global market place, the AfT is necessary, as it would help the countries to diversify and reduce production costs. The regional dimension of the AfT programmes is critical as this will help African countries optimize their regional integration processes, and at the same time exploit economies of scale through larger competitiveness-building markets.

For this to happen, the development banks need new instruments to finance regional competitiveness and enhanced strategies have to be developed. For this to be successful, the competitiveness-enhancing strategies must at the same time address the specific needs of each country and must have the private sector as the key anchor.

It was also clear from presentations by the African RECs and interventions from the African Ministers that important initiatives at national and regional level aimed at enhancing competitiveness do exist. Many of these projects and programmes already identified have been geared towards strengthening trade production capacity.

A key issue that the review meeting identified was the need to resolve the lack of coordination of existing strategies. In particular, bilateral and multilateral development partners have separate and uncoordinated programmes with individual countries and regional groupings, and this has to be addressed to enable seamless superimposition of the AfT on these existing strategies.

The African review also noted the broad array of areas where AfT support is required, especially among the RECs, which is a clear call for prioritization. Most significantly, it was evident that the REC priorities currently narrow to just three key priority areas, albeit with different rankings for each REC. Moreover, the existing strategies are at different stages of implementation and financing gaps are a major constraint.

The African review meeting therefore concluded that it was important that concrete implementation of the AfT for Africa should focus on infrastructure, trade facilitation, and standards. AfT resources that are targeted at the three areas should help to address the paradox of African products, which are competitive at the factory and farm-gate, but uncompetitive on global markets.

"It is important that concrete implementation of the AfT for Africa will focus on infrastructure, trade facilitation, and standards"

The success in implementing competitiveness-enhancing strategies is contingent upon whether or not the AfT also strengthens human capital development on the continent. This should go hand-in-hand with deepening of private sector involvement. Only then can the AfT provide the catalytic effect for economic change as it fills the financing gaps of existing and new strategic areas.

Conclusions from the Africa Aid for Trade review meeting

Leadership is the key to success: The success of the AfT initiative requires capable leadership at the national level to make the appropriate choices. A pertinent aspect of this leadership relates to clear political decisions that underpin trade and development as a strategy for building the country's future. A secondary aspect is the need to build the trade and development agenda for strengthening national and regional capacity once the political choice is made, and this must be reflected in the national development plans.

Some African priorities: A priority that the AfT must immediately tackle relates to infrastructure constraints and infrastructure maintenance. The other important obstacle to private sector competitiveness that AfT must target is the trade facilitation issue, including at the border level. In both of the above priorities, regional integration and its regional dimensions are crucial factors in competitiveness building. Therefore, capacity building for the RECs emerged as a priority area for Africa's AfT.

Another priority, which is part and parcel of the infrastructure and trade facilitation strategies, is private sector involvement and development. In fact, the private sector is on the one hand a player from the demand side but is also an actor on the supply side of AfT. Furthermore, in the context of the private sector in Africa, the SMEs were identified as a crucial component/segment given that they suffer most with the indirect and direct trading costs. As a result, AfT measures must aim to strengthen their competitiveness. Finally, public-private partnerships hold important leverage for the success of the AfT in Africa.

"The private sector is on the one hand a player from the demand side but is also an actor on the supply side of AfT"

3.2 Accelerating progress towards the MDGs will remain a challenge in 2008[10]

The aggregate scorecard on the MDGs in Africa clearly shows that currently less than a score of countries in the continent are on track to meeting a significant number of the goals. The strong performers are mostly in the North Africa region. However, the picture is not all that bleak as there have been some positive developments in recent years, which give hope that the challenge of meeting the MDGs in the continent is not insurmountable, if both national and international policy measures are scaled up in a number of critical areas.

Encouragingly, there continues to be broad and sustained commitment to the MDG agenda, particularly at the highest decision-making levels in the continent. AU has placed the MDGs at the centre of the NEPAD vision and concretely expressed commitment to accelerated progress towards their achievement through the adoption of a Common Position at its 2005 Summit. In 2005, the AU Assembly (AUA) requested AUC in collaboration with ECA, AfDB, and other institutions, to monitor achievement of the MDGs in Africa and to report outcomes to AUA.

Further, AU reiterated its commitment to the MDGs at its 2006 Banjul Summit, reinforcing them by recommending concrete measures for scaling up efforts to meet the targets. Finally, Africa's Ministers of Finance, Economic Planning and Development as well as other key sector ministries have consistently placed the MDGs at the centre of their conferences and meetings, particularly since 2005.

African leaders are also signatories to the Outcome Document of the 2005 United Nations World Summit, which resolved that countries with extreme poverty should adopt and implement MDG-based Poverty Reduction Strategy Papers (PRSPs) or MDG-based national development plans, by end 2006. Two years on, some measurable progress has been made in this regard. The prospects and possibilities of quick-impact initiatives such as free malaria nets distribution, and food subsidies for education, among others, are gaining renewed currency as countries adopting them register advances in several MDGs.

10 This section draws mainly from UNECA (2007c), "Accelerating Africa's Growth and Development to meet the Millennium Development Goals: Emerging Challenges and Way Forward", an Issues Paper prepared for the 2007 ECA Conference of African Ministers of Finance, Planning and Economic Development, 29 March – 1 April 2007, Addis Ababa, Ethiopia.

Given this factor, there is a compelling need to scale up these interventions within a planning framework, to accelerate the growth and development required for achieving the MDGs in Africa. Significant challenges have to be overcome or at least attenuated.

As highlighted in chapter 2 of this report, Africa has recorded impressive growth in the past several years. Many African countries have been growing at more than 5 per cent per annum. However, many show smaller or negative growth rates. The impressive growth of some and the slow growth of others present a menu of challenges to African countries in 2008 and beyond.

"Climate change and climate variability will adversely affect Africa's agriculture as average rainfall is expected to decrease"

As underscored by the 2007 ECA Conference of African Ministers of Finance, Planning and Economic Development, the continent needs to overcome these challenges in order to accelerate progress towards meeting the MDGs. This section of the report discusses three key challenges that will be critical in 2008.

Climate change

The first of these challenges is climate change. This is a still under-appreciated challenge to achievement of the MDGs in Africa. As the Commission for Africa report noted, climate change poses a major threat to Africa's future. It is likely to have a significant impact on biodiversity and increase the vulnerability of poor people to natural disasters. Climate change and climate variability will adversely affect Africa's agriculture as average rainfall is expected to decrease. In the Sahel, for example, there has been on average a 25 per cent decrease in rainfall over 30 years[11].

Evidence presented at the 2006 United Nations Conference on Environment and Development (UNCED) suggests that Africa is indeed suffering from the adverse effects of global warming. Desertification, especially in the West African Sahel, is proceeding at an alarming rate. According to reports by the Nigerian Federal Environmental Protection Agency (FEPA), each year Nigeria loses several villages to the expanding sands of the Sahara. Furthermore, the World Bank has reported that rainfall variability will reduce Ethiopia's growth potential by about a third.[12]

Climate variability and climate change are thus accentuating rural poverty, increasing food insecurity and hunger and reducing the continent's scope of benefits from export of agricultural products. In the West African Sahel, water scarcity is an evident problem, as can be seen from shrinking rivers and lakes, for example, Lake Chad. Yet, water is an important input into achievement of all the other MDGs.

11 UNECA 2007c.
12 Cited in UNDP, 2006.

Lack of access to safe water, sanitation and hygiene is an important contributor to high mortality among children and the elderly. According to UNICEF (2006), unsafe water and lack of basic sanitation and hygiene every year claim the lives of more than 1.5 million children. UNDP (2006) reports that Africa excluding NA loses about 5 per cent of GDP (or $28.4 billion) annually, because of water and sanitation deficits. Global warming is likely to exacerbate a crisis arising from poor water harvesting and management policies.

Climate variability is also affecting the efficiency of critical infrastructure such as electricity. Much of Africa depends on hydropower for electricity generation. However, water levels have been low in recent times, resulting in brownouts and blackouts in many countries. The resultant low level of electricity generation is adversely affecting agricultural productivity as well as industrial productivity.

There is anecdotal evidence that rising temperatures in the African highlands is promoting the spread of diseases such as malaria. Overcoming the challenges of poor health, poor food security, poor health and sanitation outcomes, and raising overall and agricultural and manufacturing productivity in Africa require that the continent devises instruments for minimizing, mitigating and/or adapting to the consequences of climate change, including better management of climate variability. [13]

Currently, climate variability is adversely affecting growth including in agriculture and manufacturing (through its impact on hydro-electric dams, among others). The challenge of managing climate change and the likely impact of failure in this area on progress towards the MDGs are increasingly being appreciated. Derived from this challenge is a looming water crisis requiring urgent attention. Water is a fundamental input into the achievement of all the other MDGs. Lack of access to safe water affects sanitation and hygiene and is an important contributor to high mortality among children and the elderly.

Infrastructure bottlenecks

The poor state of infrastructure in Africa is now widely recognized as a major impediment to domestic market and regional integration, to equitable access to social services, and therefore to growth. There is agreement among African governments and their development partners that the expansion of infrastructure has positive growth effects that would help the continent accelerate progress towards the MDGs.

Increased access to infrastructure at the household level is crucial to reducing the time burden on women and girls who bear, according to various estimates, over 65 per cent of household chores. Women and girls often spend up to 4 times more

13 This was among the major issues discussed at the 2007 AU Summit on the theme “Science and Technology and Climate Change.”

hours fetching water and firewood than their male counterparts. Access to basic minimum infrastructure (water connections, clean energy sources for households, rural roads) is essential for improving outcomes for women and girls, while also hastening progress towards the other MDGs.

The infrastructure (power, roads, ports, telecommunications and urban services) requirements of the continent are very large. For example, NEPAD recognizes the central importance of infrastructure development not only for the economic development but also for social development and is mobilizing efforts and resources to scale up the development of regional infrastructure.

> *Countries that have substantially scaled up infrastructure expenditure have seen significant improvements in their growth performance*

Similarly, the UK Commission for Africa identified poor infrastructure as "a critical barrier to accelerating growth and poverty reduction" in Africa and estimated the additional infrastructure investment requirements of Africa to be $20 billion a year.

Infrastructure is critical for equitable access to social services and other interventions. It is a critical component of the investment climate and an important driver for domestic trade integration (to enable poor rural farmers to move their produce on time to urban markets and to better manage idiosyncratic shocks) and to efforts that improve access to services. There is evidence that countries that have substantially scaled up infrastructure expenditure have seen significant improvements in their growth performance. Without significant improvement in roads, very few children in rural areas will have access to quality primary education because of the urban bias of teachers. The same also applies to health care providers.

Success in the health and education MDGs depends critically on reaching and improving the life chances of the millions who live in rural and peri-urban areas of Africa. Indeed, the huge infrastructure challenge of the rising urban population is yet to receive the attention that it deserves. In the final analysis, Africa's future also depends on how effectively its growing cities are leveraged for economic growth and development.

Spending on infrastructure has increased quite significantly in the recent past in the continent and has resulted in improved access for many poor households. For example, the average electrification rate grew from the late 1990s to 2002 by 27 per cent (World Bank 2006). Telephone access has also improved significantly. Nonetheless, the share of infrastructure investments in GDP remains small relative to need.

Clearly, addressing the infrastructure gap will require careful and prudent scaling up of infrastructure investments. This requires the involvement not only of national governments and donors, but also of the private sector and local governments (especially in Federations since infrastructure provision is on both the concurrent and exclusive lists).

In many African countries, broad stakeholder involvement in infrastructure provision is an enormous challenge. Overall, addressing the infrastructure challenge to meet the MDGs will require efforts in three critical areas:

- Political will to reach underserved populations with basic infrastructure needs;
- Financial resources including private provision; and
- Organized efforts of local government units/jurisdictions.

Rising inequality

Rising inequality in many African countries is another major challenge. There is evidence in the economics literature that rising inequality is bad for growth, that countries that have less equal societies do, in general, have poor growth performance relative to more equal societies. Distributive inequality comes in two distinct but invariably linked forms: unequal distribution of opportunities (or initial endowments) and the unequal distribution of outcomes – earnings/incomes. The link between the two is that unequal distribution of initial endowments (such as land and other forms of wealth) results in unequal distribution of outcomes.

Most analysts focus on unequal distribution of outcomes (incomes) because it is easier to address politically and because there is some consensus in the literature that broad-based aggregate income growth, as measured by GDP per capita, is the main instrument for reducing poverty and such inequality.

In Africa, evidence suggests that income inequality is rising (UNDP, 2006, AfDB 2002). According to White and Killick (2001), Africa ranks second to Latin America as the region with the most unequal distribution of income[14]. While there is evidence that growth in Africa is accompanied by poverty reduction[15], the rising inequality raises important questions with regard to the sustainability of growth. Evidence suggests that inequality is harmful to growth. Persson and Tabellini (1994), for example, show that a one standard deviation increase in equality is associated with an increase in growth of one-half to 1 per cent.

High and/or worsening income inequality dampens the poverty-reducing effects of growth in many countries. This is especially true in countries rich in mineral resources

14 According to UNDP, op. cit, Africa is home to 5 of the world's ten most unequal societies: South Africa, Lesotho, Zimbabwe, Botswana, and Namibia.

15 See Demery Luc, et al. (2000).

where growth has concentrated in sectors that generate very little employment and where the poor lack the skills or mobility (due to lack of financial resources) to take advantage of opportunities arising from growth. Rising income inequality can result in social tensions and conflicts, crime, and political instability. It could also contribute to governance problems such as increased corruption.

Such problems point to the need for more effective policies to spread the benefits of growth, especially to disadvantaged groups, especially women, youth, and other socially excluded groups[16]. One way to do that, which this paper addresses in the next section, is through social transfer programmes. It is equally important that governments ensure that economic reforms such as privatization and land reforms do not result in wealth and asset concentration.

"High and/or worsening income inequality dampens the poverty-reducing effects of growth in many countries"

Related to the challenges of inequality and employment is the challenge of managing the significant social transformation taking place in all African countries. Rapid urbanization, significant demographic changes (largely as a consequence of HIV/AIDS), and changing family structures could dominate the attention of Finance Ministers in the near future.

The large number of unemployed but skilled young people is creating international migration pressures. The multi-faceted consequences of HIV/AIDS are only just becoming evident: changes in family structure, child-headed and grandparents-headed households, and crime. Dealing with urbanization and delivering services to the urban poor require that countries find pragmatic policy responses.

3.3 Tracking development finance commitments in Africa

3.3.1 African countries take leadership in monitoring commitments

Due to the slow pace of implementation of commitments on financing for development, African governments have taken initiatives to improve monitoring of the implementation of their own commitments and the commitments of donors. The first African Ministerial Conference on Financing for Development took place in Abuja, Nigeria in May 2006, on the theme "*Financing for Development: from Commitment to Action in Africa*". It was a critical first bold effort by African countries to take leadership of the process that would translate development commitments into action.

16 Loury (1999) found that social exclusion reduces the incentive to attend school and to work.

One of the major outcomes of the Abuja Ministerial Conference was the agreement by twenty African countries[17] to develop comprehensive and costed ten-year education plans so as to accelerate progress to meeting the education MDG. The education plans cover access to and quality of education, with a focus on universal completion of primary education and substantial expansion of the number of teachers.

More importantly, most country plans put a strong emphasis on the promotion of girl education. These education plans, if fully implemented, would put more than 25 million children currently out of the school systems into schools over the next ten year, at a cost of $80 billion. Furthermore, African countries committed themselves to mobilizing $50 billion domestically to finance these plans, and called on the international community to meet the financing gap.

Another important outcome of the Abuja Conference was the commitment by African countries to integrate national plans and budget processes with effective mechanisms for monitoring and evaluation, and accountability. They also undertook to involve their national parliaments in the development of national budgets. They also committed to strengthening their expenditure management systems and macroeconomic frameworks to deal with potential challenges of scaled-up external assistance.

On HIV/AIDS, TB, and malaria, African countries undertook to develop and or revise costed national plans in order to operationalize their commitments to achieve universal access to treatment and prevention by 2010. Given the massive investment requirement for financing development in Africa, the Abuja Conference also called for development of new and innovative financing mechanisms such as taxes on airline tickets. In this regard, they acknowledged the important role that the Nigerian Trust Fund (NTF) has played in supporting African countries.

With respect to monitoring of commitments, African countries proposed a coordinated approach to monitoring based on mutual accountability between African countries, on the one hand and donor countries on the other. They also called for the strengthening of the Africa Partnership Forum as the main forum for monitoring and reviewing the implementation of donor and African country commitments. They also recognized the role of civil society organizations (CSOs), including faith-based organizations, in monitoring implementation of the commitments. In this regard, they challenged African CSOs to coordinate their activities at national, regional and international levels so as to have maximum impact on the delivery of development-financing commitments.

17 These are Burkina Faso, Cameroon, Ethiopia, Gabon, Ghana, Kenya, Madagascar, Mali, Mauritania, Mozambique, Namibia, Niger, Nigeria, Rwanda, Senegal, Sierra Leone, Swaziland, Tanzania and Uganda.

The second Africa Ministerial Conference on Financing for Development was held in Accra, Ghana, 30-31 May 2007, and was devoted to "*Infrastructure for growth: The energy challenge*". The conference was also a follow up to the summit of the Forum of Energy Ministers of Africa (FEMA) in Mozambique, which took place on 30 March, 2007.

The Forum, which was set up to give political direction and advocacy to increased access, and better utilization and management of energy resources for sustainable development called on African countries to prioritize energy in national budget allocations and mainstream energy needs into the PRSPs.

Building on the momentum from the Forum, the Accra Ministerial Conference addressed the energy challenge facing many African countries. This was timely given the serious constraint that lack of energy poses for growth and sustainable development in Africa. Addressing the energy challenge would enhance Africa's growth prospects, thus accelerating progress towards the MDGs.

The conference explored various options for financing Africa's infrastructure needs. They undertook to mainstream energy policies into national development strategies and programmes. Since the investment requirement to boost energy infrastructure is so enormous and beyond the financing capacity of most African economies, the conference underscored the importance of regional integration in promoting cross-border trade in energy.

African countries also committed themselves to mobilizing more resources through new financing instruments, appropriate energy pricing and payment mechanisms, reforming regulation of the energy sector and encouraging private sector participation in the energy sector.

Given the need for continuous monitoring of implementation of commitments, the Accra Ministerial Conference agreed to set up a permanent secretariat, hosted by ECA and AfDB, to be tasked with organizing the annual Ministerial Conference on Financing for Development, as well as monitoring and following up on the implementation of commitments.

3.3.2 Impact of the initiatives

Although it is too early to assess fully the impact of these initiatives on scaling up implementation of donor commitments to Africa, there is some evidence that suggests that they have induced positive actions, albeit limited, on the part of donor countries. For example, the launch of the comprehensive 10-year education plans received strong backing from bilateral donors. The IMF/World Bank Annual Meetings - Special Ministerial Roundtable on Education in September 2006 endorsed the long-term education plans and committed to providing funding under the Fast Track Initiative. More importantly, the UK Government championed this new education initiative. It has pledged to allocate more than $15 billion over ten years to support implementation of the long-term education plans in Africa.

On infrastructure, in the context of the Capacity Development Initiative for RECs adopted on 8 June 2007 at the G-8 Summit in Heiligendamm, Germany, developed countries committed themselves to supporting implementation of the NEPAD Infrastructure Short Term Action Plan (STAP). They also undertook to further support the Infrastructure Consortium for Africa (ICA) with the view of reducing the high production and transportation costs.

On health, donor countries committed to replenish the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) and to provide long-term predictable funding. At the GFATM Replenishment Conference held in Germany in September 2007, donors committed $9.7 billion for the Fund over the next three years, which represents the largest financing commitment to the Fund ever. This would enable more African countries to intensify their response against these epidemics, which seriously undermine economic and social development in Africa.

In response to the call by the Abuja Ministerial Conference for civil society to play an increasing role in monitoring the implementation of commitments, African CSOs have taken initiatives to monitor implementation of development funding commitments. The African Monitor, which was founded in 2006 by the Archbishop of Cape Town, Mr. Njongo Ndungane, is playing an important role in monitoring the development funding commitments. This civil society initiative is important as it complements regional and international mechanisms for such monitoring.

The value addition of such a mechanism lies in its grassroots approach, that is, involving community-based organizations (CBOs) throughout Africa in monitoring the delivery of commitments and the impact of development funding at community level. This ensures that donors deliver on their commitments, while recipient governments direct aid to priority sectors with greater potential of improving people's well being.

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Part II

The Monterrey Consensus: Progress, Challenges and Way Forward

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Assessing Progress in Meeting the Goals of the Monterrey Consensus

4

The Monterrey Consensus adopted by Heads of State and Government in March 2002 has emerged as the key framework for discussions on development finance by both developed and developing countries. In Africa, the adoption of the Consensus was seen as an important step in scaling up efforts to mobilize domestic and external resources for growth and poverty reduction.

It is now five years since the Consensus was adopted and the key question on the minds of African policymakers is the extent to which the laudable objectives have been achieved in the six core areas, namely:

- Mobilizing domestic financial resources for development;
- Mobilizing international resources for development;
- Promoting international trade as an engine of development;
- Increasing international financial and technical cooperation for development;
- External debt relief and sustainability; and
- Addressing systemic issues.

“In Africa, the adoption of the Monterrey Consensus was seen as an important step in scaling up efforts to mobilize domestic and external resources for growth and poverty reduction”

Within the framework of the Monterrey Consensus, several attempts have been made in recent years to address the development financing challenges faced by poor countries. These efforts are reflected in the 2005 World Summit Outcome, the 2005 Paris Declaration on Aid Effectiveness, and the 2005 G-8 Gleneagles Summit Declaration. Since the new Millennium, G-8 countries have paid more attention at their summits to development issues affecting Africa.

This is due in part to the recognition that access to finance is critical to achieving the MDGs in Africa. It is also partly in response to the report of the Commission for Africa published by the United Kingdom in 2005, which had a tremendous influence on the approach of G-8 countries to Africa's development problems.

The Declaration from the Gleneagles Summit was the first bold, concrete and comprehensive effort made by G-8 countries to tackle the development finance problems of Africa. It recognized the need for a substantial increase in ODA to Africa to enhance the prospects for sustained economic growth and poverty reduction. In

The Gleneagles Summit was the first bold, concrete and comprehensive effort made by G-8 countries to tackle the development finance problems of Africa

this regard, G-8 leaders made the commitment that compared to 2004 they would double their aid to Africa by 2010. They also agreed to increase, along with other donors, total ODA to Africa by $US25 billion a year by 2010.

On debt, they made commitments to cancel 100 per cent of the outstanding debts of eligible Heavily Indebted Poor Countries (HIPC) to the International Monetary Fund (IMF), the International Development Association (IDA) and the African Development Fund (ADF) and to provide additional resources to ensure that the financial capacity of these international financial institutions is not reduced.

They also re-affirmed their commitments to the Paris Declaration and renewed their pledge to help Africa prevent and resolve conflicts, promote good governance, boost investment in health and education, take action to respond to HIV/AIDS and other diseases, develop continental infrastructure, build trade capacity and stimulate growth.

While the G-8 Gleneagles Summit added momentum to the commitments made by world leaders in the Monterrey Consensus, there is increasing concern in Africa that very little progress has been made in implementing key areas of the Consensus. The international community, through the United Nations General Assembly, has also stressed that, if current trends continue, African countries will not be able to mobilize the resources required to finance the public investments critical to achieving the MDGs. As part of efforts to focus attention on this issue, as well as other challenges facing developing countries in development finance, the United Nations General Assembly agreed to hold the High-Level Dialogue on Financing for Development in the autumn of 2007. This was to be followed by an International Conference in Doha in the second half of 2008 to review Implementation of the Monterrey Consensus.

Against this background, this chapter of the report provides an overview of Africa's economic performance before and after adoption of the Monterrey Consensus. This will enable us to determine how close we are to achieving the overall objectives of the Consensus, namely, to boost growth and reduce poverty in the continent. The chapter also assesses the degree of progress made in the six core areas of the Monterrey Consensus.

Since the Consensus was adopted in March 2002, the periods compared are averages for 1998-2001 to capture the pre-Monterrey period, and 2002-2005 representing the post-Monterrey period. Where available, more recent figures give an idea of current performance. Four-year averages of annual data on key macroeconomic variables before and after the adoption of the Consensus have been used and the question is whether there have been any significant changes in the evolution of these variables over the two periods under consideration.

There is no doubt that there has been a relative improvement in the economic performance of Africa since the adoption of the Monterrey Consensus in 2002. Average annual growth of real GDP increased from 3.3 per cent in the pre-Monterrey period (1998-2001) to 4.0 per cent in the post-Monterrey period (2002-2005). For Africa excluding NA, the growth figures are 3.2 per cent and 4.0 per cent respectively for the pre-Monterrey and post-Monterrey periods. It is interesting to note that these growth rates are above the world average recorded during the period (table 4.1).

There has been a relative improvement in the economic performance of Africa since the adoption of the Monterrey Consensus

Table 4.1
Trends in selected economic indicators

	Pre-Monterrey period (1998-2001)	Post-Monterrey period (2002-2005)
Real GDP growth (%)		
World	3.4	3.8
Africa	3.3	4.0
Africa excluding NA	3.2	4.0
Rate of inflation (%)		
World	4.7	3.6
Africa	11.8	9.2
Africa excluding NA	14.7	11.3

Source: *Computations based on UNECA/AU, 2007 and IMF, 2007b.*

4.1 Mobilizing domestic financial resources

Domestic savings has a critical role to play in financing development in Africa. It is needed to provide resources for investment, boost financial market development, and stimulate economic growth. Yet, African countries have difficulties mobilizing adequate domestic resources to meet their investment needs. Consequently, the continent continues to have significant financing gaps that have to be closed to provide resources for public and private investments to meet the MDGs. Several studies have tried to estimate the magnitude of the resources needed for Africa to meet the MDGs. For example, the estimates provided by Sachs et al (2004) suggest that Africa excluding NA would need about $25 billion in additional assistance per year in order to meet the MDGs.

A similar estimate was provided by the Commission for Africa.[1] While external assistance has played an important role in narrowing the financing gaps, it is not a sustainable solution to the development finance problems. More efforts are needed

1 For country-specific estimates, see, for example, Kakwani and Son (2006).

to boost domestic savings and use it as a critical and stable source of financing for development.

Available data indicate that since the adoption of the Monterrey Consensus, African countries have made slight progress in mobilizing domestic resources. Based on average annual data, the ratio of savings to GDP increased from 19 per cent in the pre-Monterrey period to 22 per cent in the post-Monterrey period. More remarkable progress has been made in recent years. For example, in 2007, the savings ratio is projected to increase further to 26 per cent (table 4.2). While there has been a relative increase in the savings ratio, domestic investment as a share of GDP has been stagnant at about 20 per cent in both pre- and post-Monterrey periods. It is projected to increase to 22.1 per cent in 2007. For countries in Africa excluding NA, the trends in savings and investment ratios were the same as for the whole region.

"More efforts are needed to boost domestic savings and use it as a critical and stable source of financing for development"

Table 4.2

Savings and investment ratios

	Pre-Monterrey (1998-2001)*	Post-Monterrey (2002-2005)*	2007**
Domestic savings (% of GDP)			
Africa	19.0	22.0	26.0
Africa excluding NA	17.8	20.0	22.1
North Africa	21.0	25.0	30.0
Investment (% of GDP)			
Africa	19.7	20.1	22.1
Africa excluding NA	18.4	19.0	19.8
North Africa	21.6	21.9	24.4

**Estimates*

*** Projections*

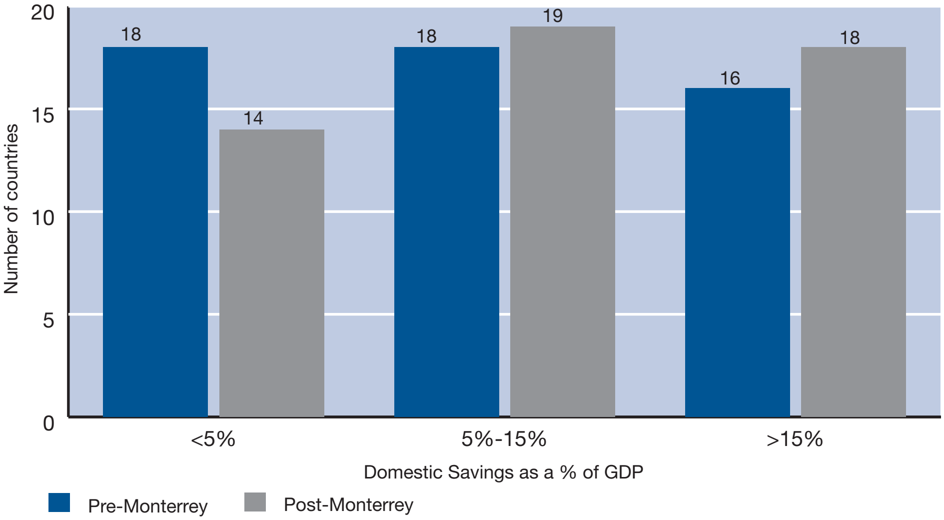
Source: *Computations based on WDI, 2007 and IMF, 2007a.*

The regional figures on savings ratios presented here mask striking differences across countries. There are still a large number of countries whose overall savings ratio is lower than 15 per cent, a figure considered to be very low in financing a meaningful growth rate (figure 4.1). In the post-Monterrey period, 18 countries had savings ratios above 15 per cent compared to 16 in the pre-Monterrey period. While this is not a big change, it shows that some African countries are making headways in mobilizing domestic resources. Countries such as Algeria, Botswana, Democratic Republic of Congo, Gabon, and Nigeria had average savings ratios above 30 per cent in the post-Monterrey period.

Table A4.1 (in the appendix) shows that, relative to the pre-Monterrey period, 11 African countries registered an increase in saving ratios in excess of 5 percentage points in the post-Monterrey period. In terms of the change in savings ratios, the big gains were observed in Algeria, Chad, Djibouti, Namibia, Swaziland, and Zambia. Overall, twenty-nine countries had an increase while nineteen countries had a decrease in savings ratios in the post-Monterrey period. It should be noted that in most of the countries that had an increase in savings ratios, it was due to the sharp rise in the price of oil, diamonds and other commodity exports. It is not clear whether or not these countries can sustain the current increase in savings, especially if there is a decline in the world prices of their exports.

Figure 4.1

Distribution of savings



Source: *Computations based on WDI, 2007.*

The State is an important source of domestic savings because of its capacity to mobilize resources through taxation. An increase in public sector savings increases the ability of the government to provide and maintain such public services as education, health, infrastructure, potable water and other social amenities that are vital for the realization of long-term development objectives. Table A4.2 shows that in Africa excluding NA, there has been modest progress in the ratio of government revenue to GDP in both the pre- and post-Monterrey periods. The ratio increased from about 21 per cent in the pre-Monterrey period to 23 per cent in the post-Monterrey period.

At the country level, there has also been modest progress. The number of countries with a revenue to GDP ratio of 30 per cent and above rose from seven in the pre-Monterrey period to eleven in the post-Monterrey period. Countries that had high revenue ratios in both periods include: Angola, Botswana, Eritrea, Gabon, Lesotho, Namibia, and Seychelles. Despite these improvements, several countries in the region still have very low tax ratios and so the aggregate figure for the region is still low. One of the reasons why there has not been a rapid change in aggregate tax ratios in Africa is that several governments have had difficulties dealing with the problem of tax evasion and avoidance and with increasing efficiency in the use of public resources.

"Existing financial institutions are thinly spread and inefficient in mobilizing domestic resources"

Furthermore, several countries in the region have embarked on trade reforms and this has led to a reduction in domestic revenue from trade taxes. In principle, the loss in tariff revenue resulting from trade reform could be off-set by a switch to non-trade taxes. However, experience has shown that low-income countries have difficulties recovering lost tariff revenue through a switch to non-trade taxes.

Historically, private savings also play a crucial role in Africa. However, the long-term trend of private savings has not been encouraging. Low levels of per capita income, high dependency ratios, and a high degree of dependence on foreign aid have so far led to lower rates of private savings (Elbadawi and Mwenga, 2000). In addition, existing financial institutions are thinly spread and inefficient in mobilizing domestic resources. Capital markets can play an important role in the mobilization of domestic resources.

Presently, the financial sector in African countries is still dominated by commercial banks, which focus on short-term lending. This needs to change, as commercial banks do not cater to the long-term needs of both individual and institutional investors. Therefore, to the extent that capital markets offer different kind of financial services than the banking system, they provide an extra impetus to economic activity.

Empirical evidence shows that stock market development indicators are robustly correlated with current and future rates of economic growth. Well-developed capital markets in other developing countries have played an important role in mobilizing resources and providing the much needed impetus for growth and development in these regions. However, to play an effective role in economic development, capital market development must be underpinned by an efficient and robust regulatory framework.

By protecting investors, ensuring fair, efficient and transparent markets and reducing systemic risk, efficient capital market regulation increases operators' confidence and attracts investors. The development and expansion of capital markets in Africa is constrained by factors such as limited market size and capacity, lack of trained human capital, market fragmentation, shortage of equity capital, information inefficiency, inefficient regulatory regimes and lack of investor confidence in stock exchanges.

Micro-finance institutions also have a role to play in the mobilization and allocation of domestic resources. The emergence of micro-finance institutions in a number of African countries in the last decade has created opportunities for smallholder farmers in rural areas and small businesses and households in urban areas to access credit for business development and employment generation. Strengthening the capacity and operational outreach of such institutions could accelerate the pace of financial sector development as well as poverty reduction by reducing the number of credit-constrained individuals and entrepreneurs.

"The emergence of micro-finance institutions has created opportunities for access to credit for smallholder farmers and small businesses"

However, only a few African countries have an appropriate legal provision and regulatory framework that enable micro-finance institutions to function smoothly. Thus, experience sharing and dissemination of good practices on micro-finance within the continent could significantly improve the mobilization of savings and its transmission into investment.

The Monterrey Consensus recognizes the role of good economic and political governance in the mobilization of domestic resources. Figure 4.2 shows that, for a sample of African countries for which data are available, domestic savings decline as the quality of institutions deteriorate.[2] The correlation coefficient between these variables is 33 per cent. It should be noted that the quality of institutions can affect domestic savings through a variety of channels. The first is through the direct effect that weak institutions may have on long-term economic growth, as has been documented extensively in recent studies. This in turn can lead to lower savings.[3] The second possible channel is that a weak institution can increase the incidence of corruption thereby reducing public and domestic savings.

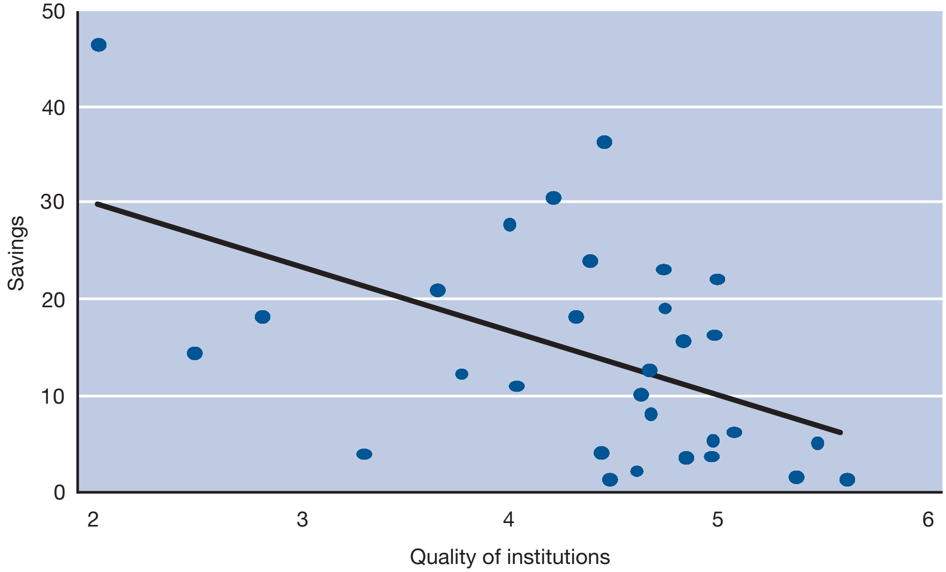
While it is generally accepted that Africa needs to increase its savings ratio in order to enhance prospects for meeting the MDGs, it is important to stress that the availability of savings does not guarantee translation into productive investment. The government has to create an investment environment conducive for the private sector to have incentives to access existing domestic savings for investment. At the moment, most countries in Africa excluding NA rank at the bottom in business friendliness.

In addition, it takes twice as much effort and more complicated procedures to start business in Africa excluding NA compared to Asia.[4] Therefore, African governments need to make more efforts to improve the investment environment. In this regard, the recent establishment of the Investment Climate Facility to assist in building a business-friendly environment is welcome.

2 The data on the quality of institutions are based on the International Country Risk Guide data set, which provides an index on 12 indicators of political instability in a given country.
3 See, for example, Ndulu and O'Connel (1999); Collier and O'Connel (2005).
4 World Bank (2007). The *Doing Business Report* indicated that among the 30 or so countries surveyed, only Namibia, Botswana and South Africa performed well as being business friendly.

Figure 4.2

Institutions and domestic savings in Africa (average 1984-2004)



Source: *Computations based on data from World Development Indicators (WDI) and Investment Country Risk Guide (ICRG).*

Note: *Higher figures on the index of institutional quality indicate a worsening situation.*

4.2 Mobilizing international resources for development

International financial resources, particularly FDI, are important complements to domestic resources and have the potential to facilitate economic development. They enhance transfer of new knowledge and technology, contribute to employment creation, improve competitiveness, and boost exports. Yet, African countries have difficulties attracting significant FDI flows and this is reflected in the low shares in global inward FDI flows.

Since the Monterrey Consensus, Africa has made progress in attracting FDI inflows. Recent data suggest that in 2006 Africa attracted $39 billion in gross FDI inflows, thereby increasing its share of global inflows to 3 per cent, compared with the less than 2 per cent average recorded for most of the 1990s (UNCTAD 2007). Net FDI inflows rose from an average of $12 billion over the period 1998-2001 to $18 billion in the period 2002-2005 (table 4.3). For Africa excluding NA, net FDI inflows rose from $9.7 billion to $13.4 billion over the same period. This surge in FDI inflows, however, is not distributed evenly across countries or sectors. Most of the increased

FDI inflows in the post-Monterrey period are accounted for by a few countries: Algeria, Botswana, Chad, Egypt, Equatorial Guinea, Morocco, Nigeria, and Sudan. Angola and South Africa are also still major recipients of FDI inflows in Africa. However, they experienced a decline in inflows in the post-Monterrey period. The extractive sector continues to dominate other sectors in terms of FDI inflows and this explains the impressive performance of countries such as Nigeria, Chad, Algeria, Equatorial Guinea and Sudan. The boom in oil and mineral prices is largely responsible for the surge in FDI in these countries.

"The extractive sector continues to dominate other sectors in terms of FDI inflows"

Table 4.3
Net FDI inflows to Africa

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Net FDI flow (current billions of dollars)		
Africa	11.9	18.1
Africa excluding NA	9.7	13.4
North Africa	2.2	4.7
Net FDI flow (as % of GDP)		
Africa	2.1	2.4
Africa excluding NA	2.9	2.8
North Africa	1.0	1.7

Source: *Computations based on WDI, 2007.*

There has also been progress, albeit modest, among non-oil producing countries in Africa. Several countries that recovered from protracted conflict in the last decade made modest progress in attracting FDI. Ethiopia, Sierra Leone and Uganda, are cases in point. Other countries with stable political environments that have made some progress in attracting FDI are Mali, Tanzania, and Tunisia. In general, the dividend from peace, law and order, stability, and sound macroeconomic policy coupled with favourable international prices for the extractive industry explain a large part of the improvement in the flow of FDI to Africa in the post-Monterrey period.

Despite the recent improvement in the flow of FDI, its share in African GDP remains small. In the pre-Monterrey period it was 2.1 per cent and rose to 2.4 per cent in the post-Monterrey period. For Africa excluding NA the share was the same in both periods. At the country level, the share of FDI in GDP is also small. For example, in the post-Monterrey period, only four African countries, namely, Chad, Equatorial Guinea, Gambia, and Liberia, had an FDI to GDP ratio above 10 per cent. Most African countries (more than 70 per cent) had an FDI ratio of less than 5 per cent during the period, which is quite low given the resource requirements of the continent (figure 4.3). Therefore, one of the challenges facing African countries is how to increase their attractiveness to foreign investors so that they can increase their share of global FDI inflows.

> The dividend from peace, law and order, stability, and sound macroeconomic policy coupled with favourable international prices for the extractive industry explain a large part of the improvement in the flow of FDI to Africa in the post-Monterrey period

Globalization of the world economy has increased the competition for FDI and countries such as China and India have become major players in this market. Consequently, African countries will have to make concerted efforts to be able to withstand competition in the global market for FDI. This requires measures to improve the state of infrastructure, reduce political risk, enhance macroeconomic stability, diversify the export base, and use regional integration as an effective vehicle for promoting trade and investment.

African countries should also pay more attention to boosting intra-African FDI flows and creating an incentive for firms and individuals to invest their wealth in the continent rather than engaging in capital flight. So far, Southern Africa is the region that has most exploited the potential for intra-African FDI flows.

Initiatives such as the Big Table on Managing Natural Resources (box 4.1) can help in increasing both external resource inflows and growth and poverty reduction gains. The Big Table is an ECA-designed initiative, to promote frank, interactive, policy-oriented dialogue between senior African policymakers and their OECD counterparts. Past Big Tables addressed issues such as: the MDGs and related PRSP processes (November 2000); African ownership and responsibility for assuring good governance practices (October 2001); Mutual accountability (January 2003); The Fund, the Bank, and financing needs (October 2003); and Stimulating private investment in Africa (October 2004).

Box 4.1
The 2007 Big Table on Managing Natural Resources

The 2007 Big Table on "Managing Africa's Natural Resources for Growth and Poverty Reduction" was co-organized by ECA and AfDB on 1 February 2007, in Addis Ababa, Ethiopia. The objectives were to engage in frank discussions on effective management of Africa's natural resources for growth and poverty reduction and to frame an agenda for future action. Presided over by the Executive Secretary of ECA and the President of AfDB, the event was attended by 52 participants including ministers and senior officials from 11 African countries, high-level representatives from OECD-DAC countries, AUC and other regional organizations, IMF, World Bank, research centres, private sector, civil society, and the Extractive Industries Transparency Initiative (EITI).

The issues discussed included: natural resources governance; ownership, participation and inter-generational equity; bargaining power, value and the role of emerging global actors; environmental stewardship; and capacity, partnerships and regional integration.

Despite the broad spectrum of views, there was consensus that Africa's natural resources are important assets for the continent and for the world and should be properly managed. It was agreed that for this to happen:

- Africa must own its development process;
- Governance systems and institutional capacity (including for contract negotiations) must be strengthened;
- Local content must be developed; and
- Natural resources wealth must be invested efficiently in the creation of knowledge for economic innovation, and into social and physical capital, including infrastructure development.

The 2007 Big Table also recommended that the APRM should be expanded to include governance of the natural resources sector and that EITI can help advance natural resources governance in Africa, although African countries should develop their own codes. The Kimberley Process (Diamond) Certification Scheme was considered a useful tool that should be expanded to other minerals such as gold and columbo-tantalite, etc.

Other key recommendations were that natural resources governance should be mainstreamed into PRSPs, national parliaments and independent committees be involved in oversight of the sector, and Africa's mining regimes reviewed, to provide more options and benefits for member States from extraction of their mineral resources.

ECA has established an international study group to review mining regimes and build Africa's capacity to negotiate more advantageous natural resources contracts. AfDB was asked to consider the establishment of a grant facility to help Africa's emerging oil and other natural resources producers in contract negotiations. For knowledge management, ECA was asked to establish a Peer Learning Group on natural resources management. The work streams of this group would include seminars/workshops, compendia of best practices, policy briefs, and e-discussion groups, among other activities.

Geological mapping and a natural resources inventory should be given priority for these tools strengthen Africa's bargaining positions when negotiating better terms from external partners and clients. The meeting also called for more local value addition to Africa's natural resources and higher use of local inputs. There was strong support to resource-based industrialization and for the use of natural resources to expand Africa's infrastructure through the NEPAD Spatial Development Programme (SDP), among others. The potential of tools such as the Black Economic Empowerment (BEE) programme to facilitate participation was recognized. To help in this effort, AfDB was asked to initiate establishment of African Junior Resource Companies.

The meeting recognized the growing importance of emerging global players such as China and India in the commodities market. It noted that they constituted an alternative source of capital that could be explored to Africa's benefit.

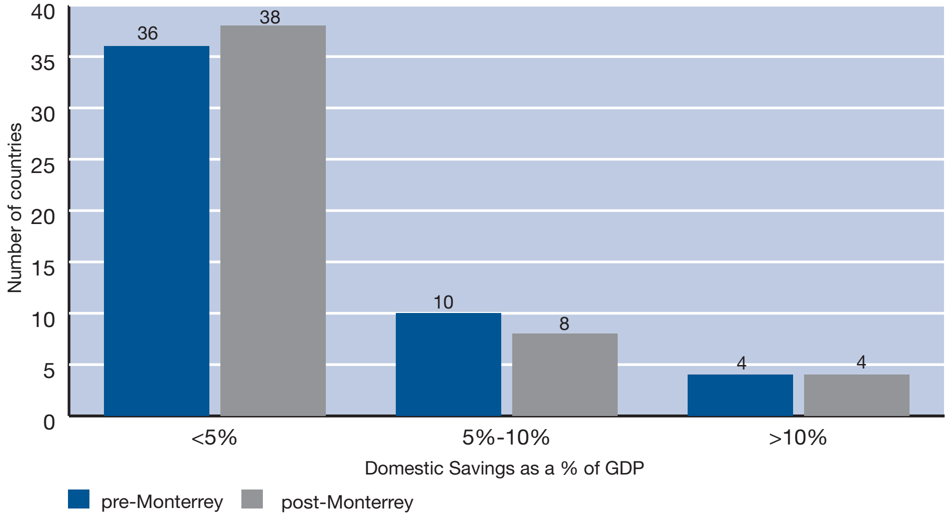
The outcomes of the Big Table were tabled at the AU Summit of Heads of State and Government held in Accra, Ghana in July 2007. They also informed discussions during the African Union Conference of Ministers of Industry (CAMI) held in Midrand, South Africa in September 2007. Some of the recommendations, such as the review of Africa's mining regimes might have a lasting impact on the natural resources sector in Africa and beyond.

While Africa needs sustained FDI flows, it is important to stress that countries should be cautious and selective in the type of investments they seek to attract. They should encourage FDI in sectors that have linkages to the rest of the economy and ensure that it leads to the transfer of knowledge and local capacity building. They should also give preference to sectors that have high-value added and significant potential for employment creation. The environmental impact of FDI flows should also be taken more seriously into consideration by African governments.

> *Although FDI is an important source of private capital flows to Africa, there is need to enhance efforts to attract more remittances*

Figure 4.3

Distribution of Net FDI inflows to Africa



Source: *Computations based on WDI, 2007.*

In general, there has been a significant increase in net private capital flows to Africa excluding NA since the Monterrey Consensus was adopted. Average annual net private capital flows increased from $13.4 billion in the pre-Monterrey period to $19 billion in the post-Monterrey period. The estimate for 2006 is roughly $41.6 billion. Most of the increase in private capital flows to the region has been in the form of equity with FDI accounting for a significant proportion of the equity flows. There has also been an increase in net debt flows, but these still account for a relatively small percentage of net private capital inflows (table 4.4).

Remittances are beginning to play an important role in financing development in Africa excluding NA. They increased in amount from $4.5 billion in the pre-Monterrey period to $6.8 billion in the post-Monterrey period. In 2006, the figure was $8.7 billion. Although FDI is an important source of private capital flows to Africa, there is need to enhance efforts to attract more remittances.

Table 4.4
Net capital flows to Africa excluding NA ($billions)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)	2006 (estimate)
Net Private Flows (debt + equity)	13.4	19	41.6
Net Equity Flows	14.9	17.1	31
FDI inflows	9.7	13.4	18.5
Portfolio equity inflows	5.2	3.6	12.5
Net Debt Flows (private + official)	-1.1	3.2	8.8
Debt flows (private creditors)	-1.5	1.9	10.6
Workers' Remittances	4.5	6.8	8.7

Source: *Computations based on data from Global Development Finance (2007).*

4.3 Promoting international trade

International trade is an important engine for growth and will play a major role in any meaningful effort aimed at accelerating the pace of development in Africa. By providing access to foreign exchange, expanding markets, increasing FDI, facilitating the transfer of technology, and boosting domestic productivity, employment can be created and domestic incomes increased. It is well known that Africa accounts for a very low share of world trade - about 2 per cent. Reversing this trend and integrating the continent into the global economy has been a key objective of African countries and their development partners. The Monterrey Consensus also emphasized the importance of trade in promoting economic development and integrating developing countries into the multilateral trading system.

Growth of real exports of goods and services in Africa increased from an average rate of 3.7 per cent in the pre-Monterrey period to 5 per cent in the post-Monterrey period. In Africa excluding NA, it rose from 3.7 per cent to 4.1 percent in pre and post-Monterrey periods respectively (table 4.5). There was also an increase in North Africa from 3.8 per cent to 5.7 per cent over the same periods. The recent export growth observed in the region can be seen in a heterogeneous group of countries, ranging from oil-exporting (Algeria) to non-oil-exporting and low-income economies (Gambia). Eight African countries had an average growth rate above 10 per cent in the post-Monterrey period. These are Cape Verde, Chad, Egypt, Ethiopia, Gambia, Mozambique, Sudan, and Zambia. Overall, several countries in Africa registered an expansion in exports in the post-Monterrey period. The exceptions are Comoros, Eritrea, Mauritania, and Zimbabwe, which had negative growth in real exports in the period (table A4.6).

In terms of the share of exports in GDP, another indicator of export performance, table 4.5 shows that this increased in Africa by 4 percentage points, from 29 per cent in the pre-Monterrey period to 33 per cent in the post-Monterrey period. This reflects the fact that African economies are becoming relatively more open to international trade. It should be noted also that the change in the ratio of exports to GDP was larger in North Africa than in other regions even though the latter has a higher ratio. In general, relative to the pre-Monterrey period, twenty-eight countries had an increase in the share of exports to GDP in the post-Monterrey period. Nineteen countries had a decrease in export ratios. Furthermore, five countries had an increase in export ratios above 10 percentage points. These are Gabon, Lesotho, Libya, Mozambique, and Seychelles.

"Despite the recent increase in the growth of exports in Africa, its share in global trade is still relatively small and it is increasingly facing more competition in global markets for its exports"

Table 4.5

Africa's export performance

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Growth in real exports (%)		
Africa	3.7	4.9
Africa excluding NA	3.7	4.1
North Africa	3.8	5.7
Share of exports in GDP (%)		
Africa	29	33
Africa excluding NA	31	34
North Africa	26	31

Source: *Computations based on WDI, 2007.*

Despite the recent increase in the growth of exports in Africa, its share in global trade is still relatively small and it is increasingly facing more competition in global markets for its exports, which is likely to increase its marginalization in the global economy. In addition, most African countries still face serious internal and external barriers to trade and export market expansion and so have not been able to obtain their fair share of the benefits from the multilateral trading system (Osakwe, 2007). The Doha Development Agenda was supposed to address this issue.

However, progress in the Doha Round has been at best limited. Negotiations were suspended in July 2006 because of the inability of WTO members to arrive at an agreement on key issues in the agricultural and non-agricultural aspects of the negotiations. The talks resumed in February 2007 but the key players have not been able to resolve their differences. Consequently, it is not clear whether or not the Round will be completed by December 2007.

Countries in the region continue to rely on the export of primary commodities which have very low income elasticity of demand and hence less opportunity for rapid export market expansion (table 4.6).

Table 4.6
Sectoral composition of exports from Africa excluding NA (%)

	2000	2005
Food and beverage	12.5	9.1
Raw materials	10.2	7.9
Fuels	46.9	54.9
Manufacturing and chemicals	29.6	26.4

Source: *IMF, 2007.*

African countries have to move into the export of new and dynamic products in world trade if they are to increase the region's share in global exports. Diversification of the production and export structure is necessary to achieve this objective. It is also a good way to protect countries from vulnerability to external shocks resulting from terms of trade instability.

The need to diversify and improve productive capacities has been acknowledged by African countries and several of them are making conscious efforts to achieve the objective. Clearly, to stimulate productive capacities, they need to maintain stable macroeconomic conditions, create a legal and regulatory environment conducive to export promotion, support the private sector, promote the adoption of information and communication technologies, and develop adequate institutional, physical and social infrastructure. However, diversification is not a costless activity. It requires human and financial resources and these are severely limited in African countries. Therefore development partners have an important role to play in assisting countries in the region to achieve their diversification objectives. There are at least three ways in which Africa's development partners could play a role in this area.

First, there is the urgent need for more meaningful market access opportunities for the region. Developed countries should offer duty and quota free market access for African exports into their markets. This will create an incentive for African countries to diversify their export structure in order to take advantage of improved market access and fast-track their integration into the multilateral trading system. In this regard, there is the need to incorporate this in any agreements that are reached under the Doha trade talks to provide an opportunity for African countries to use the vast potential of international trade as a mechanism for poverty reduction.

Second, developed countries can contribute to Africa's diversification efforts by increasing financial support for the development of infrastructure, which is a major constraint to rapid export market promotion. In this regard, there is the need for development partners to provide more support for regional infrastructure development projects to reduce transport costs and make Africa more competitive in the trading system.

"The impact of donor support will be maximized if African countries make more efforts to mainstream trade effectively into their national development strategies"

Finally, there is the need for more technical assistance and capacity-building support in the area of trade and export development. Such support will help to bridge the gap between resource needs and resource availability and also put them in a better position to compete on the international market. The recent Aid-for-Trade (AfT) initiative of the WTO has an important role to play and is welcome. However, it is taking too long to become operational. There is an urgent need for all parties involved in the initiative to fast-track its implementation so that valuable time is not lost in increasing the capacity of African countries to take advantage of existing opportunities in the multilateral trading system. The AfT initiative must avoid the traditional problems associated with previous trade capacity-building programmes. These include the lack of ownership of these programmes by recipient countries, the tendency to focus more on donor priorities than on those of recipients, and lack of sufficient and predictable funding.

Donor support can promote trade and export market development in Africa. However, the impact of such support will be maximized if African countries make more efforts to mainstream trade effectively into their national development strategies. This requires involving all relevant stakeholders in the design and implementation of trade policies, and making sure that trade and other macroeconomic and social policies complement each other, market access impediments are removed, and trade capacity is strengthened. (Dupasquier and Osakwe, 2007).

4.4 Increasing international financial and technical cooperation

Success and progress in international financial and technical cooperation, to a large extent, determine whether or not African countries will be able to meet the MDGs by the 2015 deadline. The Monterrey Consensus recognizes the role of ODA as a complement to other sources of financing in poor countries. It also stresses the fact that a substantial increase in ODA will be needed by developing countries if they are to achieve the internationally agreed development goals, including the MDGs. Since the Consensus was adopted, several promises have been made to the continent on scaling-up aid quantity and improving aid effectiveness.[5] The outcomes of the 2005 G-8 Gleneagles Summit and the Paris Declaration, both of which re-affirmed the commitments made in the Monterrey Consensus, contain some of the most recent pledges made by development partners on aid quantity and quality.

Aid quantity

On aid quantity, some progress has been made since the Monterrey Consensus was adopted. Net ODA flows to Africa increased from an average of $16 billion in the pre-Monterrey period to $28 billion in the post-Monterrey period. In addition, Africa's share in total ODA flows increased from 32 per cent in the pre-Monterrey period to 40 per cent in the post-Monterrey period, reflecting the increasing attention given to Africa countries by G-8 countries (table 4.7).

Table 4.7
Trends in global ODA flows

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)	2006
Total ODA flow (in billions of USD)	50	76	
Total ODA from DAC countries (in billions of $US)	36	57	
Total ODA from multilateral organizations (in billions of $US)	14	19	
Africa's share of total ODA flow	0.32	0.40	
ODI (as a % of GNI of donor countries)			
DAC countries	0.25	0.27	0.27
DAC-EU countries	0.36	0.38	0.37

Source: *Computations based on OECD, 2007a.*

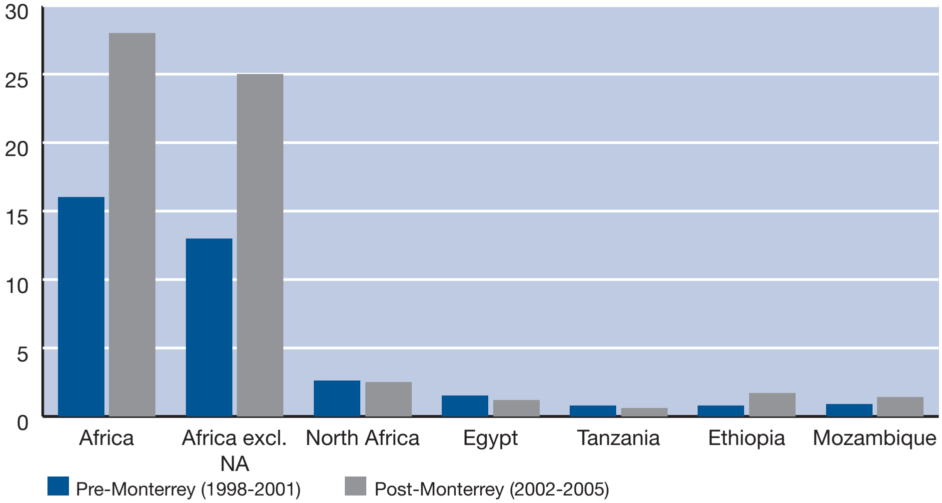
Historically, North Africa does not depend heavily on ODA for financing development. Unlike other regions, it received very little ODA flows in both the pre- and post-Monterrey periods (about $2.5 billion). Within North Africa, Egypt accounts for a large share of the ODA flows to the region. It received over $US1 billion ODA flows in both the pre- and post-Monterrey periods. In other regions, net ODA increased from $13.7 billion in the pre-Monterrey period to $25.6 billion in the post-Monterrey period. A large part of this aid in the post-Monterrey period went to countries such as Democratic Republic of Congo, Ethiopia, Ghana, Mozambique, Nigeria, Tanzania and Uganda (figure 4.4). Nigeria is among the main recipients of aid in the post-Monterrey period because of the huge debt relief it obtained

5 For the debate on aid, see Paul Collier, Jeffrey Sachs and William Easterly.

in 2005. Overall, forty-three African countries had an increase in ODA flows in the post-Monterrey period while nine countries had a decrease.

Figure 4.4

ODA flow to Africa and selected countries (billions of dollars)



Source: *Computations based on OECD, 2007a.*

> *Developed countries are yet to make any significant progress in meeting the internationally agreed ODA target of 0.7 percent of GNI*

Regarding the internationally agreed ODA target of 0.7 per cent of Gross National Income (GNI), developed countries are yet to make any significant progress in this regard. The trend in ODA flows from the Development Assistance Committee (DAC) in the pre and post-Monterrey periods has been mixed. As shown in table 4.7, the share of ODA in DAC countries GNI rose slightly from 0.25 per cent in the pre-Monterrey period to 0.27 per cent in the post-Monterrey period, which amounts to a 0.02 percentage point increase in ODA. EU members of DAC seem to have higher ratios of ODA to GNI compared to other DAC members. This is a consequence of the fact that countries such as Denmark, Luxembourg, Netherlands, Norway, and Sweden have very high ratios.

A key concern for African countries is that most of the recent increases in aid are due to debt relief and humanitarian assistance and so do not reflect additional resources available to finance development programmes. When these two components of aid are removed, it is clear that there has not been any significant change in real aid flows since 2004. In this regard, it is widely acknowledged that if donors are to meet their pledge to double aid flows to Africa by 2010, there has to be a significant scaling up of aid in 2008 and 2009. In addition, when the composition of total aid flows into Africa is broken into its intended use, there is a marked shift over the years away from productive sectors to emergency and social infrastructure development, which has undermined the effectiveness of ODA to finance development projects (table 4.8).

Table 4.8
ODA utilization in Africa: 1973-2005

Aid use	1973-1983	1984-1993	1994-2005
Social infrastructure and services	23	49	34
Economic infrastructure and services	10.4	7.7	11.5
Production sectors	25.5	16	9.6
Multi-sectoral (cross-cutting)	5.6	5.5	9.9
Emergency assistance	17.5	15	13.5
Unallocated/unspecified	4.2	5.1	2.9

Source: *OECD, 2007a.*

"Most of the recent increases in aid are due to debt relief and humanitarian assistance and do not reflect additional resources available to finance development programmes"

Aid effectiveness

The Monterrey Consensus also called for development partners to make aid more effective. Clearly, the quality of aid affects its effectiveness and ability to make a positive contribution to development in recipient countries. The 2005 Paris Declaration on Aid Effectiveness was the first comprehensive attempt made by developing and developed countries to take concrete steps to enhance aid effectiveness. It provides a framework to improve the quality of aid, anchored on five pillars: ownership; alignment; harmonization; managing for results; and mutual accountability.

Some attempts have been made to monitor progress in improving aid effectiveness as emphasized in the Monterrey Consensus and made more concrete in the Paris Declaration. The OECD survey conducted in 2006 led to the following conclusions:

- The Paris Declaration has increased awareness and promoted dialogue at the country level on the need to improve the delivery and management of aid;
- The pace of progress in changing donor attitudes and practices on aid management has been extremely slow and the transactions costs of delivering and managing aid are still very high;
- There is need to strengthen national development strategies, improve the alignment of donor support to domestic priorities, increase the credibility of the budget as a tool for governing and allocating resources, and increase the degree of accuracy in budget estimates of aid flows;
- Changing the way in which aid is delivered and managed involves new costs and this should be taken into account by donors and partners;

- Countries and donors should use performance assessment frameworks and more cost-effective, results-oriented reporting. In this regard, there is need for donors to contribute to capacity building and make more use of country reporting systems; and
- More credible monitoring systems need to be developed to ensure mutual accountability.

Civil society organizations (CSOs) have also been active in assessing the degree of progress and implementation of the international commitments on aid effectiveness. The African Forum and Network on Debt and Development (AFRODAD) recently commissioned studies on four African countries.[6] The results show that some progress has been made in Africa in implementing the international aid effectiveness agenda. Perhaps, the most important contribution of the Paris Declaration has been stimulating debate on aid effectiveness in both the donor and recipient countries. It has also strengthened accountability, not only between government and citizens, but also, very importantly, between donors and aid recipients. However, a number of challenges remain in the implementation of the Paris Declaration.

With respect to *ownership***,** the studies show that African countries have taken actions to strengthen leadership and ownership of their development policies. Most countries have developed or are in the process of developing comprehensive national development framework with clear strategic priorities linked to their Medium Term Expenditure Frameworks (MTEFs) and national budgets. Some countries have already operationalized their development framework as in the case of Ghana, Kenya and Mozambique, while Malawi is finalizing its Growth and Development Strategy (MGDS). In some countries, the Poverty Reduction Strategies (PRS) continue to serve as an operational policy framework for donor support to partner countries. Although all the countries have made efforts to consult other stakeholders in the elaboration of national development strategies, there is concern in a number of countries, including Ghana, Kenya and Mozambique, that such consultations tended to be *ad hoc.* Thus, there is a need for instituting mechanisms for broader engagement of other stakeholders, including NGOs, private sector, trade unions, etc.

Some countries such as Kenya have taken effective leadership for coordinating aid and introducing more harmonized and aligned system at national or sector levels, while others such as Malawi have not exercised effective leadership in guiding donors and encouraging harmonization. The Kenyan Government has set up a formal structure for harmonization and dialogue in the form of the Harmonization, Coordination and Alignment Group (HAC), which brings 18 donor countries and the Gov-

6 AFRODAD commissioned studies in four countries, namely, Ghana, Kenya, Malawi and Mozambique to assess the implementation of the Paris Declaration on aid management and donor harmonization.

ernment together.[7] The Group is responsible for monitoring donor coordination, alignment and harmonization, and for formulating and implementing partnership documents and joint country assistance strategies. A key conclusion emerging from the four case studies is that government ownership and leadership of development policies leaves much to be desired.

In the area of *alignment*, the studies show that although some progress has been made in aligning donor support to the partner country's national development framework, progress in aligning donor support to partner country institutions and processes remain lacklustre. Almost all the countries reported that most donors continue to channel most of their support to government outside the budget systems.

"The high concentration of donor support in project finance limits government flexibility in the use of funds and perverts development priorities"

In the case of Malawi, the study shows that only 22 per cent of donor aid was disbursed in programme form, with the lion's share provided in project form. However, a number of donor agencies and countries such as the UK Department for International Development (DfID), the United States Agency for International Development (USAID) and Sweden have increased the share of budget support in their total aid allocation. Some 95 per cent of DfID support to Malawi for the financial year 2002/2003 went to the Government. However, most of the French and German support is channelled outside the government budget. The high concentration of donor support in project finance limits government flexibility in the use of funds and perverts development priorities.

Apart from the high proportion of project finance in total donor support, budget planning and implementation of development projects is undermined by high unpredictability of aid flows. Although predictability of aid flows has improved for a number of countries, notably Mozambique, it remains a serious problem for others such as Kenya, Malawi and Ghana. The gap between commitments and actual disbursement is extremely high for Kenya. The main reason for late disbursal is government failure to meet policy-related conditionalities.

Most of the countries, with the exception of Mozambique, indicated that progress in aligning donor support to public financial management and procurement systems is weak. Most donors do not have confidence in the partner country's public financial management (PFM) and procurement system. Although donor confidence in Malawi's PFM and procurement system has improved since 2004, donors considered Kenya's PFM and procurement system as weak, unaccountable and non-transparent. Public sector reforms undertaken in Malawi and Kenya have had limited impact in improving their PFMs.

The study on Mozambique, however, reveals that there has been considerable progress in aligning donor support with the planning, budgetary, reporting and auditing

7 See http//www.hackenya.org

procedures of the Government. Some countries, including Malawi and Ghana, indicated that some donors were reluctant to use national systems as this might raise concern over accountability and corruption.

With respect to *harmonization*, the four case studies show mixed results. In some countries such as Kenya, donors show a strong degree of willingness to pursue harmonization, including joint missions, joint analytical work and joint donor-government assessment of technical capacity building. Progress has also been made towards harmonization at the sector level through sector-wide approaches in the health, water and sanitation. The existence of a formal government structure for harmonization such as HAC in Kenya has proved useful in strengthening harmonization at the country level.

In some countries, donors fear loss of visibility as result of moving toward joint actions and fewer stand-alone projects. This may be hindering efforts at harmonization. In some countries such as Malawi and Mozambique, multiple and overlapping processes, missions, reviews and meetings continue to be the norm rather the exception. The study found, for example, that only 16 per cent of missions and 17 per cent of analytical work in Malawi were jointly implemented.

On *managing for results*, the studies show that capacity constraints, both human and financial, continue to hamper efforts at managing for results. African countries are yet to move towards a full result-oriented culture. The monitoring and evaluation systems are weak and fragmented. Although donor countries have undertaken commitments to support partner countries in strengthening their monitoring and evaluation systems, progress in this area remains limited. Due to weak national monitoring and evaluation systems, donors continue to rely on their own systems. This is having an unintended effect of further undermining the development of robust national monitoring and evaluation systems.

With respect to *mutual accountability*, the studies reveal that although African countries have made substantial progress in strengthening their accountability to donor countries, they have made limited progress in strengthening accountability to their domestic constituencies, including parliaments, the private sector and civil society. This undermines genuine ownership of the development process.

Innovative sources of financing

The Monterrey Consensus recognizes the fact that ODA will not be enough to finance development in poor countries. It therefore urges search for and development of new and innovative sources of financing. This call has been answered by the international community and some progress has been made, especially in the health sector. The key instruments that have been developed in this area are the International Financing Facility for Immunization (IFFIm) the Aviation Levy and the Advance Market Commitment (AMC).

- ***The IFFIm:*** Launched in 2006, it has the objective of front-loading future aid commitments by borrowing from the international capital markets. It ensures that resources from aid pledges are made available in a timely manner for investment in health prevention and development programmes. It emerged from the suggestion for an international finance facility put forward by the UK Government in the 2005 Report of the Commission for Africa. Currently, the project is supported by France, Italy, Norway, Spain, Sweden, the UK and South Africa. IFFIm provides funds for the Global Alliance for Vaccines and Immunization (GAVI) and has raised $1 billion already. It is expected that the activities funded through the programme will prevent five million child deaths between 2006 and 2015, by raising and targeting $4 billion.
- ***Aviation Levy***: The use of an aviation tax to generate resources for development gathered support after France launched its air ticket levy on 1 July 2006 to raise resources to respond to HIV/AIDS, malaria and tuberculosis. Most of the resources are channelled through the international drugs purchase facility (UNITAID). It is expected that UNITAID will raise about $300 million in 2007. Thirty-four countries, including eighteen in Africa, have either joined or committed to join UNITAID.
- ***Advance Market Commitment (AMC)***: Launched in February 2007, its objective is to create an incentive for pharmaceutical companies to develop vaccines for disease common in developing countries. It requires donors to make advanced commitments to buy vaccines that are to be developed at a predetermined price. The first phase of the project focuses on pneumococcal vaccines and is supported by Italy, Canada and the UK. It is expected that the second AMC will focus on malaria vaccines.

"Addressing Africa's debt problem remains a major challenge for policymakers in the continent as well as the international community"

While these initiatives are welcome, there is urgent need to introduce them in other sectors so as maximize their impact on poverty reduction in Africa. For example, they could cover sectors such as education and infrastructure with very strong links to export capacity and competitiveness and have the potential for contributing to poverty reduction.

4.5 External debt and sustainability

Addressing Africa's debt problem remains a major challenge for policymakers in the continent as well as the international community. High external debt can stifle growth through its negative impact on investment. When a country has high external debt, private investors expect the government to increase taxes in the future in order to service the debt. Consequently, it reduces the incentives for the private sector to invest, makes it difficult for a country to obtain new loans, and slows growth. Pattillo, Poirson and Ricci (2002) found that external debt has a negative effect on growth after a critical threshold for debt is reached. In particular, they found that external debt stifles growth when the Net Present Value of debt is greater than 160 per cent of exports and 35-40 per cent of GDP.

"There are concerns that debt relief has not led to an increase in net transfer of resources because more often than not it has been a substitute for, rather than an addition to, other sources of aid flows"

The HIPC initiative of 1996 and the enhanced HIPC initiative of 1999 are two key attempts made by the international community, before the adoption of the Monterrey Consensus, to deal with the problem of high external debt facing developing countries. Currently, in Africa, eight countries are at the pre-decision point, seven are at the decision point and eighteen have reached the completion point (table 4.9).

Table 4.9
Status of HIPC eligible African countries

Pre-decision point (8 countries)	Decision point (7 countries)	Completion point (18 countries)
Central African Republic, Comoros, Cote D'Ivoire, Eritrea, Liberia, Somalia, Sudan, Togo	Burundi, Chad, Democratic Republic of Congo, Republic of Congo, Gambia, Guinea, Guinea-Bissau.	Benin, Burkina Faso, Cameroon, Ethiopia, Ghana, Madagascar, Malawi, Mali, Mauritania, Mozambique, Niger, Rwanda, Senegal, Sierra Leone, Tanzania, Uganda, Zambia, Sao Tome and Principe

Source: *DATA (Debt, Aid and Trade Africa) Report 2007.*

While the HIPC initiatives were welcomed, African countries have always expressed concerns about their implementation and ability to provide a long-term solution to their external debt problems. This view is also shared by development partners and civil society groups. One of the problems with the HIPC initiatives is that the criteria used to measure debt sustainability and the approaches used to predict debt dynamics do not take appropriate account of country-specific circumstances (World Bank, 2006).

In addition, a key concern of the continent has been the slow progress of several countries towards decision and completion points under the HIPC programme. There are also concerns that debt relief has not led to an increase in net transfer of resources because more often than not it has been a substitute for, rather than an addition to, other sources of aid flows.

As a result of the limitations of the HIPC programme, the G-8 countries at the 2005 Gleneagles Summit made another effort to follow through on their Monterrey Consensus commitments on external debt by introducing the Multilateral Debt Relief Initiative (MDRI) aimed at cancelling all debts owed by HIPC countries to the IMF, IDA, and AfDB. It is still too early to assess the overall and long-term impact of this initiative. However, there are signs that the external debt situation in the continent has improved in recent years.

In the pre-Monterrey, period the total external debt of Africa, on an average annual basis, was $274 billion. In the post-Monterrey period, it increased to $293 billion, falling to $244 billion in 2006 and expected to fall further in 2007. For Africa excluding NA, external debt increased from $217 billion in the pre-Monterrey period to $240 billion in the post-Monterrey period. Since 2006, there has been modest progress. External debt fell to $202 billion in 2006 and is expected to decline to $201 billion in 2007, mainly due to the major debt relief operation effected in the last two years (table 4.8).

In Africa, total debt as a percentage of exports of goods and services, an indicator of debt sustainability, declined from 212 per cent in the pre-Monterrey period to 142 per cent in the post-Monterrey period. In 2006, it declined to a record rate of 69 per cent and is estimated to decline further to 65 per cent in 2007. Based on this indicator, significant progress has also been made in Africa excluding NA. Total debt as a percentage of exports declined from 229 per cent in pre-Monterrey period to 159 per cent in the post-Monterrey period. For 2006, the figure is 79 per cent and is estimated to reach 74 per cent in 2007. Debt in general is considered unsustainable if the ratio of the net present value of debt to exports exceeds 150 per cent (World Bank, 2006)[8].

With respect to total debt as a percentage of GDP, another measure of debt sustainability, it declined from a rate of 62.4 per cent in the pre-Monterrey period to 48 per cent in the post-Monterrey period. In 2006, it reached 26.2 per cent and is expected to decline further to 23.1 per cent in 2007. The Africa excluding NA trend is similar. Total debt as a percentage of GDP declined from 64 per cent in the pre-Monterrey period to 48 per cent in the post-Monterrey period. In 2006, this figure was 28 per cent and is expected to fall to 24 per cent in 2007. It is interesting to note that Africa's total debt service increased from $26 billion in the pre-Monterrey period to $28 billion in the post-Monterrey. However, as a percentage of GDP, Africa's debt service ratio improved in the post-Monterrey period.

8 For countries that are highly dependent on trade, an alternative measure of debt sustainability is debt as a percentage of total government revenue (excluding grants), which has a cut-off threshold of 200 per cent to be unsustainable.

Similar conclusions emerge from data for Africa excluding NA (table 4.10). Some 36 African countries experienced a reduction in the debt-GDP ratio in post-Monterrey period, of which significant reductions were recorded in countries such as Angola, DRC, Gambia, Guinea-Bissau, Mauritania, Mozambique, Sao Tome and Principe, Sudan, and Zambia. A significant increase in debt ratios was also recorded for countries such as Burundi, Eritrea, Liberia, and Zimbabwe.

Overall, in the post-Monterrey period, African countries made significant progress in reducing the burden of external debt. Most of the recent decline in the external debt of Africa is due to the implementation of the MDRI introduced in 2005. It is also a consequence of the recent dramatic debt relief received by Nigeria and of improvement in the growth performance of several countries in the continent. The recent expansion in the volume of exports and the rise in the price of key commodities exported by Africa also contributed to the recent performance.

Table 4.10
Africa's external debt profile

Africa	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)	2006	2007
Total debt (billions of dollars)	274.3	293.3	244.1	243.2
Total debt (% of total exports)	212	142	69	65
Total debt (% of GDP)	62.425	47.85	26.2	23.1
Total debt service (billions of dollars)	26.175	27.725	37.7	31.3
Total debt service (% of GDP)	5.95	4.375	4.1	3
Total debt service, interest (billions of dollars)	11.45	8.825	9.4	10.1
Total debt service, interest (% of GDP)	2.6	1.425	1	1
Africa excluding NA				
Total debt (billions of dollars)	217.4	240.4	202.1	200.9
Total debt (% of total exports)	229	159	79	74
Total debt (% of GDP)	64.0	48.0	28.1	24.4
Total debt service (billions of dollars)	16.5	17.6	22.9	23.6
Total debt service (% of GDP)	4.925	3.625	3.2	2.9
Total debt service, interest (billions of dollars)	6.375	5.525	5.8	6.8
Total debt service, interest (% of GDP)	1.925	1.15	0.8	0.8

Source: *IMF, 2007a.*

Despite the progress that has been made since the Monterrey Consensus, there are serious concerns to be addressed to ensure that heavily indebted African countries derive more benefits from debt relief initiatives and find long-lasting solutions to their external debt problems. The key objective of debt relief initiatives such as HIPC and MDRI is attainment of sustainable debt, faster growth and poverty reduction. It is premised on the general belief that excessive debt accumulation hampers long-term economic growth. When debt is accumulated excessively and a country is in a difficult position of repayment, then, debt service tends to off-set returns from previous debt invested in the domestic economy. This chain of events discourages future domestic and foreign investment (see Clements et al, 2005)[9]. Debt relief is therefore essential to reversing the deleterious effects of debt overhang.

> *Debt relief alone is not sufficient to ensure long-term debt sustainability in African countries*

African countries are also concerned that debt ratios are beginning to deteriorate in several post-completion point countries. To accelerate progress in the area of external debt, there is need to increase creditor participation in the HIPC programme. In particular, non-OECD countries have to be brought on board. There is also the need to reduce the incidence of lawsuits by non-Paris Club creditors. The rising importance of China and India and other non-Paris Club creditors as sources of concessional loans for poor African countries has increased the risk of further debt accumulation, especially since these new creditors have more flexible loan disbursement criteria.

The trend in the debt management performance of low-income countries has been deteriorating as debt service worsened and debt management capacity deteriorated, even among countries that have reached post-completion-point (World Bank, 2006). Thus, there is need for more efforts to be made to sensitize African countries about the danger of accumulating unsustainable debt.

There is concern in some countries that resources freed through debt relief are spent on public service delivery and social services with very little allocated to the productive sectors of the economy that assist long-term growth and poverty reduction. While investment in the social sectors should be encouraged because of their link to poverty reduction, it should not lead to the neglect of productive sectors of the economy.

Finally, debt relief alone is not sufficient to ensure long-term debt sustainability in African countries. Other policy actions aimed at reducing external shocks, particularly those that affect export performance and repayment capacity should be explored. In addition, debt relief initiatives should not focus only on the problems of existing HIPC countries. Several non-HIPC countries are also facing challenges in dealing with their debt problems and would benefit from increased resource transfers.

9 The effect of debt overhang on long-term growth has been a subject of empirical investigation with inconclusive findings (see Dijkstra and Hermes, 2001 for a review of the literature). Studies based exclusively on low-income countries, however, found some evidence of debt accumulation after a certain threshold dampening long-term growth (e.g. Pattillo, et al 2004; Clements et al, 2005).

4.6 Systemic issues

> *Africa has been so far excluded from, or insufficiently represented in international organizations that make decisions on issues that have serious consequences for its economies*

The Monterrey Consensus emphasized the need for the international monetary, financial and trading systems to complement national development efforts. In this regard, it called for improvement in global economic governance of international institutions and in policy and programme coordination by these institutions. At the national level, it called for more coordination among relevant ministries and institutions to enhance coherence in policy design and formulation and ensure that policies have the desired impact on their economies.

One of the key issues for African countries in this area is how to increase their voice in the decision-making processes of international organizations such as IMF, World Bank, Bank for International Settlements, and WTO. Despite its size in terms of population and the number of countries, Africa has been so far excluded from, or insufficiently represented in international organizations that make decisions on issues that have serious consequences for their economies. Addressing this inequity was one of the objectives of the Monterrey Consensus.

Since the Monterrey Consensus was adopted, effort has been made to enhance the participation of African countries in WTO decisions. For example, at the Fifth Ministerial Conference held in Cancun in 2003, and at the Sixth Ministerial Conference held in Hong Kong in 2005, several African Trade Ministers were selected as facilitators in key areas of the negotiations and participated in "Green Room" meetings where critical decisions on trade negotiations are made. This is a new and welcome development and needs to be strengthened. The African WTO Geneva Group has also emerged as an important player in the Doha Round negotiations. This has helped African countries to protect their interests and increase their bargaining power in the negotiations.

With regard to IMF and the World Bank, there has been no significant attempt to increase the voice of African countries in decision-making. At the 2006 IMF Annual Meetings in Singapore, an *ad hoc* quota increase was approved for China, Korea, Mexico and Turkey. This has further reduced the relative share of African countries and hence their voice and influence in decision-making at the Fund. At the moment, voting power in the IMF Executive Board is skewed in favour of rich nations. Africa excluding NA accounts for about 25 per cent of IMF membership but has a voting power of just 4.4 per cent. Clearly, the global governance of international organizations is an area where efforts need to be scaled up if the laudable objectives of the Monterrey Consensus are to be met.

Policy coherence at the national level is also needed. In several African countries, there is often lack of policy coordination among the institutions responsible for formulating economic and development policies (i.e. Ministry of Finance and Economic Development, the central bank, and national planning bodies). Lack of coordination among these institutions and the ministries dealing with sectoral issues undermines policy effectiveness and reduces the impact of policy on development. Equally important are the policies and practices of donor countries. If their policies are to contribute meaningfully to the attainment of MDGs in developing countries, it is absolutely necessary that these consider a range of areas, including ODA, trade and market access, finance and debt, migration, and agriculture among others, to be consistent with the MDGs and other internationally agreed development goals.

Other systemic issues of interest to African countries include: the management of commodity price risks as well as vulnerability to external shocks; prevention and management of currency and banking crises; and ensuring that countries facing severe economic crises have better access to credit.

4.7 Conclusions

To Africa, the adoption of Monterrey Consensus represented a golden opportunity for mobilizing more international resources to finance economic development. However, progress in implementing the commitments of the Monterrey Consensus has been limited. Of all the chapters of the Monterrey Consensus, progress has been strongest in the area of external debt and sustainability, thanks to implementation of the HIPC initiative and the MDRI. Evidence based on macro data and on the ECA perception survey of African policymakers shows that progress in the area of trade has been the weakest. There is need to scale up progress in the Doha Round of Trade Negotiations and to operationalize the AfT Initiative.

ODA to Africa has increased in recent years. However, this has not been translated into additional injection of funds to finance investment in critical sectors such as infrastructure, education and health. The bulk of ODA has been directed towards debt relief and emergency humanitarian assistance. Without additional ODA, most African countries will not be able to reach the MDGs.

Similarly, although FDI has increased significantly in the post-Monterrey period, it remains concentrated in a few countries and sectors and has had limited impact on employment. Progress in the area of systemic issues has also been limited. More remains to be done to improve Africa's participation in the institutions of global economic governance, particularly IMF, World Bank and WTO.

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Appendix

Table A4.1

Domestic Savings (% of GDP)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	36	47
Angola	24	25
Benin	6	6
Botswana	47	50
Burkina Faso	8	4
Burundi	-6	-11
Cameroon	20	19
Cape Verde	-16	-16
Central African Republic	9	10
Chad	4	29
Comoros	-4	-7
Congo, Republic of	4	5
Congo,. Democratic Republic	46	50
Cote d Ivoire	20	21
Djibouti	-3	6
Egypt	13	15
Equatorial Guinea	20	..
Eritrea	-34	-45
Ethiopia	10	6
Gabon	38	45
Ghana	11	10
Gambia	7	7
Guinea	17	8
Guinea-Bissau	-10	-4
Kenya	10	12
Lesotho	-23	-13
Liberia	-3	-1
Libya	21	25
Madagascar	9	8
Malawi	4	-10
Mali	11	11
Mauritania	25	23
Mauritius	..	..
Morocco	18	19
Mozambique	11	12
Namibia	14	24
Niger	4	6
Nigeria	29	34
Rwanda	0	1
Sao Tome and Principe	-13	-19
Senegal	11	8
Seychelles	22	17
Sierra Leone	-8	-6
Somalia	..	..
South Africa	19	19
Sudan	10	15
Swaziland	2	16
Tanzania	5	10
Togo	1	4
Tunisia	24	21
Uganda	7	7
Zambia	7	18
Zimbabwe	15	6

Source: *WDI, 2007.*

Table A4.2

Government revenue, excluding grants, in Africa excluding NA (% of GDP)

	Pre-Monterrey (1997-2001)	Post-Monterrey (2002-2005)	2006	2007
Angola	42.6	39.1	46.6	37.3
Benin	15	16.6	16.7	16.9
Botswana	39.5	38.0	39.2	38.1
Burkina Faso	12.3	12.1	12.4	13.1
Burundi	17.2	20.4	19.1	19.7
Cameroon	14.3	16.2	17.6	17.4
Cape Verde	20.3	23.1	27.1	24.3
Central African Republic	14.9	11.9	12.9	15.1
Chad	7.7	8.0	16.2	25.9
Comoros	12.2	15.8	14.2	15.4
Congo, Dem. Rep. of	5.4	9.2	13.2	13.2
Congo. Rep. of	26.9	32.0	49.7	36
Cote d'Ivoire	17.7	17.4	18	19.2
Equatorial Guinea	22.3	31.2	34.2	35.7
Eritrea	32.7	30.3	28.3	28.4
Ethiopia	14.9	16.4	16.9	17.4
Gabon	32.7	30.8	33.6	32.1
Gambia	17.8	18.2	21.6	21.3
Ghana	17.6	21.6	21.6	22.7
Guinea	11.1	11.4	13.9	12.6
Guinea-Bissau	8.5	16.3	19.8	16.5
Kenya	20.3	20.4	20.6	21.7
Lesotho	43.2	46.5	49.9	47.7
Liberia	n.a.	13.5	8.6	7.7
Madagascar	10.6	10.3	11.4	11.4
Malawi	16.9	22.1	24.3	24.1
Mali	13.5	16.9	17.2	16.8
Mauritius	19.6	17.3	19.9	19.3
Mozambique	12	13.0	14.4	14.9
Namibia	32.4	30.7	34.9	36.6
Niger	8.9	10.4	11.3	12
Nigeria	20	24.7	27.7	29
Rwanda	10.4	13.7	15.4	15
Sao Tome and Principe	14.4	44.5	33.7	62.7
Sierra Leone	8.9	12.2	11.8	13.2
Senegal	16.2	18.5	19.7	19.9
South Africa	23.5	24.0	26.5	27.7
Swaziland	28.6	28.7	35.7	35.8
Seychelles	42.5	47.5	50.9	49.7
Tanzania	11.2	11.7	13.3	13.8
Togo	13.9	15.5	16.1	16.6
Uganda	11.3	12.5	13.2	13.6
Zambia	19	17.9	16.9	17.6
Zimbabwe	25	30.1	43.3	40.1

Source: *IMF, 2007a.*

Table A4.3

Foreign Direct Investment, net inflows (in millions of current $US)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	612	916
Angola	1652	1331
Benin	49	49
Botswana	53	373
Burkina Faso	11	19
Burundi	3	0
Cameroon	108	210
Cape Verde	26	26
Central African Republic	4	1
Chad	156	705
Comoros	0	1
Congo, Dem. Rep. of	199	383
Congo, Rep. of	204	342
Cote d'Ivoire	303	232
Djibouti	4	20
Egypt	972	1878
Equatorial Guinea	399	1320
Eritrea	68	11
Ethiopia	204	383
Gabon	-35	204
Gambia	38	43
Ghana	167	110
Guinea	23	77
Guinea-Bissau	2	5
Kenya	35	44
Lesotho	166	104
Liberia	119	194
Libya	..	..
Madagascar	63	16
Malawi	29	3
Mali	54	159
Mauritania	33	113
Mauritius	75	37
Morocco	95	1183
Mozambique	247	259
Namibia	..	..
Niger	8	14
Nigeria	1097	1942
Rwanda	5	6
Sao Tome and Principe	4	2
Senegal	80	65
Seychelles	49	57
Sierra Leone	12	35
Somalia	0	11
South Africa	2573	2119
Sudan	427	1470
Swaziland	93	21
Tanzania	405	475
Togo	45	37
Tunisia	552	663
Uganda	166	217
Zambia	138	188
Zimbabwe	133	35

Source: *WDI, 2007.*

Table A4.4
Net FDI inflow (% of GDP)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	1	1
Angola	22	7
Benin	2	1
Botswana	1	4
Burkina Faso	0	0
Burundi	0	0
Cameroon	1	1
Cape Verde	5	3
Central African Republic	0	0
Chad	10	20
Comoros	0	0
Congo, Dem. Rep. of	4	6
Congo, Rep. of	8	9
Cote d'Ivoire	3	2
Djibouti	1	3
Egypt	1	2
Equatorial Guinea	37	46
Eritrea	10	2
Ethiopia	3	4
Gabon	-1	3
Gambia	9	11
Ghana	3	1
Guinea	1	2
Guinea-Bissau	1	2
Kenya	0	0
Lesotho	19	9
Liberia	25	38
Libya	..	..
Madagascar	2	0
Malawi	2	0
Mali	2	4
Mauritania	3	8
Mauritius	2	1
Morocco	0	3
Mozambique	6	5
Namibia	..	..
Niger	0	0
Nigeria	3	3
Rwanda	0	0
Sao Tome and Principe	8	4
Senegal	2	1
Seychelles	8	8
Sierra Leone	2	3
Somalia	..	..
South Africa	2	1
Sudan	4	7
Swaziland	7	1
Tanzania	5	4
Togo	3	2
Tunisia	3	3
Uganda	3	3
Zambia	4	4
Zimbabwe	2	0

Source: *WDI, 2007.*

Table A4.5
Share of exports (% of GDP)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	32	40
Angola	77	72
Benin	16	14
Botswana	50	48
Burkina Faso	10	9
Burundi	8	8
Cameroon	24	21
Cape Verde	24	32
Central African Republic	13	12
Chad	17	37
Comoros	14	14
Congo, Dem. Rep. of	24	27
Congo, Rep. of	77	81
Cote d'Ivoire	41	49
Djibouti	38	38
Egypt	16	25
Equatorial Guinea	102	..
Eritrea	15	14
Ethiopia	13	15
Gabon	47	60
Gambia	45	44
Ghana	40	40
Guinea	24	23
Guinea-Bissau	25	33
Kenya	21	26
Lesotho	31	52
Liberia	23	30
Libya	27	48
Madagascar	26	24
Malawi	29	26
Mali	28	27
Mauritania	42	32
Mauritius	64	58
Morocco	31	34
Mozambique	19	30
Namibia	46	48
Niger	17	16
Nigeria	42	50
Rwanda	7	9
Sao Tome and Principe	33	38
Senegal	30	29
Seychelles	71	96
Sierra Leone	16	21
Somalia	..	..
South Africa	27	29
Sudan	10	16
Swaziland	81	91
Tanzania	14	18
Togo	30	34
Tunisia	44	46
Uganda	11	13
Zambia	24	20
Zimbabwe	37	30

Source: *WDI, 2007.*

Table A4.6

Real growth in exports of goods and services

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Angola	..	..
Algeria	2.7	5.6
Benin	3.4	2.5
Botswana	4.5	5.3
Burkina Faso	6.3	6.9
Burundi	..	..
Cameroon	4.7	0.8
Cape Verde	13.7	11.6
Central African Republic	..	..
Chad	-1.7	77.4
Comoros	-0.5	-2.2
Congo, Dem. Rep. of	18.0	9.3
Congo, Rep. of	2.0	7.4
Cote d'Ivoire	-0.1	4.7
Djibouti	0.4	2.8
Egypt	3.2	13.5
Equatorial Guinea	19.5	..
Eritrea	-0.2	-10.6
Ethiopia	8.6	15.7
Gabon	-3.5	0.9
Gambia	3.6	10.7
Ghana	5.8	5.4
Guinea	6.7	0.2
Guinea-Bissau	13.9	4.1
Kenya	3.2	7.2
Lesotho	15.8	7.3
Liberia	..	..
Libya	..	..
Madagascar	9.0	1.1
Malawi	2.8	3.7
Mali	10.3	6.3
Mauritania	1.0	-0.8
Mauritius	4.9	1.3
Morocco	6.1	4.9
Mozambique	23.1	14.8
Namibia	0.2	8.4
Niger	3.3	..
Nigeria	1.4	5.5
Rwanda	26.2	3.1
Sao Tome and Principe	22.6	..
Senegal	6.8	2.5
Seychelles	9.3	9.1
Sierra Leone	..	..
Somalia	..	..
South Africa	4.0	2.5
Sudan	49.1	12.3
Swaziland	8.1	0.8
Tanzania	8.7	0.4
Togo	1.5	5.2
Tunisia	6.5	1.8
Uganda	4.6	7.5
Zambia	6.1	10.4
Zimbabwe	7.4	-7.7

Source: *WDI, 2007.*

Table A4.7

Official development assistance (in millions of current $US)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	246	312
Angola	327	623
Benin	232	311
Botswana	57	46
Burkina Faso	381	563
Burundi	93	281
Cameroon	450	685
Cape Verde	109	134
Central African Republic	95	79
Chad	168	294
Comoros	26	27
Congo, Dem. Rep. of	170	2561
Congo, Rep. of	79	423
Cote d'Ivoire	484	400
Djibouti	71	75
Egypt	1529	1151
Equatorial Guinea	19	27
Eritrea	193	291
Ethiopia	773	1662
Gabon	28	39
Gambia	44	62
Ghana	638	1022
Guinea	258	238
Guinea-Bissau	72	90
Kenya	424	586
Lesotho	46	83
Liberia	68	152
Libya	8	13
Madagascar	384	771
Malawi	433	493
Mali	353	567
Mauritania	215	238
Mauritius	31	20
Morocco	536	596
Mozambique	913	1442
Namibia	155	144
Niger	236	453
Nigeria	174	1904
Rwanda	336	438
Sao Tome and Principe	32	32
Senegal	468	659
Seychelles	17	12
Sierra Leone	176	340
Somalia	111	200
South Africa	493	619
Sudan	213	944
Swaziland	27	31
Tanzania	1069	1550
Togo	78	64
Tunisia	250	317
Uganda	711	1020
Zambia	529	825
Zimbabwe	211	235

Source: *WDI, 2007.*

Table A4.8
Net ODA flows (% of GNI)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	1	0
Angola	6	4
Benin	10	8
Botswana	1	1
Burkina Faso	14	13
Burundi	13	43
Cameroon	5	5
Cape Verde	20	16
Central African Republic	9	6
Chad	11	10
Comoros	12	9
Congo, Dem. Rep. of	4	44
Congo, Rep. of	5	11
Cote d'Ivoire	4	3
Djibouti	13	11
Egypt	2	1
Equatorial Guinea	4	..
Eritrea	28	43
Ethiopia	10	19
Gabon	1	1
Gambia	11	16
Ghana	11	12
Guinea	8	7
Guinea-Bissau	37	38
Kenya	3	4
Lesotho	4	6
Liberia	19	37
Libya	..	..
Madagascar	10	17
Malawi	25	26
Mali	14	13
Mauritania	19	16
Mauritius	1	0
Morocco	2	1
Mozambique	25	30
Namibia	5	3
Niger	12	16
Nigeria	0	2
Rwanda	18	24
Sao Tome and Principe	77	55
Senegal	10	10
Seychelles	3	2
Sierra Leone	25	34
Somalia	..	..
South Africa	0	0
Sudan	2	5
Swaziland	2	2
Tanzania	12	14
Togo	5	3
Tunisia	1	1
Uganda	12	15
Zambia	17	17
Zimbabwe	3	5

Source: *WDI, 2007.*

Table A4.9

Total external debt (millions of current $US)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Angola	9731	9628
Benin	1647	1859
Botswana	472	496
Burkina Faso	1491	1844
Burundi	1110	1313
Cameroon	9382	8665
Cape Verde	315	491
Central African Republic	877	1050
Chad	1129	1562
Comoros	240	292
Congo, Dem. Rep. of	12116	10837
Congo, Rep. of	4861	5828
Cote d'Ivoire	12944	11613
Equatorial Guinea	266	284
Eritrea	282	652
Ethiopia	6775	6675
Gabon	3938	3847
Gambia	474	639
Ghana	6297	7085
Guinea	3428	3411
Guinea-Bissau	843	726
Kenya	6241	6531
Lesotho	660	704
Liberia	2094	2547
Madagascar	4493	4180
Malawi	2618	3139
Mali	3073	3058
Mauritania	2391	2292
Mauritius	1787	2205
Mozambique	6934	4993
Namibia	..	..
Niger	1647	1948
Nigeria	30455	31309
Rwanda	1270	1538
Sao Tome and Principe	306	347
Senegal	3808	4018
Seychelles	279	486
Sierra Leone	1282	1613
Somalia	2591	2781
South Africa	24393	27995
Sudan	16478	18382
Swaziland	317	436
Tanzania	7035	7350
Togo	1455	1705
Uganda	3662	4455
Zambia	6130	6584
Zimbabwe	4084	4352
Algeria	26629	21351
Djibouti	272	396
Egypt	30501	31447
Libya	..	..
Morocco	21635	17949
Tunisia	11711	17885

Source: *WDI, 2007.*

Table A4.10
Total external debt (% of GDP)

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	52	29
Angola	133	55
Benin	70	52
Botswana	8	6
Burkina Faso	54	43
Burundi	146	198
Cameroon	99	63
Cape Verde	57	60
Central African Republic	87	86
Chad	72	49
Comoros	112	90
Congo, Dem. Rep. of	246	176
Congo, Rep. of	196	149
Cote d'Ivoire	112	83
Djibouti	50	61
Egypt	33	37
Equatorial Guinea	33	10
Eritrea	42	95
Ethiopia	87	76
Gabon	86	60
Gambia	112	161
Ghana	103	89
Guinea	104	97
Guinea-Bissau	398	294
Kenya	47	43
Lesotho	77	66
Liberia	454	506
Libya	..	..
Madagascar	114	87
Malawi	150	164
Mali	120	70
Mauritania	207	162
Mauritius	41	40
Morocco	62	41
Mozambique	180	96
Namibia	..	..
Niger	84	70
Nigeria	78	50
Rwanda	69	84
Sao Tome and Principe	673	569
Senegal	83	62
Seychelles	45	70
Sierra Leone	186	155
Somalia	..	..
South Africa	19	16
Sudan	139	94
Swaziland	24	22
Tanzania	80	68
Togo	100	92
Tunisia	59	70
Uganda	61	66
Zambia	186	137
Zimbabwe	59	76

Source: *WDI, 2007.*

Table A4.11

Tax revenue as a % of GDP for African countries

	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Algeria	30	31
Angola	..	..
Benin	..	15
Botswana	..	..
Burkina Faso	..	12
Burundi	14	..
Cameroon	12	..
Cape Verde	..	..
Central African Republic	..	6
Chad	..	..
Comoros	..	..
Congo, Dem. Rep. of	4	6
Congo, Rep. of	9	8
Cote d'Ivoire	15	15
Djibouti	..	..
Egypt	15	14
Equatorial Guinea	..	..
Eritrea	..	..
Ethiopia	..	11
Gabon	..	..
Gambia	..	..
Ghana	17	20
Guinea	11	..
Guinea-Bissau	..	..
Kenya	16	17
Lesotho	34	38
Liberia	..	..
Libya	..	..
Madagascar	53	48
Malawi	..	..
Mali	..	..
Mauritania	..	..
Mauritius	17	17
Morocco	..	23
Mozambique	..	..
Namibia	30	27
Niger	..	..
Nigeria	..	..
Rwanda	..	..
Sao Tome and Principe	..	..
Senegal	17	..
Seychelles	26	33
Sierra Leone	9	11
Somalia	..	..
South Africa	24	25
Sudan	6	..
Swaziland	..	26
Tanzania	..	..
Togo	..	14
Tunisia	21	21
Uganda	11	12
Zambia	18	..
Zimbabwe	..	..

Source: *WDI, 2007.*

5

African Perspectives and Views on the Monterrey Consensus

Within the international community, there is the general feeling and concern that very limited progress has been made in honouring the commitments and hence, meeting the key goals of the Monterrey Consensus in the six core areas. G-8 leaders acknowledged these concerns in their 2006 Summit in St Petersburg as well as in the Heiligendamn Summit held in 2007. It was also the main reason for their decision to launch the Africa Progress Panel (APP) in April 2007 with the objective of working with African countries and their development partners to ensure the delivery of promises made to the continent.

The concern about low delivery on promises has also led African governments to take the lead in monitoring the implementation of commitments by donors through an annual African Ministerial Conference on Financing for Development. The first Conference was held in Abuja, Nigeria, 20-22 May 2006 and the second was held in Accra, Ghana, 30-31 May 2007. Furthermore, African CSOs such as African Monitor have also set up their own mechanisms for monitoring financing development commitments, delivery and impact at the grassroots.[1]

These concerns have led to actions at the international level. Indicative of the worldwide response, the United Nations General Assembly is organizing a "Follow-up International Conference on Financing for Development" in Doha, Qatar, in the second half of 2008 in order to take stock of progress made in the implementation of the Monterrey Consensus, discuss challenges, share best practices and lessons learnt and explore options for moving the development finance agenda forward.

Against this background, ECA conducted a survey of countries in March and April 2007. This chapter summarizes the results, which was unique in that it was the first comprehensive attempt to obtain the views of African countries based on survey data. Previous assessments of progress in the implementation of the Monterrey Consensus in Africa have been based on secondary data published by international organizations. While these are useful in presenting stylized facts, it is often the case that perceptions differ from facts and the former can have a profound impact on the attitudes and behaviour of policymakers. Consequently, it is useful to compare the

1 See, for example, African Monitor (2007), *Baseline Matrix of Development Support Promises and Delivery to Africa*. May 2007.

results of the survey to the published macroeconomic data. It covered the six core areas of the Monterrey Consensus and was based on a set of questionnaires sent out to various experts and government officials located in Central Banks and Ministries of Finance, Planning and Economic Development.

The survey results are helping to ensure that Africa's best interests and concerns are adequately articulated and presented to the international community.

5.1 Sample characteristics

The continent has a heterogeneous group of countries, ranging from oil exporters to island and landlocked economies, and from emerging LDC markets to economies with relatively high income, for example, South Africa and Mauritius. Consequently, development financing needs and concerns differ from country to country.

The survey covered as many countries or groups of countries as possible, in recognition of this heterogeneity.. Two questionnaires were sent to each of the 53 African countries, one to the Central Bank and another to the Ministry of Finance and Planning or a government department in charge of economic development issues. The questionnaires were addressed to Central Bank Governors and Ministers of Finance, Planning or Economic Development in each country and they were asked to select appropriate staff members to complete them.

Of the 106 questionnaires sent to the African policymakers, 57 were returned, representing 32 countries and covering all 5 regions of Africa as well as LDCs, landlocked countries, petroleum exporters, and island economies.[2] Responses were obtained on condition that the names and views of individual countries would not be published. Consequently, in the questionnaires, respondents were not asked to indicate their country. However, they did indicate whether they were LDCs, petroleum exporters, island or landlocked economies.

Twenty-nine (52.7%) of the questionnaires were returned by senior managers, fourteen (25.5%) from middle-level managers, while twelve (21.8%) were returned by lower-level managers. The responses mainly came from Central Banks (50.9%), followed by Ministries of Finance, Planning and Economic Development (40.4%).[3] Only five responses were sent by other government departments.

2 Note that these groups are not mutually exclusive. For example, some landlocked countries are LDCs and some LDCs are petroleum exporters.

3 For several countries, the completed questionnaires were returned by only one institution: either the Central Bank or the Ministry of Finance.

The questionnaire contained nine parts. Part A dealt with general questions on the characteristics of the respondents. In particular, it identified the managerial level of respondents, whether they work for the Central Bank, Ministry of Finance, or any other government department, and whether they come from a landlocked, LDC or any other country groupings. Part B dealt with the general impressions and opinions of African policymakers on the Monterrey Consensus, while parts C to H focused on opinions in the six core areas of the Consensus. The last part, I, dealt with challenges, constraints and the way forward.

5.2 Overview of the Results

5.2.1 Overall performance

The survey sought to elicit the views of African policymakers on the performance of donors in terms of meeting the general commitments made in the Monterrey Consensus. Figure 5.1 presents the results of the survey. Respondents indicated that donor performance in terms of the commitments of the Monterrey Consensus has been modest - 9.6 per cent rated donor performance as good and 5.7 per cent gave a rating of very good. The majority of the respondents (55%) considered donor performance to be either fair or poor.

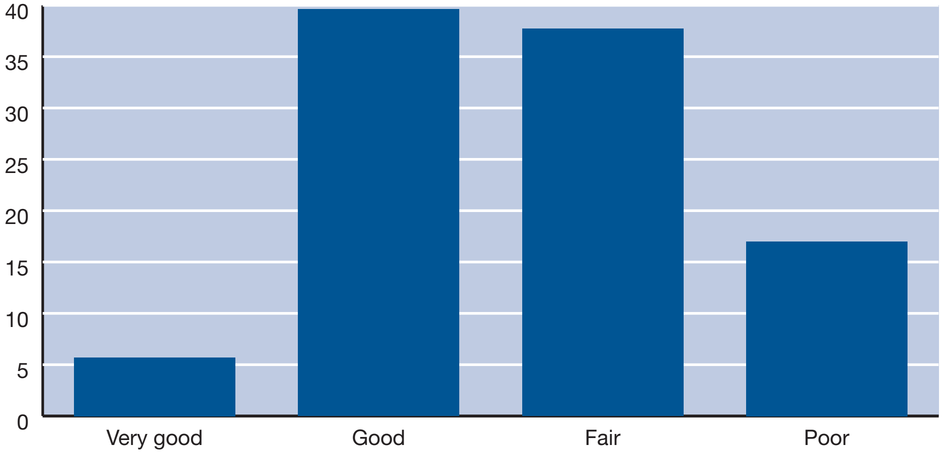
Donors, nonetheless, are not responsible for all aspects of the Monterrey commitments. In areas such as domestic and external resource mobilization, African countries have the key role to play in ensuring success. Consequently, the survey also sought the views of African policymakers on their performance in these areas and the results are summarized below.

The results are consistent with the evidence based on published macroeconomic data, which indicate progress in the implementation of the commitments has been modest (table 5.1). Yet, the ultimate objective of the Monterrey Consensus is to enhance growth and reduce poverty in poor countries. Based on recent aggregate data, table 5.1 shows that, economic performance in Africa has only slightly improved since the Monterrey Consensus was adopted in 2002.

Average annual growth of real GDP increased from 3.3 per cent in the pre-Monterrey period (1998-2001) to 4.0 per cent in the post-Monterrey period (2002-2005). In 2007, Africa is expected to grow at 6.2 per cent. There have also been modest improvements in inflation, which declined from 11.8 per cent in the pre-Monterrey period to 9.2 per cent in the post-Monterrey period.

Figure 5.1

Overall rating of donor performance



Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

Table 5.1

Selected macroeconomic indicators for Africa (averages)

Indicator	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Overall		
Economic growth (%)	3.3	4.0
Inflation (%)	11.8	9.2
Domestic resources		
Savings/GDP (%)	19.0	22.0
Investment/GDP (%)	19.7	20.1
International resources		
FDI (current billion US$)	11.9	18.1
FDI/GDP (%)	2.1	2.4
Trade		
Real export growth(%)	3.7	4.9
Exports/GDP (%)	29.0	33.0
Cooperation		
ODA (current billion US$)	16	28
External debt		
Debt (billion US$)	274.0	293.0
Debt/GDP (%)	62.0	47.0
Total debt service/GDP (%)	5.9	4.4

Sources: *UNECA/AU, 2007; World Bank, 2007; OECD, 2007a.*

With respect to the six areas of the Consensus, the results show that there is most concern about the lack of progress in international trade as an engine of development. About 34.6 per cent of the respondents indicated that this is the area where there has been the least progress (table 5.2). In a sense, this result is surprising given the fact that macroeconomic data show an increase in the growth of real exports from Africa in the post-Monterrey period. Furthermore, the ratio of exports to GDP increased from an average of 29 per cent in the pre-Monterrey period (1998-2001) to 33 per cent in the post-Monterrey period (2002-2005).

"Respondents from oil-exporting countries had less positive views than either the full sample or the LDCs, on the degree of progress in the area of international trade"

That said, the responses are understandable given the extremely low share of Africa in world trade and the increasing frustration of African countries in the Doha Round of trade talks (Osakwe 2007). Respondents also identified the mobilization of international resources and domestic resource mobilization as areas where progress has been very limited. Some 17.3 per cent of respondents identified both of these as areas of concern.

External debt seems to be the only area that only a few (4.9%) identified as an area of "least progress". This is consistent with the macroeconomic data presented in table 5.1, which show a significant reduction in the ratio of external debt to GDP in Africa in the post-Monterrey period.

Table 5.2

Areas of least progress in the Monterrey Consensus (%)

Area	Full sample	LDCs	Oil exporters
Mobilization of domestic resources	17.3	14.0	7.1
Mobilization of international resources	17.3	14.0	14.3
International trade as an engine of development	34.6	34.0	42.9
Increasing international financial and technical cooperation	11.1	16.0	0.0
External debt	4.9	4.0	14.3
Systemic issues	14.8	18.0	21.4
Total	100.0	100	100

Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

Respondents from oil-exporting countries had less positive views than either the full sample or the LDCs, on the degree of progress in the area of international trade. About 43 per cent of respondents from oil-exporting countries indicated that it was the area of least progress compared with 34 per cent for the full sample and LDCs (table 5.2). This is surprising given that oil-exporting countries have better access to world markets for their key exports than do LDCs and so one would expect them to have more favourable views in this area than do the LDCs.

When asked how likely it is that the goals of the Consensus would be achieved in their country by 2015, African policymakers were cautiously optimistic. About 38 per cent indicated that it was somewhat likely while 44 per cent considered it less likely. At the two extremes, only 11.1 per cent and 5.6 per cent felt it was very likely or not likely at all. These responses reflect the general mood in the continent that more needs to be done by both African countries and their development partners to enhance the prospects of meeting the goals of the Consensus and those of the MDGs.

> *African countries need to rely more on domestic resources to finance development*

Respondents from LDCs had a less favourable response to this question than the full sample. About 60 per cent of the respondents from LDCs indicated that it was less likely that the goals of the Consensus would be achieved in their country by 2015, compared with 44 per cent in the full sample and 45 per cent by oil-exporters.

5.2.2 Mobilizing domestic resources

As reflected in the Monterrey Consensus, there is increasing recognition that African countries need to rely more on domestic resources to finance development. Available macroeconomic data show that average annual ratio of savings to GDP increased slightly from 19 per cent in the pre-Monterrey period to 22 per cent in the post-Monterrey period (table 4.1). Clearly, this is low relative to what is observed in fast-growing economies in East Asia and Latin America and the Caribbean.[4] It is also low relative to the Africa's investment requirements for achievement of the MDGs.

In terms of the questionnaire, 41 per cent of the respondents rated their country's performance in mobilizing domestic savings as good.[5] About 28 per cent felt that it was fair and 25 per cent considered it poor. This is consistent with the evidence from macroeconomic data on savings, which suggests that progress in this area has been modest. That said, 58.9 per cent of respondents indicated that national economic policies have been moderately supportive of the mobilization of domestic resources for development compared with 23.2 per cent of respondents who stated that these policies have been highly supportive and only 17.9 per cent who felt domestic policies were not supportive. Respondents also indicated that a substantial majority of countries (65.4%) have a national development strategy to mobilize domestic resources, though almost 60 per cent stressed that implementation of this strategy has either been low or completely absent.

4 Loayza et al. (2000) discuss the determinants of savings in developing countries. See also Aryeetey and Udry (2000).

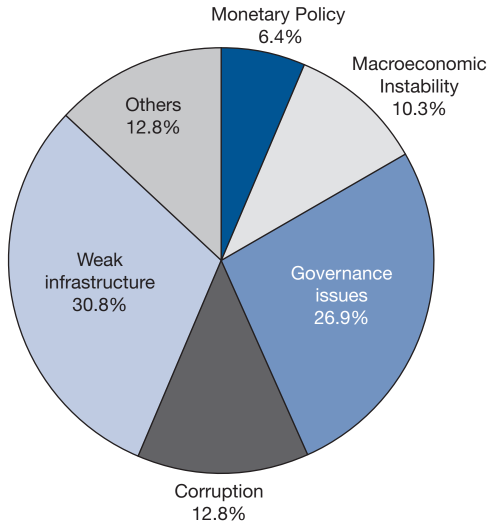
5 For LDCs and oil exporters, the figures are 29 per cent and 54.5 per cent respectively. The overwhelmingly positive response from oil exporters may be explained by the fact that recent increases in oil prices have led to a boost in public and hence domestic savings (IMF 2007).

The survey revealed that most respondents felt that the level of domestic savings relative to investment requirements in their country was either low (57.1%) or very low (16.1%). This is in line with the trends reported in table 4.1, which show that savings in Africa have only increased marginally and remain inadequate to meet the financing needs of the continent. As displayed in figure 5.2, responding African policymakers highlighted a number of obstacles that have hindered the mobilization of domestic resources. The greatest obstacle is weak financial infrastructure (30.8%) followed by governance issues (26.9%) and corruption (12.8%).[6]

"The greatest obstacle to resource mobilization is weak financial infrastructure followed by governance issues and corruption"

For oil exporters, the greatest obstacle is governance issues (33%) followed by weak infrastructure (26%). It is not surprising that respondents in the full sample, as well as LDCs, identified weak infrastructure as the major constraint given the widespread scarcity or absence of financial institutions and services in rural areas where the largest segment of the population live. Although banks dominate the financial systems in African countries, they are generally reluctant to set up branches in rural areas and do not play an effective role in mobilizing rural savings.

Figure 5.2
Obstacles to the mobilization of domestic resources



Source: *ECA Survey on the Monterrey Consensus, March and April 2007.*

In terms of the role of the domestic banking system in mobilizing savings, 73.5 per cent of the respondents overwhelmingly indicated that it was only partially effective or entirely ineffective. Reform of the banking sector to improve efficiency as well

6 Financial infrastructure refers to the set of rules, institutions, and systems within which agents carry out financial transactions (see Bossone et al. 2003).

as increasing access of rural households to financial services can play a key role in boosting domestic savings.

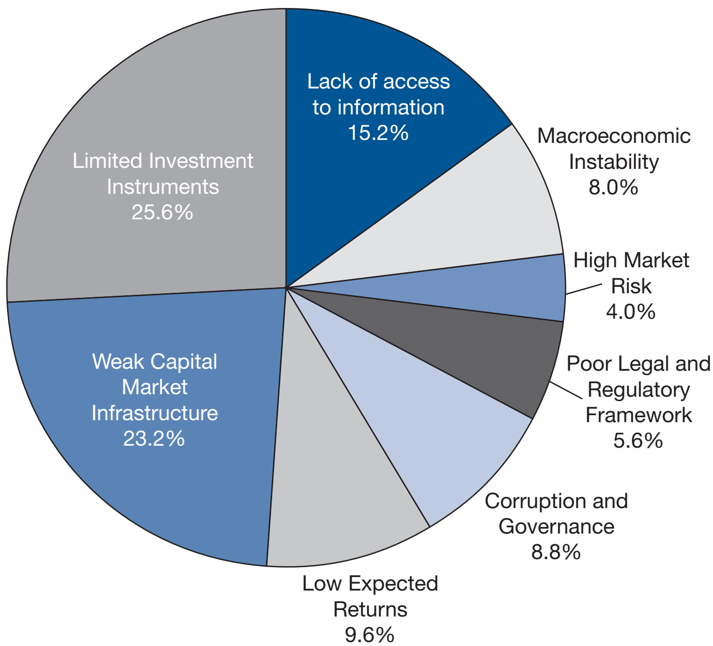
> *Reform of the banking sector as well as increasing access of rural households to financial services can play a key role in boosting domestic savings*

Capital markets can also play an important role. They make it possible to allocate resources efficiently, mobilize domestic and foreign capital, and facilitate privatization efforts. Yet, African countries have not adequately taken advantage of this potential of capital markets for resource mobilization and financial intermediation.

Clearly, capital market development requires building institutions, developing new instruments, and creating or improving legal and regulatory frameworks. As shown in figure 5.3, the main obstacles cited to the mobilization of savings via capital market development are limited investment instruments, weak capital-market infrastructure, and lack of access to information.

African governments need to make more concerted efforts to overcome these constraints that inhibit capital market development. They should also promote macroeconomic stability and a hospitable investment environment by creating incentives for the private sector to increase transactions on the capital market. Macroeconomic uncertainty inhibits capital market activities and also encourages capital flight.

Figure 5.3
Obstacles to use of capital markets for savings mobilization



Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

5.2.3 Mobilizing international resources

The Monterrey Consensus underscores the important contribution of international resources, particularly FDI, to financing development. However, FDI in Africa excluding NA has been characterized as low in comparison to other developing regions. It is also concentrated in a few countries and largely targeted to the natural resources sector. It is, therefore, encouraging that macroeconomic data show that, in recent years, FDI flows to the region have been growing strongly in response to high commodity prices and improved macroeconomic stability. Net FDI inflows to Africa increased from an average of $11.9 billion in the pre-Monterrey period to $18.1 billion in the post-Monterrey period.

In line with this trend, a majority of African policymakers in the sample indicated that FDI inflows have improved over the last five years with (17.3 per cent strongly agreeing and 46.2 per cent somewhat agreeing with this statement).

At the same time, most respondents stated that donors had made less progress in mobilizing international resources for development in the continent, with 51.9 per cent and 20.4 per cent identifying progress as either fair or poor, respectively.[7] However, the difficulty in linking donor performance to private capital inflows is that donors can only play an indirect role, through, for example, human capacity development, assisting in building infrastructure, and disseminating information about available investment opportunities.

Domestic government actions affecting the investment climate are more important determinants of success in this area of the Monterrey Consensus. The results also indicate that the vast majority of countries (67.9%) have a national framework/strategy to attract international capital flows such as FDI.

More specifically, the questionnaire responses reveal that changes in the provision of physical infrastructure, a key driver of economic growth, has been only moderate (46.3% of responses) or insignificant (42.6%). Furthermore, respondents felt that support from regional and international institutions for assisting in attracting FDI to infrastructure and other priority areas was moderate (55.6%) or insignificant (31.5%). In comparison to the perception of inadequate donor support, government policies to attract private capital flows were mostly rated as being very good (20.4%) or good (55.6%).

7 The response from oil exporters was quite different from the full sample. Some 90 % of the respondents considered donor performance as fair compared to 51% for the full sample and LDCs.

5.2.4 International trade as an engine of development

> Market access and supply constraints are perceived by African policymakers as the biggest barriers to engaging in international trade

The catalytic role that trade can play in accelerating economic growth and development is widely accepted (McCulloch et al. 2001). Africa's trade position remains marginal as evidenced by the fact that in 2006 its share of global merchandise exports was 2.8 per cent and its share of global export of services was 2.4 per cent (UNCTAD 2007). Nonetheless, as a result of increasing commodity prices, exports are now growing more strongly.

The challenge for African countries is how to sustain this increase in exports and exploit the potential of trade for growth and poverty reduction. In this regard, African countries have a great stake in the conclusion of the WTO Doha Round, which has so far not delivered the gains promised in key areas such as agriculture, non-agricultural market access and development issues.

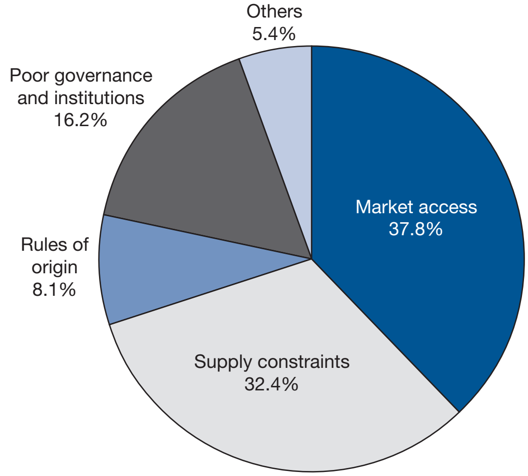
In comparison to other areas of the Monterrey Consensus, the survey results reveal that donor performance in the area of international trade has not been positive, with 77.3 per cent stating that progress was either fair or poor (see figure 5.7). The majority of the responding African policymakers indicated that the degree of access to developed country export markets was inadequate, rating access as fair (38.5%) or poor (34.6%). These perceptions are negative despite the increase in real export growth in the post-Monterrey period, as shown in table 5.1. As indicated earlier, the low share of Africa in world trade and lack of significant progress in concluding the Doha Round are in part responsible for these responses.

Moreover, although there has been an increase in exports, this has been driven by an increase in demand for commodities by the emerging economies of China and India and so it is not clear if it is sustainable. Excessive dependence on commodities increases Africa's vulnerability to external shocks with consequences for macroeconomic instability (Dupasquier and Osakwe 2007a).

Figure 5.4 illustrates the most important barriers to export promotion as cited by respondents. This shows that market access and supply constraints are perceived by African policymakers as the biggest barriers to engaging in international trade. In terms of non-trade policy barriers that countries face, respondents clearly underscored the problem of poor infrastructure (43.5% of responses) followed by other supply-side constraints (35.5%) and being a land-locked country (16.1%). Only 4.8% of responses indicated port inefficiency as a serious barrier to trade.

With respect to government policies, 17.3% of the respondents strongly agreed with the proposition that trade policy has been successfully integrated into national development strategies, while 36.5% somewhat agreed with the proposition.

Figure 5.4
Barriers to export promotion and development



Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

"Recent aid flows tend to be concentrated in a few countries and emergency assistance and external debt relief account for too significant a percentage of aid flows"

5.2.5 International financial and technical cooperation

ODA continues to be a vital source of resources for African countries, particularly those without sufficient capacity to attract private capital flows, such as those countries emerging from conflict (World Bank 2002). As a consequence of recent commitments and a stronger engagement with the continent, ODA to Africa has increased over recent years, reaching an average of $28 billion over the period 2002-2005 (table 5.1). Along with increased ODA flows, there has also been some progress in increasing aid effectiveness.

That said, respondents to the survey indicated that donor performance in the area of international financial and technical cooperation has been better than in such areas of the Monterrey Consensus as trade, though responses are mainly split between a rating of good (40.4%) and fair (42.3%) (see figure 5.8). In addition, 66.1% of respondents felt that donor performance in meeting their commitments on the quantity of aid has been either fair or poor. Furthermore, there is the concern that recent aid flows tend to be concentrated in a few countries and that emergency assistance and external debt relief account for too significant a percentage of aid flows.

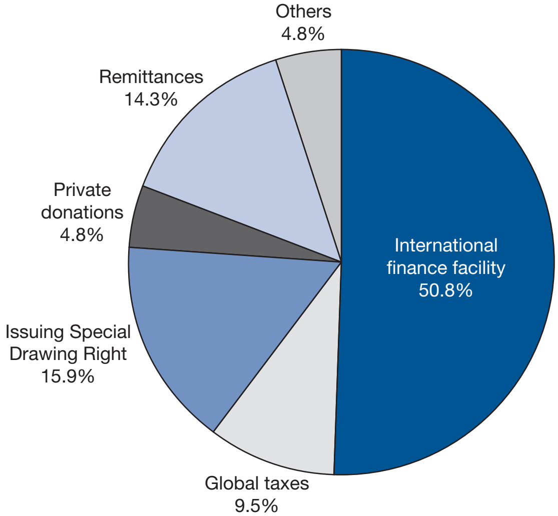
In contrast, the survey results show that African policymakers perceive that more progress has been made in terms of aid efficiency and reduction in the proportion of tied aid than in the quantity of aid. Over 62 per cent of respondents reported that they somewhat or strongly agree with the statement that aid efficiency has improved. Similarly, 75.5 per cent of respondents somewhat or strongly agreed with the proposition that there has been a significant reduction in the proportion of tied aid. These ratings are much higher than those from a recent global evaluation of the Paris Declaration (OECD 2007b).

With the statement that donor actions are more harmonized, transparent and collectively effective, the respondents were quite split, with 48.1 per cent indicating that they somewhat agree with this statement, while 40.4 per cent somewhat disagree with it. At the same time, 64.1 per cent of respondents strongly or somewhat agree with the proposition that aid is aligned with national development priorities.

In terms of establishing more innovative forms of financing for African countries, the survey revealed that most respondents (50.8%) supported the creation of a new international finance facility, followed by the issuing of a special drawing right with a development focus (15.9%) and the mobilization of more remittances (14.3%). The results are presented in figure 5.5. The preference for an international finance facility reflects the general support for this form of financing in both developed and developing countries.

Figure 5.5

Preference for innovative forms of financing development



Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

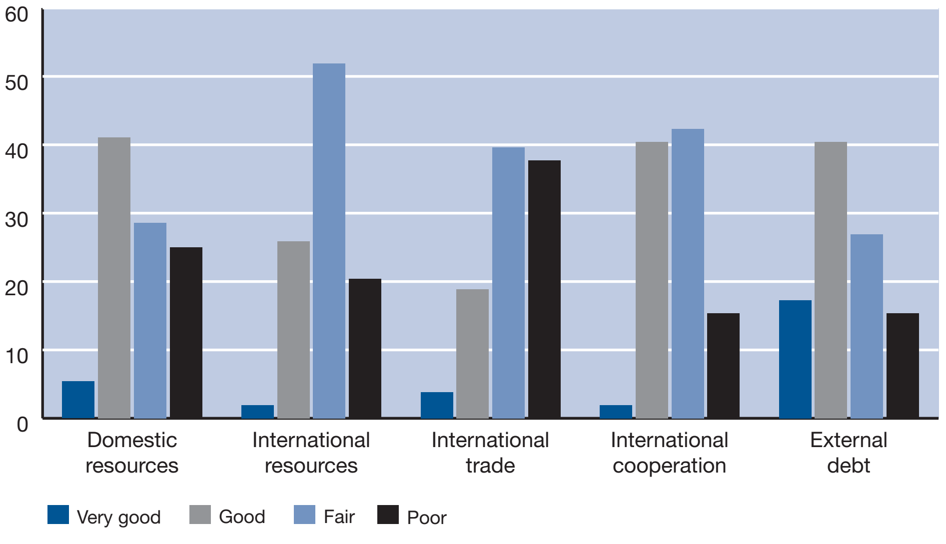
5.2.6 External debt

Facing a persistent financing gap, most African countries have had to borrow from both bilateral and multilateral lenders over a number of decades. Consequently, these countries accumulated large stocks of debt, which they eventually had difficulties servicing. External debt problems constrain spending on social services and infrastructure and lead to a reduction in investment with dire consequences for economic growth and poverty reduction (Krugman 1988; Birdsall and Williamson 2002). Responding to this situation, lenders have accelerated debt relief efforts in recent years under the auspices of HIPC and MDRI. As a result of these debt relief initiatives, the ratio of debt to GDP in Africa dropped from an average of 62 per cent in the pre-Monterrey period to 47 per cent in the post-Monterrey period.[8]

In line with the positive impact seen in macroeconomic data, respondents of the survey indicated that the performance of donors in the area of external debt has been the strongest of all the areas, with 17.3 per cent of respondents stating that the performance was in fact very good and another 40.4 per cent stating it was good (see figure 5.6). Moreover, 24.5 per cent of respondents strongly agreed and 52.8 per cent somewhat agreed with the statement that there has been significant progress in reducing the external debt of African countries. About 70.6 per cent believe that the external debt situation in their country is sustainable. Clearly, these perceptions reflect the impact and awareness of recent debt relief provided by the HIPC, MDRI and bilateral initiatives.

Figure 5.6

Assessment of performance in selected areas of the Monterrey Consensus



Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

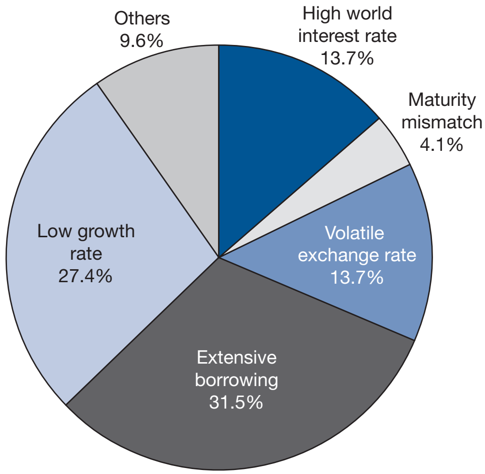
8 Despite the popularity of debt relief, some authors have the controversial view that it is unlikely to stimulate investment and growth in the world's poorest countries because they do not really suffer from a debt overhang (Arslanalp and Henry 2006).

However, there is a sense of caution amongst African policymakers with a vast majority (64.8 per cent) stating that these debt relief initiatives are only somewhat likely to lead to a resolution of the debt problem in Africa, with 11.3 per cent believing that this is not likely to happen at all. The survey results also reveal how respondents perceive the source of the debt problem in their country. As displayed in figure 5.7, the most cited source is extensive borrowing, followed by low growth rate, higher interest rates and volatility of the exchange rate.

"The Monterrey Consensus recognizes the importance of enhancing the coherence, governance, and consistency of the international monetary, financial and trading systems"

Respondents from LDCs had a different view on this issue. Some 35.6 per cent of these respondents felt that the main source of their external debt problem was low economic growth followed by extensive borrowing (26.7 per cent). It is well known that the rate of economic growth has serious consequences for a country's ability to maintain sustainable debt ratios. More importantly, if a country has a sustained growth rate higher than the rate of growth of its debt, it can grow out of debt.

Figure 5.7
Sources of external debt in African countries



Source: *ECA Survey of African Policymakers on the Monterrey Consensus, March and April 2007.*

5.2.7 Systemic issues

In addition to the specific areas raised above, the Monterrey Consensus also recognizes the importance of enhancing the coherence, governance, and consistency of the international monetary, financial and trading systems. During recent years, there have been a number of multilateral dialogues on key systemic issues, improving the governance structure of the international financial institutions and clarifying the role of official financing of emerging markets.

With respect to this area of the Consensus, the survey results indicate that most respondents somewhat disagree (56.6%) with the notion that the current governance structures of financial institutions allow for effective participation of African countries in the global economy. LDCs had a less favourable response on this question with 66 per cent indicating that they somewhat disagree with the question. Nonetheless, most respondents rated the recent efforts to enhance the coherence and consistency of international monetary, financial and trading systems as somewhat satisfactory (52.8%) or satisfactory (24.5%). This may reflect the recognition that WTO has made serious efforts to enhance the participation of African countries in decision-making. It may also reflect an appreciation of the fact that discussions are taking place in a number of international organizations (IMF, World Bank) on how to get poor countries more involved in their decision-making processes.

5.3 Conclusions

Overall, limited progress has been made in realizing the key objectives of the Monterrey Consensus. Although significant progress has been made in the area of external debt, performance in the area of international trade and in external and domestic resource mobilization is far below expectation. Despite efforts by African governments to mobilize domestic resources, savings remains inadequate relative to investment requirements. The banking sector has so far not been effective in mobilization domestic financial resources, especially rural savings. African countries will have to strengthen banking infrastructure as a prerequisite to their enhanced role, and exploit the potential of capital markets and micro-finance institutions for resource mobilization. African countries have also put policies in place to attract private capital flows but the response from foreign investors has so far been weak. FDI inflows have increased, but they are still insufficient and too concentrated in the natural resources sector to accelerate economic growth and development significantly. For an effective development partnership, support from donors, as well as from regional and international institutions is needed in attracting more private capital flows.

Although ODA flows to Africa are on the rise, donors are still not on track to meet their commitments. Moreover, recent aid flows tend to be concentrated in a few countries and social sectors (emergency aid and debt relief). There is need to increase allocation to the productive sectors and also to scale up efforts to improve aid effectiveness. Furthermore, there has been a significant reduction in the external debt burden of African countries as a result of recent debt relief initiatives. Overall, more debt relief needs to be provided and governments should exercise caution in borrowing to ensure debt sustainability.

With respect to systemic issues, efforts have been made in recent times to improve the governance and consistency of international monetary, financial and trading systems. However, Africa needs to achieve more effective participation in decision-making and norm-setting in international monetary, financial and trading institutions.

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The Way Forward

6

Africa's overall economic performance has improved since adoption of the Monterrey Consensus in 2002. However, this has not translated adequately into progress with poverty reduction, the ultimate objective. Africa, particularly Africa excluding NA, is still the region with the highest percentage of people living in extreme poverty and deprivation. The 2007 Report on the MDGs published by the United Nations indicates that countries in the continent have not made sufficient progress in reducing poverty. The report stresses that if African countries are to meet the MDG target of halving poverty by 2015, they have to double and scale up their recent successes.

> *"There is need for an improved investment climate as well as policies and strategies that are better able to attract FDI and mobilize domestic resources"*

The implementation of the Monterrey Consensus is vital to accelerating progress in meeting the MDGs in Africa. Available evidence from both published macroeconomic data and the ECA Survey of African Policymakers indicate that significant progress has been made in the area of debt relief and sustainability. In other areas of the Consensus, progress remains very limited. The Survey of African Policymakers identified key challenges and constraints inhibiting implementation of the Monterrey Consensus. At the national level, poor governance, corruption, and the lack of credible institutions were mentioned by many respondents as challenges to be addressed in order to achieve the objectives of the Monterrey Consensus. Weak governance and institutions make it difficult to mobilize domestic resources and also increase the country risk premium, thereby militating against efforts to mobilize external resources. In addition, the inability to enforce laws creates insecurity and makes it difficult for firms to invest and operate in Africa. There is need for an improved investment climate as well as policies and strategies that are better able to attract FDI and mobilize domestic resources.

Weak infrastructure and other types of supply-side constraints were mentioned by many respondents as challenges and constraints to the promotion of exports and trade. These problems are compounded by the lack of effective capacity to negotiate, which has made it difficult for African countries to defend their interests and increase their participation in the international trading system. Transformation of African countries from producers of commodities to exporters of dynamic products was also identified as a key challenge and constraint to the realization of the ultimate objective of the Monterrey Consensus, namely, to reduce poverty through sustained economic growth.

A very interesting result from the survey is that middle-income countries in the continent feel that they have more difficulty accessing aid and other forms of development assistance relative to other African countries. LDCs, small island economies, and landlocked countries also expressed the view that their special economic circumstances and vulnerability to external shocks present a serious obstacle to realization of the objectives of the Monterrey Consensus. The lack of national ownership of development strategies was also identified as a constraint by a number of respondents. There is the concern that development partners have undue influence in setting national development strategies and that this inhibits a country's ability to define and follow its own priorities. Mobilization of support from the broader public and key stakeholders was also identified as a challenge.

The continuing market access barrier faced by African countries in developed country markets is also a key concern and challenge

With respect to donors, one of the main issues raised by respondents was the inadequate levels and unpredictability of aid, which has made it extremely difficult for African countries to finance key development projects that have potential for poverty reduction. Predictability of aid flows would allow governments to have better estimates of resource flows and hence make better policy choices and decisions.

Added to this is the lack of alignment, coordination and harmonization of aid, as well as slow progress in reducing the proportion of tied aid. The continuing market access barrier faced by African countries in developed country markets is also a key concern and challenge. Several respondents indicated that such protectionism has prevented them from exploiting potential gains from the multilateral trading system. Boosting donor support for trade capacity development to enable countries to derive more gains from the multilateral trading system is also an important challenge for African countries (Dupasquier and Osakwe 2007b).

Clearly, the slow pace of progress in achieving the goals of the Monterrey Consensus has serious consequences for growth and poverty reduction in Africa. There is need for both Africa and its development partners to accelerate their efforts to ensure that the objectives of the Consensus are achieved in the near term. This requires specific actions in each of the six core areas:

6.1 Domestic resource mobilization

African countries need to recognize that domestic resource mobilization is the most reliable and sustainable source of development finance. Thus, they need to take concrete actions to boost savings and reduce or eliminate domestic capital flight. They also have to exploit the development potential of thriving microfinance institutions in mobilizing savings and channelling them into productive investment. Their role as effective instruments of employment creation and income generation to the poorest population in Asia and parts of Africa has been widely documented. Micro-finance institutions can be efficient vehicles for a pro-poor growth strategy, particularly in transforming the agricultural sector in rural areas and the informal sector in urban areas. Capital market development will also play an important role in the mobilization and intermediation of domestic savings. Regional integration of capital markets should also be explored as an effective way to boost stock market development in the continent. The small size of the existing capital markets precludes realization of economies of scale. Regionalization of capital markets will increase the liquidity of capital markets and provide a larger pool of investment resources for national and regional development.

It should be noted, however, that national measures to enhance domestic savings are also affected by developments in the multilateral trading system. To the extent that trade liberalization erodes the fiscal base of national economies, it has serious implications for domestic resource mobilization. African countries should therefore ensure that trade reforms are accompanied by fiscal policy changes that would off-set any potential loss of revenue from trade taxes. In this regard, a gradual rather than rapid sequencing of trade reforms should be preferred.

> *"African countries need a coherent and comprehensive policy aimed at attracting foreign capital to complement domestic resources and external aid"*

6.2 International resource mobilization

African countries need a coherent and comprehensive policy aimed at attracting foreign capital to complement domestic resources and external aid. The competition for foreign capital has become intense as a result of increasing globalization of trade and finance. Consequently, African countries will have to improve their investment environment and develop their infrastructure if they are to reverse their low, declining or stagnant share in global private capital flows.

FDI is the most reliable source of private capital flows available to the continent. However, countries have to be selective in the choice of FDI. They must ensure that they seek and attract FDI in sectors that have high value-added, have high potential for employment creation, and do not have any negative impact on the environment. Efforts should also be made to ensure that domestic investors are not discriminated against in the drive to attract private capital flows. In addition, investment policies should be liberalized and harmonized within Africa to encourage cross-border investment between countries.

Remittances are becoming increasingly important as a source of finance to Africa. Yet, African governments have not made any coherent efforts to harness the potential of this source of finance for development. At the national level, governments should increase and improve access to financial services to make it easier for people to use the banking system and other formal channels to receive remittances from abroad. At the international level, development partners should take actions to reduce the transactions costs of remitting money to developing countries. In this regard, the recent promise by G-8 countries at the Heiligendamm Summit, to take measures to enhance the effectiveness of remittances of Diaspora Africans is welcome.

> *Africa's development partners must scale up efforts to meet their pledges on aid quantity and quality*

6.3 Trade as an engine of development

Development partners should assist in creating a trading environment that allows African countries to unlock their export potential. They should offer duty and quota free access to the exports of African countries and provide more stable and adequate funding for trade capacity-building programmes. Progress in the implementation of the AfT initiative is vital, especially for low-income African countries, in designing trade policies that are appropriate to local conditions.

On their part, African countries have to remove such obstacles to export promotion as poor infrastructure and lengthy customs procedures that increase transactions costs. They should also diversify their production and export structure to reduce vulnerability to external shocks and increase their share of benefits from trade.

6.4 Official Development Assistance flows

Most countries in Africa will continue to rely on the flow of ODA to finance much needed investment projects to meet the globally agreed development goals. The quantity as well as the quality of ODA flow will remain an agenda item of utmost importance in the next couple of years. Africa's development partners must scale up efforts to meet their pledges on aid quantity and quality. They should also live up to their promise to untie aid flows and make them more predictable. More efforts should also be made to enhance aid effectiveness.

In this regard, there is the need for: division of labour among donors to reduce the transactions costs of managing and delivering aid; decentralization of decision making by donors to field staff; increased use of country systems in aid delivery and management; and more accountability to local stakeholders. In addition, more donors should support the new and innovative sources of financing such as the international finance facility for immunization, the air ticket levy, and the advance market commitment.

6.5 Debt relief

Although significant progress has been made on debt relief in the last two years, there is need to extend eligibility for current debt relief programmes to non-HIPC African countries. It is also important to reduce the number of years it takes for countries to move from decision to completion points in the HIPC programme. African countries should also put in place a mechanism to ensure that loans from new creditors do not lead to a new cycle of indebtedness.

In this regard, the use of existing Debt Sustainability Frameworks (DSFs) as guides for assessing the risks associated with new loans would be appropriate. Furthermore, more attention should be given to the issue of domestic debt since it is equally a threat to the achievement of sustained economic growth in several African countries.

> *“Although significant progress has been made on debt relief in the last two years, there is need to extend eligibility for current debt relief programmes to non-HIPC African countries”*

6.6 Systemic issues

The international community should take the issue of increasing the voice of African countries in decision-making bodies of international institutions more seriously. This will prove to be a very good way of making international institutions more democratic and sensitive to the needs and concerns of poor countries. WTO is already making strides in this area and it is hoped that it will continue in this spirit. The IMF and the World Bank should continue to follow the WTO lines of approach and take more proactive measures to increase the voting power of African countries. It is through a democratic process that guarantees proper and adequate representation that these multilateral financial institutions can win back the trust and confidence of African countries and make progress in effectively integrating the continent into the global economy.