

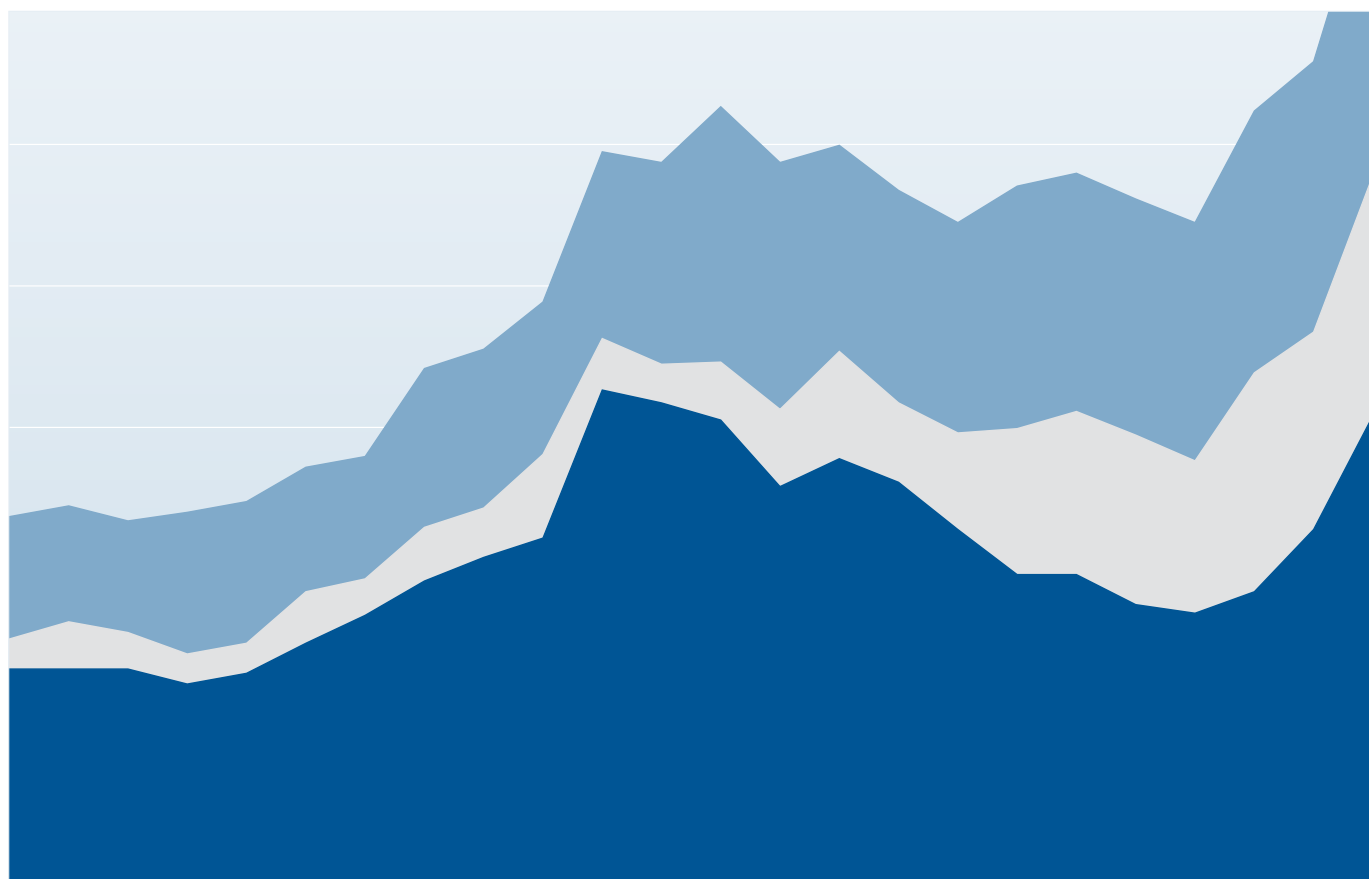


Economic Commission for Africa

Economic Report on

# Africa 2006

*Capital Flows and Development Financing in Africa*





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# Acronyms

AATIC	Asia-Africa Trade and Investment Conference
ACGD	African Centre for Gender and Development
AfDB	African Development Bank
AGOA	African Growth and Opportunity Act
AIDS	Acquired Immunodeficiency Syndrome
APRM	African Peer Review Mechanism
AU	African Union
BoP	Balance of Payments
CMA	Common Monetary Area
COMESA	Common Market for Eastern and Southern Africa
COSATU	Congress of South African Trade Unions
CSO	Civil Society Organization
DAC	Development Assistance Community
DRC	Democratic Republic of Congo
DFID	Department for International Development/UK
ECOWAS	Economic Community of West African States
EIC	Ethiopian Investment Commission
EIU	Economist Intelligence Unit
EPZ	Export Processing Zone
EU	European Union
FAO	United Nations Food and Agriculture Organization
FONDAD	Forum on Debt and Development
GCF	Gross Capital Formation
GDI	Gross Domestic investment
GDP	Gross Domestic Product
GDS	Gross Domestic Savings
GIPC	Ghana Investment Commission
GNI	Gross National Income
HDI	Human Development Index
HIV	Human Immunodeficiency Virus
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country

ICT	Information and Communication Technology
IDA	International Development Association/WB
ILO	International Labour Organization/UN
IMF	International Monetary Fund
LDC	Least Developed Country
MENA	Middle East and North Africa
MNC	Multinational Corporation
NEPAD	New Partnership for Africa's Development
NER	Net Enrolment Rate
M&A	Mergers and Acquisitions
MDG	Millennium Development Goal
MSE	Medium and Small Enterprise
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NEPAD	New Partnership for Africa's Development
NGO	Non-governmental Organization
NICI	National Information and Communication Infrastructure
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
REC	Regional Economic Community
R&D	Research and Development
REER	Real Effective Exchange Rate
SAP	Structural Adjustment Programme
SME	Small and medium enterprise
SRO-CA	Subregional Office for Central Africa/ECA
SRO-WA	Subregional Office for West Africa/ECA
SRO-NA	Subregional Office for North Africa/ECA
SRO-SA	Subregional Office for Southern Africa/ECA
SSA	Sub-Saharan Africa
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environmental Programme
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
UNCTAD	United Nations Trade and Development Conference
UNU	United Nations University
WAEMU	West African Economic and Monetary Union
WFP	United Nations World Food Programme

# Foreword

Continuing the economic recovery since the mid-1990s, African countries generally recorded strong growth in 2005, a major turnaround after decades of economic stagnation. However, growth remains uneven across countries, and in many countries, fast growth has not been accompanied by substantial gains in employment or poverty reduction. The African continent thus continues to face challenges of achieving and sustaining higher growth rates as well as translating growth into employment and poverty reduction.

Constraining the ability of African countries to accelerate and sustain growth are various imbalances, between exports and imports, between resource inflows and debt payments and between domestic savings and domestic investment. African countries thus need to mobilize more domestic and external financial resources, including official and private capital flows, to fill the financing gaps in order to accelerate growth and sustain higher levels of growth.

This year's *Economic Report on Africa* places capital flows at the centre of the debate on development financing and examines how external capital can help countries accelerate growth and reduce poverty. The Report's objective is to shed light on how more and better-managed capital flows could help African countries achieve their development goals.

The Report notes that African economies are still on the sidelines of financial globalization. Capital flows have not responded significantly to macroeconomic reforms since the mid-1980s, and the volume of capital inflows – official and private – still falls short of Africa's needs to fill its resource gaps. Moreover, capital flows to Africa are highly volatile and unpredictable, increasing macroeconomic uncertainty and undermining government's ability to design and sustain long-term development plans.

Foreign capital inflows are concentrated in extractive industries, explaining in part their limited impact on employment and economic transformation. Efforts to attract additional external capital to Africa must be accompanied by strategies to encourage more sectoral diversification of foreign investment, especially targeting activities with high potential for employment generation.

Even as African countries seek ways to increase the inflows of official and private capital, they need to be aware of the potential negative effects of a surge in these inflows on their economies. The Report points out that with appropriate capital

management strategies, African economies could absorb higher external capital with minimal adverse effects. In other words, there is ample room for scaling up external resources to support Africa's efforts to accelerate growth and reduce poverty.

It is my belief that the analysis and recommendations in this year's Report will be a valuable input to policymakers in Africa and the international development community, in their efforts to mobilize the increased financial resources needed to achieve the internationally and nationally mandated development goals.

**Abdoulie Janneh**

Executive Secretary

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