Partnership for Development

Executive Summary

Introduction

The NEPAD founding statement of 2001 called for a new relationship of partnership between Africa and the international community based on an agenda set by Africa itself, and a series of initiatives and commitments proposed by African leaders. Africa's policies and commitments have been elaborated and developed in subsequent meetings of the African Union, at both Head of State and Ministerial level. The international community has responded both through global commitments made at landmark international meetings such as the Monterrey Conference on Financing for Development in 2002, the Paris Conference for Aid Effectiveness in 2005, and the WTO Hong Kong Ministerial Declaration of 2005, and through specific commitments on Africa, including those made at successive G8 Summits starting with Kananaskis in 2002, and by the European Union.

2. This paper assesses the progress made in key areas of this partnership. It identifies key commitments made on both sides of the partnership, reviews progress made in delivering those commitments, looks at the results which have been achieved, and in light of this identifies key priorities for action. It complements the paper prepared on behalf of the NEPAD Secretariat on governance in development.

3. This executive summary is divided into 2 main sections:

- The first (pages 2 – 4) is a brief **overview** in 2 parts, using the framework established in the NEPAD founding statement. The first part looks at **mobilising resources**, including financial flows, investment and trade. The second looks at **sectoral priorities** – focusing specifically on infrastructure and agriculture. Under each of these 2 main headings it looks at what has been achieved, and what the main challenges are, and it suggests a shortlist of priorities for Africa and the international community;
- The second (pages 5 – 14) looks in turn at the **5 focus issues** above – finance, investment, trade, infrastructure and agriculture. It develops the picture summarised in the overview. Under each of these issues, it looks at 4 questions: What commitments and targets have been agreed? What has been done to deliver on these commitments? What have the results been? What are the main priorities – again for both sides of the partnership, Africa and the international community?

4. The executive summary is followed by 5 more detailed sections on these focus issues, organised into the 2 main blocks above: **mobilising resources** and **sectoral priorities**. Its broad conclusion is:

- There has been undoubted progress in implementing commitments on both sides under the new partnership between Africa and the international community. Africa has stepped up its reform efforts, and its domestic resource mobilisation. The international community has responded, including with significant increases in development assistance. The combined efforts of both sides of the partnership have produced tangible results – in terms of accelerated growth rates, and some progress in poverty reduction;
- At the same time there are a number of areas where progress in implementing commitments has been slower, and there remain some major challenges. The progress towards poverty reduction remains uneven, and the impact of climate change now presents major new challenges and risks. Intensified efforts will be needed if progress towards reaching the internationally agreed Millennium Development Goals (MDGs) is to be accelerated;
- The response of the international community will continue to be crucial, both in mobilising resources, and in tackling key sectoral priorities. But it is important that this continues to be framed – in the spirit of partnership – in response to African priorities, commitments and initiatives. It is also important to make the practical link between priorities and action – and in particular to identify specific processes or events where the priorities agreed by the Forum can now be taken forward.

Overview : Mobilising Resources

5. On **mobilising resources**, the paper concludes that:

- There has been significant progress in **domestic resource mobilisation**. Taken across Africa as a whole, government revenue (excluding grants) has risen by over 5 percentage points of GDP since the early 2000s. Combined with sustained economic growth over this period, this has resulted in an increase from US$ 70 billion in 2001 to US$ 185 billion in 2006 in government revenue for sub-Saharan Africa. North Africa raised another US$ 60 billion in 2006;
- There has also been progress in mobilising additional **development assistance** and **debt relief.** Development assistance to Africa increased from US$ 16.4 billion in 2001 to US$ 40.7 billion in 2006, underpinned by progress by donors in achieving their Monterrey commitments, and major progress on debt relief. Within this overall total, development assistance (including debt relief) to sub-Saharan Africa increased from US$ 13.9 billion to US$ 37.7 billion over the same period;
- There has been an impressive increase in **private capital flows including FDI, commercial bank debt and bond flows.** Net flows increased from US$ 13 billion in 2002 to over US$ 60 billion in 2006. (North Africa: US$ 3 billion to US$ 26 billion; sub-Saharan Africa: US$ 10 billion to US$ 36 billion). Domestic private investment has picked up as well over this period. The ratio of investment to GDP rose from 17% in 2000 to over 20% in 2006, and is set to reach close to 22% in 2007, an all-time high for the region. New mechanisms are also now being developed to boost intra-African investment, for instance using pension fund resources;
- **Remittance** flows have risen dramatically outpacing the increase in both development assistance and private capital flows as a source of foreign exchange. Estimated remittances in 2006 were US$ 22 billion. The figure would be much higher if unrecorded flows that are believed to be very significant for sub-Saharan Africa could be included;
- **Trade:** Agreement was reached in 2005 on the elimination of duties and quotas on most imports from least developed countries (LDCs). Important commitments have also been made on cotton, covering market access, domestic support and export subsidies. African exports have grown in both volume and value, rising from US$ 159 billion in 2000 to US$ 290 billion in 2005, with the emergence of Asia as an important new trading partner. Progress has been made on regional integration. Some countries have made progress towards export diversification.

6. Set against this progress, there continue to be important challenges:

- The picture on **domestic resource mobilisation, while encouraging,** remains uneven. Over half of Africa, including all of North Africa, are now collecting more than 20% of GDP as domestic public revenue. But over a quarter of the countries in sub-Saharan Africa raise less than 15% of GDP in tax revenues, and domestic savings rates in sub-Saharan Africa remain significantly lower than in other developing regions and have stagnated;
- Although **development assistance** to Africa increased sharply between 2001 and 2006, most of the increase was debt relief. Development assistance, excluding debt relief, has been basically flat since 2003 and increased by only 2% between 2005 and 2006 - reflecting slow progress towards achieving the commitments agreed by EU and G8 leaders in 2005, which implied an increase of US$ 25 billion a year by 2010, more than doubling aid to Africa compared to 2004. Achieving this further target will require an increase of US$ 6-7 billion a year in other development programmes as debt relief declines over the period to 2010;
- Despite the encouraging increase in **investment** financed from both external and domestic sources, the ratio of investment to GDP remains significantly below levels in other developing regions; for instance, South Asian countries that have similar levels of income as Africa raised close to 30%. Continuing to increase the ratio of investment to GDP will help to sustain economic growth and accelerate progress towards the MDGs. This will require intensified efforts to attract both domestic and foreign investment, by improving the investment climate, increasing the depth and reach of financial markets, developing infrastructure and boosting productivity – which is still lagging behind other developing regions – in lower growth countries;
- **Trade** continues to present major challenges. Whilst the Doha Round (especially for market access and agricultural subsidies) and EPA negotiations are important for Africa, the pace of progress has been slow. Significant supply-side constraints are preventing African countries from taking full advantage of existing

market access under current preferential arrangements. Although recent trade performance has been more encouraging, it has been substantially driven by oil exports. Africa has been unable to keep up with the expansion in world trade over the last 3 decades, and its trade performance still lags behind what is needed to sustain accelerated rates of economic growth and poverty reduction. Moreover, intra-regional trade is lower (as a proportion of total trade) in Africa than in any other region.

7. This analysis suggests a broadly positive but still mixed picture on mobilising resources, and points to the following shortlist of priorities:

ACTION BY AFRICA:

- firstly, to sustain current efforts in mobilising additional domestic resources;
- secondly, to continue the reforms already undertaken to improve the investment climate – for both domestic and foreign investors;
- thirdly, to intensify efforts to improve supply-side competitiveness, including through improvement in infrastructure and particularly transport and energy (see also section on sectoral priorities below);
- fourthly, to build on the progress already made on regional integration – which is indeed a key factor not just in relation to resource issues such as capital markets and trade, but also sectoral priorities such as infrastructure. The role of the Regional Economic Communities is key.

RESPONSE FROM THE INTERNATIONAL COMMUNITY:

- firstly, to deliver the additional increases in development assistance implied by the commitments agreed by the EU and G8 in 2005, combined with improvements in aid effectiveness as agreed in the Paris Declaration earlier that year;
- secondly, to provide more support for African efforts to improve the investment climate, and to develop financial markets;
- thirdly, to intensify efforts to reach multilateral agreement both on market access for exports from Africa and the reduction of agricultural subsidies. Other middle-income countries should offer similar market access for exports from Africa;
- fourthly, to increase support for African efforts to improve supply-side competitiveness including through the 'Aid for Trade' initiative, and broader support in related areas such as infrastructure.

Overview : Sectoral Priorities

8. On **infrastructure** the paper concludes:

- There has been some significant progress. There has been real improvement in co-ordination and prioritisation at the national level – particularly in the development of road transport policies. Notable progress has also taken place in promoting regional arrangements and institutions. Africa is making more effective use of existing transport infrastructure;
- Development partners have responded with increased resources – primarily through multilateral agencies, though there are also significant bilateral contributors. Private operators' intervention has also rebounded in all sectors;

9. Set against this progress, there continue to be important challenges:

- The funding gap remains very important. Development assistance and private participation cover only 20% of the investment needs for transport, and water and sanitation, and 30% for energy. Other emerging financiers have made important funding contributions but much more remains to be done;
- Challenges to project preparation remain significant. Inadequate resources, particularly upstream, have led to lost opportunities to attract private sector participation;
- Progress on the ground continues to be uneven. Improvements in access to electricity, water and sanitation, and all-season roads has been slow. Many countries are either affected by or vulnerable to power crisis. The impact of climate change is already exacerbating these difficulties and causing severe power shortages in a number of countries.

10. The picture on **agriculture** shows some progress:

- There is now an agreed common framework for agricultural development (CAADP) encompassing principles and targets across a range of key issues, and providing a focus for co-ordination with donors;
- The performance of the sector has improved, with a doubling of growth between 2002 and 2004.

11. Set against this progress, there continue to be very major challenges:

- There is a need for significantly higher levels of investment. Agricultural expenditure as a proportion of total government spending has shown a decline, and is well below the target figure of 10% of national budgets. Mirroring this picture, although aid to agriculture has risen, its share in total development assistance to Africa has declined – falling from 6.8% in 2001 to 3.6% in 2005;
- There has been no progress in multilateral negotiations on the elimination of both domestic and export subsidies in the agricultural sector, that allow subsidised products to undercut domestic producers in African markets and keep export prices of key African exports - such as cotton - low;
- Whilst market access and subsidies are key issues, there are also equally important supply-side constraints that are associated with factors such as weak infrastructure facilities. Inadequacy of rural roads and the high cost of transportation in many regions mean that access to markets for agricultural products remains difficult for most farmers;
- This is reflected in export performance. Despite stronger growth, Africa's share of global agricultural exports has fallen sharply. And although several countries have achieved considerable diversification out of traditional export crops, they are also vulnerable to new kinds of risks, particularly in the area of standards;
- The impact of climate change will present additional challenges, including the increased incidence of both flooding (currently affecting many countries across Africa) and drought, with a potentially major impact on both agricultural production and food security. Over 95% of Africa's agriculture is rain-fed, however less than 10% of Africa's potential irrigable land is irrigated.

12. This analysis indicates some positive developments, but still many challenges and the following shortlist of priorities across both infrastructure and agriculture:

ACTION BY AFRICA:

- firstly, to continue to improve planning, co-ordination and prioritisation on infrastructure at the national and sub-regional levels, extending the progress which has been made in road transport policies, to water and sanitation, and energy, and with a strong focus on cross-border initiatives;
- secondly, to increase levels of public investment both in the agriculture sector, in order to make progress towards the target of 10% of national budgets, and in related sectors such as rural infrastructure;
- thirdly, to continue efforts to promote and enhance the role of the private sector in both the development and management of infrastructure, and in agriculture, in collaboration with the public sector;
- fourthly, to intensify efforts to increase access to basic services, particularly in rural areas.

RESPONSE FROM THE INTERNATIONAL COMMUNITY:

- firstly, to sustain the recent trend of increasing investment in infrastructure, including regional projects, and in particular to ensure adequate resources for upstream project preparation;
- secondly, to increase aid to agriculture as a proportion of total development assistance, and also to take a more inter-sectoral approach linking aid to agriculture to investment in infrastructure, in order to deliver growth in agriculture;
- thirdly, to improve market access and reduce barriers for trade, including the reform of trade-distorting subsidies particularly for agricultural products, as part of the Doha Development Round;
- fourthly, to take more explicit account of the impact of climate change in both these sectors, including through more support for adaptation, the development of clean energy, and trans-boundary water management.

Focus Issue 1 : Finance for Development in Africa

WHAT COMMITMENTS AND TARGETS HAVE BEEN AGREED?

Africa:

- NEPAD's founding statement in 2001 identified domestic savings and improvements in public revenue collection as key resources to be supplemented by official development assistance, debt relief and private capital flows. The statement further underlined that improved governance is a prerequisite for increased capital flows.

International Community:

- At Monterrey in March 2002, the international community agreed substantial new commitments of development assistance, expected to increase Official Development Assistance (ODA) by a total of US$ 12 billion per year by 2006. In the same year, the G8 re-confirmed at Kananaskis the ODA commitments which had been made in Monterrey and pledged to improve aid effectiveness, reduce the burden of aid management, and to assist eligible countries through the Heavy Indebted Poor Countries (HIPCs) debt relief initiative;
- Substantial further commitments were made in 2005. The EU pledged to nearly double its ODA between 2004 and 2010, from €34.5 billion to €67 billion (equivalent to US$85 billion in 2005 prices), with at least 50% of the increase going to sub-Saharan Africa. At the subsequent G8 Summit in Gleneagles, G8 leaders stated that the commitments of the G8 and other donors would lead to an increase in ODA to Africa of US$ 25 billion a year by 2010, more than doubling aid to Africa compared to 2004. Each G8 country specified individual goals for increasing development assistance, and what proportion or amount of this increase would go to sub-Saharan Africa. At the same Summit, the G8 endorsed a proposal to cancel 100% of outstanding debts of all post-completion-point HIPCs to the IMF, IDA and the African Development Fund. The Gleneagles communiqué also included reference to innovative financing mechanisms as a way of helping to deliver the finance needed to achieve the MDGs.

WHAT HAS BEEN DONE TO DELIVER ON THESE COMMITMENTS?

Africa:

- Domestic revenue is by far the largest and most stable resource for development, and increased from an average of 21% to over 26% of GDP between 2001 and 2006, for sub-Saharan Africa as a whole, reaching a total of US$ 185 billion, representing nearly 5 times the volume of net ODA. Both resource-rich and other countries have achieved high revenue collection, and while higher commodity prices account for most of the increase in the former group, for the others most of the improvement can be attributed to more effective tax administration. However the picture remains varied – and a quarter of governments in sub-Saharan Africa still collect less than 15% of GDP in domestic revenue.
- But in spite of stronger public revenue mobilisation, overall domestic savings remain low. For low-income countries in sub-Saharan Africa, the domestic savings rate has hardly moved at about 11% of GDP. A third of sub-Saharan countries have savings rates below 5%. Sub-Saharan Africa's low saving rates contrast sharply with the significantly higher saving rates of other developing regions including North Africa.

International Community:

- Sixteen of the DAC's 21 member countries which had agreed on targets before or during Monterrey, reached them in 2006. Major steps forward were taken on debt relief, and sub-Saharan Africa's external debt is projected to fall to 11% of GDP in 2007, a three-decade low. Reflecting this progress, ODA to sub-Saharan Africa tripled between 2000 and 2006 to over US$ 37 billion. However, much of this increase was accounted for by debt relief: excluding debt relief, ODA flows to SSA have remained basically flat since 2003. As debt relief falls back to historical averages over the period to 2010, other development assistance will need to rise by US $6-7 billion per year in order to achieve the figure of US$ 50 billion mentioned above.

- While donors participating in the OECD's Development Assistance Committee will continue to be a major source of finance, the importance of non-traditional donors is also growing. In addition to ODA, new forms of taxation and securitised borrowing such as the air ticket levy and the International Finance Facility for immunisation, as well as the growing role of global private aid funds, further increase available external resources.

Private Capital Flows:

- FDI inflows to Africa rose 20% to US$ 36 billion in 2006 – a new record level with North Africa accounting for two-thirds of the total. But all regions of the continent experienced increases in FDI inflows. The surge was in large part related to investments in extractive industries, but FDI also rose in various service industries. Other private capital flows also increased sharply in 2006 to over US$ 25 billion in 2006. Total private flows excluding remittances exceeded US$ 60 billion. Although as personal flows, remittances cannot be considered development resources, they are a potential source of finance. Estimates put 2006 remittances at US$ 22 billion for Africa, of which US$ 9 billion is for sub-Saharan Africa. Given that between a half to two-thirds of remittances to Africa use informal channels, actual figures would be significantly higher if these unrecorded flows through informal channels could be included. There are important regional variations: North Africa and South Africa rely almost exclusively on private flows in recent years and receive more than half of total remittances to Africa.

WHAT HAVE THE RESULTS BEEN?

- The combination of an improved policy framework, strong overall world growth that benefited African exports and additional finance explain a turn-around in economic performance. For the third year in a row, sub-Saharan Africa's real GDP growth exceeded 5%, and is projected to reach 6% in 2007. This economic expansion is strongest in oil exporters, but cuts across all country groups: even fragile countries are expected to grow at over 5%.
- Reflecting this economic growth, the proportion of people in sub-Saharan Africa living on less than US$1 a day fell from nearly 47% in 1990 to 41% in 2004. The number of people living on less than US$ 1 a day is also beginning to level off despite rapid population growth. But the rate of decline is not sufficient to help meet the MDG target of halving the poverty rate. Progress towards other MDGs has been more mixed. Africa has made significant progress towards universal primary enrolment. Child hunger and child mortality rates have both declined since 1990, though slowly: however the under-5 mortality rate in sub-Saharan Africa is double that of any other region, and deaths from HIV/AIDS are also far higher. It remains clear that accelerated progress towards the MDGs is needed, and that this has to be based on sustained economic growth.

WHAT ARE THE KEY PRIORITIES?

Action by Africa:

- Continue efforts to increase domestic resource mobilisation, in particular in countries where the ratio of revenue to GDP remains below 15%.
- Continue efforts to improve the investment climate, in order to attract both domestic and foreign investors.
- Further develop financial intermediation to help generate larger domestic savings.

Response by the international community:

- Deliver commitment to provide an additional US$ 25 billion a year in development assistance to Africa by 2010, in a predictable manner to enable partner countries to plan effectively.
- Improve aid effectiveness and reduce transactions costs on partner countries by working with them to implement the Paris Declaration on Aid Effectiveness and by developing enhanced collaboration with emerging donors.
- Help to reduce the transaction costs of remittances, including through the forthcoming high-level meeting in Berlin in November 2007 (as agreed at the Heiligendamm Summit in June 2007).

Focus Issue 2 : Investment

WHAT COMMITMENTS AND TARGETS HAVE BEEN AGREED?

Africa:

- The NEPAD founding statement of 2001 clearly identified the need to increase private capital flows to Africa, as an essential component of a sustainable long-term approach to filling the resource gap. It identified priorities including addressing risk perception, building public-private partnerships, and deepening capital markets. Successive statements by African governments have reinforced these priorities;

- The African Peer Review Mechanism includes 'increased trade and investment among the participating countries' and 'increased co-operation in mobilising and attracting both domestic and foreign investment' among its 'high priority areas'.

International Community:

- At Monterrey in March 2002, developed and developing countries committed themselves to redouble their efforts to help unblock and make more efficient use of the resources necessary to drive development, notably domestic and foreign private investment, particularly through the improvement of the business climate;

- Within this framework, development partners have committed themselves, including at successive G8 summits from Kananaskis in 2002 onwards, to helping Africa attract investment both from within Africa and abroad, including by supporting African initiatives aimed at improving the investment climate and fostering efficient and sustainable regional financial markets, and by enhancing international cooperation to promote greater private investment and growth in Africa including through public-private partnerships.

WHAT HAS BEEN DONE TO DELIVER ON THESE COMMITMENTS?

Africa:

- Africa has taken major steps to improve its business environment: the macro-economic environment has become more stable, and progress is being made in reforming economic regulations. Real progress has been made in reducing the complexity and cost of regulation, improving transparency and tackling corruption. Africa was the third-fastest region in terms of reforming its economic regulations in 2005. Three African countries feature among the top 10 reformers for 2006/07 in the World Bank's latest 'Doing Business' survey. Even so, the costs of doing business still remain significantly higher than in other regions.

International Community:

- To support African partners in these efforts, the international community has focused on a variety of measures including micro-finance, assistance for institutions for private sector development, and support for structural reforms aimed at improving the business environment. Specific initiatives to address the investment climate include the Enhanced Private Sector Assistance (EPSA) for Africa, the Foreign Investment Advisory Service of the International Finance Corporation, the NEPAD/OECD Africa Investment Initiative, and the Investment Climate Facility. More broadly, the international community has also stepped up its support for infrastructure, which is also key to attracting more investment, in particular through the Infrastructure Consortium for Africa.

WHAT HAVE THE RESULTS BEEN?

- The picture is nonetheless mixed. Net private capital flows to Africa rose from US$ 13 billion in 2002 to over US$ 60 billion in 2006 (North Africa: US$ 3 billion to US$ 26 billion; sub-Saharan Africa: US$ 10 billion to US$ 36 billion). Within this overall total FDI accounted for US$ 35.5 billion (North Africa US$ 19.8 billion and sub-Saharan Africa US$ 15.7 billion). Investment is set to reach close to 22% of GDP, an all-time high for the region. It is particularly strong in the low and middle-income country groups. Significant new investors are now engaging in Africa, from within and outside the continent – indeed one of the central challenges is how to increase domestic and intra-regional investment by keeping more wealth and savings in Africa, as well as increasing the level of foreign investment. New mechanisms are being developed to boost intra-African investment. The newly created private equity fund, the Pan-African Infrastructure Development Fund (PAIDF), to be managed by the AfDB, is an initiative to tap resources from potential shareholders including public and private pension funds and asset management firms;

- At the same time, the investment ratio is still significantly below the average figure for East Asia (38%) and South Asia (31%). Increasing the investment ratio would clearly help to increase and sustain economic growth. In addition to the investment gap, there is also in a number of slower growth countries a productivity gap: the return to investment in high-growth countries is at levels comparable to Vietnam, but in slower-growth countries it is significantly below this – pointing to the need in these countries to increase both investment levels and efficiency;

- Despite the importance placed by African governments on the deepening of financial markets, progress in this area, and in building financial sector capacity and improving the management of financial institutions, remains uneven. Moreover the inadequacy of infrastructure and services continues to act as a disincentive for investors, as well as a constraint on economic growth, and human and social development.

WHAT ARE THE KEY PRIORITIES?

Action by Africa:

- Continued action to improve the investment climate, mainly through simplifying and modernising economic regulations, and the reduction of risks and uncertainties affecting investor perceptions;

- Further action to deepen financial markets by improving the efficiency and reach of the banking sector, developing domestic debt and equity markets to mobilise domestic savings, and expanding micro-finance activities;

- Continued emphasis on the improvement of infrastructure, as a key to improving the competitiveness of African enterprises, and hence their attractiveness to investors.

Response by the international community:

- Further support for African efforts to improve the investment climate, including through assistance to legal, regulatory and administrative reforms and measures to facilitate competition, and the accelerated implementation of new mechanisms such as the Investment Climate Facility;

- More support for African efforts to deepen financial markets by improving the management of financial institutions, developing new financial products including insurance and guarantee schemes, and increasing access to financial services;

- Continue the recent trend of increased support for the development of infrastructure (see also Focus Issue 4 in Part II on sectoral priorities).

Focus Issue 3 : Africa and International Trade

WHAT COMMITMENTS AND TARGETS HAVE BEEN AGREED?

Africa:

- The NEPAD founding statement of 2001 emphasised the importance of trade and within this a number specific themes including diversification of production, enhanced international competitiveness, promotion of exports, and improvements in market access. The paper prepared by the NEPAD Secretariat for the 7th meeting of the

APF in Moscow in October 2006 identified 4 main areas in which African efforts were focused: deepening of African integration; trade facilitation efforts; private sector participation in building trade-enabling infrastructure; and mainstreaming of trade and national development strategies;

International Community:

- The Doha WTO Ministerial Declaration of November 2001 launched the Doha Development Agenda (DDA) round of global trade talks, with the aim of improving market access and reducing subsidies, in order to help developing countries integrate into the multilateral trading system.

- The Hong Kong WTO Ministerial Declaration of 2005 agreed, subject to the conclusion of the Doha Round:
  - To substantially reduce domestic support for agriculture and eliminate all forms of agricultural export subsidies and to discipline all export measures with equivalent affect by the end of 2013;
  - To eliminate all forms of export subsidies for cotton in 2006, and to reduce trade distorting domestic subsidies for cotton production more ambitiously and over a shorter period than generally applicable;
  - To implement duty and quota-free market access for 97% of products from Least Developed Countries, and to introduce simplified and transparent rules of origins to facilitate LDC exports.

- It also agreed to provide more support to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure necessary to help them implement and benefit from WTO agreements and more broadly to expand their trade, through increased 'Aid for Trade'.

- Many developed countries also have their own preferential trade programmes covering sub-Saharan Africa. The EU is aiming to complete negotiations with African, Caribbean and Pacific countries on new Economic Partnership Agreements (EPAs), compatible with WTO rules and replacing existing references under the Cotonou Agreement.

WHAT HAS BEEN DONE TO DELIVER ON THESE COMMITMENTS?

Africa:

- Africa has made good progress on the trade policy side. Average tariffs are now similar to other developing countries and quantitative restrictions have been largely limited. Export taxes have been largely eliminated. Reforms have been directed towards improving competitiveness, and investing in measures to facilitate trade including customs administration reforms. Investment in infrastructure is being stepped up. Important steps forward have been taken on regional integration;

- However significant supply-side and competitive problems remain, and more needs to be done to address these, to put in place measures (at both national and regional levels) to facilitate trade, to deepen the process of regional integration, and to address infrastructure constraints.

International Community:

- Despite political commitment to work towards an ambitious and well-balanced outcome to the WTO Doha Development Round, including implementation of the commitments made at the 2005 WTO Ministerial in Hong Kong, progress has been very slow. Negotiations have actively resumed in Geneva after the 2007 summer break. Multilateral agreement on the gradual elimination of export subsidies for agriculture remains tied to the signing of a broader agreement. Large-scale domestic support measures – including for cotton – remain in place. Only a WTO agreement can address the barriers to market access not only in OECD economies, but also in key emerging markets, where African exporters face significant market access constraints in terms of tariff peaks and tariff escalation;

- Preference schemes have however continued to evolve over this period, including the EU's 'Everything But Arms' scheme which provides for 100% duty and quota-free access for LDCs by 2009, the US African Growth and Opportunity Act (AGOA) which provides duty-free access to the US market for nearly all goods produced in beneficiary countries in sub-Saharan Africa, and similar schemes from other developed countries such as Japan and Canada;

- Increased resources have been provided for Aid for Trade, and an enhanced Integrated Framework is currently being developed to increase predictability and monitoring of donor funding, and to strengthen co-ordination between development partners and with African countries.

WHAT HAVE THE RESULTS BEEN?

- African exports have grown dramatically since 2000. In the previous decade (1990 – 2000) they increased only slightly from US$ 126 billion to US$ 159 billion, Africa's share of world trade fell from 2.9% to 2.0%. Between 2000 and 2006 they increased to US$ 290 billion, and Africa's share of world trade rose from 2.0% to 2.3%. Despite a sharp increase in imports, Africa's trade balance is in surplus;
- Whilst there has been some progress on non-traditional exports, much of the growth is due to the boom of oil and commodity prices. 4 of the top 5 African exporters of goods in 2005 were oil exporters. Only 13 African countries have been able to increase diversification of exports between 2000 and 2005 – all other countries have either stagnated or receded, and less than 30% of the exports of sub-Saharan Africa comprise manufactured products, compared to an average of 70% for all developing countries. Significant supply-side and competitiveness problems have prevented African countries from taking full advantage of existing preferential trade arrangements (Cotonou, EBA and AGOA) other than for garments. Measured over the longer term, Africa's share of world trade is still barely half the level of the early 1980s, and lags behind what is needed to sustain accelerated economic growth and poverty reduction;
- There have however been significant shifts in trade patterns. Although Europe remains Africa's principle trading partner, trade with Asia – and China in particular – is growing rapidly, in large part due to oil and primary commodity trade;
- Intra-regional trade flows among African countries are lower than in other regions, accounting for less than 10% of the continent's total external trade figure (compared to nearly 20% for the Western Hemisphere, and over 40% for Asia).

WHAT ARE THE KEY PRIORITIES?

Action by Africa:

- Address supply-side constraints, by improving the investment climate, enhancing competitiveness, and tackling infrastructure constraints – in this way mainstreaming the capacity to trade (ie produce and export) in broader growth strategies;
- Invest more effort in specific measures to facilitate trade, including reforming customs administration and other regulatory issues, both at national and regional levels;
- Deepen regional integration by reducing tariff barriers, simplifying customs procedures, and addressing other non-tariff obstacles to intra-regional and South-South trade, alongside active engagement in multilateral fora.

Response by the international community:

- Implement specific commitments made at the 2005 WTO Ministerial in Hong Kong. Continue to work for an ambitious and well-balanced outcome to the WTO Doha Development Round delivering significant gains for developing countries;
- Ensure that preferential rules of origin are transparent and simple, facilitating market access, and in place by 2008;
- Successfully complete the EU's negotiations with African, Caribbean and Pacific (ACP) countries on Economic Partnership Agreements (EPAs) on a timely basis, with the objective of promoting Africa's trade and development
- Provide more support for African initiatives to address supply-side and competitiveness problems, including through support for efforts to improve the investment climate and competitiveness, and through increased 'Aid for Trade'.

Focus Issue 4 : Infrastructure

WHAT COMMITMENTS AND TARGETS HAVE BEEN AGREED?

Africa:

- The NEPAD founding statement of 2001 identified infrastructure as a key sectoral priority. It proposed a programme including increased investment both in maintenance and in new infrastructure, new regulatory frameworks, and the promotion of public-private partnerships. NEPAD subsequently developed a Short-Term Action Plan designed to accelerate progress in this sector, and a Medium-Long Term Strategic Framework. Successive meetings of AU Ministers have underlined the importance of infrastructure to economic growth.

International Community:

- At Monterrey in March 2002, developed and developing countries agreed that improved infrastructure was essential for sustained economic growth, poverty eradication and employment creation, and underlined the need for both public and private investment. This point has been re-affirmed at a number of subsequent meetings, since, including successive G8 Summits. The Evian G8 Water Action Plan of 2003 called for giving priority in development assistance to safe drinking water and basic sanitation and for promoting river basin co-operation in Africa. At Gleneagles in 2005, the G8 committed to support the rapid increase in electricity generation and interconnections.

WHAT HAS BEEN DONE TO DELIVER ON THESE COMMITMENTS?

Africa:

- Co-ordination has improved both at the national level and for cross-border projects. Many countries have prepared strategic frameworks for road transport, but progress in water resources management has been much weaker, and the energy sector has yet to receive a similar focus.

- Significant progress has been made in promoting regional arrangements and institutions, and a framework for co-ordination between the AU, NEPAD, RECs and the AfDB has been agreed. Some provision for regional projects is being made in national budgets, though this is still limited.

- Progress has been made on regulatory reform, and will now need to be taken forward to encourage more private sector interventions, enhance the financial viability of public utilities and promote and expand new initiatives such as output-based maintenance contracts.

- Detail on domestic public sector spending is limited. Based on analyses of pilot countries in East Africa, public spending on infrastructure, including development assistance, averages 6-8% of GDP which is relatively high in percentage terms (though still only around US$ 20 per capita).

International Community:

- Significant progress has been achieved since 2001 on external support**.** The establishment of the Infrastructure Consortium for Africa (ICA) in 2005 was a key development. Having stagnated for over a decade, Overseas Development Assistance (ODA) for SSA infrastructure reached US$ 5.7 billion in 2006, an increase of 15% on the preceding year, and almost double the level provided in 2000 - 2003. Non-concessional capital flows added another US$ 2 billion to infrastructure projects in 2006.

- Funding for regional projects has also risen sharply since 2004 with multilateral agencies accounting for most of the increase, though it still accounts for only 12% of the total.

- Private Participation in Infrastructure (PPI) for SSA bounced back to US$ 6.1 billion but the bulk of PPI flows (84%) go to the telecom and energy sectors, with negligible contributions to transport and water.

WHAT HAVE THE RESULTS BEEN?

- It will inevitably take time for the results of this increased investment to show through on the ground. In spite of improvements in the past 15 years, access to basic infrastructure services in Africa is significantly lower than that of other developing countries, with the situation much worse in rural areas. Most recent information shows that less than 25% of African households (excluding North Africa) have access to electricity. And despite some progress during the 1990s, access to clean water hovers at 55% and this situation is worse for basic sanitation. In road transport, length of roads per 1000 people has been declining, partly due to high demographic growth. Over most of the 1990s, investment in infrastructure has not kept up with population growth.

- Climate change moreover now presents additional challenges. It is already exacerbating energy shortages, and placing an even higher premium on the development of clean energy sources, including Africa's largely unexploited hydropower potential. It will also mean an increase in water scarcity in many regions (though others will become subject to the increased risk of flooding).

WHAT ARE THE KEY PRIORITIES?

Action by Africa:

- Build on progress in the road transport sector to develop strategic frameworks for integrated water resources management, and in the energy sector;

- Sustain efforts on regulatory reform, in order to enhance the role of the private sector in the management of infrastructure, and to improve the financial viability of public utilities;

- Give increased priority to investment in infrastructure, including both maintenance and regional projects, in national development plans, and budgets;

- Put in practice the co-ordination mechanism signed by AU, NEPAD, RECs and AfDB, and clarify roles of RECs and regional technical bodies;

- Intensify efforts to ensure more equitable provision of basic services to rural areas.

Response by the international community:

- Sustain recent trend of increasing investment in infrastructure including regional projects, through support and co-operation with existing infrastructure initiatives such as the ICA;

- Ensure adequate resources for upstream project preparation, in order to accelerate the implementation of projects and programmes;

- Provide capacity support for the RECs, regional sectoral bodies, and infrastructure agencies at country level, in concert with the NEPAD Infrastructure Projects Preparation Facility (IPPF);

- Take into account the impact of climate change in programmes of support for infrastructure including the transfer of and access to new technology in support of climate adaptation, and climate risk management.

Focus Issue 5 : Agriculture

WHAT COMMITMENTS AND TARGETS HAVE BEEN AGREED?

Africa:

- The NEPAD founding statement of 2001 identified agriculture as a sectoral priority. Key declarations include the 2003 CAADP Framework calling for 6% agricultural growth rates; the 2003 Maputo Declaration calling for 10% of public expenditure to be spent on agriculture and rural development within 5 years; the 2004 Sirte Declaration on 'The Challenges of Implementing Integrated and Sustainable Development on Agriculture and Water in Africa'; and the 2006 Abuja Declarations on Fertilisers (June) and Food Security (December);

International Community:

- Most major multilateral and bilateral agencies have pledged support for African agriculture, through support to the CAADP, including in successive G8 Summits from Kananaskis in 2002 onwards. The EU/AU Cooperation Strategy on Agriculture Development will be based on African priorities as reflected in CAADP;
- WTO members committed themselves in the 2001 Doha Ministerial Declaration to comprehensive negotiations on agriculture aimed at substantial improvements in market access, and reductions of all forms of export subsidies and trade distorting domestic support. WTO members further agreed, in the Hong Kong Ministerial Declaration in 2005,to eliminate all forms of export subsidies for cotton by 2006, and to reduce trade distorting subsidies for cotton production, subject to the successful completion of the Doha Round;
- The World Food Summit in 2002 adopted a declaration calling on the international community to cut the number of hungry people to about 400 million by 2015.

WHAT HAS BEEN DONE TO DELIVER ON THESE COMMITMENTS?

Africa:

- Progress is being made in implementing the CAADP framework, with the preparation of Country Round-Tables (CRTs) and the completion of Regional Compacts through the RECs. 5 countries have exceeded the Maputo target of 10% of the national budget for agriculture. Latest figures (2004) show that most countries are still far from meeting this commitment, with spending at significantly lower levels (average 4% in 2004) than the transforming countries (mostly in Asia) during their agricultural growth spurt in the 1980s (average 10%). The contribution of agriculture to GDP in Africa remains much higher than the share of government budgets allocated to the sector. Overall, figures for public spending illustrate a decline in areas where public investment is widely seen as essential, such as economic infrastructure and agricultural research – though there are significant country variations.

International Community:

- Most major development partners are showing commitment to CAADP and aligning their efforts through the Partnership Platform which was established in 2006. However, the share of agriculture in total ODA to Africa has been declining from 6.8% in 2001 to 3.6% in 2005. Progress on both market access and agricultural subsidies continues to depend on progress at a multilateral level on the Doha Development Round as a whole. In the absence of this, African exports continue to face barriers that restrict their access to world markets, and the distortion in world market prices resulting from continuing subsidies. Preference programmes that give Africa special access have helped to increase the value of African exports, but many of these programmes continue to impose limitations in terms of countries and products covered.

WHAT HAVE THE RESULTS BEEN?

- Growth: there has been a marked overall increase in agricultural sector growth, doubling from 2.7% in 2002 to 5.3% in 2004, as a result both of rising productivity and price trends. The number of countries that have achieved the CAADP growth target of 6% has doubled from 5 to 11 since 2003, with at least 9 countries exceeding this target.

- Productivity and investment: despite improvements in productivity, cereal yields and per capita food production are much lower in Africa than elsewhere, and the gap with the rest of the world is not yet narrowing. The yield per hectare for food crops is less than half the level in developing countries as a whole, and about 20% of the level in developed economies. Fertiliser use is extremely low by international standards and, according to ECA figures, needs to treble to 23kg/ha in order to achieve MDG 1 of halving the number of malnourished people. Over the period 1990-2003, the amount of irrigated land in Africa has increased slowly from 11 million to 13.4 hectares, with approximately half of the total accounted for by North Africa. However, less than 10 % of Africa's potential irrigable land is irrigated, compared to 26 % for India and 44 % for China.
- Food Security: According to the 2006 FAO Report, the share of undernourished people in Sub-Saharan Africa stands at 32%. Due to population increase, the number of people undernourished is increasing. According to the ECA, 14 SSA countries have managed to reduce the number of people living with hunger by at least 25 %. However, the majority of countries remain off-track towards achieving MDG 1. Climate change now poses a major new threat to agricultural production and therefore food security, both in the arid and semi-arid areas which are becoming drier, and in other regions where flooding is destroying production;
- Trade: Africa's trade performance and Africa's share in world agricultural markets have improved recently. According to FAO data, Africa's commodity exports have been increasing in volume at an average of 13 % since 2001. In terms of share, Africa's commodity exports increased from 4.8 % to 5.4 % during the same period. However despite this progress, Africa's share of global trade still remains low in comparison to other regions. While market access is an important issue, there are equally important supply-side constraints associated with factors such as weak infrastructure. More encouragingly however, intra-African trade in agricultural products doubled between 1996 – 2000 and 2001 – 2004, and was about twice the level of trade in non-agricultural products;
- Diversification: staple crops dominate current production and will continue to do so in the near future. However, with increased private sector participation, several countries have successfully diversified into new areas such as cut-flowers and fruit and vegetables (though these are vulnerable to product standards in export markets).

WHAT ARE THE KEY PRIORITIES?

Action by Africa:

- Higher levels of public investment in particular in irrigation, and promoting increased fertiliser use, and in areas such as rural infrastructure and agricultural services which are also critical to tackling supply-side constraints;
- Further action to promote the involvement of the private sector, and enhance the incentives for both small scale producers and medium/large scale entrepreneurs and agri-businesses to undertake investments, expand and diversify;
- Continued efforts to promote the expansion of intra-regional trade.

Response by the international community:

- Increased attention to and funding for both the agricultural sector, and related priorities such as rural infrastructure;
- Intensified efforts to reach agreement both on market access, and the reduction of subsidies;
- Urgent action on climate change, both to reduce future emission levels, and also to provide increased support for adaptation to the immediate effects of climate change in particular on agricultural production and food security.