

Africa Partnership Forum

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Partnership for Development

Executive Summary : Partnership for Development



Section I : Mobilising Resources

Focus Issue 1: Finance for Development in Africa



Focus Issue 2: Investment



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Section II : Sectoral Priorities

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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 (HIPC) 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.

Section 1 : Mobilising Resources

Focus Issue 1 : Finance for Development in Africa



Focus Issue 2 : Investment



Focus Issue 3 : Africa and International Trade



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 (HIPC) 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 HIPC 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 6 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 achieved on debt relief. Reflecting this progress, ODA to sub-Saharan Africa tripled between 2000 and 2006 to over US\$ 37 billion, though 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).

I. Monitoring issues: the context

NEPAD Founding Statement (2001)

1. With the inception of the New Partnership for Africa's Development in 2001, African leaders pledged to accelerate growth in order to reduce the proportion of Africans living in poverty by the year 2015. NEPAD's founding statement appropriately 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.

Monterrey and related G8 events (2002)

2. The Monterrey Conference on Financing for Development has become the major reference point for international development cooperation. Making clear links between good governance, sound policies, aid effectiveness and development success, donors and recipients agreed to revitalise efforts to help unlock all development resources including official development assistance. In support of this international consensus, new commitments were made to increase ODA by a total of US\$12 billion per year by 2006. At Kananaskis in 2002, the G8 launched the Africa Action Plan, inaugurating a new partnership between the G8 and Africa designed to encourage the initiative taken by African States in adopting NEPAD. The G8 reconfirmed the ODA commitments made in Monterrey and pledged to improve aid effectiveness, reduce the burden of aid management, and annually review progress towards the MDGs. They reiterated their 2001 commitment in the context of the OECD-DAC to untie aid to the Least Developed Countries to ensure that export credits to low-income countries are not used for unproductive purposes. The G8 also committed to assist countries through the Heavily Indebted Poor Countries (HIPC) debt relief initiative.

Further Commitments in 2005

3. Substantial further commitments were made in 2005. First, the EU member countries as a group pledged to reach 0.7% of ODA/GNI by 2015 with an interim collective target of 0.56% in 2010 and nearly double its ODA from €34.5 billion to €67 billion (equivalent to US\$ 87 billion at 2005 exchange rates) with at least half of the increase going to Africa. At the subsequent G8 meeting in Gleneagles, G8 leaders stated that the commitments of the G8 and other donors would lead to a doubling of official development assistance to Africa to US\$ 50 billion a year¹ by 2010 compared to the 2004 level, and individual G8 countries submitted specific aid commitments in support of Africa. The G8 stressed that these extra resources would be directed to countries where the additional aid would make a difference in accelerating progress towards the achievement of the MDGs. In addition to budgeted development assistance, the Gleneagles Communiqué also noted that a group of countries believed that innovative financing mechanisms could provide additional resources to help cover the financing needed to achieve the MDGs.

4. In addition to raising ODA, the G8 also agreed to cancel 100 percent of outstanding debts of eligible Heavily Indebted Poor Countries (HIPC) to the IMF, IDA and the African Development Fund, and to provide additional resources to ensure that the financing capacity of the international financial institutions would not be reduced by the loss of reflows expected from principal repayments on the forgiven debt.

St. Petersburg and Heiligendamm

5. Subsequent G8 meetings in St Petersburg in 2006 and at Heiligendamm in 2007 reaffirmed earlier commitments by G8 countries regarding development assistance to Africa and pledged support for ensuring

¹ The 2010 target is set in real 2004 prices and exchange rates.

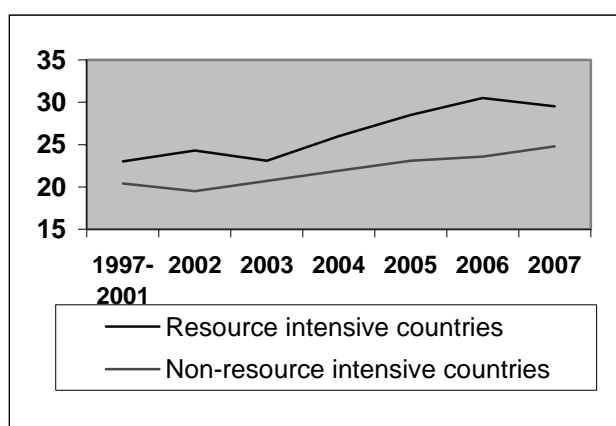
100% cancellation of multilateral debt under the Multilateral Debt Relief Initiative (MDRI) for 33 African countries, 18 of which have now received this relief.

II. Monitoring domestic revenue efforts

2.1 Domestic revenue mobilisation

6. Raising the ambition on poverty reduction strategies will require, besides significant increases in external resources as discussed below, continued effort to generate and channel domestic revenue in African countries. After remaining basically unchanged between the early 1990s and early 2000s, total government revenue as a share of GDP has been steadily improving in most African countries. As shown in Figure 2.1, domestic revenue — defined as tax and non-tax revenues excluding grants — increased by over 5 percentage points of GDP between 2001 and 2006, reaching an average of over 26% in 2006 for sub-Saharan Africa as a whole². Both resource-rich and other countries achieved higher revenue collection and, while higher commodity prices have accounted for the improved performance of resource-rich countries, most of the improvement in other African countries can be attributed to more effective tax administration.

Figure 2.1: Government Revenue (Excl. Grants) (Percent of GDP)



Source: Using data from IMF, Regional Economic Outlook: sub-Saharan Africa, October 2007

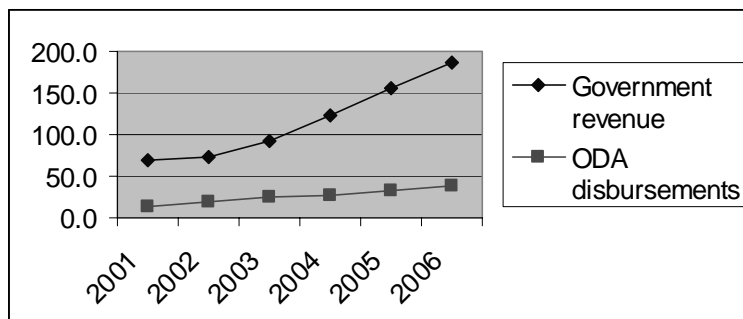
7. In recent years, the discussion on financing development and MDG-based targets has tended to focus attention on external resources – while neglecting the vital role of domestic revenue. Mobilising domestic revenue has usually been referred to as either i) a means of covering recurrent expenditures or ii) a long-term option allowing developing countries to eventually become less dependent on aid. Low or stagnant growth in the 1980s and part of the 1990s, declining import taxes following trade liberalisation and efforts to downsize governments in many African countries have all doubtless contributed to the limited focus on the role of domestic revenue. Yet Africa’s improved performance in this area has enabled it to double its revenue collection to US\$ 185 billion in 2006 -- nearly five times the volume of net ODA in the same year. North Africa where domestic revenue exceeds 20% in all countries generates approximately US\$ 60 billion of domestic resources.

8. The tax base in most sub-Saharan African countries continues to shift away from trade taxes as their principal revenue source, although the pace of this shift has slowed in recent years. The declining reliance on trade tax revenues has been the product of trade liberalization policies, most of which were initiated in the 1990s. Further trade liberalization, for instance in the context of the Economic Partnership Arrangements being negotiated by the European Union and ACP countries, will thus intensify the need to enhance domestic taxes

² The analysis is based on the IMF World Economic Outlook (2007) – Africa Region.

and improve the management of trade tax exemptions. This will often involve strengthening the indirect tax system, including the Value Added Tax (VAT). Presently, 34 SSA countries and all North African countries except Libya have adopted the VAT at an unweighted average rate of 16%.

Figure 2.2: Trends in Government Revenue and ODA Disbursements in sub-Saharan Africa (US\$ billion)



Source: Using data from IMF, Regional Economic Outlook: sub-Saharan Africa, October 2007 and OECD-DAC database

2.2 Domestic savings

9. The previous section discusses Africa's positive performance in domestic public revenue collection. But with the exception of resource-rich countries and a few other countries, overall savings remain very low. As shown in Table 2.3, most of the increase in the domestic saving rates in recent years reflects the performance of resource-rich countries, thanks to buoyant prices of crude oil and other primary commodities. For non-resource-intensive countries, the overall domestic saving rate has hardly moved in spite of important progress in public revenue mobilisation. Fourteen SSA 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.

Table 2.3: Gross Domestic Savings (% of GDP)

	1997-2002	2003-06
Sub-Saharan Africa	18.4	22.7
- Resource intensive countries	27.2	36.1
- Non-resource intensive countries	14.3	14.6
Low-income countries	(11.0)	(10.4)
Middle-income countries	(19.4)	(19.4)

Source: IMF, World Economic Outlook – Africa (October 2007)

10. A more detailed decomposition of the individual components of overall savings will be necessary for a better understanding of low domestic savings rates. In the context of generally higher growth performance, a much improved macroeconomic environment throughout most of Africa and larger flows of remittances, Africa's poor savings performance raises the fundamental question of the role of the financial sector in helping to mobilise resources for long-term growth. Strengthening and deepening the banking sector as well as enhancing competition are some of the more evident steps. Tapping the resources of pension and social security funds and, over time, developing securities markets is another alternative to generate long-term finance. Lastly, more should be learned from the experience of bundling financial services like savings products and business loans for remittance-receiving households as a way to increase resources for investment.

2.3 Assessment and remaining challenges

11. In spite of broad-based improvement in revenue collection, one-fourth of SSA governments still collect public revenues totalling less than 15% of GDP, a level considered as a minimum needed to cover the state's basic functions. West Africa as a sub-region collects lower domestic revenue compared to the other regions of Africa. 40% of African countries, including the oil-rich nations, North Africa, Southern Cone countries and a few others, are collecting revenues of more than 20% of their GDP (Figure 2.3), with the North African economies averaging above 30%. It is also worth noting that no African country is currently collecting less than 10% of GDP in taxes, in stark contrast to 2003-04 when seven SSA countries, most of them emerging from conflict, collected between 7 and 10% of GDP in revenue. Lastly, the sharp and simultaneous increases in both domestic revenue and development assistance in the past five years suggests that larger aid flows does not necessarily lead to weaker effort in raising domestic revenue. Of course, more in-depth analysis would be needed to confirm this preliminary conclusion.

12. The success of several countries in Africa in raising domestic revenue, boosted in part by strong commodity prices, underscores the importance of and progress made in strengthening tax administration. Sustaining and extending this effort should be an area of greater policy focus by African states and development partners.

Figure 2.3: Tax Revenue as a Share of GDP
(Average 2005-06, percent)

12 countries	13 countries	24 countries	
<ul style="list-style-type: none"> - Burkina Faso - Central African Republic - Chad - Congo, Dem. Rep. - Guinea - Liberia - Madagascar - Mozambique - Níger - Sierra Leone - Tanzania - Uganda 	<ul style="list-style-type: none"> - Benin - Burundi - Cameroon - Cote d'Ivoire - Comoros - Ethiopia - Guinea Bissau - Mali - Mauritius - Rwanda - Senegal - Togo - Zambia 	<ul style="list-style-type: none"> - Algeria - Angola - Botswana - Cape Verde - Congo, Rep. off - Egypt - Equatorial Guinea - Eritrea - Gabon - Gambia - Ghana - Kenya 	<ul style="list-style-type: none"> - Lesotho - Libya - Malawi - Morocco - Namibia - Nigeria - Sao Tomé e Príncipe - Seychelles - South Africa - Swaziland - Tunisia - Zimbabwe
10 to 15% of GDP	15 to 20% of GDP	More than 20% of GDP	

Source: IMF World Economic Outlook – Africa (April 2007)

III. Monitoring development assistance

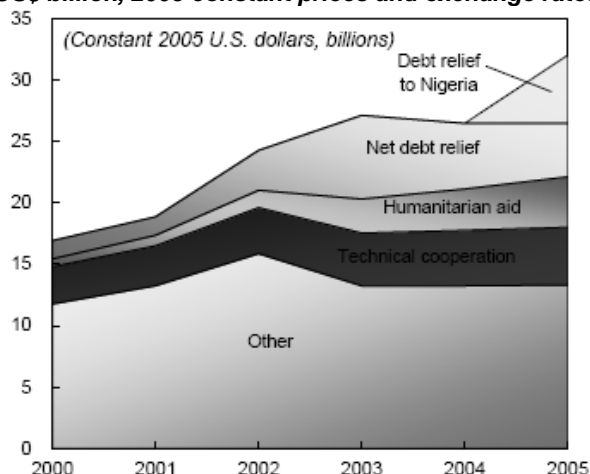
3.1 Progress on delivering ODA to Africa

13. From a record level of US\$ 106.8 billion in 2005, total development assistance as reported by the OECD-DAC fell back to US\$ 103.9 billion in 2006, based on preliminary data. The fall was, however, predicted given the exceptional debt relief provided to Iraq and Nigeria in 2005. Excluding debt relief, which declined from US\$ 24 billion in 2005 to about US\$ 19 billion in 2006, total ODA fell by 1.8% in real terms in 2006. Eleven of the fifteen EU members that committed to reach an ODA/GNI ratio of at least 0.3% in 2006 succeeded in doing so. Other EU countries were also generally on track to meet their commitments³.

³ The combined ODA of the fifteen DAC-EU members rose by 2.7% to \$59 billion, equivalent to 0.43% of their combined GNI, surpassing the EU collective ODA/GNI target of 0.39%. Net aid disbursements by the U.S., Japan and Canada fell in 2006 mostly due to lower debt relief and also to exceptionally large humanitarian relief for the Indian Ocean tsunami.

Excluding debt relief, aid to sub-Saharan Africa increased by 2% in 2006. The prominence of debt relief is evident during 2001-05 (see Figure 3.1 and Table 3.1). While net ODA to sub-Saharan Africa more than doubled between 1999 and 2006, close to 70% of the increase was accounted for by debt relief. Given that debt relief and humanitarian aid are likely to fall back to their historical averages in the next few years, other components of ODA -- especially core development programs -- will have to increase very sharply in the next several years for the G8 and other development partners to fulfil their 2010 pledges.

Figure 3.1: Evolution of Net ODA to Sub-Saharan Africa (US\$ billion, 2005 constant prices and exchange rates)



Source: IMF, Regional Economic Outlook – sub-Saharan Africa World Bank Global Monitoring Report 2007, based on OECD-DAC database.

Table 3.1: ODA to Africa (US\$ billion, net disbursements in nominal terms)

	2000	2001	2002	2003	2004	2005	2006
South of Sahara^{a/}	13.6	13.9	19.0	24.6 ^b	26.3	32.6 ^c	37.7
North of Sahara^{a/}	1.9	2.5	2.4	2.2	3.1	2.6	3.0
Total Africa	15.5	16.4	21.4	26.8	29.4	35.2	40.7

Source: "Geographical Distribution of Financial Flows by Aid Recipients, 2001-2005", OECD 2007

Notes: a/ These figures include amounts that were unspecified in the OECD-DAC database. b/ The outturn in 2003 was heavily determined by the US\$4.5 billion of debt relief to the Democratic Republic of Congo under the HIPC initiative. c/ Of which US\$5 billion for Nigeria's debt relief.

3.2 Progress on scaling up aid to Africa

14. Aid prospects for the next three years will depend on whether development partners are making plans to raise aid disbursements. For lack of detailed information, the following discussion on future aid flows is, at best, exploratory. Given its large share in total ODA and, more particularly, in the additional volume of aid projected in the next few years, the performance of European Union (EU) countries will play an important role in reaching agreed targets. In 2006, aid disbursements by the 15 DAC EU members (EU-15) reached 0.43% of their combined GNI, largely surpassing the 0.39% goal set for the year. Under the leadership of the European Commission, EU members will finalise individual road maps that outline how they intend to meet their 2010 aid targets. These would include a review of aid structures and modalities to accelerate aid disbursements, such as common European instruments that emerge from the European Consensus on Development. One must, however, note that performance among EU members on delivering ODA commitments is uneven and some key EU members will need to sharply increase aid disbursements in 2008-10.

15. As part of a collective effort led by the OECD-DAC to advance scaling up of aid to Africa, the DAC has been surveying its members' planned future aid flows by country. The first survey – carried out in 2006 -- provided incomplete information, making it difficult to ascertain any substantial aid scale-up. A follow-up survey has just been launched and results are expected to be available in time for the DAC's Senior-Level Meeting in early December 2007. Of the 23 DAC members, 17 have a multi-year framework with indicative financial envelopes for their priority partner countries⁴. It is too early, however, to assess on the basis of this preliminary work the extent of progress regarding scaling up efforts.

16. A series of discussions launched in the aftermath of Gleneagles revealed several challenges to establishing effective processes for scaling up aid flows. Preliminary conclusions point to the need for action on both sides of the aid relationship. Scaling up requires that recipient countries have: i) a country-led and results-oriented development strategy that sets out clear goals, priorities, policies and programs to achieve them; ii) a sound macroeconomic framework; and iii) a capable institutional framework to support the implementation of the country strategy. A recent World Bank analysis shows progress in all three areas. Development partners must, for their part, help countries in this process through better aid alignment and harmonization mechanisms. The linking of ambitious country-owned strategies and results frameworks, known as the Results, Resources and Partnership (RRP) process — somewhat akin to an expanded Consultative Group meeting process -- is a promising way of facilitating the scaling-up of aid within a country-based development model. The Resources and Results Meeting for Ghana provided a good illustration of approaches to scale up programs in energy, transport and other infrastructure. Work being undertaken by the World Bank and UNDP confirms that opportunities for quick scaling-up exist in several African countries, including Burkina Faso, Mozambique, Rwanda and Tanzania and in specific sectors as in the case of Ghana⁵. But for this country-level process to take hold, more donor buy-in will be needed.

3.3 Progress on innovative financing

17. Several innovative financing mechanisms involving new forms of taxation and securitised borrowing have been developed to finance development projects, in particular in the health sector. The International Finance Facility for Immunisation (IFFIm) was launched in November 2006 and helped raise US\$ 1 billion through the issuance of five-year bonds in international capital markets to accelerate contributions to the Global Alliance for Vaccines and Immunisation (GAVI). Backed by six donors—France, Italy, Norway, Spain, Sweden and the United Kingdom—the bonds will be repaid in 20 years. The plan is to raise US\$ 4 billion over the next 10 years.

18. Levies on air tickets were launched in France in July 2006 with 90 percent of the funds raised earmarked for the International Drugs Purchase Facility (UNITAID). Norway, the United Kingdom and The Republic of Korea are considering joining this initiative, which could yield as much as US\$ 1 billion per year with France contributing US\$ 250 million per year. In February 2007, Canada, Italy, Norway, Russia, the United Kingdom together with the Gates Foundation launched the first Advanced Market Commitment (AMC) of US\$ 1.5 billion to help develop pneumococcal vaccines. There are plans to launch a similar initiative for malaria vaccines. The AMC is not expected to increase aid flows to poor countries, but brings together public and private development partners in helping these countries reach the MDGs.

⁴ This information is collected from public information available on the web and remains to be vetted by the various development partners.

⁵ This is consistent with the Gleneagles focus on helping countries where the additional aid will make a difference in accelerating progress towards the achievement of the MDGs.

3.4 New aid partners

19. New donors⁶ have become much more active in Africa, but information about the magnitude of the aid they provide is incomplete and difficult to quantify given that development co-operation from China and India is often delivered as part of a larger package involving foreign direct investments, export credits and other project financing at commercial or near commercial terms. China's "Africa Policy," introduced in January 2006, aims to support economic development in Africa — among other objectives — through a number of channels, including economic assistance and debt relief (Government of China, 2006). The Chinese government provides concessional loans and grants to developing countries directly and indirectly through the Export-Import Bank of China. The total amount of concessional loans and grants provided by China is not reported in a comprehensive or uniform manner and estimates vary considerably.

20. In recent years non-traditional financiers have taken an increasingly active role in financing and constructing infrastructure projects in sub-Saharan Africa. Chinese financing has exploded in the past three years with the preponderant role of China Export-Import Bank working with other Chinese state-owned firms. Most of the investments are in minerals-rich countries. Since 2001, China has committed over US\$ 5 billion for transport in Africa and future commitments are expected to reach over US\$ 20 billion over the next three years for all infrastructure. Arab partners, working mainly in road projects with co-financing from China and AfDB together with India, provided US\$ 600 million to transport infrastructure in 2006. The development assistance component of these resource transfers is a small percentage of total resources provided⁷.

21. Fifteen non-DAC countries report their aid activities to the DAC. From about US\$ 1 billion per year in the late 1990s, net ODA disbursements provided by these new donors reached US\$ 4.2 billion in 2005. The Republic of Korea and Turkey — both DAC observers — have mobilised large increases of development aid. Arab countries and funds are also significant ODA providers, but their share in total official development assistance to sub-Saharan Africa has fallen. In contrast, based on recent public announcements, development assistance by Arab countries to North Africa and in particular, Algeria and Tunisia, is projected to be significantly scaled up.

3.5 Assessment and remaining challenges

22. On current trends, achieving the doubling of official aid to Africa by 2010 as pledged by the G8 at Gleneagles will require that ODA to sub-Saharan Africa by all OECD-DAC countries rise by US\$ 6 to US\$ 7 billion per year -- excluding debt relief. On-going initiatives such as the RRP process could provide a framework for expanded aid funding to well-performing SSA countries. Information being collected by the OECD-DAC forward-planning survey could shed light on the scale and allocation of future aid flows to specific recipient countries. Other new financing mechanisms are providing substantial additional resources for development. Although the Advanced Market Commitments for vaccines development will not increase aid flows to developing countries, they may play a significant role in helping countries meet the MDG health targets.

⁶ One can conveniently distinguish "new" donors in three main groups: i) OECD countries which are not members of the DAC (Korea, Turkey, Mexico and several European countries) and new EU members which are not members of the OECD; ii) Middle East and OPEC countries and funds; and iii) a more disparate group of non-OECD, non-EU donors, among which figure two "heavyweights", China and India.

⁷ According to a recent IMF Staff Paper, China's development assistance was estimated at \$2 billion in 2005.

IV. Monitoring debt relief

4.1 Progress in implementing the HIPC and MDRI initiatives

23. Major progress has been achieved since Gleneagles in extending and deepening debt relief to African developing countries. Substantial progress has been made in the implementation of the HIPC Initiative. Twenty-five African HIPCs have reached the decision point and are receiving debt relief. Liberia, one of the seven HIPCs that have yet to reach decision point — when debt relief will kick in — is on the verge of doing so following recent donor support to help clear its arrears with the IMF. Three African countries reached their HIPC completion point in 2006 when debt relief under HIPC becomes irrevocable.

24. The Multilateral Debt Relief Initiative (MDRI) was implemented at the beginning of 2006 by the IMF and in mid-2006 at IDA and the AfDF (with debt relief provided retroactively to the beginning of 2006). Under the MDRI, the African Development Fund, IDA, and the IMF have agreed to provide 100% debt relief on their eligible claims to countries that reach the completion point under the Highly Indebted Poor Countries (HIPC) Initiative. To date, 22 post-completion point HIPCs — of which 18 are in sub-Saharan Africa -- have benefited from debt relief under this new initiative, which amounts to about US\$ 37 billion in debt service payments over the lifetime of the MDRI. The remaining HIPCs will automatically qualify for the MDRI once they reach their completion points.

25. The HIPC and MDRI debt relief initiative are projected to substantially lower debt and debt service ratios for qualifying countries. The net present value (NPV) of debt stocks in the 30 HIPCs that reached the decision point are projected to decline by about two-thirds once they reach their respective completion points and by about 90% after the application of the MDRI (Figure 4.1). The ratio of debt service to exports for these countries is estimated to have declined from an average of about 17% in 1998–99 to about 7% in 2005. These ratios are estimated to decline further to about 4% in 2006 (Figure 4.2)

Figure 4.1 Reduction of Debt Stock (Net Present Value terms) for HIPC Decision-Point Countries
(US billion in end-2006 NPV terms)

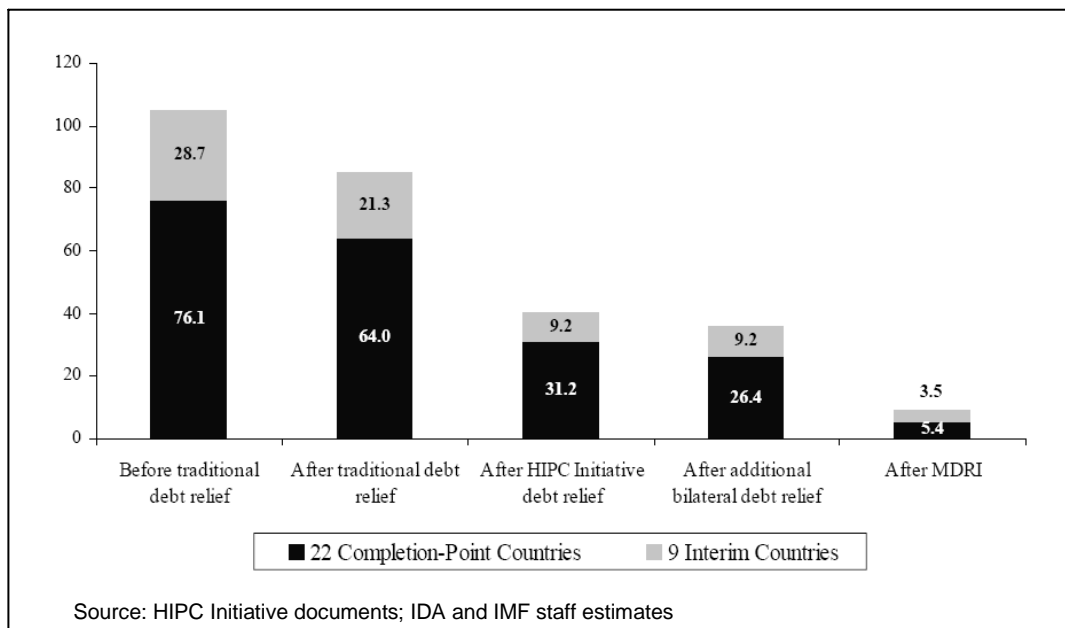
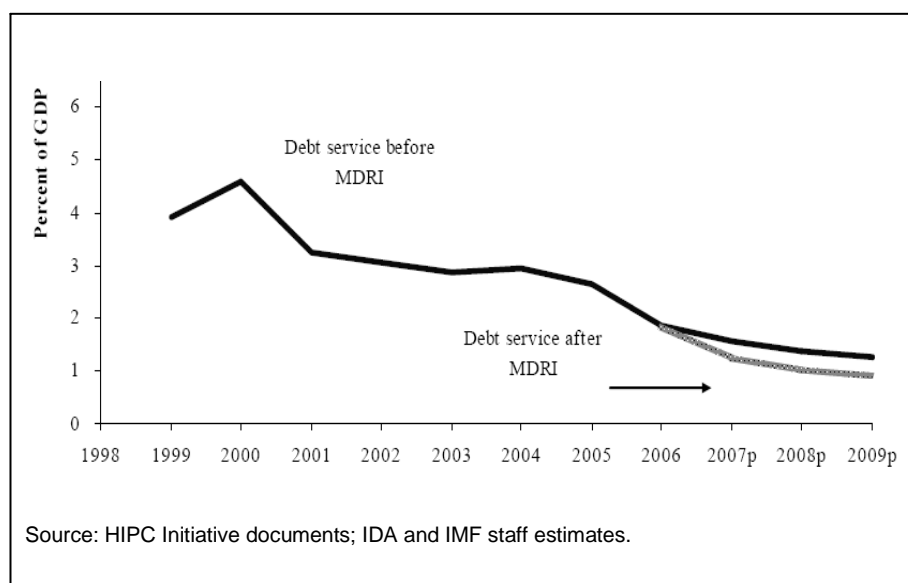


Figure 4.2 Average Debt-service of Post-Decision Point HIPCs (%)



4.2 Issues of debt sustainability

26. The challenge for countries receiving HIPC and MDRI debt relief is to ensure that new borrowings from emerging official and private creditors and from domestic sources do not lead to renewed debt built-up, potentially jeopardising these countries' newly-restored capacity for borrowing to finance development. The application of the debt sustainability framework by both low-income countries and their creditors can help mitigate these risks, while ensuring that access to resources for development is not unnecessarily constrained. Improving the quality and availability of data on both external and domestic debt will be essential to ensure proper monitoring and assessment of debt and associated risks.

4.3 Compensatory financing (Gap) for IDA and African Development Fund

27. While the IMF finances the MDRI using its own resources (drawing on an estimated US\$ 4.5 billion raised from the 1999-2000 off-market sales of the Fund's gold holdings), MDRI debt relief provided by IDA and the African Development Fund is financed through bilateral contributions, which fill the gap created by the loss of reflows to these two institutions due to debt relief. For the period 2006 to 2016, IDA and the AfDB will need about US\$ 10 billion to cover lost debt service payments from MDRI relief. Pledges issued by bilateral donors to date only amount to US\$ 4 billion or less. Over the entire period of the MDRI, which ends in 2044 for IDA and 2054 for the AfDB, total lost reflows will be much larger. Shortfalls in necessary compensatory finance will lead to uncertainty regarding future concessional financing by these two institutions to Africa and other low-income countries. This could have a major impact on support for development priorities given the role of multilateral lending in Africa: for example, IDA and the AfDB, together with the European Investment Bank, provided two-thirds of the funding for infrastructure projects in sub-Saharan Africa over the period 2005-06.

4.4 Assessment and remaining challenges

28. With the recent clearance of Liberia's arrears to the IMF, good progress is being made regarding both the HIPC and MDRI initiatives. The other six pre-decision point countries—Comoros, Côte d'Ivoire, Eritrea, Somalia, Sudan and Togo—are either in a conflict or post-conflict situation or lack a clear development strategy. The unfunded compensatory financing described above therefore remains the important remaining

challenge that demands resolution to avoid undermining the capacity of IDA and AfDF to finance development in Africa.

V. Monitoring aid effectiveness

5.1 The Paris agenda

29. Enhancing aid effectiveness through harmonization and alignment is an essential complement to efforts to increase aid flows. The international effort on aid effectiveness has been gaining momentum since 2005 when over 100 donors and recipients endorsed the Paris Declaration, which provides a detailed framework of commitments and targets to achieve concrete results regarding improved ownership, alignment, harmonization, managing for results, and mutual accountability. At the country level, a growing number of nations including Burkina Faso, Ghana, Mozambique, Tanzania, Uganda and Vietnam (the sole non-African country in the top six) are taking actions and making substantive progress across a broad range of commitment areas.

30. Nevertheless, the first round of monitoring of Paris Declaration commitments shows that there is still a long way to go. In 2006 a baseline survey was undertaken in 34 developing countries. Results show that the Paris Declaration has stimulated an important dialogue at country level regarding how to improve aid. All donor agencies have made major efforts to implement the Paris Declaration within their organisations and communicate its importance to their staff; and there has been some implementation activity in about 60 countries. But while most developing countries have developed national strategies, only 17 % of the countries surveyed have developed operational national development strategies (including PRSs) that have clear priorities linked to a medium-term expenditure framework and reflected in annual budgets.

31. According to the survey, the status of development partners' efforts to implement Paris Declaration commitments and improve their performance against the agreed indicators is also mixed. Development partners' efforts to organise joint missions, undertake joint economic analyses, or disburse aid in a timely way will need to improve appreciably in order to meet the Paris targets for 2010. At country level, the 2006 survey also raised serious concerns about the high costs of delivering and managing aid. In 2005, the 34 developing countries covered by the survey received 10,507 donor missions, more than one for each working day in each country. This has led many recipients to voice concerns about the slow pace of change in donor practices and the strong disconnect between headquarters' policies and in-country practices. As the volume of aid increases and new (emerging) donors enter the development arena, transaction costs for partner countries might be expected to increase significantly and undermine the effectiveness of aid.

5.2 Aid untying

32. The percentage of untied aid to least developed countries is on the rise and broadly on track, and recent efforts to broaden existing DAC disciplines (elimination of the coverage thresholds) has been constructive. However, DAC Member countries are experiencing some difficulties agreeing on how to further untie aid to non-LDCs or expand untying to food procurement. Among the G8 countries, only the UK has completely untied its aid to all countries. Other DAC members continue to tie part of their aid, including to LDCs. In the run-up to the Ghana High-Level Forum, there are calls for further relaxation on untying.

5.3 New features of the current aid architecture

33. The international aid architecture is undergoing a significant shift -- from a system based on a few large donors to a more competitive and atomistic aid landscape. The number of bilateral donors has grown from 5-6 in the mid-1950s to at least 56 today. There are currently over 230 international organizations, funds, and programs. Besides traditional development partners including Arab Funds, Africa is attracting support from new aid donors. China's commitments in Africa have more than tripled in five years to US\$ 15 billion. International private philanthropy (the most well known being the Gates Foundation), and other private entities

such as NGOs have doubled their assistance over the last seven years to an estimated US\$ 14 billion annually in 2005. The average number of donors per country has nearly tripled over the past 40 years, with the health sector being especially crowded. Worldwide there are over 60,000 aid projects, with an average size of only US\$ 1.5 million. On average, a recipient country has to deal with over 30 different donors.

34. In addition, the increasing numbers of global programs with resources earmarked to specific sectors and objectives is posing significant management problems to Ministries of Finance and Planning in many developing countries. Helping recipient countries manage the flows of resources coming from vertical programs such as the Global Fund to fight AIDS, Tuberculosis and Malaria while respecting national priorities set out in PRSPs is a key challenge: massive resources channelled to one sector can overtake national systems (e.g. procurement, storage) and implementation capacity. Donors have recently provided initial pledges to the replenishment of the Global Fund worth US\$ 9.7 billion over the 2008-10 period. The pledges constitute the largest single financing exercise for health ever, and will allow the Global Fund to move towards annual commitments of US\$ 6-8 billion by 2010.

5.4 Assessment and remaining challenges

35. Significant efforts have already been made to reduce aid transaction costs at country level. These efforts should be pursued more aggressively through implementation of the Paris Declaration. Special attention should be devoted to mechanisms that are more effective at delivering aid at a lower transactional cost for partner countries -- particularly in the context of scaling-up. These include a more rational division of labour across donors, increased use of delegated co-operation, and more efforts to ensure donor synergies and complementarities.

36. The 2006 DAC aid effectiveness monitoring survey indicated that the credibility of developing country budgets, for nearly all countries, is undermined by sizeable discrepancies between the funds disbursed by development partners and the information recorded in country budget estimates. Another important challenge in making progress on this agenda is a better understanding of the various factors that influence donor decisions to channel and track their aid using country systems. Improvements will require concerted and joint efforts by both partner authorities and donors, including sharing of information. At the same time, it is very important to recognise that aid effectiveness goes beyond reducing transaction costs. It also seeks to promote stronger and more accountable institutions at country level, in particular through improved institutional capacity to manage and account for budget resources and greater transparency regarding how development resources are used.

VI. Private capital flows

6.1 Capital inflows to developing countries in Africa

37. Overall, private capital flows to Africa have been growing sharply, in line with overall trends to developing countries⁸. The increase has been broad-based, with foreign direct investment (FDI), commercial bank lending, and portfolio equity all recording substantial gains. After a long period in the 1970s and 1980s with no upward trend, FDI flows to Africa have grown sharply since the late 1990s. This growth is partly explained by rising prices for primary commodities including oil.

38. Net FDI inflows to Africa experienced a strong increase in the last four years and particularly in 2005-06 — from US\$ 12.9 billion in 2002 to US\$ 35.5 billion in 2005. The extractive industries accounted for most of the increase in inflows in 2006. Egypt, South Africa, Tunisia and oil-rich countries (Algeria, Nigeria, Sudan, and Equatorial Guinea) are the principal recipient countries. There are, however, signs of gradual diversification into other countries where FDI has recently risen in manufacturing, agro-industries, textiles and services. Some of these investments are driven by preferential access to developed-country markets, such as

⁸ Net private flows to all developing countries increased sharply to reach US\$571 billion in 2006, reinforcing a trend underway since 2002.

the African Growth and Opportunity Act (AGOA) of the U.S. and the Everything but Arms (EBA) initiative of the European Union. Traditionally, foreign investors to Africa came from Europe and, to a lesser extent, from North America. Lately, Asian investors from countries such as China, India, Malaysia and South Korea have begun to engage in African countries. South African companies are also increasingly investing in other African countries, particularly in Southern Africa where South Africa FDI accounts for more than 50% of all FDI inflows into Botswana, the Democratic Republic of the Congo, Lesotho, Malawi and Swaziland.

**Table 6.1: Net Private Capital Flows to Africa
(US\$ billion)**

	2002	2003	2004	2005	2006 (preliminary)
Net FDI flows	12.9	18.5	18.0	29.6	35.5
North Africa	2.6	5.4	6.6	11.5	19.8
Sub-Saharan Africa	10.3	13.1	11.4	18.6	15.7
Net portfolio equity flows	-0.6	0.8	7.3	8.2	13.5
North Africa	-0.2	0.1	0.6	0.8	1.0e
Sub-Saharan Africa	-0.4	0.7	6.7	7.4	12.5
Net bank debt flows	-2.6	-1.8	-0.2	5.4	9.9
North Africa	0.1	-0.5	-0.6	3.2	3.5e
Sub-Saharan Africa	-2.7	-1.3	0.4	2.2	6.4
Net bonds flows	3.4	5.6	1.4	1.8	2.9
North Africa	0.6	1.0	0.1	1.4	1.5e
Sub-Saharan Africa	2.7	4.6	1.3	0.4	1.4
Total (net) private capital flows	13.1	23.1	26.5	45.0	61.8e
North Africa	3.1	6.0	6.7	16.4	25.8e
Sub-Saharan Africa	10.0	17.1	19.8	28.6	36.0

Note: ^{e/} estimates

Sources: UNCTAD, World Investment Report (2007) and World Bank, Global Development Finance (2007).

39. In 2006 net FDI to North Africa⁹ reached a record high of US\$ 19.8 billion, or over three times the level of 2004. Egypt, Tunisia and Morocco, in that order, received the largest inflows in 2006. While most of the FDI to Africa as a whole went to extractive industries, in Egypt – the top African FDI recipient in 2006 with over US\$10 billion – and in Morocco most of the FDI were in non-oil activities such as agriculture, communications, manufacturing, banking and tourism. In Morocco and Tunisia, privatizations in the telecommunications industry gave rise to the increase.

40. Relatively low FDI flows to Africa as a whole mask their important contributions in several countries. FDI accounts for a sizeable share of total investment in several non-oil producing African countries as shown in Table 6.2. With one or two exceptions, these countries tend to be better managed, highlighting the importance of improving the investment climate and overall governance.

⁹ UNCTAD World Investment Report classifies Sudan as North Africa while it is more customary to list it as part of sub-Saharan Africa.

Table 6.2: FDI inflows as Share of Gross Fixed Capital Formation in Selected Non-Oil Producing Countries, 2006

Country	FDI Inflows (US\$ million)	FDI/GFCF (%)
Botswana	274	15%
Congo	344	26%
Egypt	10043	50%
Ghana	435	18%
Guinea	108	23%
Madagascar	230	18%
Mali	185	15%
Morocco	2898	22%
Namibia	327	20%
Sierra Leone	43	17%
Tunisia	3312	49%
Zambia	350	19%

Source: UNCTAD, World Investment Report 2007.

41. Portfolio equity flows accounted for 30% of all private capital flows to the region in 2004 and 20% in 2005, significantly higher than the 12% share for all developing countries. However, most of the flows are directed to South Africa's burgeoning capital market. After several years of net reflows that began in the late 1990s, Africa now enjoys renewed access to commercial bank lending. Private debt flows to Africa kept pace with the upswing in overall flows to developing countries, reaching over US\$ 6 billion in 2006, driven by abundant global liquidity and steady improvements in credit quality. The growing use of sovereign credit ratings in Africa reflects the improving perception by international private banks of Africa's potential and gives added confidence to investors¹⁰. Currently, 16 SSA countries are rated by international rating agencies, although most ratings remained in the speculative grades. Over the past two years five additional African SSA countries have received credit ratings. Ratings improve information flows and permit comparative assessments across countries, therefore allowing investors, particularly foreign investors, to readjust their perceptions of market and country risk. Credit ratings also increase confidence by signalling the issuer's willingness to be open and transparent with investors. More importantly, they are the first step toward building a track record of a country's creditworthiness.

42. Sovereign bonds. Following Egypt, Morocco and South Africa, Ghana is the first low-income sub-Saharan country to successfully issue sovereign bonds. The bonds, which are for a tenure of ten years and a coupon rate of 8.5% p.a., were more than four times oversubscribed, attracting over US\$ 3 billion from American and European investors for the original issue of US\$ 750 million. On the back of Ghana's success, Nigeria may soon also go to international capital markets with its debut sovereign bond offering.

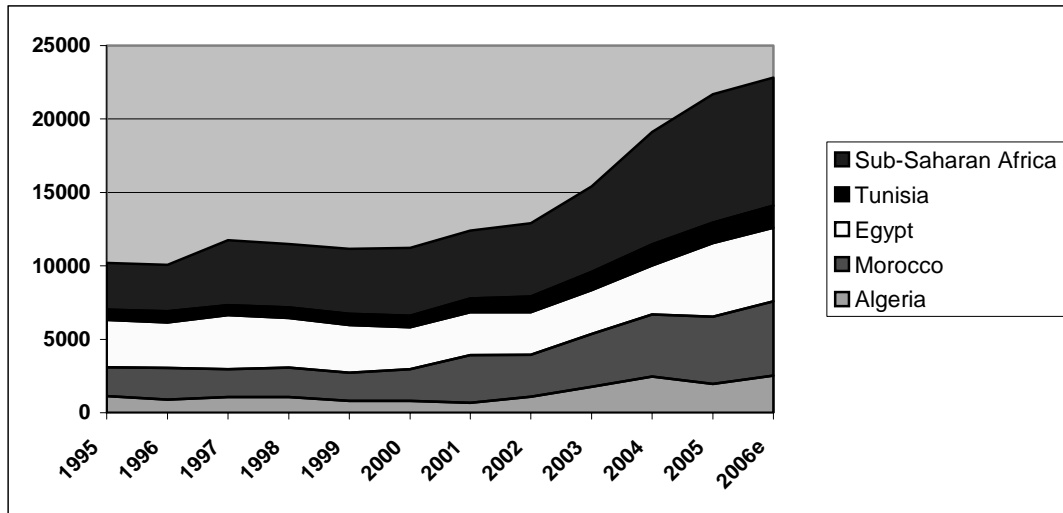
6.2 Remittances

43. Remittance flows to Africa continued to rise in 2006. As a source of foreign exchange, remittances have outpaced private capital flows and ODA. Worldwide remittances to developing countries have tripled over the past decade to US\$ 206 billion in 2006. Most North African countries are large recipients of recorded remittances. Nigeria and Sudan are the largest recipients in sub-Saharan Africa (Figure 6.1). While in terms of recorded data sub-Saharan Africa as a continent received only about 5% of total remittances to developing countries, these flows have increased by 240 percent over the past decade. Remittances flowing to 15 SSA

¹⁰ In the recent period, 20 SSA countries have access to commercial bank lending. They are: Botswana, Burkina Faso, Cameroon, Congo Rep., Equatorial Guinea, Ethiopia, Gabon, Ghana, Guinea, Kenya, Liberia, Mali, Mauritius, Mozambique, Nigeria, Senegal, Sudan, Tanzania, and Zambia. But only South Africa and most North African countries have access to both bond and commercial debt.

countries exceeded 2% of their GDP in 2004. As a regional average, Africa received the equivalent of 1.5% of its GDP as formal remittances.

**Figure 6.1: Trends of Remittances to Africa
(US\$ million)**



Source: World Bank database

VII. Concluding remarks

44. Since the adoption of the Monterrey Consensus in 2002, reinforced by 2005 commitments by G8 and EU countries to substantially increase official development assistance to Africa, the issues of aid scaling up and aid effectiveness have dominated the policy dialogue. Total aid flows by OECD-DAC members have sharply increased in recent years. But debt relief (including the large debt cancellations for Iraq and Nigeria), emergency assistance and other special purpose grants accounted for a large share of this increase.

45. At the same time, as important as aid is in the context of Africa, it is not the only story. Non-aid flows, including domestic revenue, are becoming increasingly more important. Foreign direct investment has grown four-fold in the past decade, reaching an average of US\$ 18 billion in each of the last three years. Today sub-Saharan Africa attracts almost as much FDI, as a share of GDP, as other developing regions. And 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 and US\$ 9 billion for sub-Saharan Africa -- and would be much higher if unrecorded flows through informal channels could be included. For 15 sub-Saharan African countries, remittances exceeded 2% of GDP in 2004.

46. In addition to foreign financing, realizing the ambition of national poverty reduction strategies will require continued effort to increase domestic revenue generation and savings in recipient countries. African countries have managed to raise government revenue by the equivalent of 5% of GDP since the early 2000s. As a result, domestic revenue more than doubled in the last 5 years and in volume terms, is almost six times as large as ODA. But one-fourth of African countries still mobilize less than 15 percent of their GDP in tax revenues. And a dearth of competitive savings instruments in national financial markets constrains the contribution of households to national resource mobilisation efforts. Without further effort to raise domestic revenue, these countries will continue to face the challenges imposed by the volatility and unpredictability of aid flows.

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Annex Table 1: Government Revenue, Excluding Grants (% of GDP)

	1997-2002	2003	2004	2005	2006
Oil-exporting countries	23.6	23.3	26.9	29.6	31.8
Excluding Nigeria	26.6	26.3	27.1	31.4	37.5
Angola	42.4	37.2	37.5	40.4	46.4
Cameroon	14.6	16.1	15.2	17.3	18.9
Chad	7.6	7.8	8.5	9.3	10.8
Congo, Rep of	26.9	29.7	30	38.6	44.7
Equatorial Guinea	22.5	27.3	31.9	37.9	45.7
Gabon	32.5	30.1	30.8	31.3	31.7
Nigeria	21.4	21	26.7	28.1	27.1
Middle-income countries	24.4	24.2	24.9	26.4	27.6
Excluding South Africa	31.5	31.1	31.7	33.3	35.4
Botswana	39.2	38.2	37.4	39.4	41.5
Cape Verde	20.6	21.3	22.8	23.6	25.1
Lesotho	43.1	42.2	46.7	48.7	58.4
Mauritius	19.4	20.1	19.9	19.8	19.9
Namibia	32.1	29.2	30.2	32.7	34.9
Seychelles	42.1	47.2	50	50.2	52.5
South Africa	23.5	23.2	24	25.6	26.7
Swaziland	28.7	26.1	30.7	32.1	35.7
Low-income countries	14.9	15.6	16.6	16.7	16.9
Benin	15.2	17	16.4	16.5	16.8
Burkina Faso	12.1	12.1	12.8	12.3	12.5
Ethiopia	15.1	16.2	17	15.8	16.9
Ghana	17.7	20.8	23.8	23.8	21.6
Kenya	20.2	19.7	21.2	20.8	20.9
Madagascar	10.2	10.3	12	10.9	11.2
Malawi	16.3	16	16.8	18.5	17.4
Mali	13.9	16.4	17.4	17.9	17.1
Mozambique	12.1	12.9	12.6	13.6	14
Niger	9.2	10.2	11.4	10.8	13.1
Rwanda	10.7	13.5	13.9	15.1	14.8
Senegal	16.5	18.1	18.3	19.3	20
Tanzania	11.2	11.4	11.8	12.5	13.3
Uganda	11.5	12.2	12.7	12.8	13.2
Zambia	18.8	18	18.2	17.4	16.8
Fragile countries	13.7	13.8	14.6	15.3	16.5
Including Zimbabwe	16.3	16.8	17.1	18.7	21.1
Burundi	17.7	21.1	20.1	20	18.8
Central African Republic	14.9	9.2	11.4	12.2	21.2
Comoros	12.9	15.8	15.6	15.7	13.6
Congo, Dem. Rep of	5.8	7.7	9.5	11.6	13.2
Côte d'Ivoire	17.7	16.8	17.5	17.1	18.2
Eritrea	31.9	35.4	27.5	29.6	28.3
Gambia, The	17.5	15.7	20.9	19.7	21.2
Guinea	11.3	10.5	10.5	13.1	14.1
Guinea-Bissau	15	15.2	17.2	17.6	19.5
Liberia	..	11.1	14.8	14.5	18.8
São Tome and Principe	15.5	15.2	16.8	64.7	21.2
Sierra Leone	9.4	12.4	12.3	11.9	11.8
Togo	13.6	17	16.8	15.7	16.9
Zimbabwe	24	24.9	33.8	43.7	51.3
Sub-Saharan Africa	21.3	21.4	23.1	24.8	26.2
Excluding Nigeria and South Africa	19	19.8	21	22.8	25.5
Oil-importing Countries	20.5	20.7	21.8	22.9	23.6
Excluding South Africa	17.1	17.8	18.8	19.1	19.6
Resource-intensive countries	23.6	23.1	26	28.5	30.4
Oil	23.6	23.3	26.9	29.8	31.8
Non-oil	22.9	22.7	23.2	24.2	24.5

Source: IMF Regional Economic Outlook, Sub-Saharan Africa, October 2007

Annex Table 2: HIPC debt relief

Status as of end-July 2007
(In millions of U.S. dollars)

	Decision	Completion	Assistance under the HIPC Initiative		Assistance Delivered	Total HIPC and
	Point Date	Point Date			under MDRI 2/	MDRI Assistance
	(1)	(2)	In NPV Terms as of Decision Point 3/ 4/	In Nominal Terms	In Nominal Terms	In Nominal Terms
			(3)	(4)	(5)	(6)=(4)+(5)
22 Post-Completion-Point HIPCs				45,254	41,750	87,004
Benin	Jul-00	Mar-03	262	460	1,098	1,558
Bolivia 5/	Feb-00	Jun-01	1,330	2,060	2,801	4,861
Burkina Faso 5/ 6/	Jul-00	Apr-02	553	930	1,161	2,091
Cameroon	Oct-00	Apr-06	1,267	4,917	1,266	6,183
Ethiopia 6/	Nov-01	Apr-04	1,935	3,275	3,208	6,483
Ghana	Feb-02	Jul-04	2,187	3,500	3,801	7,301
Guyana 5/	Nov-00	Dec-03	591	1,354	705	2,059
Honduras	Jun-00	Apr-05	556	1,000	2,703	3,703
Madagascar	Dec-00	Oct-04	836	1,900	2,339	4,239
Malawi 6/	Dec-00	Aug-06	939	1,600	1,526	3,126
Mali 5/	Sep-00	Mar-03	539	895	1,914	2,809
Mauritania	Feb-00	Jun-02	622	1,100	855	1,955
Mozambique 5/	Apr-00	Sep-01	2,143	4,300	1,990	6,290
Nicaragua	Dec-00	Jan-04	3,308	4,500	1,895	6,395
Niger 6/	Dec-00	Apr-04	644	1,190	1,026	2,216
Rwanda 6/	Dec-00	Apr-05	651	1,316	486	1,801
São Tomé and Príncipe 6/	Dec-00	Mar-07	117	263	59	322
Senegal	Jun-00	Apr-04	488	850	2,408	3,258
Sierra Leone	Mar-02	Dec-06	675	994	644	1,638
Tanzania	Apr-00	Nov-01	2,026	3,000	3,743	6,743
Uganda 5/	Feb-00	May-00	1,027	1,950	3,422	5,372
Zambia	Dec-00	Apr-05	2,499	3,900	2,699	6,599
9 Interim HIPCs				18,159	...	18,159
Afghanistan	Jul-07	...	571	1,272	...	1,272
Burundi	Aug-05	...	826	1,465	...	1,465
Chad	May-01	...	170	260	...	260
Congo, Dem. Rep. of the	Jul-03	...	6,311	10,389	...	10,389
Congo, Rep. of	Mar-06	...	1,679	2,881	...	2,881
Gambia, The	Dec-00	...	67	90	...	90
Guinea	Dec-00	...	545	800	...	800
Guinea-Bissau	Dec-00	...	416	790	...	790
Haiti	Nov-06	...	140	213	...	213
2 Non-HIPCs 7/					182	182
Cambodia	...	...	...	...	82	82
Tajikistan	...	...	...	...	100	100
Total Debt Relief Committed			...	63,413	41,932	105,345

Sources: HIPC documents, and World Bank and IMF staff estimates.

1/ Committed debt relief under the assumption of full participation of creditors.

2/ Nominal MDRI costs include principal and interest foregone for all multilaterals participating in the Initiative, except IMF, which only include principal. The estimated costs for IMF reflect the stock of debt eligible for MDRI relief, which is the debt outstanding (principal only) as of end-2004 and that has not been repaid by the member and is not covered by HIPC assistance (EBS/05/158 Revision 1, 12/15/2005).

3/ Topping-up assistance and assistance provided under the original HIPC Initiative are expressed in NPV-terms as of the time of the decision point.

4/ No totals are shown because the amounts are in different NPV terms (according to the date of the decision point).

5/ Also reached completion point under the original HIPC Initiative. The assistance includes original debt relief.

6/ Assistance includes topping up at completion point.

7/ IMF MDRI debt relief to Cambodia and Tajikistan.

Source: HIPC Initiative documents 2007

Annex Table 3: FDI and Gross Fixed Capital Formation (2005)

Region	Country	Population 2004	GDP per capita 2004 (US\$)	FDI inflow 2005 (mil. US\$)	FDI inward stock 2005 (mil. US\$)	FDI inflows as % of GFCF 2005	GFCF as a % of GDP 2005
North Africa	Algeria	32.36	2496	1081	8272	4.9	21.6
	Egypt	72.64	1222	5376	28882	33.6	17.2
	Lybia	5.74	3406	261	533	8.6	8
	Morocco	30.6	1589	2933	22818	22.1	25.5
	Tunisia	10	2814	782	16924	12.1	21.4
North Africa Total		151.34	11527	10433	77429	.	.
Sub Saharan Africa	Angola	13.96	1309	-24	13413	-1	8.3
	Benin	6.89	500	21	290	2.5	19.1
	Botswana	1.73	4771	346	1084	17.8	21
	Burkina Faso	12.38	348	19	68	1.6	21
	Burundi	7.34	93	-1	45	-0.8	15.6
	Cameroon	16.4	1007	18	1072	0.7	15.1
	Cape Verde	0.48	1947	19	247	5.9	32.5
	Central African Rep.	3.95	330	6	112	3.4	12.8
	Chad	8.82	426	705	3857	64.5	20.1
	Comoros	0.61	427	1	24	3	9
	Congo, Dem. Rep.	54.8	427	1344	2333	106.9	17.5
	Congo, Republic of.	3.86	1129	402	3500	26.4	26
	Cote d'Ivoire	16.8	908	192	4355	10.1	11.7
	Djibouti	0.72	852	23	108	26.4	12.4
	Equatorial Guinea	0.51	7845	1860	7351	304.2	9.1
	Eritrea	4.48	187	11	395	5.4	21.4
	Ethiopia	75.6	106	205	2752	11.6	15.8
	Gabon	1.37	4710	300	542	15.6	21.6
	Gambia	1.45	281	24	289	23.1	22.6
	Ghana	21.2	403	156	2073	6	24.3
	Guinea	8.07	421	102	578	23.9	12.9
	Guinea-Bissau	1.53	176	10	58	27.5	12.5
	Kenya	32.4	443	21	1113	0.8	13.7
	Lesotho	1.81	764	47	527	8.4	44.1
	Liberia	3.45	146	194	4031	304.9	13.1
	Madagascar	17.33	222	48	651	4.2	24.2
	Malawi	11.18	165	3	503	1.6	9.1
	Mali	11.94	377	159	915	15.8	19.1
	Mauritania	2.91	416	115	684	33.3	17.8
	Mauritius	1.23	5123	24	777	1.8	21.5
	Mozambique	19.13	328	108	2386	8.4	19.1
	Namibia	2.03	2661	349	2440	23.2	24.6
	Niger	12.1	199	12	127	2.3	14.8
	Nigeria	139.8	594	3403	34806	31.2	11
	Rwanda	8.41	205	8	279	2.3	16.3
	Sao Tome & Principe	0.16	447	7	24	32.4	31.2
	Senegal	10.46	672	54	1126	2.9	22.3
	Seychelles	0.09	8874	82	828	114.9	10.3
	Sierra Leone	5.44	196	27	108	15.2	14.8
	Somalia	9.94	262	24	48	.	.
	South Africa	45.6	4507	6379	69372	15.8	16.9
	Sudan	34.4	561	2305	7850	52.2	15.9
	Swaziland	1.12	2231	-14	814	-3	18.4
	Tanzania	36	330	473	6029	19.1	20.4
	Togo	4.97	348	49	686	10.7	21.7
	Uganda	25.92	280	258	1830	16.3	18.2
	Zambia	10.55	463	259	3183	18.6	19.7
Zimbabwe	12.94	351	103	1383	13.5	17	
Sub Saharan Africa total		724.26		20236	187066		
All Africa total		875.6		30669	264495		

Source: Adapted from OECD – Directorate of Financial and Enterprise Affairs

Annex Table 4: Workers' remittances, Compensation and Employees, and Migrant Transfers (US\$ millions)

Country	1990	1995	2000	2001	2002	2003	2004	2005	2006e
Algeria	352	1.120	790	670	1.070	1.750	2.460	1.950	2.527
Egypt, Arab Rep.	4.284	3.226	2.852	2.911	2.893	2.961	3.341	5.017	5.017
Libya	..	..	9	10	7	8	10	15	15
Morocco	2.006	1.970	2.161	3.261	2.877	3.614	4.221	4.589	5.048
Tunisia	551	680	796	927	1.071	1.250	1.432	1.393	1.499
Angola	..	..	..	..	..	..	..	..	..
Benin	101	100	87	84	76	55	63	63	63
Botswana	86	59	26	26	27	39	93	125	125
Burkina Faso	140	80	67	50	50	50	50	50	50
Burundi	..	..	..	..	..	..	..	..	..
Cameroon	23	11	11	11	11	11	11	11	11
Cape Verde	59	106	87	81	85	92	113	137	137
Central African Rep.	..	..	..	..	..	..	..	..	..
Chad	..	..	..	..	..	..	..	..	..
Comoros	10	12	12	12	12	12	12	12	12
Congo, Dem. Rep.	..	..	..	..	..	..	..	..	..
Congo, Rep.	..	4	10	12	1	13	15	11	11
Cote d'Ivoire	44	151	119	116	120	142	159	160	160
Equatorial Guinea	..	..	..	..	..	..	..	..	..
Eritrea	..	..	3	..	..	..	..	..	..
Ethiopia	5	27	53	18	33	47	134	174	174
Gabon	..	4	6	5	3	6	6	6	6
Gambia, The	10	19	14	7	7	65	62	58	58
Ghana	6	17	32	46	44	65	82	99	99
Guinea	..	1	1	9	15	111	42	42	42
Guinea-Bissau	1	..	2	10	18	23	28	28	28
Kenya	139	298	538	517	395	494	371	524	524
Lesotho	428	411	252	209	194	288	355	327	327
Liberia	..	..	..	..	..	..	..	..	..
Madagascar	8	14	11	11	17	10	5	3	3
Malawi	..	1	1	1	1	1	1	1	1
Mali	107	112	73	88	137	154	155	155	155
Mauritania	14	5	2	2	2	2	2	2	2
Mauritius	..	132	177	215	215	215	215	215	215
Mayotte	82	..	..	..	..	..	..	..	..
Mozambique	70	59	37	42	53	70	58	57	57
Namibia	13	16	9	9	7	12	16	16	16
Niger	14	8	14	22	19	26	60	60	60
Nigeria	10	804	1.392	1.167	1.209	1.063	2.273	3.329	3.329
Rwanda	3	21	7	8	7	9	10	21	21
S. Tome&Principe	..	..	0	1	1	1	1	1	1
Senegal	142	146	233	305	344	511	633	633	633
Seychelles	8	1	..	2	2	5	7	11	11
Sierra Leone	..	24	7	7	22	26	25	2	2
Somalia	..	..	..	..	..	..	..	..	..
South Africa	136	105	344	297	288	435	523	658	658
Sudan	62	346	641	740	978	1.224	1.403	1.016	1.016
Swaziland	113	83	74	74	62	88	89	81	81
Tanzania	..	1	8	15	12	9	11	16	16
Togo	27	15	34	69	104	148	179	148	148
Uganda	..	..	238	342	421	306	384	476	476
Zambia	..	..	..	..	..	..	..	..	..
Zimbabwe	1	..	..	..	..	..	..	..	..

Source: World Bank data base.

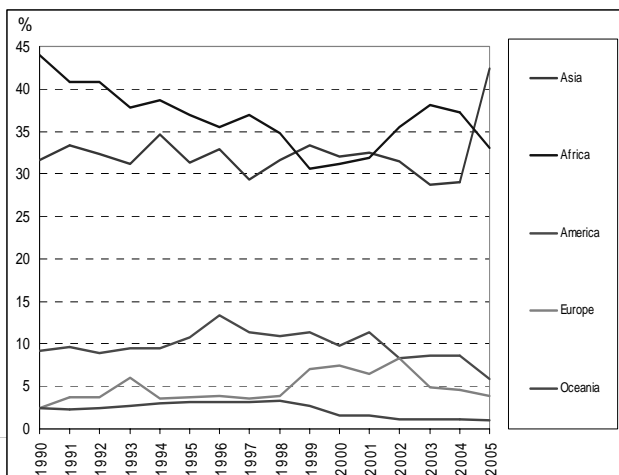
Annex Table 5: ODA to Africa – Some Detail

Top 10 ODA receipts by recipient, US\$m (2005)		
Nigeria	6437	18%
Ethiopia	1937	6%
Sudan	1829	5%
Congo, D. R.	1828	5%
Tanzania	1505	4%
Congo Rep.	1449	4%
Mozambique	1286	4%
Uganda	1198	3%
Ghana	1120	3%
Zambia	945	3%
Other recipients	15678	45%
Total	35212	100%

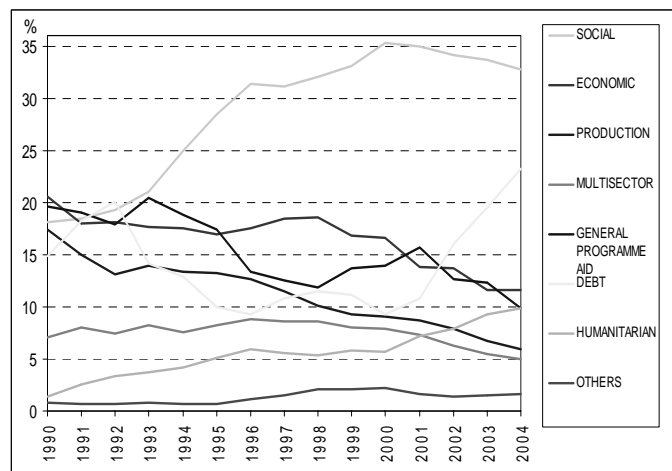
Top 10 ODA donors, US\$m (2005)		
France	4647	13%
US	4570	13%
EC	3922	11%
United Kingdom	3796	11%
IDA	3600	10%
Germany	2659	8%
Netherlands	1422	4%
Japan	1103	3%
Canada	1005	3%
Italy	921	3%
Other donors	7568	45%
Total	35212	100%

Source: OECD-DAC

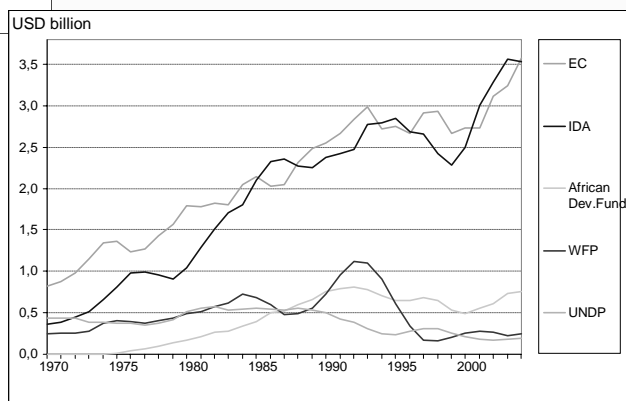
Regional Share of total net ODA (as % of total)



ODA to Africa by sector, 1990-2004 (as % of total)



ODA to Africa by largest multilateral donors, 1970-2004



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).

I. Successes, bottlenecks, critical next steps and responsibilities

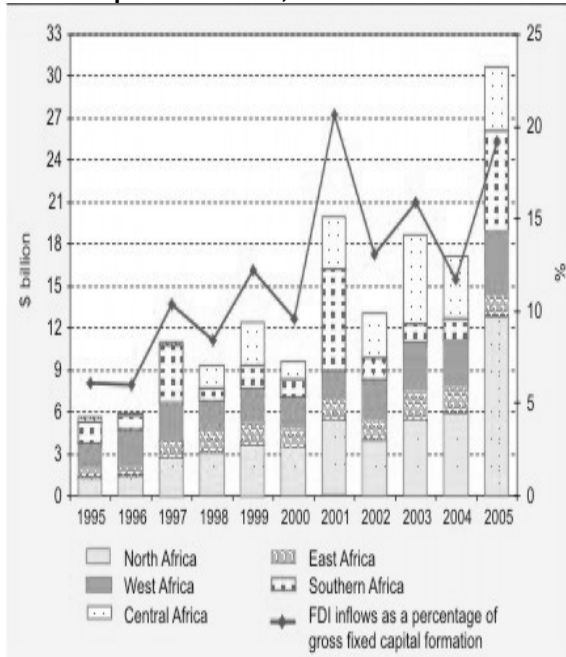
Key issues	Successes	Bottlenecks	Critical next steps	Responsibilities
Improving economic governance	There has been a spectacular recovery in growth and macro-economic stability since 2000	Institutional capacity	Reinforce institutions and the application of economic regulations, particularly the legal system and the implementation of contracts, and regulation of financial markets	African states with support from development partners
	Significant work has been undertaken to reform economic regulations	But these remain complex and cumbersome	Simplify economic regulations, including registration, employment legislation and company law	African states and development partners
	Serious attempts to combat corruption are being implemented	But more needs to be done	Accelerate the roll out and implementation of instruments to combat corruption, both in Africa and internationally	Private sector, African states and international community
Reinforcing financial markets	Financial markets are more stable following reforms; Central Banks are more actively involved in oversight; banks following international standards (Basel II)	Lack of long-term resources for private investment ; risk aversion by banking sector to enterprise financing	Support African efforts to strengthen financial market intermediation; scale up resources to build financial sector capacity in Africa; improve management of financial institutions	African states and development partners
	Public-private partnerships and agreements between commercial banks and development banks are creating new financial instruments and guarantee arrangements to fill credit market gaps	Few lending and savings instruments are suited to the financial needs of SMEs and agro-businesses	Develop risk-reduction instruments and techniques and promote their use; strengthen private sector capacity to develop feasibility studies for investment projects	Development finance institutions, private banks
	African capital markets are growing, not only in North Africa and South Africa, but also in a number of other countries	Capital markets are thin and illiquid; inadequate stock and debt market oversight and regulations; limited efforts to integrate stock markets at the regional level	Provide incentives for pension funds and other institutional investors to participate more actively in the local capital market; reinforce capital market oversight and regulations; facilitate cross-listing of shares	African states, RECS and development partners
	An increased number of micro-finance initiatives of benefit to women, the poor and the rural sector	Poor insititutional capacity among microfinance institutions; need for longer term lending instruments; microentrepreneurs lack necessary skill base to grow and develop	Reinforce capacity of micro-finance institutions , provide training in business management practices and product development to micro-enterprises	African states and development partners, civil society, private sector

Key issues	Successes	Bottlenecks	Critical next steps	Responsibilities
Developing national and cross-border infrastructure	Development partners and emerging financiers such as China, India and Arab partners are increasing their funding of infrastructure	Large investment gaps remain in all sectors. The co-ordination of resources and upstream project preparation efforts continue to be weak/inadequate	Sustain recent trend of increasing investment in infrastructure including regional projects Ensure adequate resources for upstream project preparation	Development partners / African states
	The Infrastructure Consortium for Africa is playing a positive role as a framework to co-ordinate and facilitate the delivery of additional resources.	Many countries still lack national infrastructure development frameworks	Countries to prepare strategic frameworks where not yet available	African states
	Private-sector participation and investment have gone beyond telecommunications to include power generation, railways, ports and airport services.	Private participation in the infrastructure sector is still limited and concentrated in i) a handful of countries (South Africa and North Africa, in particular) and ii) in telecommunications and, to a lesser extent, the energy sector	Use guarantee mechanisms such as partial risk guarantees and political risk insurance to increase private sector involvement (Investment Climate Facility for Africa, Public-Private Infrastructure Advisory Facility)	African states, Development partners and private sector
	Funding for regional projects has risen sharply in recent years.	Funding for regional projects by multilateral agencies reaching a plateau. Intervention by bilateral development partners still limited Regional projects still face numerous obstacles such as the lack of harmonisation of the legal framework or inadequate delegation of decision-making	Speed up economic and legal integration at the regional level; strengthen REC capacity and authority to co-ordinate regional projects	African states, RECs and Development partners

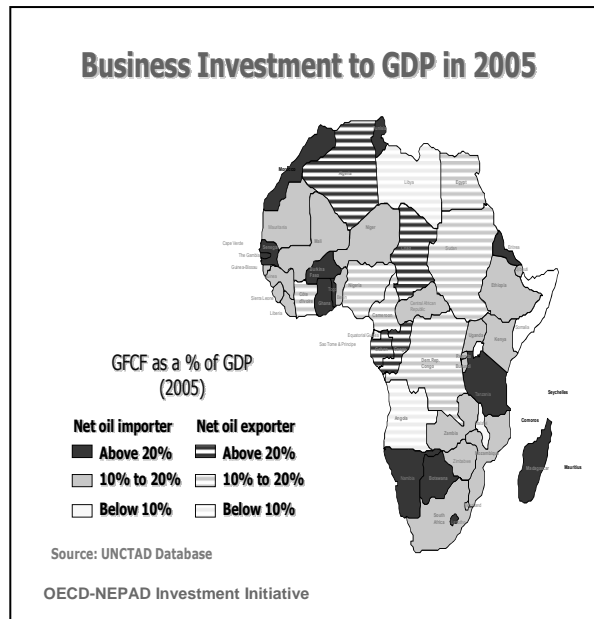
Key issues	Successes	Bottlenecks	Critical next steps	Responsibilities
Developing human capital	Many vocational training and apprenticeship programmes are being initiated	Lack of sufficient vocational training and certification	Develop the “continuing” (particularly “non-formal”) vocational training of young people and workers, and integrate it within national education programmes to improve standards	African states and development partners
	Increasing numbers of African executives are being trained in Africa or abroad	Brain drain of qualified staff to other countries; inability to attract skilled diaspora	Strengthen policies and develop incentives to encourage engagement of diaspora in economic activities in Africa; improve managerial standards and increase business school partnerships	African states, private sector
	Workforce more skilled as a result of progress towards universal education	Quality of education does not necessarily match the progress achieved in school attendance rates	Recruit more teachers, improve teacher training and skill level	African states, development partners

II. Investment: Results

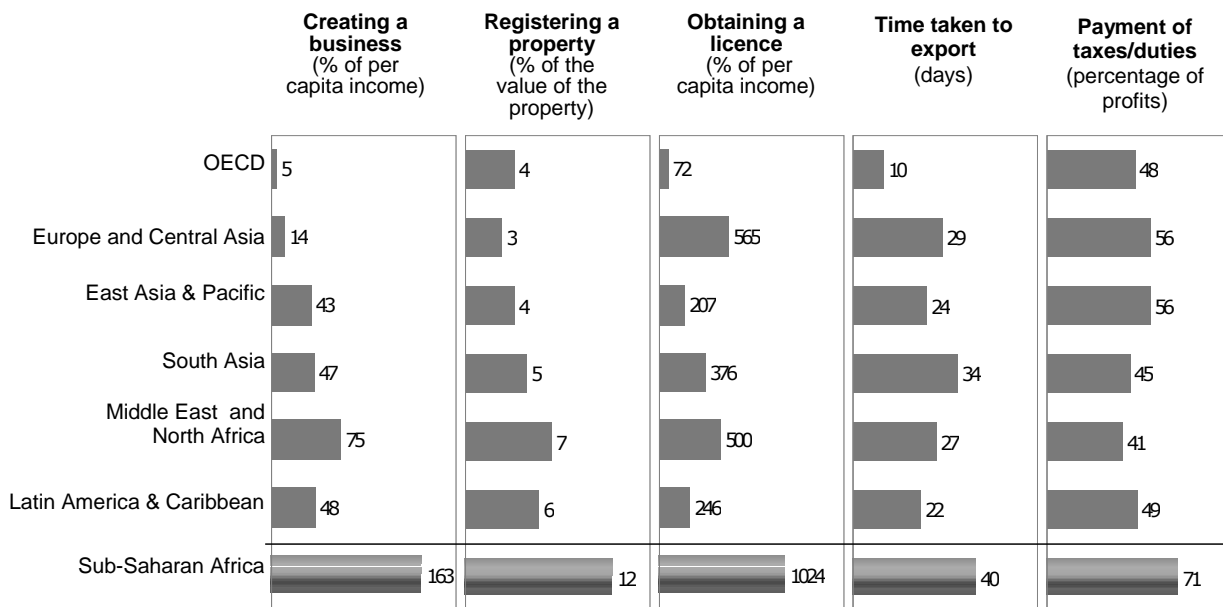
Africa: FDI inflows and their share in gross fixed capital formation, 1995-2005



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex tables B.1 and B.3.



The highest cost of doing business in the world



Source: World Bank, Doing Business Report (2005/06)

ANNEX: Key Monitoring Issues

1. Improving economic governance

Indicators	Evaluation
1. Institutional capacity	<p>African countries have made major steps forward in the areas of macro-economic management, and public financial management and accountability. More countries are running smaller deficits, meeting their targets for revenue mobilisation, managing their tax systems more effectively, improving fiscal transparency, and creating institutions and arrangements for better auditing of public funds. Many countries have also taken important steps to encourage private investment, including removing administrative barriers to the registration of private firms, protecting property rights, providing land for sitting industries, and improving infrastructure and security.</p> <p>Good economic governance also requires strong institutions. Important actions have been taken in the area of legal and judicial reform, and the strengthening of legislatures and judiciaries to enhance their effectiveness and independence.</p> <p>At the same time, sub-Saharan Africa continues to score lower than other regions in 3 indicators of institutional quality: rule of law, regulatory quality, and corruption (World Bank¹). It is widely recognised that institutional capacity remains a major constraint, and a key to improving economic governance. The UNECA African Governance Report of 2005 identifies a number of specific priorities including deepening of legal and judicial reforms, and removing bottlenecks to private investment. In particular, it identifies the need for consistent policies and regulations governing the establishment and operation of businesses, the protection of property rights and the enforcement of contracts, programmes to enhance business development and technical support services, and the provision of good information on markets and investment opportunities.</p>
2. Quality of economic regulations	<p>Africa is the region of the world that has undertaken the third greatest amount of reform of its economic regulations in 2005/2006 (67% of African countries implemented at least one reform, compared to just 35% of East Asian countries and 25% from South Asia), while Egypt, Ghana and Kenya feature among the ten leading reformers in 2006/2007 (International Finance Corporation, <i>Doing Business 2008</i>);²</p> <p>Ghana cut bottlenecks in property registration, reducing delays from six months to one; Kenya's licensing reform program has eliminated 110 business licenses; Mauritius has reduced the property registration fee to 5% of the property value; Burkina Faso introduced a one-stop shop for company registration which cut the time for business start up to 18 days; Mozambique replaced legislation dating from 1888 with a new commercial code that introduces stricter corporate governance rules (International Finance Corporation, <i>Doing Business 2008</i>);</p> <p>In 2006, Nigeria became the 110th state rated by Standard and Poor's and the 14th in Africa; progress achieved led to improved ratings for Egypt, South Africa and Morocco;³</p> <p>However, due to the poor quality of its regulations, Africa remains the continent where it costs the most – and where it takes the longest amount of time to carry out business activities (C.f. Section II: <i>"The highest cost of doing business in the world"</i>);</p> <p>The G8 has pledged support for national and regional efforts "to improve the investment climate by means of regulatory and administrative reform (including the implementation of national APRM recommendations)"⁴</p> <p>Africa is also the developing region where labour market rigidities remain the greatest (World Bank).⁵</p>

3. Transparency and combating corruption

The 2007 Corruption Perceptions Index (CPI) results show that “Africa is producing good results in the fight against corruption”. Across Africa, countries including Namibia, Seychelles, South Africa and Swaziland scored significantly higher (Transparency International) than the previous year;⁶

Nigeria is the only one of the fifteen African signatories of the Extractive Industries Transparency Initiative (EITI) to have fulfilled all its commitments under the initiative, notably the publication of audited, reconciled reports;⁷

The African Union Convention on Combating and Preventing Corruption, adopted on 11 July 2003, has been signed by 26 of the 53 AU member states, but has only been ratified by 11 members;⁸

The United Nations Convention against Corruption has yet not been ratified by several OECD countries.⁹ There are also important steps which the international community needs to take to help reinforce efforts in Africa to combat corruption, for instance by: completing ratification of the UN Convention against Corruption and translating its provisions into national laws, policies and practices; reinforcing monitoring of the implementation of the OECD Anti-Bribery Convention, and ensuring the vigorous implementation of its commitments to tackle the problem of money laundering through action to detect, recover and return illegally acquired assets.

2. Reinforcing financial markets

Indicators	Evaluation
<p>1. Overcoming market failures to address the financial needs of SMEs and agro-businesses (“finance for growth”)</p>	<p>SMEs are still experiencing major problems in gaining access to finance, due in particular to the strong risk aversion of banking institutions. Financial systems in most African countries are dominated by a small number of banks that dominate the market.¹⁰ Demanding guarantee requirements and formalities are still required, interest rates are high (twice as high as 1980s levels in some countries¹¹) and financial products on offer are limited (UNECA);</p> <p>With a few exceptions (northern and southern Africa, and – to a lesser extent – East Africa), African agriculture remains seriously under-funded (particularly the crop sector), which to a large extent explains its chronic under-capitalisation. An analysis of agricultural capital stock in the 1990s showed that in Africa it was at a sixth of Asian levels and a quarter of levels seen in Latin America.¹² Rural credit institutions that were dismantled during the structural adjustment era are taking a significant amount of time to re-establish themselves;</p> <p>New initiatives (foundations promoting public-private partnerships in finance, development banks lending to commercial banks at concessional rates or guaranteeing their loans to SMEs and farmers) are being developed with the aim of filling the gap of intermediate financial products and finance for agriculture:</p> <p>There is still a need to reinforce competition policies and increase the flexibility of guarantees (particularly property titling) in the banking sector.</p>
<p>2. Development of capital markets</p>	<p>Despite widespread development and high levels of profitability, African capital markets are still marked by their inadequate size and by large regional disparities (the differences are enormous between South Africa, whose stock market capitalisation is comparable to that of the industrialised countries or the nations of North Africa and the rest of Africa). Refinancing difficulties feature as one of the main reasons put forward by multinationals to justify their comparatively low level of investment in Africa (UNCTAD)¹³;</p> <p>G8 countries are committed to “developing long-term local currency financing and suitable insurance instruments for coverage of exchange rate risks.”</p>
<p>3. Availability of micro-finance for women, the poor, micro-entrepreneurs and craft workers from the informal sector (“finance for all”)</p>	<p>Despite spectacular development, African micro-finance is still concentrated in a limited range of sectors and activities (urban communities, womens’ groups and mutual assistance associations, purchasing groups, consumer credit, commercial intermediation etc). This explains the lack of diversification of available products and the small sums involved. The rural world and productive activities, particularly processing, still receive insufficient support – this is even more true for urban and rural micro-entrepreneurs;</p> <p>The G8 is planning to develop a regional Micro, Small and Medium Enterprises Investment Fund (REGMIFA) as “an instrument to mobilize resources to refinance medium- and long-term investment credits for smaller enterprises and to microfinance institutions.” G8 leaders also committed themselves to strengthen microfinance institutions’ capacities through training programmes and technical assistance.</p>

3. Developing infrastructure

Indicators	Evaluation
<p>1. Increased and rationalised infrastructure expenditure (ODA and government expenditure)</p>	<p>Government expenditure on infrastructure has begun to increase again after a long period of decline. This is particularly true of:</p> <ul style="list-style-type: none"> • the oil-producing countries (Algeria, Nigeria, Angola etc.); • the countries of North Africa; • countries whose efforts to achieve budgetary discipline have allowed them to follow expansionist policies (South Africa) etc.; <p>Second-generation road funds financed by duties on petroleum products and other revenues and managed by a board of directors comprising road users' representatives have been set up in 26 countries in sub-Saharan Africa. Thirteen of these road funds obtain 90% of their income from fees on users (principally duties on petroleum products). However, no more than about a third of them are deemed to be adequately meeting standard maintenance requirements;</p> <p>ODA devoted to infrastructure turned upwards again from 2003 onward, after experiencing a continuous decline since 1985;¹⁴</p> <p>Not only has external support for African infrastructure been increasing significantly for several years, hitting US\$ 7.5 billion in 2006 (ICA)¹⁵, but it is also better co-ordinated thanks to the creation of the Infrastructure Consortium for Africa;</p> <p>However, those countries in sub-Saharan Africa that are not oil-producers continue to be under-resourced for developing infrastructure necessary for their development;</p> <p>Africa needs almost US\$ 40 billion of investment in infrastructure per annum for the next 10 years (World Bank).</p>
<p>2. Involvement of the private sector in financing infrastructure in Africa</p>	<p>Launch of the Investment Climate Facility for Africa – a public-private partnership with several objectives including infrastructure development – on 1st June 2006 / 1st project of the facility in 2007 / G8 support confirmed at the Heiligendamm Summit;</p> <p>Africa is the developing region in which private investment in infrastructure is growing the fastest – but this progress predominantly concerns telecommunications and, to a lesser extent, energy, whereas transport, water and sanitation remain very heavily dependent upon public funds (World Bank).¹⁶</p>
<p>3. Rationalisation of management and oversight to develop regional infrastructure</p>	<p>In September 2006 the African Union Commission (AUC), NEPAD Secretariat, RECs, African Development Bank (ADB) and AU Specialised Institutions agreed on principles for a co-ordination mechanism for infrastructure development;</p> <p>The G8 has decided to launch an initiative to strengthen the Regional Economic Communities' (RECs) capacities for the development of cross-border infrastructure.</p>

4. Developing human capital

Indicators	Evaluation
1. Developing vocational training	<p><i>"Ensuring that the learning needs of all young people and adults are met through equitable access to appropriate learning and life skills programmes"</i> is one of the six Education for All (EFA) goals established at the 2000 World Education Forum in Dakar;</p> <p>Efforts made by African states tend to concentrate on universal primary education but do not pay enough attention to life skills training for youth and adults (2003 EFA monitoring report);</p> <p>More programmes for learners in non formal settings – such as “Starting my own small business” (UNESCO) which is intended to provide supplementary knowledge to young people receiving technical and vocational education and training – are being developed.¹⁷</p>
2. Integration of qualified workers from the diaspora into working life	<p>Since 1990, at least 20,000 people have left the African continent annually (International Organization of Migration), including numerous skilled workers. The UN Development Programmed (UNDP) notes that in Africa, the loss of medical doctors has been the most striking. To fill the gap created by the skills shortage, African countries spend an estimated US\$ 4 billion annually to employ about 100,000 non-African expatriates (UNECA);¹⁸</p> <p>The African Union adopted a “Migration Policy Framework for Africa”, which recommends creating “the necessary political, social and economic conditions such as an enabling policy environment, democracy and good governance to serve as incentive to attract Diaspora.”¹⁹</p>
3. Trend showing percentage of children enrolling in primary school	<p>There has been progress towards universal primary education with enrollment increasing from 57% in 1999 to 70% in 2005 (UNESCO), but this rate is still significantly lower than in other developing regions (88%);²⁰</p> <p>In addition, the greater number of children receiving an education has not systematically led to increased primary school completion rates: : just 55% of children from the continent were able to complete a full primary education in 2000, compared to 57% in 1990.</p>

¹ Kaufmann D., A. Kraay, and M. Mastruzzi, 2005, Governance Matters IV: Governance Indicators for 1996-2004, <http://econ.worldbank.org>

² <http://www.doingbusiness.org/>

³ Standard and Poor's, UNPD, *The rating of sovereign states in Africa*, April 2006

⁴ www.g-8.de, G8 Heiligendamm Summit Declaration on Growth and Responsibility in Africa, paragraph 28.

⁵ World Bank, “Doing Business. Benchmarking Business Regulation”, 2006.

⁶ Transparency International, 2007 Corruption Perceptions Index,

http://www.transparency.org/policy_research/surveys_indices/cpi/2007/faq#change2

⁷ Publish what you pay/Revenue Watch Institute, Eye on EITI, *Civil Society Perspectives and Recommendations on the EITI*, Oct. 2006.

⁸ http://www.mibs.gov.zm/index.php?option=com_content&task=view&id=140&Itemid=142

⁹ http://www.unodc.org/unodc/crime_signatures_corruption.html

¹⁰ Senbet, L.W. and I. Otchere, 2006. “Financial Sector reforms in Africa. Perspectives on Issues and Policies.” In Bourguignon, F. and Boris Pleskovic, Eds., *Annual World Bank Conference on Development Economics – Growth and Integration*. Washington D.C.: The World Bank, 81-819.

¹¹ Economic Commission for Africa (ECA), Economic Report on Africa 2006, *Capital Flows and Development Financing in Africa*.

¹² http://www.fdimagazine.com/news/fullstory.php/aid/17/Going_long.html

¹³ UNCTAD, *Capital Flows and Growth in Africa*, Geneva: United Nations, 2000.

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- ¹⁴ Presentation by Michael Roeskau (OECD), at NEPAD-OECD Roundtable on investment in Africa, held in Brazzaville, 12th-13th December 2006.
- ¹⁵ Infrastructure Consortium for Africa, “Africa’s Demand for Infrastructure”, ICA Senior Level Meeting, January 17, 2007, Berlin, Germany.
- ¹⁶ C.f. Michel Wormser (World Bank), *Accelerating support to infrastructure in Africa*, Infrastructure Consortium Meeting, Berlin, January 2007.
- ¹⁷ http://portal.unesco.org/education/admin/ev.php?URL_ID=49258&URL_DO=DO_TOPIC&URL_SECTION=201&reload=1193044592
- ¹⁸ <http://www.un.org/ecosocdev/geninfo/afrec/vol17no2/172brain.htm>
- ¹⁹ African Union, Executive Council, 9th ordinary session, 25 – 29 June 2006, Banjul, THE GAMBIA, The Migration Policy Framework for Africa.
- ²⁰ United Nations, « Africa and the Millenium Development Goals », 2007 Update.

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 of 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 imports 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'.

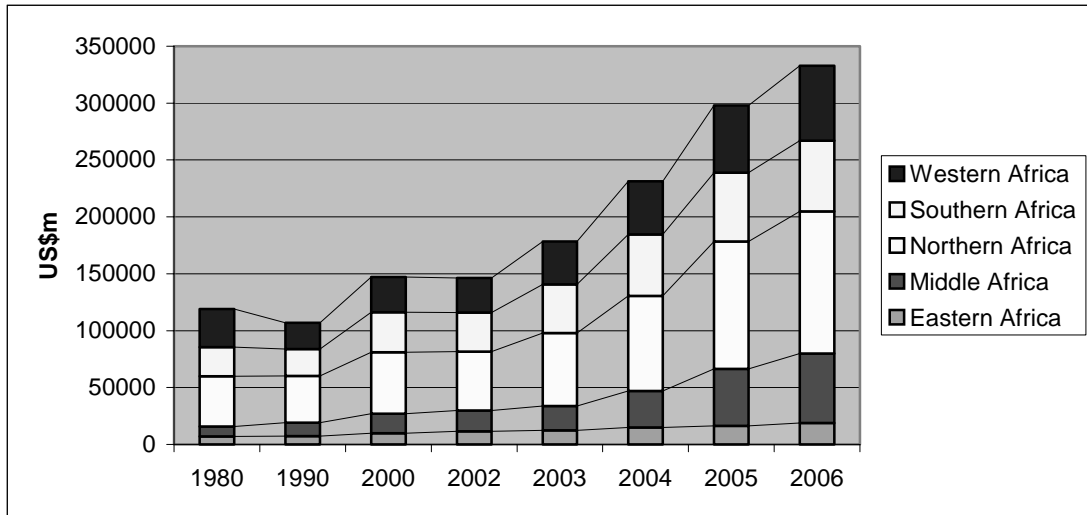
I. Successes, bottlenecks, critical next steps and responsibilities

Key monitoring issue	Successes	Bottlenecks	Critical next steps	Responsibilities
Improving market access / reducing subsidies	<p>Agreement at 2005 WTO Hong Kong Ministerial to:</p> <ul style="list-style-type: none"> - Reduce domestic support for agriculture and eliminate all forms of agricultural export subsidies and discipline all export measures with equivalent affect by the end of 2013; - Eliminate all forms of export subsidies for cotton in 2006, and reduce trade distorting domestic subsidies for cotton production; - Implement duty and quota-free market access for 97% of products from Least Developed Countries, and introduce simplified and transparent rules of origins to facilitate LDC exports. <p>Prefential agreements have continued to evolve. AGOA covers 38 SSA countries and has been extended from 2008 to 2012. EU, Japan and Canada have specific preferential arrangements for LDCs, which are WTO-compatible</p>	<p>Implementation subject to successful conclusion of the Doha Development Round. Pending this there are still significant domestic and export support measures that distort competition and disadvantage African producers and exporters</p> <p>Only a multilateral round can also comprehensively address tariff peaks and tariff escalation which African exporters face in OECD and emerging economies</p> <p>In addition to traditional tariff barriers, exporters now also face requirement to comply with new health and environmental standards</p> <hr/> <p>Benefits limited due to factors including the restrictive impact of rules of origin, and supply-side constraints</p> <p>Current EU preferential arrangements with ACP not WTO-compatible</p>	<p>Take forward discussions which have now resumed in Geneva on the Doha Development Round, in order to deliver an ambitious and well-balanced outcome in line with political commitments to this effect.</p> <p>Accelerate international harmonisation of health and environmental standards, broaden access to information, and reinforce capacity to meet new standards</p> <hr/> <p>Timely conclusion of EU negotiations with ACP on Economic Partnership Agreements</p> <p>Ensure that preferential rules of origin are transparent and simple, and help to reinforce regional integration</p> <p>Ensure appropriate adjustment mechanisms for those adversely affected</p> <p>Strengthen supply-side capacity</p>	International community
Reinforcing the capacity to develop and implement trade related policies	<p>There has been major export growth in certain sectors such as horticulture, livestock, fisheries and cotton</p> <p>The reduction of export subsidies in Africa has stimulated export growth</p> <p>Aid-for-Trade resources have increased since 2000</p>	<p>Insufficient c-ordination between trade and development/supply- side policies</p> <hr/> <p>Aid-for-Trade has not been disbursed quickly and has not focused sufficiently on supply-side constraints</p>	<p>Mainstream trade objectives into economic, industrial and agricultural policies</p> <p>Develop measures to promote investment and to support the private sector</p> <p>Reinforce inter-ministerial coordination around trade / investment objectives</p> <hr/> <p>Step up the pace of disbursements</p> <p>Target support on supply-side constraints</p>	<p>African states and development partners</p> <hr/> <p>Development partners</p>

Key monitoring issue	Successes	Bottlenecks	Critical next steps	Responsibilities
	Numerous initiatives to facilitate trade (easing/reducing border controls)	Cumbersome customs and administrative entry procedures	Simplify customs, export clearance and administrative entry procedures	African states
	Investment is growing due to an improved business environment	The lack of export diversification mirrors Africa's supply side constraints	Improve economic policies and regulations ; develop infrastructure and financial markets	African states and development partners
Developing intra-regional trade	Numerical increase in and intensification of customs unions and common markets	There are still many tariff and other trade barriers (e.g. roadblocks, distorting/competing tax regimes, infrastructure, corruption, customs procedures) that discourage/impede the development of intra-regional trade	Reduce tariffs and non-tariff barriers at the central and local level – especially through the development of regional infrastructure and cross-border co-operation (joint patrols, trade facilitation)	African states
	Stabilisation of the macro-economic environment	Insufficient co-ordination of economic policies at regional level	Increase regional co-ordination of tax, customs and monetary policies	African states
	Development of regional trade agreements with other regional trade blocs	Partnerships with other regional trading blocs are loosely tied to regional economic integration	Use regional trade agreements to expand growth and export development Agreements with regional trade blocs must be integrated into regional growth and investment strategies	African states / Development partners
	Growth in regional markets	Tendency for authorities to lag behind private sector integration efforts	Speed up the construction of regional market infrastructure (physical, legal & communications infrastructure)	African states
	Development of regional infrastructure: AU, AfDB and RECs have clarified their responsibilities / G8 countries have strengthened their co-ordination (under the ICA) and launched an initiative to reinforce the capacity of RECs	Regional projects are hindered by numerous problems such as limited harmonisation of legal frameworks and weak capacities Co-ordination of resources and upstream project preparation appear inadequate	Integrate facilities for upstream project preparation; bolster ICA role in co-ordinating initiatives and identifying problems; reinforce the role and powers of RECs as regional project leaders	African states / Development partners

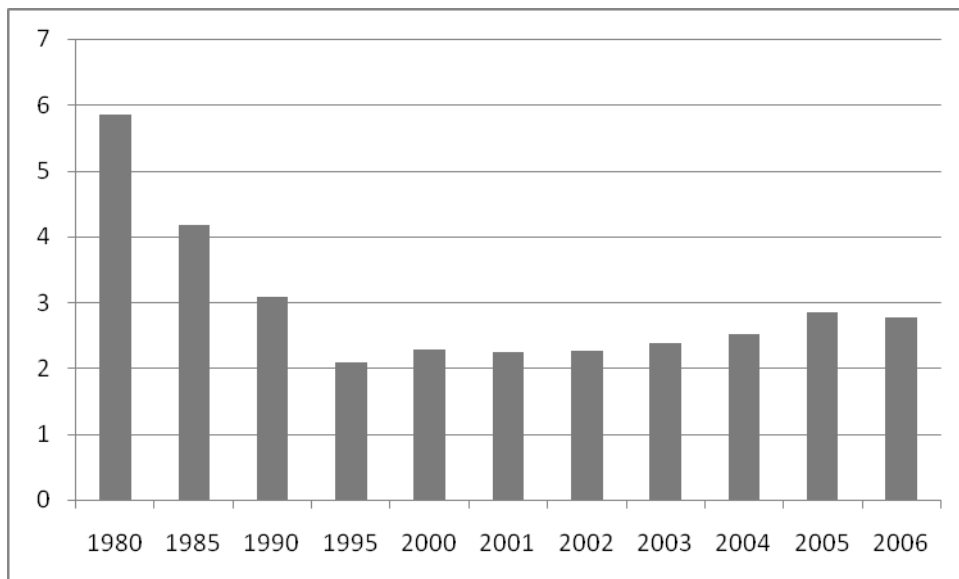
II. Results

Figure 1: Exports from Africa by region, 1980-2006 (US\$m)



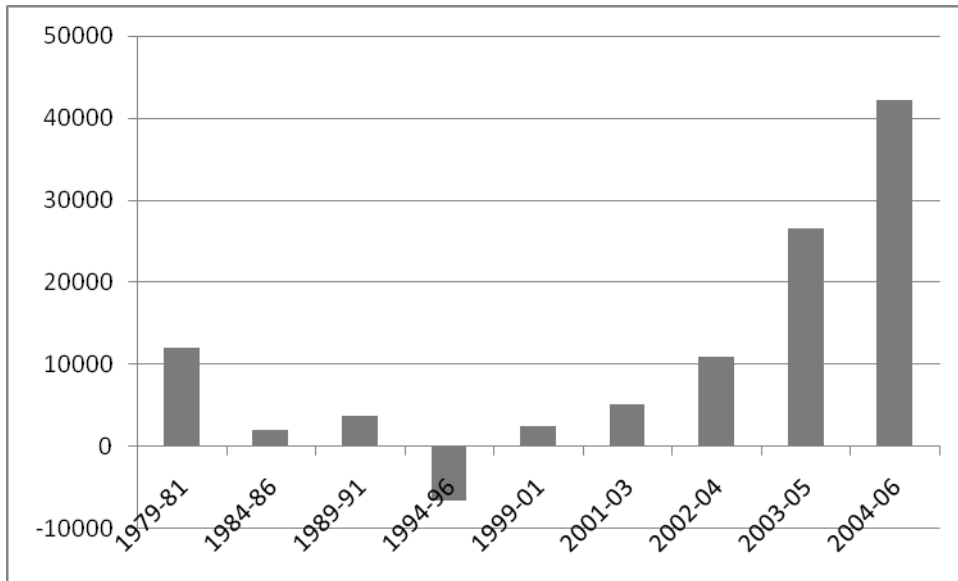
Source: UNCTAD Handbook of Statistics 2006

Figure 2: Africa's exports as share of world's exports (%)



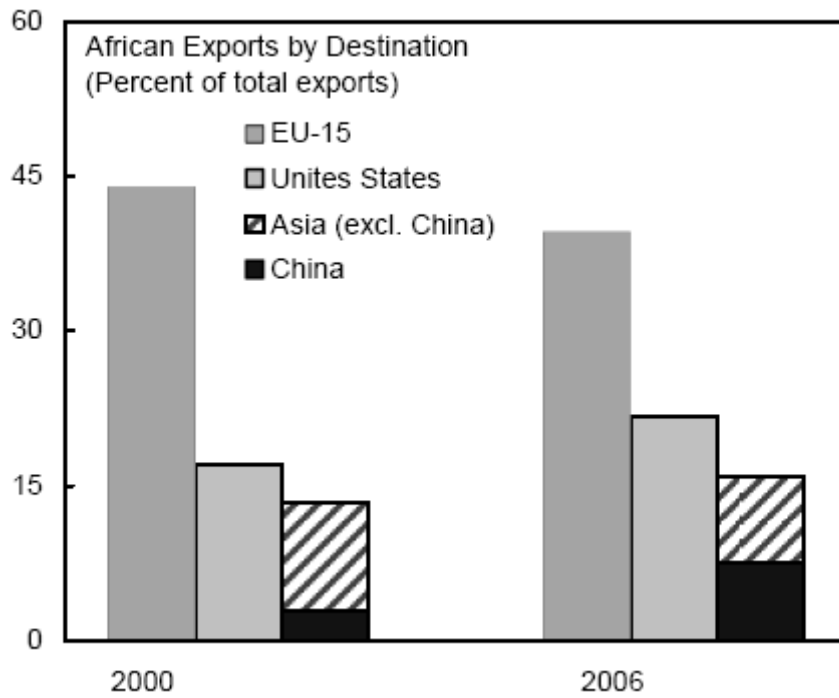
Source: UNCTAD Handbook of Statistics 2006

Figure 3: Evolution of Africa's trade balance, 1979-2006 (US\$ millions)



Source: UNCTAD Handbook of Statistics 2006

Figure 4: African Exports by Destination (% of total exports)



Source: IMF, Direction of Trade Statistics

ANNEX: Key monitoring issues

1. Improving market access / reducing subsidies

Indicators	Evaluation
1. Tariffs and quotas	<p>WTO's Hong Kong Ministerial meeting decided that all developed countries should provide LDCs with duty-free, quota-free market access for at least 97% of imports;</p> <p>In addition, the European Union has offered ACP countries unlimited access to its market in the context of Economic Partnership Agreements (EPA);¹</p> <p>Some simulations appear to indicate that African output and exports of processed products would benefit from wider liberalisation under the Doha Round, provided that they were able to receive special and differential treatment (ECA);²</p> <p>However, the Doha Development Agenda (DDA) is still not concluded and there are numerous tariff peaks and tariff escalation on imports from Africa (notably for manufactures and processed goods) in OECD and key emerging markets (UNCTAD TRAINS 2005);</p> <p>Only a WTO agreement could address these barriers;</p> <p>Overall, gains from a successful conclusion of the DDA round will depend on:</p> <ul style="list-style-type: none"> • Which 3% of exports will continue to face tariffs and quotas (for Africa's 33 LDCs); • Trade liberalisation by developed and large developing countries for agricultural products and labor-intensive manufactures (for Africa's 14 non-LDCs) (WB).³
2. Domestic support measures and subsidies	<p>The level of agricultural subsidies in OECD countries remains very high – about \$US 268 billion in 2006 (OECD).⁴ In the absence of an agreement on the Doha Development Agenda, the gradual elimination of agricultural export subsidies has not yet been achieved. Significant domestic support measures remain in place and do not seem destined to undergo substantial reductions in the near future;</p> <p>In the recent past, many African countries have experienced sharp rises in imports of subsidised agricultural products, to the detriment of domestic output;⁵</p> <p>In this context, African countries are not inclined to reduce their agricultural tariffs without special safeguards;⁶</p> <p>The case of cotton is a striking example of how subsidies can distort international prices and therefore affect African farmers' livelihoods. Any agreement reached within the Doha Development Agenda should include the reform of these subsidies.</p>
3. Health and environmental regulations ⁷	<p>The route towards harmonisation or the adoption of international standards – favoured by the WTO agreements on technical barriers to trade and on sanitary and phytosanitary measures – has been complicated by differences relating to environmental and social priorities; other mechanisms recognised by the WTO, such as equivalence agreements or mutual recognition, are difficult to negotiate and are under-utilised;</p>

	<p>Information systems (particularly early warning systems) concerning technical regulations have become more advanced since the mid-1990s; technical assistance has strengthened testing capacities and product certification processes, although major challenges persist;</p> <p>The extreme variation in product standards (many of which originate from the private sector) complicates/frustrates private sector adoption/adaptation efforts.</p>
<p>4. Preferential trade agreements</p>	<p>African countries enjoy preferential access to European and American markets due to preferential systems established under the Cotonou Agreements, the “Everything But Arms” initiative and the African Growth and Opportunity Act (AGOA);</p> <p>AGOA contributed to the doubling of African exports to the United States (US) between 2001 and 2003 – but most of the increase was due to petroleum products⁸; and, despite AGOA, the current value of African exports to the US is the same as in 1980 (ECA)⁹;</p> <p>The trade preferences granted to developing countries by the EU account for 80% of the value of preferential trade at a global level and benefit the ACP countries in particular (67%); but most of these benefits are concentrated on just two products – sugar and bananas (73%) – and a few countries (OECD)¹⁰;</p> <p>Most LDCs (33 African countries) have benefited very little from preferential trade systems¹¹, mainly because they export commodities which are subject to strong competition and severe tariff erosion. Other solutions which address African LDC’s ability to adjust their supply-side capacity need to be applied to their export problems.</p> <p>Some African countries could suffer losses from further multilateral liberalisation in the form of erosion of their preferential access to rich country markets. But this is only the case for a limited number of traditionally well-protected products (such as processed goods, sugar and bananas), and for only a few countries (which are not necessarily the poorest);</p> <p>For these countries and products, adjustment and compensation mechanisms are crucial in the context of the WTO and EPA negotiations. It will be important to ensure future arrangements build on good practice: lessons learned regarding assistance provided to the sugar sector reveal it can sometimes take many years from the decision to grant credits until the moment when the funds are actually released. Furthermore, most adjustment and compensation mechanisms are predicated on administrative reforms (ensuring implementation up to 2014) (ICTSD)¹².</p>
<p>5. Rules of origin</p>	<p>The AGOA rules of origin stipulate a high level of domestic inputs and value-added for products (particularly textiles) that are eligible for export under the scheme. Without these restrictions, the impact of AGOA on non-petroleum products could have been five times greater (ECA);¹³ Similarly, the disappointing performance of EU preferential schemes may in part be due to rules of origin requirements (SAIIA).¹⁴</p> <p>G8 countries committed themselves to promote “more transparent, easier to use and development friendly Rules of Origin, in particular for Least Developed Countries.”(Heiligendamm Statement)¹⁵</p>

2. Reinforcing the capacity to develop and implement trade related policies

Indicators	Evaluation
<p>1. Mainstreaming trade objectives into national/regional development strategies</p>	<p>The co-ordination of trade-related policies, territorial planning and infrastructure development is critical – particularly at the sub-regional level, and between rural production areas and urban centres. Further, stronger co-ordination of trade and supply-side policies is also needed for accelerating external trade capacity in Africa;</p> <p>In most African countries, export-led development strategies suffer from a lack of coherence with various public policy objectives and their economic, social and environmental costs are often under-evaluated. There are many striking examples of this, such as in the case of fisheries and cash crop sectors, where the extinction of some exported breeds (sea bream, red mullet) as well as environmental impacts on arable land (groundnuts, cotton, etc.) can even threaten a country's ability to export (UNEP);¹⁶</p> <p>It is unclear in some cases whether African exports have increased (in the face of declining terms of trade) due to productivity growth or to a gradual reorientation of domestic output to exports</p> <p>A multidonor trust fund will help countries to mainstream trade issues more fully in national strategies (initially Burundi, Madagascar, Senegal and Tanzania) and support strategic interventions in regional trade issues and country-level supply-side constraints. .¹⁷</p>
<p>2. Increase/reinforce effectiveness of aid for trade</p>	<p>The increased Aid-for-Trade that donors have promised to accompany the Doha Round is critical to help African countries i) overcome adjustment costs they are likely to face with further liberalisation and ii) increase their capacity to trade;¹⁸</p> <p>37 LDCs (of a total of 50) have become beneficiaries under the Integrated Framework (IF), a process launched in 1997 by six institutions (IMF, ITC, UNCTAD, UNDP, World Bank and the WTO) to support LDC governments to build trade capacity and integrate trade issues into overall national development strategies. The achievements of the IF have been modest, with only a handful of LDCs securing substantial benefits from the process (WTO).</p> <p>While Aid-for-Trade pledges have increased considerably, work is still needed to improve its effectiveness (e.g. shortening payment periods / scaling up supply-side assistance and support for private sector development). It is also essential to focus more Aid-for-Trade on regional trade constraints. An Enhanced Integrated Framework (EIF) is currently being developed to strengthen co-ordination between donors and recipient countries, improve the monitoring of the EIF objectives and deliver increased, more predictable funding.</p>
<p>3. Accelerate trade facilitation</p>	<p>Trade facilitation reforms and assistance are especially important for Africa, where cumbersome customs procedures, export clearances and formalities, administrative entry procedures, etc. create long delays that hamper African entrepreneurs efforts to reach regional as well as global markets (ECA; COMESA);¹⁹</p> <p>There are currently a number of initiatives to reduce multiple border controls by using one-stop border posts (Kenya/Uganda, Burkina Faso/Ghana, Mali/Burkina Faso, Senegal/Mali);</p> <p>Average time and cost for/to export/import in Africa still far exceed those of the rest of the world.</p>

4. Increase in export diversification due to supply-side policies (particularly at regional level)

Modernising and diversifying Africa's supply-side capacities is crucial to avoid adverse impacts from cyclical swings, price volatility and climate fluctuations;²⁰

Many African countries depend on one commodity for at least 50% of their export income.²¹ Indicators measuring the diversification of African exports registered little change between 1995 and 2005: for example, the number of products exported slipped from 261 to 260 and the diversification indicator fell from 0.592 to 0.556 (UNCTAD);²²

Increased investment is the best way to achieve diversification. This will depend on improvements in economic regulations, corporate governance and the fight against corruption, as well as the development of infrastructure and financial markets:

- While Egypt, Ghana and Kenya have been classified among the top ten reformers worldwide, there is still work to be done regarding simplification of economic regulations – Africa remains the region of the world where it costs the most (and it takes the longest) to produce goods and services (IFC);²³
- Investment in infrastructure is undergoing rapid growth;
- Progress must be made to deepen financial markets²⁴;

3. Developing intra-regional trade

Indicators	Evaluation
1. Intensification and implementation of regional trade agreements (single markets, customs unions etc.)	<p>Just four regional economic communities (CAEMC, WAEMU, SACU and EAC) have achieved a 100% reduction in their customs tariffs (ECA);</p> <p>Distorting/competing tax regimes, gaps in infrastructure and roadblocks limit the scope of regional trade agreements;</p> <p>Intra-regional trade as a percentage of foreign trade has stagnated apart from a few remarkable exceptions (notably within the SADC due to the normalisation of South Africa's relations with its neighbours and in the WAEMU following the establishment of its customs union).</p>
2. Rationalisation of RECs	<p>Multiple and overlapping membership of regional institutions continue to hinder the co-ordination of policies and programmes (ECA);</p> <p>Experts have proposed to keep to a configuration of eight RECs in order to effect their rationalisation (AU)²⁵.</p>
3. Co-ordination of economic policies	<p>Competing monetary, customs and tax policies are reducing the scope for efficient regional supply-side development and restricting the impact of the liberalisation of domestic tariffs.</p>
4. Development of regional infrastructure ²⁶	<p>Regional projects, especially in the field of transport, are central to the NEPAD programme;</p> <p>There has been rapid growth in finance for regional infrastructure, up from US\$ 100 million in 2000 to US\$ 1 billion in 2006, in large measure due to credits from multilateral agencies. However, the capacity to implement regional projects is still weak due to a lack of national and sub-regional leadership, co-operation and co-ordination;</p> <p>The African Union, the African Development Bank and the Regional Economic Communities have developed arrangements for allocating regional infrastructure development responsibilities but this still needs to be put into effect;</p> <p>The G8 has decided to launch an initiative to bolster the capacity of regional economic communities to initiate and implement cross-border infrastructure projects.</p>

¹ http://www.delmlie.europa.eu/fr/presse/doc/EPA_offer_IP%20FR.pdf

² Hakim Ben Hammouda, Stephen N. Karingi, Nassim Oulmane and Mustapha Sadni Jallab, "Market Access for Non Agricultural Products – The Impact of the Doha Round on African Economies: A Simulation Exercise", ATPC-ECA, Sept. 2006.

³ Linda Van Gelder and Larry Hinkle, *Africa Trade Issues*, World Bank, April 5, 2007.

⁴ New OECD Reports on Agriculture: Agricultural Outlook 2005-14, Directorate for Food, Agriculture and Fisheries, 2005.

⁵ Mario Jales, *Tariff Reduction, Special products and Special Safeguards: An Analysis of the Agricultural Tariff Structures of G-33 Countries*, ICTSD, July 2005.

⁶ FAO research (supported by indicators for rural development, food safety and living conditions, according to the recommendation of the WTO Ministerial Conference in Hong Kong) has demonstrated that stockbreeding, vegetables, cereals and beverages were among the items most likely to constitute special products liable to be subject to special safeguards. C. f. Ford, J.R.D., Koroma, S., Yanoma, and Khaira, H., "Special products: a comprehensive approach to

identification and treatment for development”. In “WTO rules for agriculture compatible with development”, eds. Morrison, J., and Sarris, A., FAO Rome, 2007.

⁷ Dale Andrew, Karim Dahou and Ronald Steenblik, *Addressing market-access concerns of developing countries arising from environmental and health requirements: Lessons from national experiences*, OECD, Sept. 2004.

⁸ http://www.lobserveur.bf/Oarticlearchive.php3?id_article=2162

⁹ ATPC-ECA, March 2005, *Ibid.*

¹⁰ The top five ACP recipients obtain 35 % of the ACP value of preference margin (VPM). C. f. Peter S. Liapis, Preferential Trade Agreements, *How much do they benefit developing economies*, OECD, 2007

¹¹ Peter S. Liapis, *Ibid.*

¹² Paul Goodison, *The ACP experience of preference erosion in the banana and sugar sectors*, ICTSD, May 2007.

¹³ Equivalent to almost 540 million dollars rather than the 100-140 million estimated. C.f. Hakim Ben Hammouda, Stephen Karingi and Romain Perez, “Unrestricted Market Access for Sub-Saharan Africa: Important Benefits with Little Cost to the QUAD”, ATPC-ECA, March 2005.

¹⁴ World Bank, August 1, 2007, *Ibid.*

¹⁵ www.g-8, G8 Heiligendamm Summit Declaration on Growth and Responsibility in Africa, paragraph 26.

¹⁶ UNEP, Integrated Assessment of Trade Liberalization and Trade-Related Policies, Countries Studies

http://www.unep.ch/etu/publications/CSII_Synth.htm

¹⁷ Linda Van Gelder and Larry Hinkle, *Ibid.*

¹⁸ World Bank, August 1, 2007, *Ibid.*

¹⁹ Robert T. Lisinge, “Facilitation du commerce intra-africain; Démanteler les barrières pour le commerce intra-africain”, CAPC-CEA, Mai 2005 ; Sub-regional meeting on the status of the elimination of non-tariff barriers in COMESA, Blantyre, Malawi, October 2007.

²⁰ Collier, P., “Primary Commodity Dependence and Africa’s Future.” World bank, Washington, D.C., 2002.

²¹ Oxfam International, “Africa and the Doha Round”, Oxfam Briefing Paper No. 80, Nov. 2005.

²² UNCTAD, Handbook of Statistics, 2006.

²³ International Finance Corporation, *Doing Business 2008*.

²⁴ Africa Partnership Forum, « Investment: unlocking Africa’s potential », Background paper, Berlin, May 2007.

²⁵ African Union, “Report of the meeting of experts on the rationalization of Regional Economic Communities (RECs), CAMEI/ Expt/Rpt/ (1), 27-29 March 2006.

²⁶ Cf. Africa Partnership Forum Support Unit, “Progress Report: Transports”, Nov. 2007.

Section 2 : Sectoral Priorities

Focus Issue 4 : Infrastructure



Focus Issue 5 : Agriculture



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, 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, Official 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 the 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.

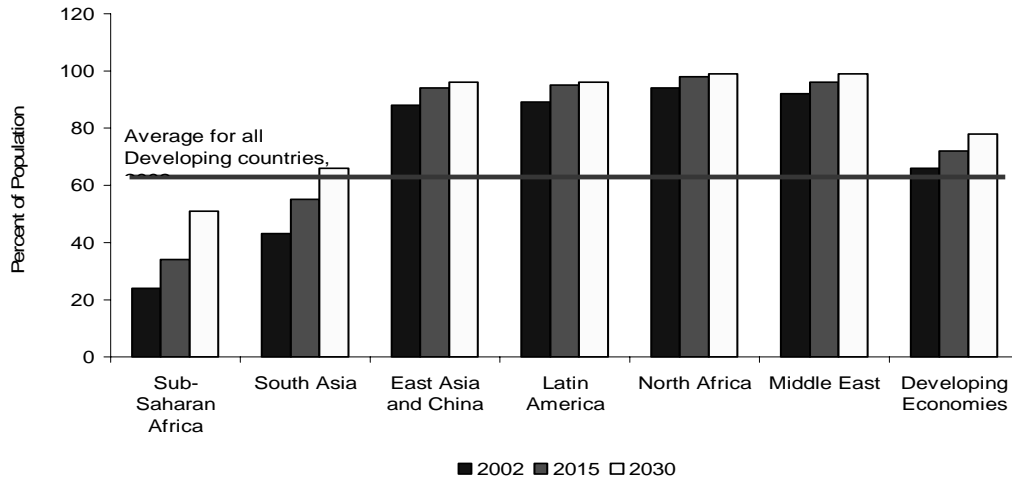
I. Successes, bottlenecks, critical next steps and responsibilities

Key monitoring issue	Successes	Bottlenecks	Critical next steps	Responsibilities
Accelerating implementation of projects and programmes	Donors are increasing their funding of infrastructure, after stagnation over the last decade.	Lack of a national infrastructure development framework in many countries.	Countries to prepare strategic frameworks where not yet available and translate the experience acquired from road development strategies to anchor water and energy in national development plans and PRSPs.	African states/ Development partners
	ICA is playing a positive role as a framework to co-ordinate and facilitate the delivery of additional resources.	Lack of detailed and reliable data to help determine financing gaps for infrastructure investment, rehabilitation and maintenance.	Development partners to use the detailed Africa Infrastructure Country Diagnostic data to set priorities and help countries benchmark.	
	Non-traditional financiers' funding has risen significantly.	STAP and other regional projects not sufficiently prioritized in country budgets.	Increase budget for regional projects	African states
	Large-scale private-sector investment has continued to increase beyond telecommunications to include power generation, railways, ports and airport services.		Ensure that the Medium- and Long-Term Strategic Framework (MLTSF), the second phase of NEPAD's infrastructure development strategy, overcomes this weakness.	AU/NEPAD development partners
		Lack of resources for upstream project preparation.	Get a clearer sense of priorities among projects based on their preparation readiness. (sentence unclear)	African states
		Lack of clear national ownership of regional projects, making project preparation more challenging.	Countries and donors collaborate to increase resources and strengthen project preparation capacity.	Development partners / African states
Making more efficient and effective use of existing infrastructure	Transport: one-stop border posts being introduced	Regulatory reforms in water and sanitation and energy sector are moving slowly.	Strengthen efforts to separate regulation from service provision.	African states
	Road transport: at least 27 countries have second-generation road funds resulting in 50% of O&M covered by fuel taxes and other fees.	Inadequate spending on maintenance. Where road funds and road agencies are operational, half of O&M requirements must still come from the budget.	Increase use of management contracts. Assess the experience of output-based maintenance contracts and promote this approach by sharing good practice broadly..	African states African states/ Development partners
	Output-based maintenance contracts for roads are in place in a dozen countries.	Africa's cost of infrastructure is high	Sustain efforts on regulatory reforms.	African states
		Little progress in reducing water leaks and waste.	Undertake studies on cost and institutional arrangements.	
		Little is known about the cost components of various services (e.g. freight).	Improve targeting and transparency of subsidies to ensure affordable access.	Development partners
		Inequitable access patterns, particularly for water and electricity	More concerted efforts for providing basic services in rural regions.	African states in collaboration with others African states

Key monitoring issue	Successes	Bottlenecks	Critical next steps	Responsibilities
Facilitating greater private sector involvement	<p>Concessions and management contracts growing in the transport sector (railroads, airports, and ports). Independent power providers becoming more common.</p> <p>A number of project preparation facilities have been set up, along with the Investment Climate Facility (ICF), to facilitate private sector participation.</p> <p>Private Participation in Infrastructure (PPI) has bounced back to US\$6 billion in 2005.</p>	<p>Private capital not yet flowing into infrastructure in large amounts due to perception of high risk.</p> <p>Lack of well prepared projects to attract PPI. (see above)</p>	<p>Make more efforts to promote and facilitate private sector involvement in infrastructure.</p> <hr/> <p>Countries, RECs and official donors to grow capacity in commercial assessment and dealing with the private sector.</p> <hr/> <p>Deepen knowledge of risk mitigation tools/approaches and promote their use.</p>	<p>Development partners / African states/ICF</p> <hr/> <p>Development partners / African states/RECs</p> <hr/> <p>Development partners</p>
Strengthening regional initiatives	<p>Funding for regional projects has risen sharply in recent years.</p> <p>World Bank and AfDB have a combined project pipeline of over US\$2 billion.</p> <p>Establishment of: i) power pools in all sub-regions; ii) river basin organisations; iii) road corridor management programmes.</p> <p>AU, NEPAD, RECs and AfDB have signed a new "Coordination Mechanism" to improve co-ordination among themselves and with national governments.</p> <p>Positive actions by ICA to co-ordinate donor interventions.</p> <p>Role of SSATP in promoting sharing of experiences in road management.</p> <p>Spatial Development Program under preparation for more effective use of infrastructure.</p>	<p>Funding for regional projects by multilateral agencies reaching a plateau. Intervention by bilateral development partners still limited.</p> <p>Development partners generally take a country-based approach to development assistance and thus some lack of coherence between PRSPs and actions at the sub-regional level.</p> <p>Regional projects often not included in national priorities and budgets.</p> <p>STAP and other regional projects not sufficiently prioritised or prepared.</p> <p>Lengthy and complex decision-making processes of RECs.</p> <p>Unclear allocation of roles between RECs and regional technical bodies (River Basin Commissions, Power Pools, Transport Corridor Management).</p> <p>Governments do not ensure compliance with regionally-agreed priorities and protocols.</p> <p>Weak capacity of RECs.</p>	<p>Promote EU members contributions to the EU-Africa Partnership on Infrastructure managed by the EIB.</p> <p>Replenishment of IDA and African Development Fund.</p> <p>Donors to develop mechanisms to support regional projects.</p> <p>Integrate regional projects in PRSPs and ensure national budget appropriations.</p> <hr/> <p>Ensure that the NEPAD MLTSF addresses this weakness.</p> <p>Ensure operationalisation of "Co-ordination Mechanism" framework and take remedial measures where needed.</p> <hr/> <p>Governments and RECs to strengthen compliance with regionally-agreed protocols and conventions</p> <p>Co-ordinate efforts led by Germany to help strengthen RECs.</p>	<p>Development partners</p> <p>African States</p> <hr/> <p>NEPAD/African states</p> <hr/> <p>AU, NEPAD, AfDB, RECs, regional technical bodies</p> <p>African states/ RECs</p> <hr/> <p>Development partners / African states</p>

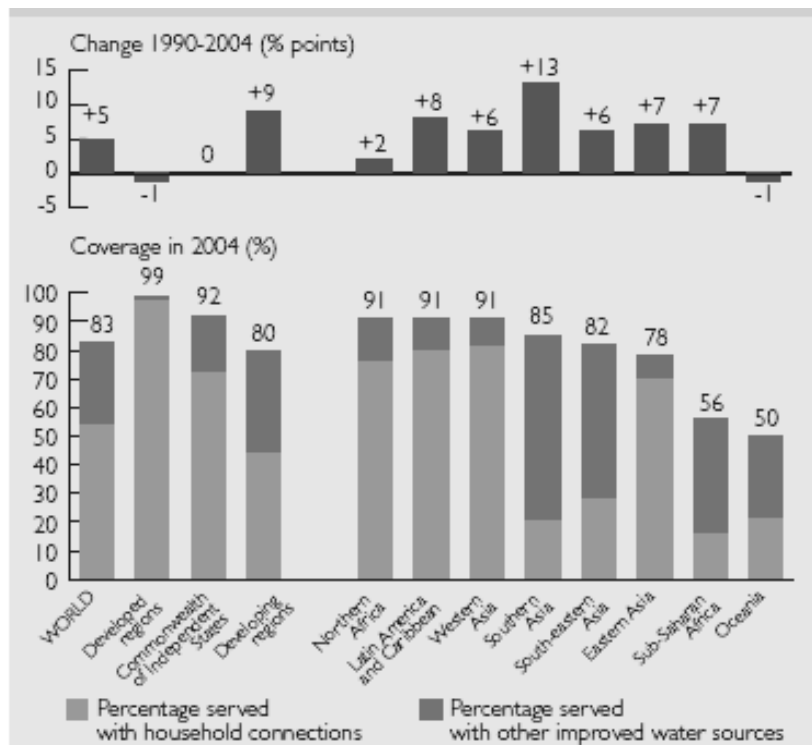
II. Results

Figure 1: Electrification rates by region (%)



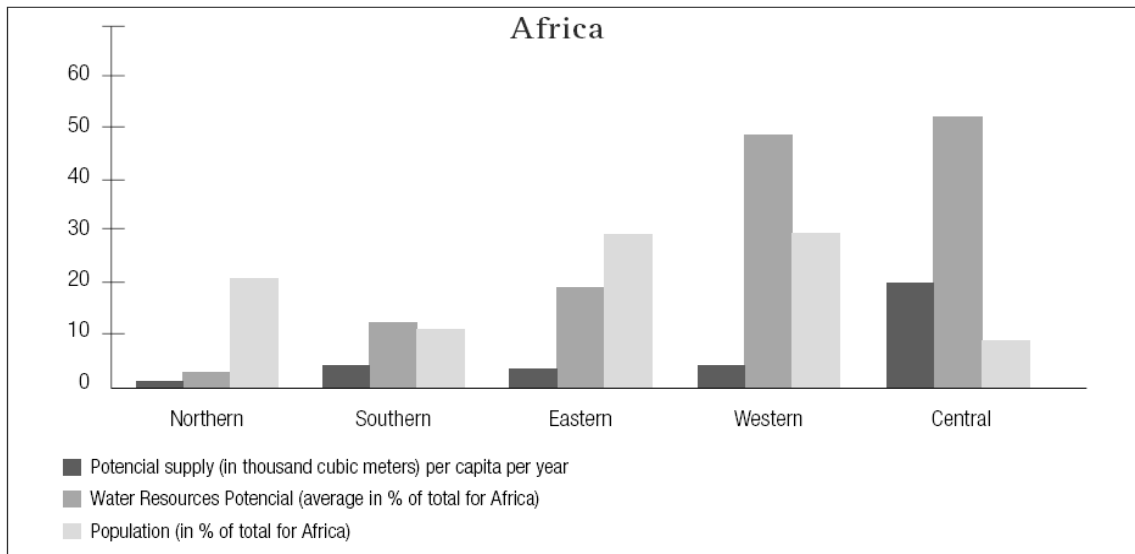
Source: IEA World Energy Outlook 2004, reference scenario

Figure 2: Coverage with improved drinking water sources (2004)



Source: WHO/UNICEF, Meeting the MDG Drinking Water and Sanitation Target, 2006.

Figure 3: Surface water resources



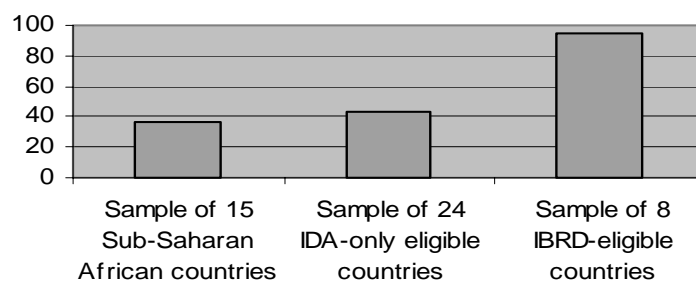
Source: 4th Water Forum - Africa

Figure 4: Freshwater stress and scarcity



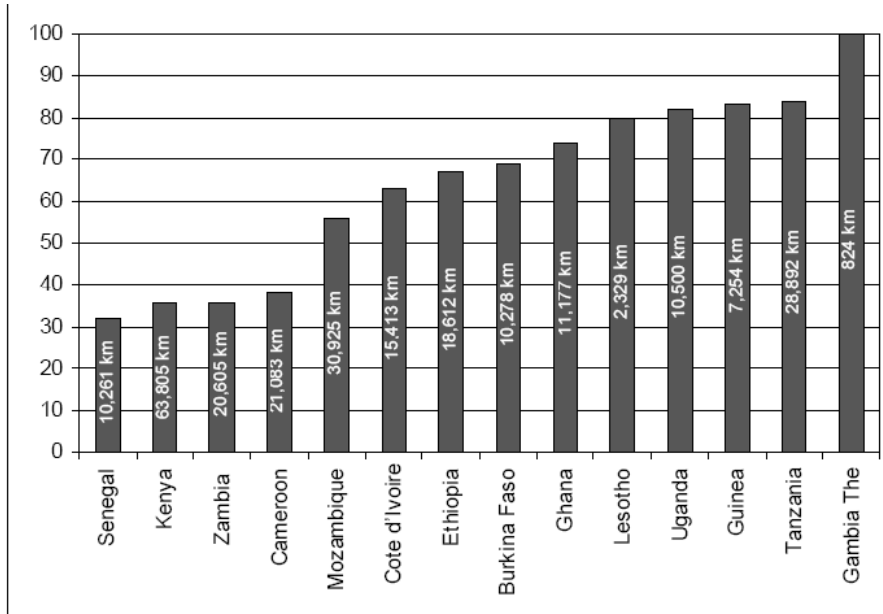
Source: 4th Water Forum - Africa

Figure 5: Percentage of rural population within 2 km of an all-season road (2004)



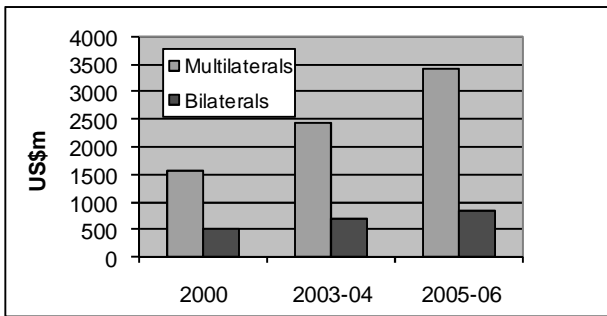
Source: UNECA, Transport & Millennium Development Goals in Africa,

Figure 6: Percentage of main road network in good & fair condition (2005)



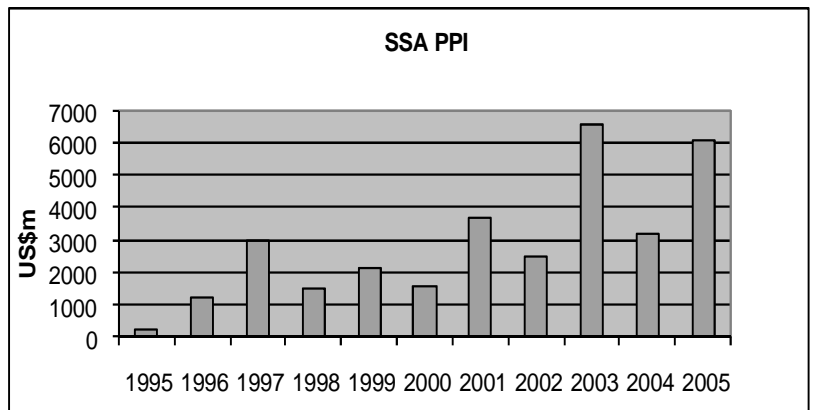
Source: SSATP Annual Report 2006

Figure 7: Infrastructure investment scale-up



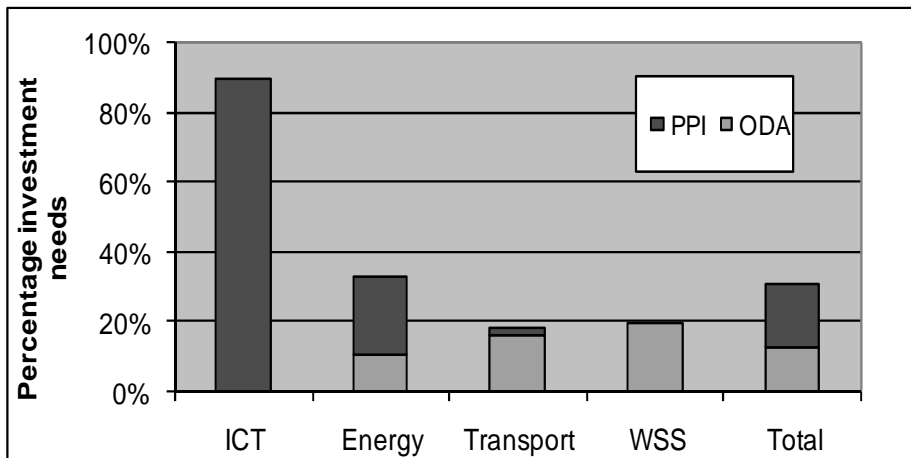
Source: WB-AfDB, Accelerating the Progress of Infrastructure in Africa (July 2007)

Figure 8: Trend in Private participation in Infrastructure



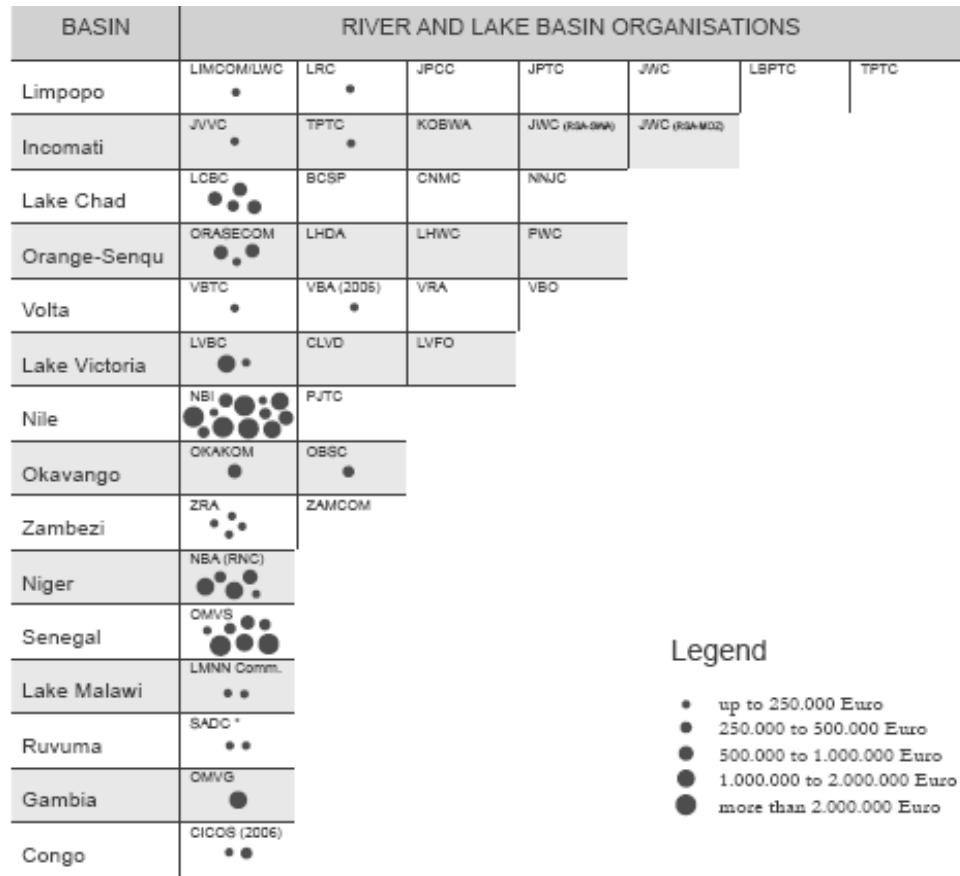
Source: World Bank PPI Database

Figure 9: Infrastructure financing gaps



Source: OECD-DAC and World Bank PPI Database, 2006

Figure 10: Financial support to lake and river basin organisations (2006)



Notes: One donor per bullet

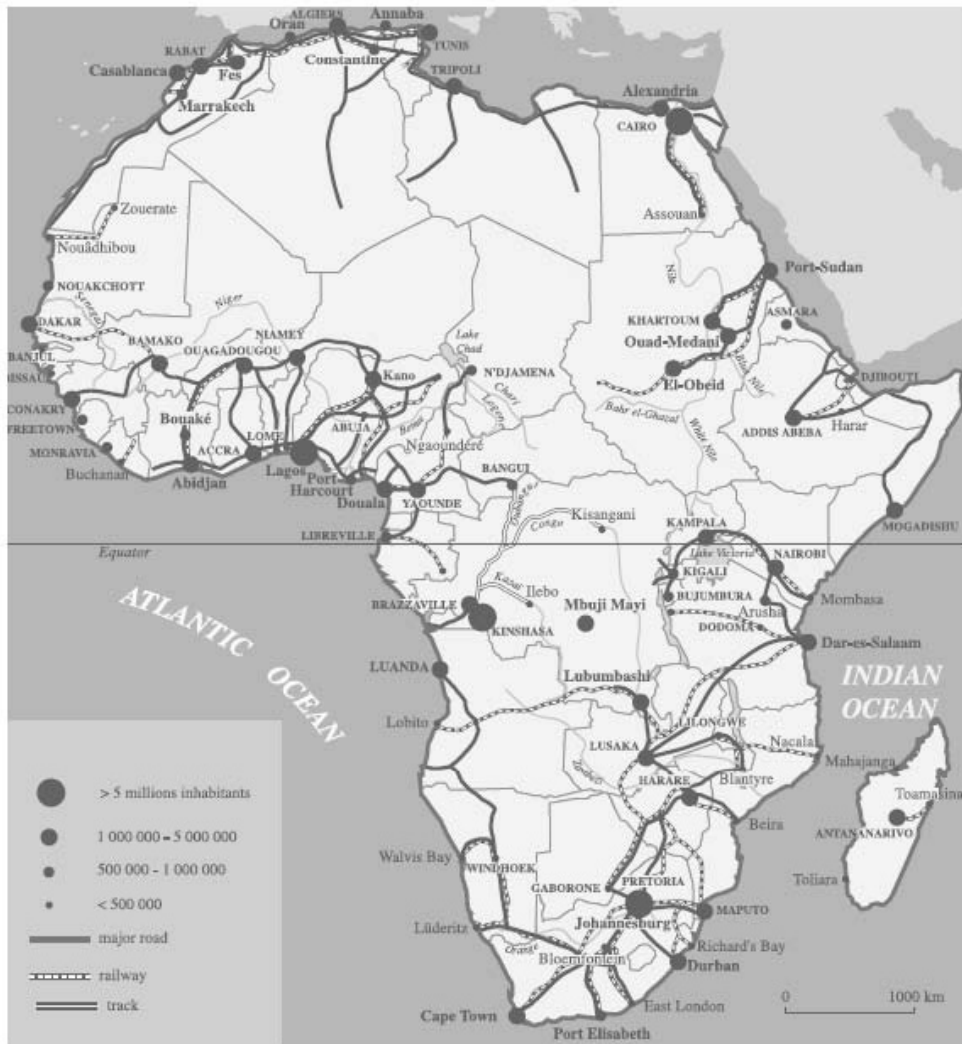
Data not fully consistent with table 3 due to incomplete data provided

The acronyms of the river and lake basin organisations are listed on page 11

* Support to SADC because a basin organisation does not yet exist

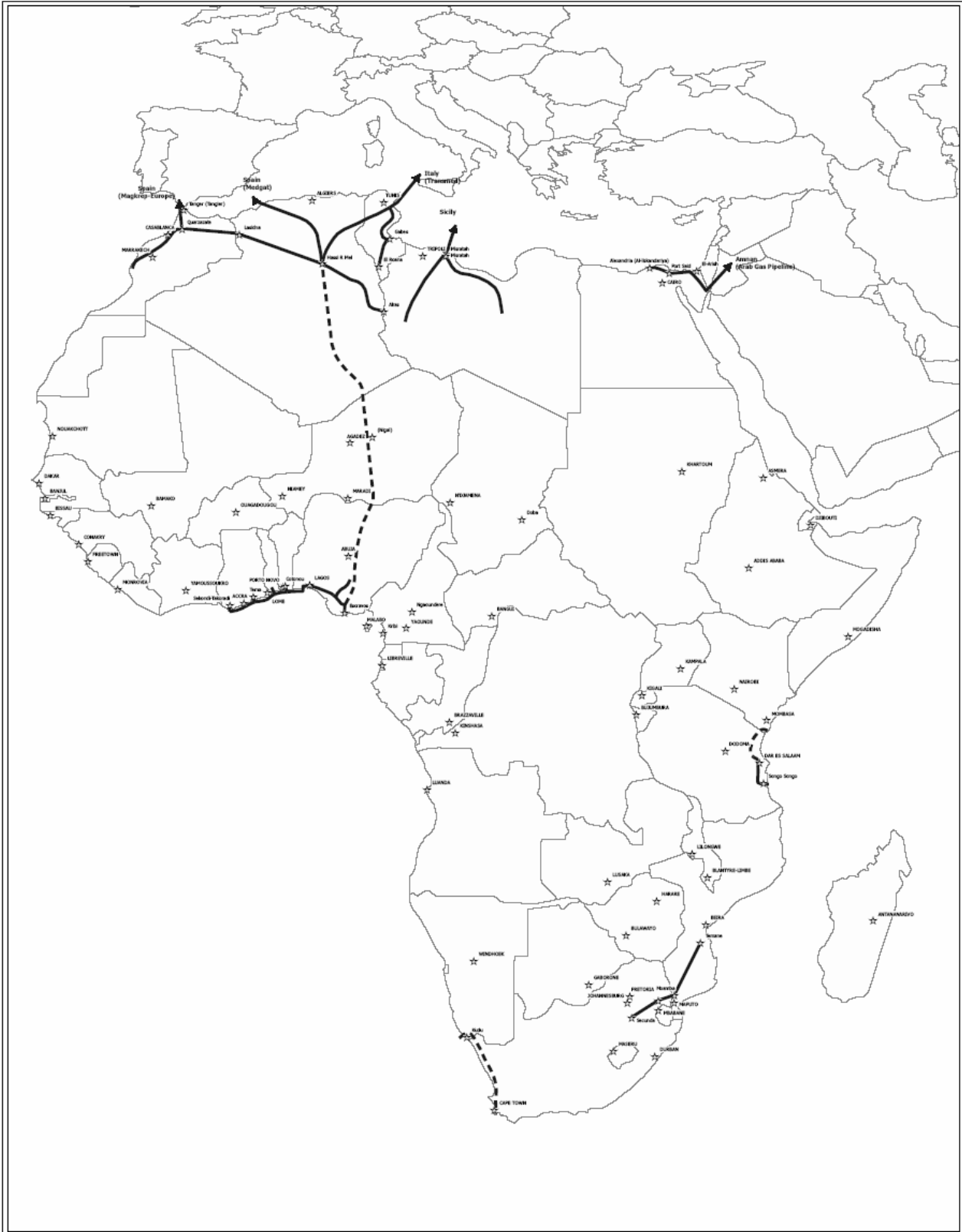
Source: Donor activity in transboundary water cooperation in Africa
Results of a G8-initiated survey 2004-2007

Figure 11: Transboundary transport infrastructures



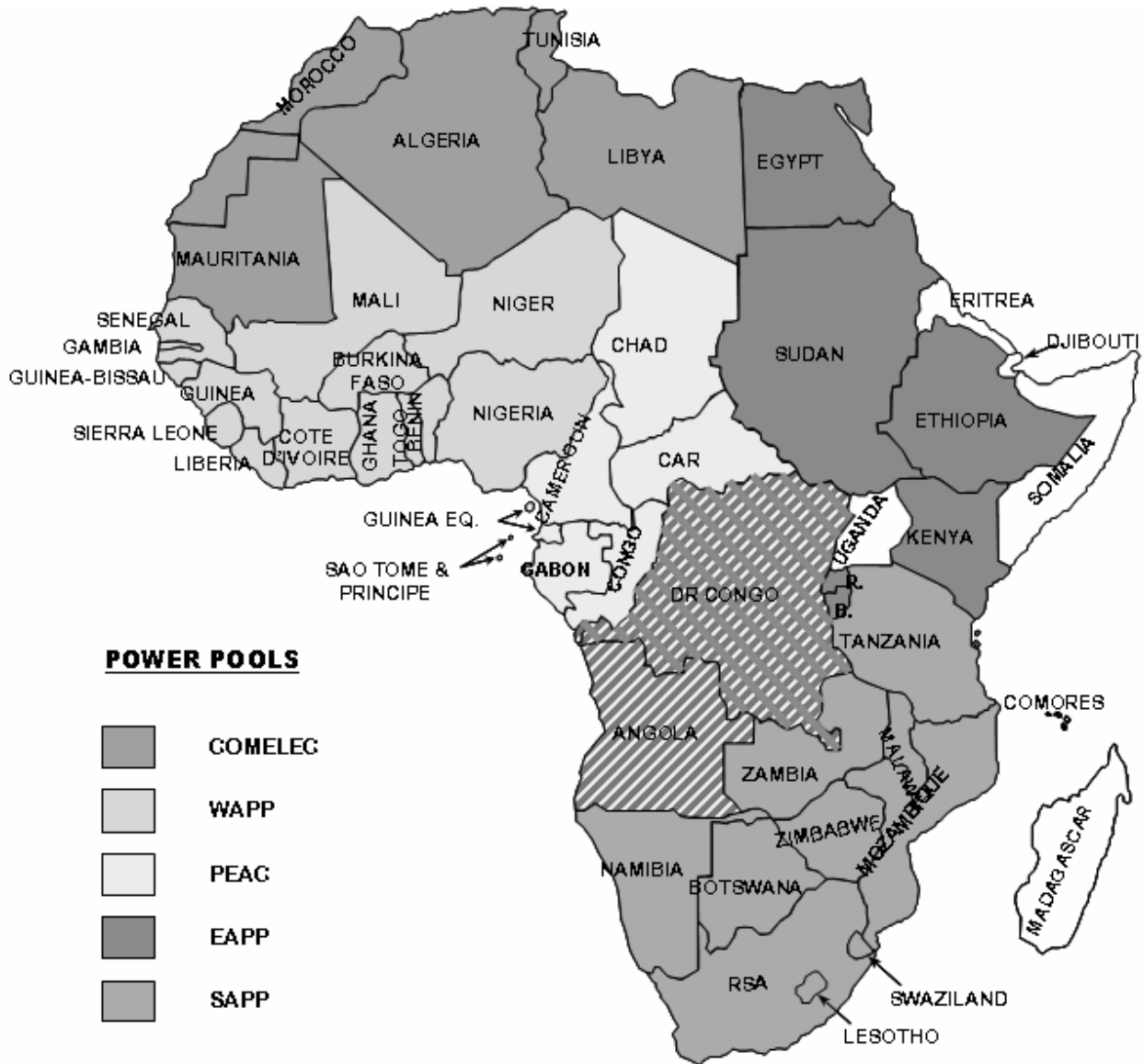
Source: OECD/AfDB, African economic Outlook 2005-06

Figure 12: Major Regional Natural Gas Pipelines



Source: The NEPAD MLTSF, Infrastructure Development Gaps

Figure 13: Power Pools in Africa



Source: The NEPAD MLTSF, Infrastructure Development Gaps.

Figure 14: Railway Network



Source: World Bank, World Development Indicators

ANNEX I: Transport

KEY MONITORING ISSUES:

- 1. Accelerated implementation of new projects and programmes**
- 2. Making more efficient and effective use of existing infrastructure**
- 3. Facilitating greater private sector involvement**
- 4. Role of transport in promoting regional trade and development**

COMMITMENTS:

Africa has agreed to:

- Give special priority to regional infrastructure, and particularly transport, which supports economic integration among countries.
- Provide high-level attention and support to the above and more particularly, for countries to make adequate budgetary allocations for priority regional infrastructure projects in national budgets.
- Clarify the role of RECs and their responsibilities in regional transport initiatives and provide them with adequate financing and strengthened capacity to implement their mandates in this regard.
- Promote and enhance the role of private sector investment in the development and management of transport infrastructure in collaboration with the public sector.
- Ensure the sustainable maintenance of transport infrastructure.

Development partners have agreed to:

- Scale-up resources for transport infrastructure development including support for project preparation.
- Align financing and instruments to ensure a more predictable and cost-effective flow of resources for transport infrastructure programmes and projects.
- Support capacity development of RECs.
- Support sustainable financing and management of transport networks based on public-private partnership.

TRANSPORT: KEY MONITORING ISSUES

1. Accelerating implementation of new projects and programs

Indicators	Assessment
1. ODA spent on infrastructure	<ul style="list-style-type: none"> ● The volume of new commitments by the Infrastructure Consortium for Africa (ICA), which includes four multilateral agencies and seven bilateral aid agencies, increased strongly between 2005 and 2006. Commitments to Sub-Saharan Africa reached over US\$5.1 billion with US\$3.2 billion for transport, an increase of 30% over the 2005 level if one excludes South Africa (<i>Source</i>: ICA 2007). ● Northern Africa saw its ODA decline offset by more non-concessional funding ● The scale-up has been driven mostly by multilaterals, with the African Development Bank and World Bank working in close collaboration in joint investments and also through innovative approaches to large-scale, multi-country transport corridors and regional projects. ● New funding initiatives, such as the EU-Africa Partnership on Infrastructure, are expected to increase resources. ● In spite of this encouraging trend, total ODA and other funding with private sector participation covers less than 20% of investment needs, the lowest among all infrastructure sub-sectors. ● Due to lack of maintenance, there are fewer kilometres of roads today in sub-Saharan Africa compared to 30 years ago and only 30% of rural populations have access to all-season roads.
2. Funding from non-traditional sources (China, India and Arab Funds)	<ul style="list-style-type: none"> ● In recent years non-traditional donors have taken an increasingly active role in financing and constructing infrastructure projects in sub-Saharan Africa. ● Chinese financing has exploded in the past three years with the preponderant role of China Export-Import (Ex-Im) Bank working with other Chinese state-owned firms. Most of the investments are in minerals-rich countries. ● Since 2001, China has committed over US\$5 billion for transport in Africa and future commitments are expected to reach over US\$20 billion over the next three years for all infrastructures. ● Arab partners, working mainly in road projects with co-financing from China and AfDB together with India, provided US\$600 million to transport infrastructure in 2006. (<i>Sources</i>: PPIAF 2007, ICA 2007).
3. Public sector expenditure and relevant pan-African initiatives	<ul style="list-style-type: none"> ● Current levels of domestic resources spent on transport infrastructure amount to about 1% of GDP. On average, East Africa appears to be spending more for infrastructure than the rest of sub-Saharan Africa, averaging 6 to 8% of GDP, including donor resources. For instance, Ethiopia spent as much as 4% of its GDP for transports. (<i>Source</i>: AICD). ● 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.
4. Private financing of infrastructure	<ul style="list-style-type: none"> ● Private financing of <u>all</u> infrastructures, which averaged US\$4.5 to 5 billion during 2001-04, jumped to US\$6.1 billion in 2005. But only about 10% of this amount is directed to transport, with most going to the telecom and energy sectors.

5. Reinforcement of project preparation, particularly of regional projects

- Inadequate resources available for upstream project preparation. Project preparation has also turned out to be much more complicated than originally anticipated, a common problem in other developing regions as well.
 - More emphasis is being given to the importance of project preparation.
 - Completion of Project Preparation User Guide with support by PPIAF.
 - ECOWAS is setting up a Project Design and Implementation Unit relying on existing banking sector expertise. Its model is being followed closely by other RECs.
 - NEPAD-IPPF (Infrastructure Project Preparation Facility), a multi-donor facility designed to support RECs and countries in preparing regional projects, requires greater financing.
 - There are currently very few efforts to co-ordinate the work of various national and sub-regional bodies regarding regional projects. Resolving this issue requires political decisions both at the national and sub-regional levels (see more on Issue 4 below).
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2. Making more efficient and effective use of existing infrastructure

Indicators	Assessment
1. Progress in lowering transport costs	<ul style="list-style-type: none"> ● Regional trade and integration in sub-Saharan Africa continues to be hampered by high freight rates with significant differences across the various sub-regions. Central Africa is by far the most expensive, with rates double those of Southern and West Africa. Transport tariffs for most land-locked countries range from 15% to 20% of import costs (<i>Source: World Bank</i>). ● While poor infrastructure accounts for the high cost, other factors such as high vehicle operating costs, the existence of monopolies of freight allocation in many countries and poor logistics with multiple road blocks/controls and clearance are other factors. ● Through the SSATP (SSA Transport Policy Programme) trade facilitation strategy, significant measures have been adopted including transit traffic observatories, the setting up and/or modernisation of transport corridor management together with the signing of agreements to establish one-stop border posts (Kenya/Uganda, Burkina Faso/Ghana, Mali/Burkina, Senegal/Mali).
2. Provision of funds for road operation and maintenance	<ul style="list-style-type: none"> ● At least 27 countries in sub-Saharan Africa have a road fund in place and three more were established in 2006 with funding provided by fuel taxes (dedicated levy for road maintenance) and other revenues and managed by a board including representatives of road users (second-generation road funds). Also, special funds including road maintenance funds, sub-national funds, and rural infrastructure funds have been created to support infrastructure development. ● On average, however, these funds only cover about half of the requirements for O&M: continuing reliance on public funds is thus needed. With improved fiscal situations in most African countries, providing for road maintenance has become less of an issue in terms of budget allocations -- although recent efforts must be sustained. (<i>Sources: SSATP 2007, AfDB and WB studies</i>). ● Output-based maintenance contracts are gaining pace with about a dozen countries either experiencing or about to engage in these new, innovative contracts. Long-term performance contracts such as that in Nigeria have attracted new forms of private participation in road maintenance. Toll roads in North and South Africa are being piloted, including an IDA credit to Kenya. ● As a result of the above, maintenance costs have been reduced and the long-term decline in road quality has been arrested and, in some countries, reversed.
3. Institutional reforms to improve road management	<ul style="list-style-type: none"> ● There has been a perceptible transition in many countries in sub-Saharan Africa from traditional government bodies to performance-based executive agencies. Following the establishment of the Gambia Roads and Technical Services Authority in 2006, there are now 20 road agencies/authorities in sub-Saharan Africa. ● Despite limitations on capacity and management, the establishment of road agencies have led to reduced maintenance costs, most of which are contracted out.

3. Facilitating greater private sector involvement

Indicators	Assessment
<p>1. Regulatory reforms to encourage and facilitate involvement of the private sector in the financing and management of infrastructure</p>	<ul style="list-style-type: none"> ● The private sector is now active in most infrastructure sectors. Concessions began earlier with railways, but more recently new concessions combined with investments also cover ports and airports: <ul style="list-style-type: none"> ○ Southern Africa: South Africa (Richards Bay Coal Terminal), Mozambique (Maputo Port Development Company); Airports Company South Africa (ACSA) with foreign private participation took over the management of 9 airports including the 3 international airports; railway concessions in Madagascar, Mozambique, Zambia, Zimbabwe. ○ Eastern Africa: Tanzania (Hutchinson Port Holding management of Dar es Salaam container terminal, Kuwait and Gulf Link Port International); Ethiopia (Ethio-Djibouti Railway Company); ○ Central Africa: railway concessions in Cameroon, Gabon with additional concessions under consideration in Congo Republic and Congo DRC. ○ Western Africa: Nigeria (port landlord model); a private entity, the Abuja Gateway Consortium, now operates and manages the airport on a 25-year concession and US\$370 million investment; railway concessions in Cote d'Ivoire, Burkina Faso, Mali and Senegal. ○ North Africa: Egypt (Alexandria International Container Terminals, Damietta International Port, Suez Canal Container Terminal); Tunis Airport's 40-year concession agreement with Turkish airport operator TAV which will invest US\$538 million for the first phase of the project. ● Recent studies do not support the earlier concern that railway concessions create monopoly pressures on tariffs. New solutions must, however, be found to finance track renewal and to improve regulatory frameworks. (<i>Sources:</i> African Infrastructure, African Business, World Bank 2006).
<p>2. Risk mitigation approaches to promote private sector participation.</p>	<ul style="list-style-type: none"> ● Innovation in risk mitigation has been gradual but tangible. The main challenges are to make them more effective in catalyzing infrastructure financing, promoting collaboration with private financiers and insurers and enhancing the capacity African governments in this technical area. Examples are: <ul style="list-style-type: none"> ○ Partial risk guarantees (PRGs): Kenya/Uganda: Joint Kenya Uganda Railway Concession; ○ PRGs and Political risk insurance (PRIs): West African Gas Pipeline Project, Mozambique/South Africa: Southern Africa Regional Gas Project, BOAD Infrastructure Guarantee Facility. ● The World Bank with PPIAF support has recently issued a report on risk mitigation instruments to help promote their use.

4. Strengthening regional initiatives

Indicators	Assessment
1. Support for regional projects	<ul style="list-style-type: none"> ● Regional projects -- most particularly in the transport sector -- are at the heart of NEPAD's Infrastructure Programme. ● For Africa as a whole , funding for (all) regional infrastructure projects has risen from less than US\$100 million in 2000 to over US\$400 million in 2005 and nearly US\$1 billion in 2006. The bulk of these resources are provided by multilateral agencies. Currently, the World Bank and AfDB have a combined pipeline of over US\$2 billion of trans-boundary projects that require funding. ● Despite these advances, the capacity to implement regional projects remains weak and is made more complicated by the lack of ownership at country level when a project involves several countries. Project preparation challenges are even more formidable in the case of regional projects given the lack of co-ordination among countries. From experience, trans-boundary projects would benefit from having a strong champion from one of the member states, preferably at a very senior level (e.g. head of state) to promote the project and facilitate co-ordination.
2. Clearer division of responsibilities between AU, NEPAD, RECs and countries	<ul style="list-style-type: none"> ● The AU Commission, NEPAD Secretariat, RECs and the AfDB reached agreement on a new "Coordination mechanism" that spells out the respective roles of the different bodies. But the mechanism needs to be put into operation. ● The next ICA Annual Report (2007) will also assess co-ordination among development partners. ● German-led G8 initiative to help build the capacity of the RECs and other regional organisations (institutional mapping being carried out by ICA Secretariat) and to help develop the capacity needed to undertake the RECs' work programs in the next 2-3 years. €2 million have so far been committed by Germany.
3. Promotion of regional spatial development through trade	<ul style="list-style-type: none"> ● Performance of existing corridor developments (management, regulation, information) <ul style="list-style-type: none"> ○ Northern Corridor (Kenya-Uganda-Rwanda-Burundi): multi-modal transport corridor; volume of transit traffic doubled between 1998 and 2003. ○ Central Corridor, both roads and rails connecting Dar-es-Salaam and landlocked countries of Uganda, Burundi, Rwanda and D.R. Congo: little or no improvement in transit services. ○ Trans-Kalahari Corridor established in 1999 connecting the South African Port of Walvis Bay to Botswana, Namibia and the rest of South Africa: although traffic remains small, cargo volumes have tripled between 1999 and 2004. ○ The Maputo Corridor that connects the port of Maputo with the industrial region around Gauteng in South Africa has benefited from several parallel initiatives including the private operation of the port, the rehabilitation of 380 km of highway, part of which with tolls, and an upgrade of the rail link between Maputo and the border. ● The SSATP, which is a partnership of 35 countries in sub-Saharan Africa., 8 RECs, UNECA, AU/NEPAD, AfDB and 7 active development partners has been relatively successful in improving the management of major transport corridors including experimenting with one-stop border posts. The REC-TCCs (Transport Co-ordination Committees) are promoting the establishment of such management groups, involving the private sector, to improve corridor performance elsewhere. (<i>Source: SSATP 2007</i>).

ANNEX II: Energy

KEY MONITORING ISSUES:

- 1. Mobilizing investment and expanding access to electricity.**
- 2. Promoting regional energy development and trade.**
- 3. Providing incentives and resources to pursue clean energy alternatives.**
- 4. Improving governance and overcoming institutional capacity constraints in the energy sector.**

COMMITMENTS:

Africa has agreed to:

- Include energy as a sector of focus with special emphasis on universal access to electricity.
- Highlight the importance of integrating regional projects including the interconnection of electric networks, the establishment of gas and oil pipelines as well as trans-border rural electrification, and give them priority in national strategies and planning.
- Promote co-operation and regional integration in Africa's energy sector by the adoption by the African Union (July 2001) of the Convention of the African Energy Commission (AFREC) and of NEPAD's STAP
- NEPAD's objective to secure access to electricity by at least 35% of the African population within 20 years, especially in rural areas. Reiterated in commitments underpinning the WSSD Johannesburg Plan.

Development partners have agreed to:

- Take joint actions to improve access to reliable and sustainable energy (WSSD).
- Support a market-led approach to encouraging energy efficiency and accelerating investment and the deployment of cleaner technologies within the context of each country's national circumstances.
- Promote more sustainable energy policies worldwide through bilateral development programs.
- Invite the World Bank and other multilateral development banks to develop a clean energy investment framework for rapidly increased generation and interconnections.
- The St. Petersburg Plan of Action on Global Energy Security set forth a plan of action for the G8.

ENERGY: KEY MONITORING ISSUES

1. Mobilizing investment and expanding access to electricity

Indicators	Assessment
1. ODA for energy	<ul style="list-style-type: none"> ● ODA commitments for the energy sector rose sharply from US\$1.9 billion in 2005 to US\$2.4 in 2006. Over 50% of that amount is destined for North Africa. ● The World Bank, AfDB and European Investment Bank (the latter focusing on the more creditworthy countries) played an increasing larger role in recent years. Commitments by bilateral development partners accounted for less than US\$300 million in 2006. (<i>Source: ICA</i>). ● The EU-ACP Energy facility will allocate €220 million to fund energy access and regional cooperation in 2007 (<i>Source: EC</i>).
2. Funding by non-traditional financiers (India, China and Arab partners)	<ul style="list-style-type: none"> ● Arab partners and India provided over US\$900 million to Africa for investments in energy generation and connections. ● But China is by far the most significant player. Between 2001 and mid-2006, Africa's energy sector received over US\$6 billion with most of the resources involved in the construction and financing of hydroelectric power stations in several countries. ● Angola, Nigeria, and Sudan, the three countries in which China has the most oil interest, received over half of the financing commitments, while Mozambique, Gabon, Zambia, and Zimbabwe, where China has significant mineral interests, were also major recipients. (<i>Source: PPIAF</i>).
3. Progress in private participation in infrastructure (PPI)	<ul style="list-style-type: none"> ● Compared to other sectors, funding to the sector included a much higher proportion on commercial terms. Private-sector flows are substantial, reaching US\$1.2 billion in 2005 mostly for generation capacity by independent power producers. (<i>Source: SSATP</i>). ● It is estimated that PPI averages twice the amount of ODA committed to energy.
4. Funding from domestic public resources	<ul style="list-style-type: none"> ● Total infrastructure spending from domestic resources (both from the budget and from extra-budgetary sources) shows that in East Africa the energy sector systematically accounts for by far the largest share of infrastructure spending, amounting to between 2% and 4% of GDP. The high levels of investment reflect the high cost of thermal generation to supplement traditional hydropower capacity that has been affected by drought conditions.
5. Access to electricity	<ul style="list-style-type: none"> ● While North Africa has achieved the highest rate of access to electricity among developing countries, more than 550 million Africans lack access to electricity. ● Less than 25% of households in sub-Saharan Africa have access to electricity and the gap with other developing regions has been growing over time. National averages mask huge geographical variations between urban areas (about 40% coverage) and rural areas (less than 5%). In 21 sub-Saharan African countries, less than 10% of the population can access electricity.

- Underlying these low levels of access are exceptionally low levels of installed generation capacity. Total installed capacity is about 67 GW – of which 60% is in South Africa alone.
- Increasing the percentage of households connected in SSA from roughly 25% in 2005 to 35% in 2015 and 47% by 2030 is considered feasible if countries improve their sector policies and implementation capacity, and if concessionary financing doubles from US\$2 billion currently per year to US\$4 billion a year.
- The mismatch between power demand and available supply has grown: more African countries are vulnerable to power crises. In the recent past, 28 countries were affected by the energy crisis, an unprecedented situation.
- Yet, Africa has a huge but unevenly distributed energy potential: the continent holds 9.5% of the world's proven oil reserves, while only 4% of its hydroelectric power has been realized. Africa also has considerable -- but largely untapped -- geothermal resources and solar power.
- The World Bank and the AfDB jointly with other partners are in the process of elaborating a plan of action to raise access to electricity and to clean cooking, heating and lighting fuels along a multi-track approach that i) covers household electrification; ii) enterprises; iii) key public facilities such as schools and clinics; and iv) stand-alone lighting packages for households without electricity service (Clean Energy Investment Framework, CEIF and Lighting Africa initiative).

2. Promoting regional energy development and trade

Indicators	Assessment
1. Progress in promoting power system interconnections	<ul style="list-style-type: none"> ● Progress has already been made in developing regional energy interconnections and facilitating regional energy trade. The establishment of the regional power pools are notable examples, although much work is still to be done to broaden and deepen these energy markets. ● SADC/COMESA/Southern Africa Power Pool (SAPP): <ul style="list-style-type: none"> ○ Mozambique Mepanda Uncua Hydropower Project. ○ Zambia-Tanzania-Kenya interconnection. ○ Mozambique-Malawi Interconnection. ● ECOWAS/West Africa Power Pool (WAPP): <ul style="list-style-type: none"> ○ Interconnections Nigeria-Benin, Ghana-Burkina Faso, Côte d'Ivoire-Mali, Ghana-Togo-Benin. ○ West Africa Gas Pipeline: Nigeria-Benin, Togo and Ghana. ○ Senegal River Basin Multipurpose Water Resources Development Project (OMVS program involving Guinea, Mali, Mauritania and Senegal). ○ Guinea-Senegal-Guinea Bissau interconnection (OMVG). ● EAC/East Africa Power Pool (EAPP): <ul style="list-style-type: none"> ○ Kenya-Uganda oil pipeline. ○ East Africa Power Pool (Ethiopia-Kenya-Uganda transmission). ● ECCAS/Central Africa Power Pool (CAPP): <ul style="list-style-type: none"> ○ Rehabilitation of Inga 1 and Inga 2 power stations. ○ DRC-Angola-Namibia interconnection (study) ● UMA/COMELEC: <ul style="list-style-type: none"> ○ Libya-Tunisia as pipeline. ○ Algeria-Morocco-Spain interconnection ○ Nigeria/Niger/Algeria interconnection.
2. Progress in co-operation in energy efficiency	<ul style="list-style-type: none"> ● In tandem, policy and regulatory reforms are being implemented in many countries: privatization of the distribution sector (Uganda); partial privatization of KenGen in Kenya; demand side management initiatives (Ethiopia).

3. Providing incentives and resources to pursue clean energy alternatives

Indicators	Assessment
1. Expanding options for clean energy	<ul style="list-style-type: none"> ● The African power sector is overwhelmingly dominated by conventional thermal power generation (large coal-fired power plants in Southern Africa and large oil- and gas-fired power plants in North Africa and Nigeria). Hydropower generation contributes 16.5%, nuclear power 2.5% and renewable energy sources 0.6% of total power supply (<i>Source: IEA, 2006</i>). ● The AfDB FINESSE Africa program helps support finance for energy services for small-scale users and thus to mainstream renewable energy. It has improved knowledge about the constraints faced by small hydro-power schemes. ● Stand-alone systems using modern, energy-efficient technologies such as light-emitting diodes or LEDs are being promoted ("Lighting Africa" of the World Bank). ● Little progress so far in tapping existing resources such as the Clean Development Mechanism (CDM) to help finance low-carbon energy, but projects are being developed on a pilot scale in Southern Africa. ● Other efforts include increased access to cleaner cooking stoves, increased reliance on LPG.
2. Sustainable biomass use	<ul style="list-style-type: none"> ● Beyond power, biomass is the main source of energy for the vast majority of Africans: 80% of Africa's population relies on traditional biomass for household fuel, the highest share of any region in the world. Much of this is harvested unsustainably, resulting in loss of forest cover and increased river silting. ● Development partners' need to provide more support for national and regional initiatives for sustainable forestry management (e.g. NEPAD's TerrAfrica program) and address barriers to sustainable forest management practices affecting the supply of wood fuel.
3. Progress in reducing gas flaring	<ul style="list-style-type: none"> ● Seven African oil and gas producers have joined the World Bank-led Global Gas Flaring Reduction as partners. Nigeria has also succeeded to registering a gas flaring reduction project as a Clean Development Mechanism, allowing the country to receive resources as a reward for the reduction in CO₂ emissions.

4. Improving governance and overcoming institutional capacity constraints in the energy sector

Indicators	Assessment
1. Increased public governance and government capacity regarding energy policy, including sustainable provision of power to the poor	<ul style="list-style-type: none"> ● Unlike road transport and, to a lesser extent water, few if any countries in the Africa have credible long-term strategies for the energy sector. ● Most power sector reform in Africa has been primarily designed to bridge short-term generation shortfalls and to enhance the financial health of state-owned power utilities. Many countries in sub-Saharan Africa are characterized by high system losses - as high as 40 per cent when compared with international averages of about 10% to 12%. ● About half of the countries in Africa have established independent regulatory bodies (Electricity Agencies/Bodies). But most lack significant capacity and autonomy remains, in most cases, problematic. ● In only a limited number of countries (Cote d'Ivoire, Cameroon, Malawi, Burkina Faso, Senegal, Zimbabwe, South Africa and Mauritius) has increased access of electricity by the poor been an important policy consideration. These were accompanied by electricity tariff reforms (low or zero tariffs for up to 50kWh per household per month) and/or cross-subsidies financed by levies on urban consumers. ● A small number of countries have established Rural Electrification Agencies and Funds but results have been limited. (<i>Source: UN-Energy/Africa 2006</i>).
2. Involving private sector in energy sector management .	<ul style="list-style-type: none"> ● Major reforms have taken place in Africa involving ownership/management changes, including privatisation. The most common reforms involved awarding management contracts to foreign private firms. While French firms have dominated this sector, South African entities (Net Group Solutions and Eskoni Enterprises, a subsidiary of the South African utility, Eskom) are now actively involved in management contracts in Malawi, Uganda and Tanzania. ● Independent Power Producers (IPPs) constitute an important form of private sector participation in Africa's power sector and are active in Cote d'Ivoire, Ghana, Kenya, Senegal and Tanzania. But short-term power purchase agreements with public utilities have not led to long-term sustainable IPP arrangements. Most IPPs currently rely on fossil fuel-based power plants. ● A few countries (Namibia, South Africa, Zimbabwe, Uganda and Ghana) have experienced the development of independent power distributors.
3. Alignment and harmonization of donor support	<ul style="list-style-type: none"> ● Co-ordination among development partners involved in energy has involved sector-wide programmatic approach (SWAp). Donor co-ordination is being assessed by the ICA. ● The Clean Energy Investment Framework, jointly elaborated by the World Bank and the AfDB, is expected to promote stronger collaboration in support of energy development in Africa.

ANNEX III: Water and sanitation

KEY MONITORING ISSUES:

- 1. Access to safe drinking water and basic sanitation and financing.**
- 2. Policy framework and management practices.**
- 3. Promoting greater stakeholder involvement.**
- 4. Strengthening regional co-operation and trans-boundary river basin organizations.**

COMMITMENTS:

Africa has agreed to:

- Adopt the African Water Vision, a shared vision on equitable, sustainable use and management of water resources (2000).
- Establish the African Ministers' Council on Water (AMCOW) to provide political leadership, policy direction and advocacy in the provision, use and management of regional water resources, access to clean water and sanitation and to assist in the delivery of national, regional and sub-regional programmes (2002).
- Adopt the Integrated Water Resources Management (IWRM) principles in the management of national and regional policies and institutional frameworks.
- Establish collaborative frameworks and agreements to facilitate the management and development of shared/trans-boundary water resources.
- Invest in water infrastructure and storage.

Development partners have agreed to:

- Support African efforts to improve water resource development and management (Kananaskis, 2002) and to achieve the goals of the Millennium Declaration and the Plan of Implementation of the World Summit on Sustainable Development (WSSD) in the water and sanitation sector (Evian G8 Water Action Plan, 2003, including by:
 - Supporting African efforts to promote the productive and environmentally sustainable development of water resources;
 - Supporting efforts to provide access to improved sanitation and safe drinking water;
 - Mobilizing technical assistance to facilitate and accelerate the preparation of drinking water and sanitation projects in both rural and urban areas, and to generate greater efficiency in these sectors; and
 - Supporting reforms in the water sector aimed at decentralization, cost-recovery and enhanced user participation.
- Give high priority in official development aid allocation to safe drinking water and basic sanitation to help achieve the MDG on water (Evian, 2003).
- Promote river basin co-operation in Africa and support trans-border river basin commissions (Evian, 2003).

WATER AND SANITATION: KEY MONITORING ISSUES

1. Access to clean water and basic sanitation and sector financing

Indicators	Assessment
1. Access to safe drinking water and basic sanitation	<ul style="list-style-type: none"> • Millennium Development Goal 7 calls for reducing by half the proportion of people without sustainable access to safe drinking water and basic sanitation over the period 1990-2015. <ul style="list-style-type: none"> ○ Sub-Saharan Africa is the region of greatest concern. Despite rising access to safe water from 49% in 1990 to 56% in 2004, much greater efforts will be needed if the MDG target of 75% access is to be achieved. The situation is even more difficult for basic sanitation. ○ On current trends, few sub-Saharan Africa countries are on track to meet the MDG target although some are making good progress. There is evidence that rapid progress is possible: six of the ten countries making fastest progress with access to safe water are low-income African countries (Burkina Faso, Central African Republic, Eritrea, Ghana, Malawi and Namibia). ○ The situation is sharply better in North Africa, which has achieved the highest access rates for both clean water (91%) and sanitation (77%) among developing countries. The region is still slightly off-track to achieve the MDG target of 95%. • There are major disparities between urban and rural areas. Only 42% of people living in rural areas in sub-Saharan Africa have access to safe drinking water and only 27% to basic sanitation. • Access to sanitation tends to lag behind water supply. The lag is due to a number of factors, including limited demand from households, institutional fragmentation, poor co-ordination, and limited capacity to address the scale of the problem. <p><i>Source: WHO/UNICEF (2006).</i></p>
2. Trends in ODA to water and sanitation in Africa	<ul style="list-style-type: none"> • Support for water and sanitation declined throughout the 1990s and only began to recover in the last two years. <ul style="list-style-type: none"> ○ ODA for water in Africa averaged US\$1.9 billion in 2005-06 with support to sub-Saharan Africa (excluding South Africa which has experienced a fall in non-concessional lending in 2006) increasing by 20% in 2006 compared to 2005. ○ Dominant role of multilateral partners: <ul style="list-style-type: none"> ▪ Commitments by International Development Association exceeded US\$750 million in 2006-07 with increasing coordination with the AfDB for maximum impact in 19 focus countries. ▪ Emphasis of AfDB's support for rural water supply through the Water Supply and Sanitation Initiative (15 countries, US\$530 million). ▪ In relation to the EU Water Initiative designed to help ACP countries reach MGD targets, the European Investment Bank and European Commission committed over €400 million to water and sanitation to Africa in 2006. ○ Renewal of bilateral support: <ul style="list-style-type: none"> ▪ The UK plans to increase support from £47 million in 2004-05 to £200 million by 2010. ▪ Other initiatives by the Netherlands, France and Denmark. ○ Compared to other infrastructure sectors, in particular energy, safe drinking water has received little support from non-traditional financiers -- Arab Funds and India are providing about US\$130 million a year to Africa. China is planning on funding a project in Angola for US\$230 million. (<i>Sources: PPIAF, ICA</i>). • In spite of the renewed increase in ODA, it covers only 20% of funding needs.

<p>3. Trends in other sources of finance including domestic resources</p>	<ul style="list-style-type: none"> • Total public spending (at all levels of government) is estimated at between 0.2% and 0.6% of GDP in low income countries) (<i>Source: discussion with AfDB staff</i>). • The MDG Country Status Reports for Water and Sanitation for 16 SSA countries show that most countries have detailed estimates of resources required to meet the MDG targets, with figures ranging from US\$40-50 million per year for Benin, Madagascar, Rwanda Uganda and Zambia to US\$200-300 million per year for the larger countries such as Democratic Republic of Congo and Ethiopia. • But only 3 of the 16 countries surveyed have allocated sufficient domestic resources to meet either the water or sanitation MDG targets or both. National budget allocations are weaker for sanitation needs. (<i>Source: WSP (2006)</i>). • Africa Water Facility (AWF) is an initiative led by the AMCOW and hosted by the AfDB to mobilize resources to cover a range of activities in Africa including transboundary water resources management. Progress has so far been limited with only US\$20 million disbursed in 2005. • The newly-created equity fund Pan African Investment Fund could provide potentially important resources – it intends to focus on regional projects. • Private participation in water has been more limited than in other infrastructure sub-sectors with a concentration in management and lease contracts. Private participation in water infrastructure has been insignificant. But public-private partnership (PPP) has seen the emergence of new players such as water utilities from developed countries (often publicly-owned) and new operators from developing countries.
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2. Policy framework and management practices

Indicators	Assessment
<p>1. Developing and implementing integrated water resources (IWRM)</p>	<ul style="list-style-type: none"> • There is need for a comprehensive and integrated approach to water resources management recognising that water has ecological, social and economic uses. IWRM is at various stages of implementation with 5 of 38 countries in Africa having incorporated IWRM principles and 21 other countries in the process of preparing national strategies. (<i>Source: OECD/AfDB 2007</i>).
<p>2. Reducing water wastage</p>	<ul style="list-style-type: none"> • There has been little progress in reducing water leakage and waste (technical and commercial losses) – which still reaches on average 40-50% of total water supply in most cities in SSA. This is compared to the 25% average achieved by better performing operators in the developing world (<i>Source: IBNET</i>).
<p>3. Improving financial efficiency of utility companies</p>	<ul style="list-style-type: none"> • Establishing sustainable cost-recovery mechanisms is a key step in strengthening water utilities. In general, a level of bill collection below 90% either reflects a deficient billing system or that tariffs are unaffordable. Data are too limited to make an assessment but the 90% bill collection rate has been reached in a number of countries including Mali, Senegal, Tunisia and Uganda. (<i>Source: OECD/AfDB 2007</i>).

3. Promoting greater stakeholder involvement

Indicators	Assessment
1. Management and lease contracts of public utilities	<ul style="list-style-type: none"> ● Progress regarding sustainable contracts (Cote d'Ivoire, Senegal, Mali in West Africa and Zambia, Mozambique in East Africa) (<i>Source: WB PPI Database</i>). ● Performance-based contracts have been developed in a small number of countries. ● But few concessions have been awarded.
2. Public-private partnership: boosting small private operators	<ul style="list-style-type: none"> ● New public and private operators are entering the market in many countries, changing the dynamics of the sector by bringing new management expertise: <ul style="list-style-type: none"> ○ In Uganda, t access to safe drinking water in small towns serviced by the Association of Private Water Operators is three times the level of other cities (63% in 57 small cities compared to 20% for the remaining 123 cities and towns). This is accompanied by very high performance measures (93% metering, 93% functionality of the service and 95% of water samples conforming to national quality norms). (<i>Source: Association of Private Water Operators of Uganda, 2006</i>). ○ Other positive experiences elsewhere in Africa (Mauritania and Ghana in small towns, Mali and Mozambique in peri-urban areas). ● Efforts to foster the growth of national operators (facilitating access to local funding, capacity strengthening, more appropriate/lower cost standards, adapting regulations to local conditions, incentivising main operators to work with small private operators etc.) provide both a challenge and opportunity to help meet the MDG targets.
3. Sanitation is a bigger issue than water	<ul style="list-style-type: none"> ● Sanitation has received less attention than providing safe water. Currently less than 10 countries in sub-Saharan Africa have sanitation strategies. ● There are a number of interesting initiatives for sanitation but they remain rather limited. One noteworthy example is the prevention campaign through community health clubs in Zimbabwe. Examples from elsewhere such as the defecation-free environment approach has proven successful in generating demand for better sanitation in part of India.
4. Harmonise different stakeholders' interventions	<ul style="list-style-type: none"> ● Development partners have begun to adopt sector-wide approaches (SWAP) e.g. in Uganda. ● The next Annual Report of the Infrastructure Consortium for Africa will address the issue of harmonisation among development partners.

4. Strengthening regional co-operation and trans-boundary basin organizations

Indicators	Assessment
<p>1. Assessing progress in establishing and strengthening river basin organisations.</p>	<ul style="list-style-type: none"> ● There are two key trends characterising water resources in Africa. First, they are very unevenly distributed -- Western and Central Africa have significantly greater freshwater resources than the rest of the continent. Second, in a number of countries available resources will not be enough to sustain the population in the future without efforts to improve water use in agriculture. By 2025, it is expected that 25 African countries will be subject to water scarcity or water stress, with northern Africa facing the worst prospects. Thus the importance of trans-boundary water management initiatives, inter-basin transfers of water resources, and NEPAD's efforts to promote regional projects. ● Climate change is expected to lead to more severe variability in rainfall patterns and, according to the Intergovernmental Panel on Climate Change, three-quarters of African countries are in zones where small reductions in rainfall could cause large declines in river water. ● The Niger and Senegal river basin development in West Africa are examples of good practice: <ul style="list-style-type: none"> ○ Clear protocol with the establishment of a supranational authority through which all infrastructures on the Senegal River are jointly owned by the 3 OMVS member countries (Mauritania, Mali and Senegal). Charter with clear rules of allocation of costs and benefits and integrated regional water resource management. This has led to the financing of a 10-year programme of basin multipurpose development. ○ Similarly, Niger has signed a water charter. ● After several years of preparation (capacity and institutional development with support by bilateral donors), the Nile River Basin has entered the investment phase involving US\$400 million. The Nile River Commission, however, has much less authority than the OMVS authority. ● Other trans-boundary initiatives are very recent initiatives and thus too early to show results such as the Zambezi River Basin in Southern Africa. Central Africa, which includes the extensive water resources of Congo (INGA project), poses emerging opportunities -- but also challenges given the political situation. <i>(Source: AMCOW, 2007).</i> ● The African Union, NEPAD and Regional Economic Communities (RECs) have recently agreed on the sharing of responsibilities among them for regional projects. The division of roles and responsibilities between the RECs and regional technical bodies remain, however, unclear, leading to tensions. This situation is true in all three sectors (water, energy, and transports).
<p>2. Assessing progress in support of NEPAD initiative by development partners.</p>	<ul style="list-style-type: none"> ● Donors are involved in 17 of Africa's 59 river basins with primary support to large, well-established river basins with dense populations: Nile, Senegal, Niger and Zambezi. Sharply upward financial support since 2002. ● Large number of unsupported river basins, particularly those in or bordering fragile states. Greater support where there is a river basin organisation. ● Progress in the four basins secured under the EU Water Initiative and EU-ACP Water Facility <i>(Source: EC).</i> ● Development partners should strengthen their support in helping countries develop integrated water resource management. ● Germany is leading an effort to develop capacity of the RECs in water management. The first step involves the mapping of requirements needed to undertake work programs over the next three years by individual RECs given existing capacity. <i>(Source: GTZ 2007).</i>

List of acronyms and abbreviations

AFREC	African Energy Commission
AMCOW	African Ministers' Council on Water
AWF	Africa Water Facility
CAPP	Central Africa Power Pool
CEIF	Clean Energy Investment Framework
CDM	Clean Development Mechanism
COMELEC	<i>Comité Maghrébin de l'électricité</i> (Maghreb Electricity Commission)
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
EAPP	East Africa Power Pool
ECCAS	Economic Community of Central Africa States
ECOWAS	Economic Community of West African States
FINESSE	Financing Energy Services for Small-Scale Energy
ICA	Infrastructure Consortium for Africa
IPP	Independent power producers
LPG	Liquefied petroleum gas
IWRM	Integrated Water Resources Management
MLTSF	NEPAD's Medium- and Long-Term Strategic Framework
ODA	Official Development Assistance
OMVS	<i>Organisation de la mise en valeur du Fleuve Sénégal</i>
OMVG	<i>Organisation de la mise en valeur du Fleuve Guinée</i>
PPP	Public-private partnership
REC	Regional Economic Communities
SADC	Southern Africa Development Community
SAPP	Southern Africa Power Pool
STAP	NEPAD's Short-Term Action Plan
SWAp	Sector-wide approach
UMA	<i>Union du Maghreb arabe</i> (Arab Maghreb Union)
WAPP	West Africa Power Pool
WSSD	World Summit on Sustainable Development

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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 Co-operation 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;
- 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. Five 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, increasing from 5 to 11 since 2003, with at least nine 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 undernourished people 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.

I. Successes, developments, bottlenecks, critical next steps and responsibilities

Key monitoring issue	Successes	Developments between 2006-2007	Bottlenecks	Critical next steps	Responsibilities
Land and water management (CAADP Pillar 1)	<p>US\$ 150 million grant approved by GEF aimed at supporting Sustainable Land Management (SLM) through investment support of SLM practices at country level.</p> <p>At least 10 countries in SSA are adapting the country SLM investment framework and developing SLM programmes</p>	<p>Development of Pillar 1 Framework</p> <p>Completion of draft country SLM support tools (i.e. the country SLM investment framework and an SLM vision document).</p> <p>The Agriculture/Water component started in June 2007 which aims at strengthening the water and irrigation elements in the country SLM investment framework</p>	<p>Unsuitable land tenure instruments</p> <p>Low percentage of arable land in SSA is irrigated.</p>	<p>Continued monitoring of implementation of land reform;</p> <p>Increase rate of growth of irrigated land</p> <p>African peer review and validation of the country SLM investment framework and vision document.</p> <p>Acceleration of country processes to develop investment programmes for Strategic Investment Programme (SIP) support</p> <p>Finalise the Country SLM Investment Framework</p> <p>Support to NEPAD to mainstream and enhance the capacity to support and coordinate regional and country level processes of SLM including related M&E</p>	<p>AU institutions (AUC, NEPAD and the RECs), African States, Pillar Heads (CILSS/UoZ), and Development Partners</p>

Key monitoring issue	Successes	Developments between 2006-2007	Bottlenecks	Critical next steps	Responsibilities
Rural infrastructure and trade-related capacities (CAADP Pillar 2)	<p>First draft of Pillar 2 framework presented to CAADP PP in September 2007 (with active involvement of private sector in design of framework)</p> <p>COMESA Heads of State have adopted the "Maize Without Borders" policy</p> <p>2006 Abuja Declaration on Fertilizers for an African Green Revolution endorsed by Heads of State.</p>	<p>RATES working closely with COMESA and EAC to adopt harmonized maize and dairy standards</p> <p>Implementation of COMESA simplified trade regime (STR)</p>	<p>Slow implementation of regional trade agreements and ratification of protocols;</p> <p>Loss of market share in regional and international export markets</p> <p>Low rural access rates and low investment in rural infrastructure</p> <p>High domestic marketing costs</p> <p>Low capacity of agribusiness community</p> <p>Weak position of Africa in international trade fora;</p> <p>Fragmentation of value chains;</p>	<p>CAADP Pillar 2 framework to be adopted by Heads of State in March 2008;</p> <p>Implementation of early actions of framework from April 2008</p> <p>Begin scaling up support to Intra-African trade in staples.</p> <p>Support for rural infrastructure through such as the ICA.</p>	<p>AU institutions (AUC, NEPAD and the RECs), African States, and Pillar Head (CMAWCA), and Development Partners</p>

Key monitoring issue	Successes	Developments between 2006-2007	Bottlenecks	Critical next steps	Responsibilities
Increasing food supply and reducing hunger (CAADP Pillar 3)	<p>AU/NEPAD Framework for Food Security (FAFS) completed in May 2007</p> <p>Endorsement of the African Ten Year Strategy on Vitamin and Mineral Deficiency (VMD) by Heads of State and Government of the AU in December 2006</p> <p>2006 Abuja Declaration on Food Security endorsed by Heads of State.</p>	<p>WFP and Gates Foundation agreed on set of actions to promote Home Grown School Feeding (HGSF) in African countries.</p> <p>Development of AU/NEPAD Pan-African Nutrition Initiative (2006)</p> <p>The AFDB drafted a framework document for the establishment of the Africa Fertilizer Financing Mechanism. US\$ 35 million already pledged.</p>	<p>Low productivity</p> <p>Low fertilizer use</p> <p>Low irrigation development</p>	<p>Submit FAFS for adoption to AU Agricultural Ministers in March 2008</p> <p>Intensify efforts to implement the HGSF initiative</p> <p>Development of framework to support African 10 year strategy on VMD.</p> <p>Intensify efforts towards the implementation of Abuja commitments on fertilizers;</p> <p>Increase rate of growth of irrigated land.</p> <p>Integration of FAFS into roundtables</p>	<p>AU institutions (AUC, NEPAD and the RECs), African States, Pillar Head (University Kwa Zulu Natal), and Development Partners.</p>

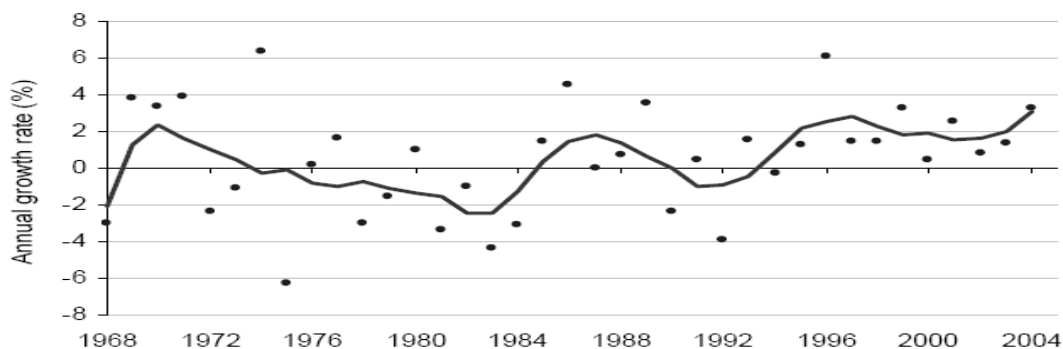
Key monitoring issue	Successes	Developments between 2006-2007	Bottlenecks	Critical next steps	Responsibilities
Agricultural research and technology development (CAADP Pillar 4)	<p>Development and Endorsement of Framework for African Agricultural Productivity (FAAP) by African Heads of State</p> <p>Agreement reached between COMESA and ASARECA to fast track implementation of Pillar 4</p>	<p>Sub-regional research organizations have revised strategies to follow the FAAP guidelines and CAADP objectives</p> <p>FARA has revised its strategy to fit requirements of FAAP and CAADP</p> <p>FARA and its development partners are about to sign a Memorandum of Understanding (MOU) on how to support FARA's objectives and strategic plan. Additionally, a Joint Financing Agreement (JFA) to provide core funding to FARA is planned.</p>	<p>Inadequate total investment in agricultural research and technology dissemination and adoption;</p> <p>Lack of capacity of research institutions;</p> <p>Fragmented external support;</p> <p>Systematic fragmentation among innovation systems elements.</p>	<p>Increase scale of African investment in R and D;</p> <p>Establishment of specialized centers of excellence;</p> <p>Dissemination of agricultural technologies;</p>	<p>AU institutions (AUC, NEPAD and the RECs), African States, Pillar Head (FARA), and Development Partners</p>

Key monitoring issue	Successes	Developments between 2006-2007	Bottlenecks	Critical next steps	Responsibilities
<p>Cross cutting issue I – National and regional resources and capacity</p>	<p>First CAADP COMPACT completed in Rwanda;</p> <p>About 12 countries now are preparing for Country Round Tables (CRTs).</p> <p>The ReSAKSS nodes in Southern Africa, East and Central Africa, and West and Central Africa are now operational and have been providing key support to the Round Table process.</p>	<p>Three country compacts to be signed by end of 2007 – Zambia, Uganda, Malawi.</p> <p>All RECs are revising their agricultural strategies in the context of CAADP</p> <p>The COMESA compact is being developed and will be signed by the end of 2007.</p> <p>COMESA and ECOWAS are working with governments for the preparation of Country Roundtables (CRTs).</p>	<p>Lack of monitoring systems to deliver up-to-date information on resources;</p> <p>Slow progress in holding Round Tables.</p> <p>Lack of inter-pillar linkages between the four CAADP pillars.</p>	<p>Accelerate implementation of Maputo Declaration – to increase public expenditure on agriculture to 10%.</p> <p>Strengthen co-operation and coordination among AUC, NEPAD and RECs.</p> <p>Accelerate engagement and completion of regional and country compacts and develop follow-up implementation.</p> <p>Mainstream CAADP companion document on fisheries, forests and livestock in CAADP implementation and strengthen inter-pillar linkages</p>	<p>AU institutions (AUC, NEPAD and the RECs), and African States.</p>

Key monitoring issue	Successes	Developments between 2006-2007	Bottlenecks	Critical next steps	Responsibilities
Cross cutting issues II – Support from development partners and the international community	<p>Increasing number of multilateral and bilateral agencies aligning towards CAADP framework.</p> <p>Increase in lending from individual multilaterals and bilaterals</p> <p>Some improvements in market access through EPAS, AGOA and EBA.</p>	<p>Establishment of the CAADP Partnership Platform (2006)</p> <p>Two Partnership Platform meetings held - Johannesburg (2006), Addis Ababa (2007).</p> <p>The EU developed 'Advancing African Agriculture' – policy framework for an EU response to CAADP in July 2007.</p> <p>World Bank WDR report on 'Agriculture for Development'</p>	<p>Less than 10 development partners aligning with CAADP</p> <p>Continued decline in support for agriculture as percentage of total aid flows.</p> <p>Doha discussions stalled</p>	<p>Increase funding for the agricultural sector;</p> <p>More donor alignment around the CAADP agenda and establish M&E framework</p> <p>Hold next PP meeting in first quarter of 2008</p> <p>Timely completion of EU negotiations on EPAS.</p> <p>Implementation of commitments agreed at Hong Kong 2005 WTO Ministerial</p> <p>Adoption of EU policy framework by European Parliament and member states</p>	Development Partners (Multilateral Institutions, Bilateral institutions and Development Banks).

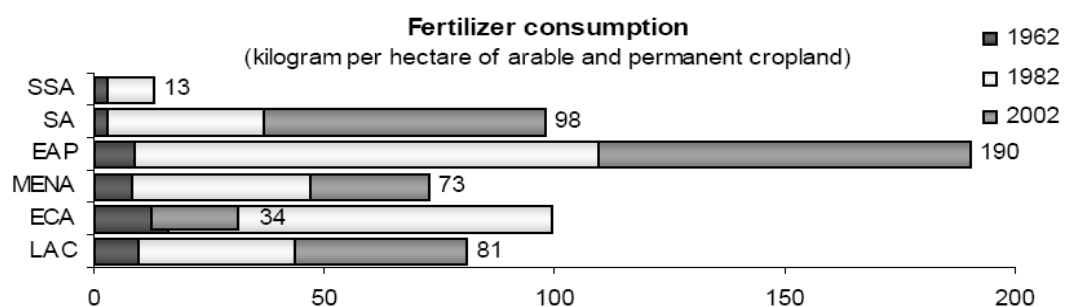
II. Results

Whilst the annual growth rate of agriculture in Africa is increasing.....



Source: World Bank (2007)

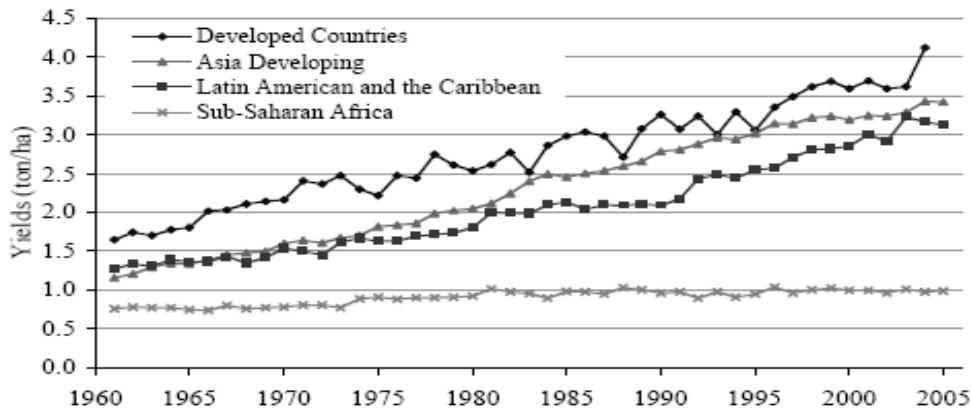
...fertilizer consumption in Africa remains the lowest in the world.....



Source: World Bank (2007)

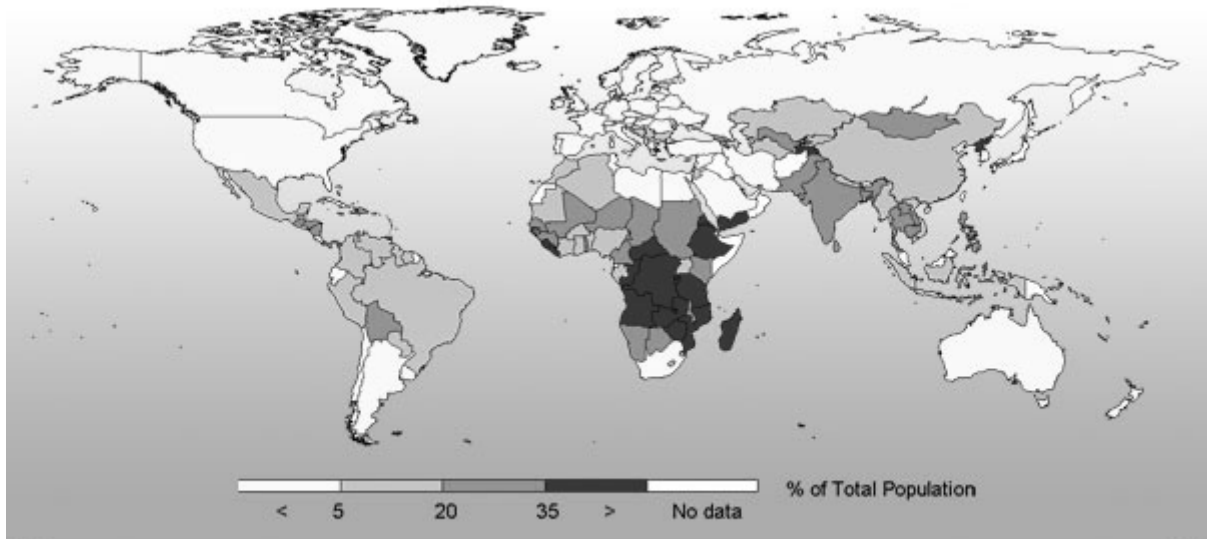
And low investments in R & D and low international transfers of technology have resulted in stagnant cereal yields and overall productivity.....

Cereal yield by region, 1960-2005.



Source: World Bank (2007)

.....with direct consequences on the prevalence of the undernourished population on the continent.



FAO Statistics Division, FAO Statistics Yearbook 2004 Vol.1

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The percentage of national budget allocation to agriculture remains low.....

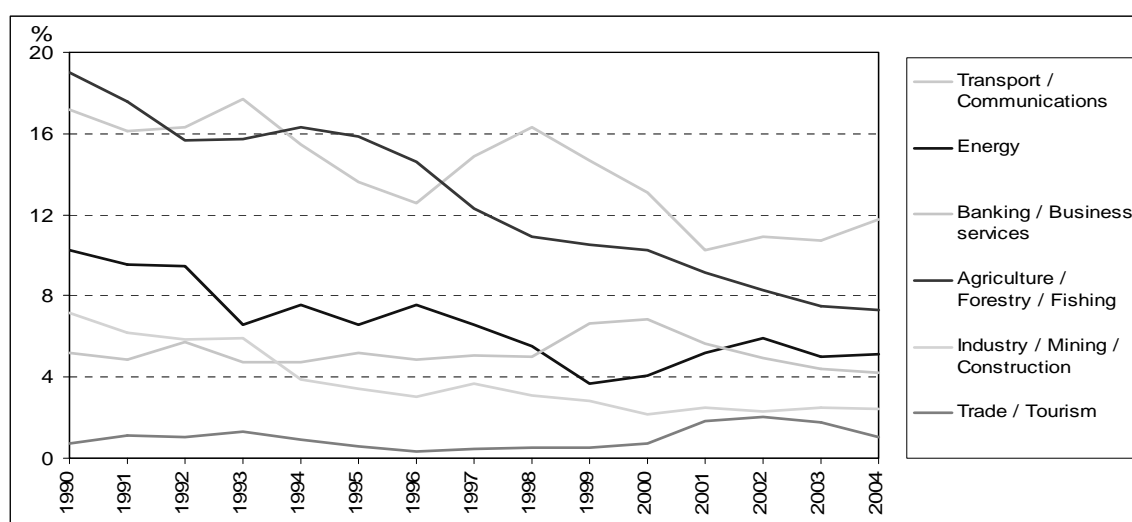
Percentage budget allocation to agriculture (2002-2004)

Country	YEAR		
	2002	2003	2004
Benin	3.6	6.1	4.4
Burundi	1.2	2.1	1.5
Cameroon	2.4	2.8	3.3
Chad	10.3	6.6	11.9
Ethiopia	9.7	8.4	13.6
Gabon	0.6	0.9	0.8
Gambia		2.2	2.0
Kenya	5.1	5.4	4.5
Mauritius	2.7	3.9	2.9
Mozambique	3.2	5.1	3.7
Niger	15.3	19.3	20.2
Senegal	4.1	4.1	4.9
Sierra Leone	0.9	2.2	2.0
Sudan	1.7	3.1	5.4
Swaziland	5.5	4.5	5.4
Tanzania	3.3	3.7	3.6
Tunisia	10.1	9.4	8.2
Uganda	6.1	3.7	4.1
Zimbabwe	9.4	10	6.2

Source: AU (2007)

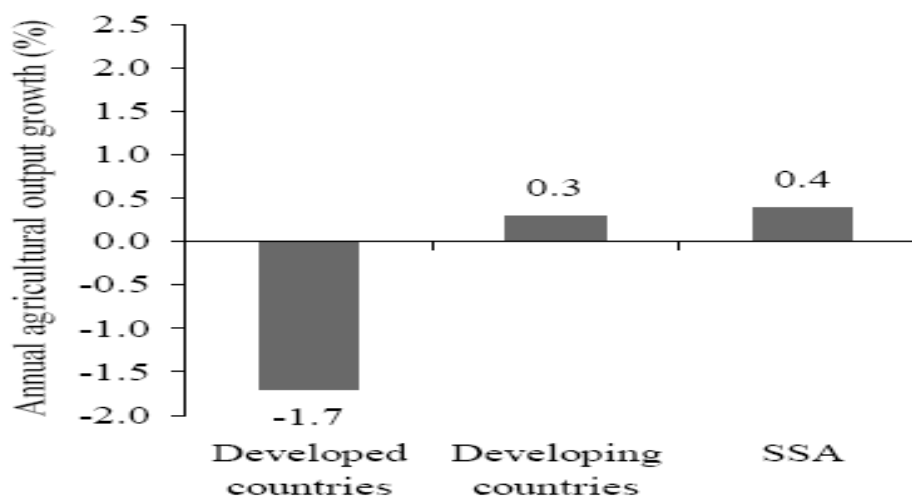
.....and the share of agriculture in total ODA to Africa is declining.....

Analysis of economic and production sector ODA to Africa since 1990
As a percentage of total ODA, 3-year average commitments



Source: OECD (2007)

The potential benefits from trade liberalization will largely be felt in Africa.....



Source: World Bank (2007)

.....and results suggest that climate change could have a devastating impact on agriculture in Africa.

The impact of climate change on farm productivity (%)

Country	% Change
Burkina Faso	-19.9
Cameroon	-16.8
Egypt	-5.2
Ethiopia	-1.3
Ghana	-13.8
Kenya	-9.8
Niger	-30.5
Senegal	-18.8
South Africa	-3.0
Zambia	-6.0
Zimbabwe	-4.9

Source: World Bank (2007)

Note: This climate change scenario is evaluated at the year 2050 by which time a globally averaged temperature increase of 1.1 degrees Celsius is expected.

ANNEX: Key monitoring issues

1. Land and water management (CAADP Pillar 1)

Indicators	Assessment
<p>1. Number of countries actively addressing land policy issues, such as land registration and land tenure</p>	<p>In order to provide a solid framework to land reforms, AU/NEPAD, ECA and ADB, under the leadership of the AU Commission, agreed in 2006 to launch the Land Policy Initiative. While regional consultations are still ongoing, a two-day Expert Group Meeting (EGM) took place in May 2007. The meeting had the objective of creating a harmonized set of benchmarks and indicators for African land policy reform.</p> <p>The Strategic Investment Programme (SIP) proposal submitted to the Global Environment Facility (GEF) Council has been approved (June 2007), making available US\$150 million investment support for scaling up of SLM practices for the period 2007-2010. However, there is already US\$ 1 billion in leveraged resources available. About 18 African countries are expected to benefit under the 2007-2010 window. The country SLM investment framework and vision documents are completed – key tools in guiding country level operationalisation of the SLM agenda</p> <p>At least 10 countries are undertaking national platforms on the development of SLM investment programmes. In most of these countries, the processes are also being aligned to the country CAADP process. NEPAD is providing support to ensure that the SLM processes are aligned to the country CAADP implementation processes.</p>
<p>2. Amount of irrigated land in Africa</p>	<p>In sub-Saharan Africa only 4% of the area in production is under irrigation, compared with 39% in South Asia and 29% in East Asia The situation is radically different in Middle East and North Africa, where figures suggest that 29% of the total arable land is irrigated.</p> <p>The annual rate of growth and area of irrigated land would need to increase 10-fold to around 7% pa in order to increase the total to 20m hectares by 2015 in line with CAADP aspirations. This is estimated to cost around US\$ 4 billion pa, or cumulatively US\$ 37billion.</p> <p>An Agriculture/Water Investment programme started in June 2007 to strengthen water and irrigation components in CAADP Pillar 1 framework and the development of national investment programmes on scaling up sustainable water management and irrigation practices in Africa.</p> <p>Technology development in Africa should include investment in efficient irrigation systems, particularly because of the recurrence of droughts. Irrigated land productivity is more than double that of rain-fed land.</p>

2. Rural infrastructure and trade-related capacities (CAADP Pillar 2)

Indicators	Assessment
<p>1. "Rural Access Index"- measured as percentage of rural people who live within 2km of an all-season road, as a percentage of the total rural population</p>	<p>In Africa, only 30% of the rural population lives close to an all-season road within 2km distance. Inadequate transport infrastructure and services in rural areas are pushing up marketing costs, undermining local markets and exports. Trader surveys in Benin, Madagascar and Malawi found that transport costs account for 50-60% of total marketing costs.</p> <p>African countries will need to accelerate efforts to improve these access rates, together with support from development partners. Since most of Africa's poor trade performance can be accounted for by poor infrastructure, a significant increase in investment in rural infrastructure would help to increase food production and consumption, increase food security and decrease malnutrition,</p>
<p>2. Annual growth of agricultural export volumes and regional trade and progress in regional integration</p>	<p>Africa's trade performance and share in world agricultural markets have improved recently. According to FAO data, Africa's commodity markets have been increasing in volume at an average of 13% since 2001. In terms of share, commodity markets 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 in the world.</p> <p>African countries regional trade is increasing. Intra-African trade in agricultural products doubled between 1996-2000 and 2000-2004, and was about twice the level of trade in non-agricultural products. However, compared to other developing countries, regional integration it is still relatively low. African regional markets offer excellent prospects for growth. Cross-border trade barriers need to be reduced so that African producers and consumers can benefit from participating in larger markets.</p> <p>Recent data point to some new international markets: horticultural products (flowers, vegetable, and fruits), fish exports (both aquaculture and fisheries), niche markets (fair trade, organic).</p> <p>The Regional Agriculture Trade Expansion Support (RATES) program is a 5-year program funded by USAID. The RATES program is designed to increase value/volume of agricultural trade within the East and Southern Africa region and between the region and the rest of the world. RATES is currently supporting activities in specialty coffee, maize and pulses, cotton/textiles, livestock and dairy sectors. The objective of the RATES "Maize without Borders" programme is to improve the flow and expand the availability of maize in ways that will contribute to regional market stabilization and food security.</p>
<p>3. Average levels of fertilizer use</p>	<p>About 83% of the land suitable for agriculture in Africa has low soil fertility or other limitations, such as no irrigation and variations in growing conditions. However, fertilizer use in Africa lies at an average of 14.6 kg/ha, versus 114.3 for all developing countries, and the figures are even lower for sub-Saharan Africa (approx 8kg/ha). Low volumes, high prices, high transport costs, and undeveloped private input markets are major barriers to fertilizer use in sub-Saharan Africa. On average, sub-Saharan African farmers must sell about twice as much grain as Asian and Latin American farmers to purchase a kilogram of fertilizer, given its high price.</p> <p>Higher soil fertility is essential for increasing crop yields. Improved yields can break the vicious cycle of poverty and food insecurity and enable farmers to experiment with new seeds and invest in their land. This can increase agricultural productivity in the medium and long term.</p> <p>Many sub-Saharan countries do not have sufficient quality or quantity of raw materials to manufacture fertilizer, and few have a domestic market big enough to support an efficient manufacturing facility. Government initiatives have often sought to make fertilizer more affordable at the farm level, commonly through subsidies.</p>

Subsidies are costly in Africa and may also heighten inequalities because they benefit mainly larger farmers. Therefore, it is equally important to address supply-side constraints such as access to credit, transport and weak infrastructure that all contribute to the high cost of fertilizers in Africa.

On June 2006 NEPAD, the African Union and IFDC held the Africa Fertilizer Summit which aimed at developing an Africa Fertilizer Action Plan that will accelerate the access of millions of poor farmers to fertilizer. The aim is to increase fertilizer use to at least 50kg/ha by 2015 and to establish an 'African Fertilizer Mechanism' to finance fertilizer investments. The AFDB has finalized the draft legal instrument for its establishment. The AFFM - which is expected to be operational in 2008 - has mobilized over US\$ 35 million in pledges.

The Abuja Declaration calls for the AUC and NEPAD to develop a mechanism to monitor and evaluate its implementation and for the AUC to report on progress and implementation of the Summit Resolutions to the AU General Assembly every 6 months. According to the latest NEPAD report (October 2007), overall progress has been mixed at the regional and country levels. The only substantive progress has been made by SADC/COMESA on regional procurement and ECOWAS on harmonisation of trade policy. For example, a committee for Regional Input Procurement has been established under the coordination of COMESA to facilitate the regional joint procurement and distribution of fertilizers which reflects implementation of Resolution 8 of the 2006 Abuja Declaration on Fertilizers for the COMESA/SADC region.

Overall, however, the findings show that attainment of the target of 50 kg/ha (Resolution 1) remains low, capacity for implementation is weak, and the private sector - which is a key stakeholder in fertiliser market development - has not been made a priority. It should be noted, however, that the NEPAD report focuses on progress in implementation of the Abuja Declaration on Fertilizer by the countries and RECs. There are also a number of global initiatives whose visions and strategies for fertilizer market development are very much aligned with those of the Abuja Declaration. Most notable is the Alliance for a Green Revolution in Africa (AGRA).

3. Increasing food supply and reducing hunger (CAADP Pillar 3)

Indicators	Assessment
<p>1. Percentage of population malnourished and numbers of people malnourished</p>	<p>According to the 2006 FAO “State of Food Security in the World Report”, the share of undernourished people in sub-Saharan Africa has declined from 35% in 1990 - 1992 to 32% in 2001-2003. However, since Africa’s total population has constantly increased over the period, the absolute number of undernourished people has risen from 169 million to 206 million. The aggregate numbers, however, conceal considerable variation across the African continent.</p> <p>Particular progress has been made in West Africa, particularly in Benin, Ghana, and Nigeria where both the percentage and the number of malnourished people have consistently declined over the past 20 years. Eastern and Southern Africa have made some progress in reducing the percentage of undernourished people, nevertheless, more than 60% of the undernourished in SSA are in Eastern Africa. North Africa has a much lower proportion of malnourished people than the rest of the continent.</p> <p>Africa is still food insecure. This poses serious problems for the future, since the population is expected to grow and with it the demand for food is destined to rise: demand for food in Africa is expected to reach US\$100 billion by 2015, double its level of 2000. Another important indicator of food insecurity is the proportion of undernourished children in a region, which has also shown an increasing trend in Africa. According to the UN, the percentage of undernourished children increased over the past 30 years, from around 27% in the 1970s to over 33% in the 2000s. This trend is striking, because Africa is the only developing region where the number of malnourished children has been increasing.</p> <p>The December 2006 (Abuja) AU Summit on Food Security in Africa called for some selectivity in pursuing the CAADP commitments, based on recognition that limited resources and institutional capacities require priorities that will lead to quick but sustainable gains in terms of achieving food and nutrition security. At the Summit, African leaders also declared their commitment to mobilize resources for the implementation of food and nutrition security interventions, and to expand markets to promote inter-African trade in staple foods.</p>

4. Agricultural research and technology development (CAADP Pillar 4)

Indicators	Assessment
<p>1. Funding available for agricultural research and development</p>	<p>Public spending in agricultural research and development in Africa is low. According to FARA (2006), the majority of African countries spend between 0.2 and 0.5% of agricultural GDP. However, there is wide variation among countries with some investing at similar levels to developed countries. Generally, the private sector is playing an exceptionally small role in funding agricultural research, accounting for only 2% of total agricultural research spending.</p> <p>According to the CAADP framework, the goal is to double the current annual spending on agricultural research in Africa within 10 years. In essence, this would amount to annual investments of some US\$1.6 billion for the period until 2015. However, latest statistics available show a low level of investment in African agricultural R&D</p> <p>Dramatic increases are needed in agricultural research investments in order for food and nutrition security in Africa to be successful. There is a need to generate knowledge about fertilizer use and to diffuse that knowledge to the farm population. A key area for improvement in research is crop breeding and biotechnology.</p> <p>The Forum for Agricultural Research in Africa (FARA) is taking the lead in implementation of the CAADP Pillar IV. In June 2006 FARA developed a strategic document, the Framework for African Agricultural Productivity (FAAP) which sets out principles and orientations of future agricultural research and innovation at the national, sub-regional and regional level. FAAP was endorsed by African Heads of State in June 2006. FARA has recently revised its strategy to fit the requirements of FAAP and CAADP.</p> <p>Considerable progress has been made towards the implementation of FAAP through programmes at the sub-regional and national level. These include the sub-Saharan Africa Challenge Programme (SSA CP) which forms part of the Integrated Agricultural Research for Development Framework (IAR4D); Dissemination of New Agricultural Technologies in Africa (DONATA); Regional Agricultural Information and learning Systems (RAILS); and SCARDA (Strengthening Capacity for Agricultural Research and Development in Africa (SCARDA).</p> <p>With regard to new agro technologies, the International Maize and Wheat Improvement Center (CIMMYT) research, which is producing drought-tolerant maize varieties and hybrids, is proving to be very successful in Eastern and Southern Africa. There is also the development of cassava varieties in East Africa that are resistant to the mosaic virus and the New Rice for Africa (NERICA) that is high-yielding upland rice varieties.</p> <p>The Alliance for a Green Revolution in Africa (AGRA) is a broad-based partnership dedicated to improve the productivity, food security, and livelihoods of small-scale farmers across Africa. Founded by the Rockefeller Foundation and the Bill & Melinda Gates Foundation in September 2006, the Alliance is working side-by-side with farmers to improve food production in ways that promote equity and protect the environment. Grants to be awarded in 2007 and 2008 will address seeds and complementary programmatic areas, including soil health, water management, policy support, market development, and training. The first major initiative is the Program for Africa's Seed system (PASS) for a total cost of US\$ 150 million over 5 years from 2006-20011.</p>

5. Cross-cutting issue I: National/regional resources and capacity

Indicators	Assessment
1. Proportion of domestic budgets allocated to expenditure on agriculture	<p>The 2004 Maputo Declaration calls for 10% of total public expenditure to be spent on agriculture and rural development. At present, only 6 countries are allocating more than 10% to agriculture. These include Mali, Madagascar, Namibia (based on IMF figures) and Niger, Chad and Ethiopia (based on AU/NEPAD figures). Overall, many African countries are still far from their 10 % commitment. The Regional Strategy Analysis and Knowledge Support Systems are working to better track the level of public expenditure in the agriculture sector across Africa.</p>
2. Number of African countries and sub-regions with clear development strategies for their agricultural sectors, aligned with CAADP principles.	<p>CRTs are being organized in a number of countries which aim to review national policies in view of the 6% sector growth and 10% budget allocation targets.</p> <p>On March 31, 2007, the first CAADP Compact in Africa was executed in Rwanda. Rwanda has identified its priorities, and partnerships are being developed in the following areas: 1) intensification of agriculture; 2) professionalisation of producers; 3) development of priority value chains and 4) institutional capacity building. The conclusion of the following country compacts is underway in Zambia, Uganda and Malawi and Roundtable Compact Meetings will be held in these three countries by the end of 2007.</p> <p>At the regional level, the RECs are playing an increasingly important role in the harmonization and implementation of agricultural policies, and in aligning the CAADP principles. Several RECs have developed regional agricultural policy frameworks. UEMOA, for example, adopted the « Politique Agricole de l'UEMOA » in 2001. IGAD and ECOWAS have adopted a comprehensive regional agricultural policy. COMESA developed its agricultural strategic framework in 2006, and ECCAS/CEEAS has been given the mandate for agricultural policy harmonization and for the development of a common agricultural policy by 2008. These frameworks provide orientations for agricultural policies and serve as guides for agricultural development in line with the CAADP.</p> <p>Currently, ECOWAS and COMESA have taken strong leadership and ownership of the CAADP agenda and are now working with their member states on accelerating CAADP implementation. About a dozen countries in the two regions are preparing for CRT discussions. The process is expected to be completed by the end of 2008.</p>

6. Cross-cutting issue II: Support from development partners

Indicators	Assessment
<p>1: Agreement on improved access to global markets for agricultural exports, and reductions in OECD subsidies</p>	<p>The suspension of the Doha Round of trade negotiations between July 2006 and January 2007, and the slow progress following the resumption of talks, undermines prospects for further reforms through multilateral agreements. The potential benefits from the Doha Round are large. IFPRI has estimated that, taking 32 crop and livestock commodities as a reference, and keeping policies and macroeconomic trends as constant, net benefits from the round accruing to Africa would total US\$5.4 billion in 2025, and the largest gain would occur in sub-Saharan Africa, at US\$4.60 billion.</p> <p>It should be noted, however, that many sub-Saharan African countries already enjoy considerable access to markets in OECD countries through various schemes such as the EU's Everything But Arms Initiative (EBA), and the US's Africa Growth and Opportunity Act (AGOA). To replace the Cotonou Agreement that will lapse at the end of this year, the EU is negotiating with various ACP groupings for improved access in the framework of the EPAs negotiations. However, unlike Cotonou, the EPAs will require that ACP countries eventually liberalise 80-90 %of their domestic markets to European exports. There have been concerns about the need for policy space to enable African economies to adjust the pace at which they open up.</p> <p>In relation to AGOA, though efforts have been made to extend AGOA and make it easier for African countries to take advantage of the benefits, AGOA as a tool is limited in its ability to truly alter African trade with the U.S due to the limited scope and diversity of products. AGOA has thus benefited oil exporters. What AGOA and EPAs vividly reveal is the need to couple trade liberalisation measures with greater trade capacity assistance and facilitation.</p> <p>Progress on reducing domestic subsidies has been slow. The average support to agricultural producers fell from 37% of the gross value of farm receipts in 1986–88 to 30% in 2003–05. Without a more substantive reduction, domestic subsidies will continue to favour larger domestic production, thus depressing world markets prices which, in effect, continue to harm farmers in Africa.</p>
<p>2. Level of funding from multi-lateral and bi-lateral donors</p>	<p>OECD DAC figures show that overall total aid to African agriculture declined as a proportion of total aid from 6.6% in 2001 to 3.6% in 2005. However there is some progress being made from individual bilateral and multilateral agencies and currently discussion is ongoing among development partners about the establishment of a multi-donor CAADP Trust Fund to raise the level of resources and to speed up the implementation process. Current support to African agriculture from a selection of multilateral and bilateral institutions is shown as follows:</p> <ul style="list-style-type: none"> - The African Development Bank (AfDB) currently has over 200 on-going agricultural projects with current support to CAADP amounting to over US\$ 2 billion. AfDB is supporting all four pillars of CAADP. One of the major areas of focus is the promotion of access to rural infrastructure services i.e. water management and irrigation; - The World Bank has seen an increase in overall agriculture lending from FY00 to FY06 from US\$123 million to US\$ 685 million; - EU support for the period 2008 -2013 has shown that there will be an increase in assistance going to agriculture, food security and rural development, compared to 2001-2007, both in absolute and percentage terms; - DFID is providing capacity building support to the RECs and is also supporting research activities. DFID will be providing GBP 20 million a year towards the CGIAR; over GBP 1 million in 2007/2008 to livestock vaccines; and over GBP 30 million over the next 3 years on research activities. DFID has also committed US\$ 20 million to the African Enterprise Challenge Fund which is to support innovative business ventures in Africa's agriculture; - SIDA is providing support for capacity building and institutional strengthening, with predicated disbursements of over 1 million kroner from 2007 to 2009;

	<ul style="list-style-type: none"> - GTZ is also supporting CAADP by providing support to the RECs and country processes; - USAIDs support for agriculture in Africa has increased from US\$166 million in 2000 to US\$ 228 million in 2007 – a 16% increase. <p>There are several new actors from the developing world who are providing support to African agriculture. China, for example, has adopted a strategy to support African agriculture and India is providing technical assistance to several countries. EMBRAPA (Empresa Brasileira de Pesquisa Agropecuária), a Brazilian public corporation for agricultural R&D, has recently opened “EMBRAPA Africa” which is aimed at strengthening south-south cooperation as part of an international initiative and to providing technical assistance and training.</p>
<p>3. Number of donors aligning their support to agriculture to the CAADP framework and principles and to national strategies</p>	<p>An increasing number of bilateral and multilateral development partners are aligning with the priorities and targets of the CAADP framework. Some examples are below:</p> <p>The theme of the World Bank’s World Development Report (WDR) 2007 is ‘Agriculture for Development’. The WDR is also concerned with issues of African agriculture and many of the key interventions are in line with the CAADP agenda.</p> <p>The EU ‘Advancing African Agriculture’ was developed in July 2007 as a policy framework for an EU response to CAADP and is based on priorities as reflected in the CAADP. The framework is awaiting adoption by the EU Parliament and member States.</p> <p>The USAID Initiative on ‘End Hunger in Africa’ is a new cooperation strategy in support of CAADP.</p> <p>The EU, USA, UK and World Bank are actively aligning their support to agricultural research in Africa by supporting FARA and the FAAP as a suitable framework under CAADP Pillar 4.</p> <p>The Partnership Platform (CAADP PP) is an important instrument in defining collective commitment in taking CAADP to the country level and acts as the core mechanism to coordinate involvement of all development partners at the continental level. Meetings have been organized and work to increase and co-ordinate donor support is being implemented.</p> <p>The Global Donor Platform for Rural Development (GDPRD) – established in 2005 - is an initiative of development agencies and international financial institutions to improve donor cooperation, collaboration and coordinated dialogue with partner countries. It is expanding its activities in effective knowledge management and competence in aid effectiveness in agriculture and rural development. The GDPRD has recently appointed a Task Leader dedicated to CAADP.</p>

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Note describing CAADP Framework

CAADP should be considered as a *framework* to stimulate African countries and development partners to enhance agricultural development.

It encompasses a set of principles and targets:

- agriculture-led growth as a main strategy for poverty reduction and for the achievement of MDG 1 (eradication of extreme poverty and hunger);
- pursuit of a 6% average annual agricultural sector growth rate at the national level;
- allocation of 10% of national budgets to the agricultural sector;
- exploitation of regional complementarities and cooperation to stimulate growth;
- application of principles of policy efficiency, dialogue, review and accountability;
- usage of partnerships and alliances, including farmers, agri-business and civil society;
- assigning roles to countries (programme implementation), RECs (coordination; regional level implementation) and NEPAD Secretariat (facilitator; mobiliser of resources and expertise).

The following assessment has been organized around the 4 CAADP set of pillars:

Pillar 1: *Land and Water Management*. Pillar 1 concerns the extension of the area under Sustainable Land Management (SLM) and reliable water control systems. It focuses on soil fertility, the moisture holding capacity of soils and an extension of the area under (small-scale) irrigation in order to raise output on a sustainable basis and contribute to the reliability of food supplies. TerraAfrica has been developed, which is a multi-partner initiative aiming to increase the scale, efficiency and effectiveness of investments towards SLM in Africa. The University of Zambia and the Permanent Inter-State Committee on Drought Control (CILS) are the lead institutions for Pillar 1.

Pillar 2: *Rural Infrastructure and Trade-Related Capacities for Market Access*. Pillar 2 focuses on rural infrastructure improvements (roads, storage facilities, markets, packaging and handling systems, input supply networks) in order to raise the competitiveness of African production vis-à-vis imports, as well as in export markets. It also includes (export) quality issues and trade negotiation capacities. The Conference of Ministers of Agriculture of West and Central Africa (CAM/WCA) has been mandated by the AU/NEPAD to serve at a continent-wide level as coordinator of private sector interests support to CAADP Pillar 2.

Pillar 3: *Increasing Food Supply and Reducing Hunger*. The third pillar is concerned with increasing yields and farm productivity levels by facilitating access to improved technology (through improved support services and a supportive environment). It also calls attention to disaster preparedness, including the need to prepare for responses to food emergencies, like the creation of safety nets. The University of Kwa-Zulu Natal is the lead for Pillar 3.

Pillar 4: *Agricultural Research, Technology Dissemination and Adoption*. This pillar aims at an enhanced rate of adoption of new technologies to increase productivity as well as the ability of the research systems to generate and adapt new knowledge and technology. The Forum for Agricultural Research in Africa (FARA) is taking the lead in the implementation of CAADP Pillar 4 and has developed a strategic document - the Framework for African Agricultural Productivity (FAAP) – which sets out the principles and orientations for agricultural research and extension for Africa.

In addition, two cross-cutting issues have been identified:

Cross-cutting issue D): *National Resources and Capacity*. Recognising the importance of increasing public investment in agriculture, this cross cutting issue takes stock of the 2003 target adopted in the Maputo Declaration to allocate 10% or more of national budgets to agriculture/rural development by 2008. The indicators used in this assessment are 1) proportion of domestic budgets allocated to expenditure on

agriculture and 2) the number of African countries with clear development strategies for their agricultural sectors, aligned with CAADP priorities.

Cross-cutting issue II): *Support from Development Partners*. Significant support from development partners is needed for a new push for agricultural development in Africa. The indicators used in this assessment are 1) agreement on improved access to global markets for agricultural exports, and reductions in OECD export subsidies and domestic support, 2) level of funding from multi-lateral and bi-lateral donors and 3) number of donors aligning their support to the CAADP.