Development Challenges for Africa in 2007

3

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

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

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

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

3.1.1 Introduction: general trends in Africa's trade performance

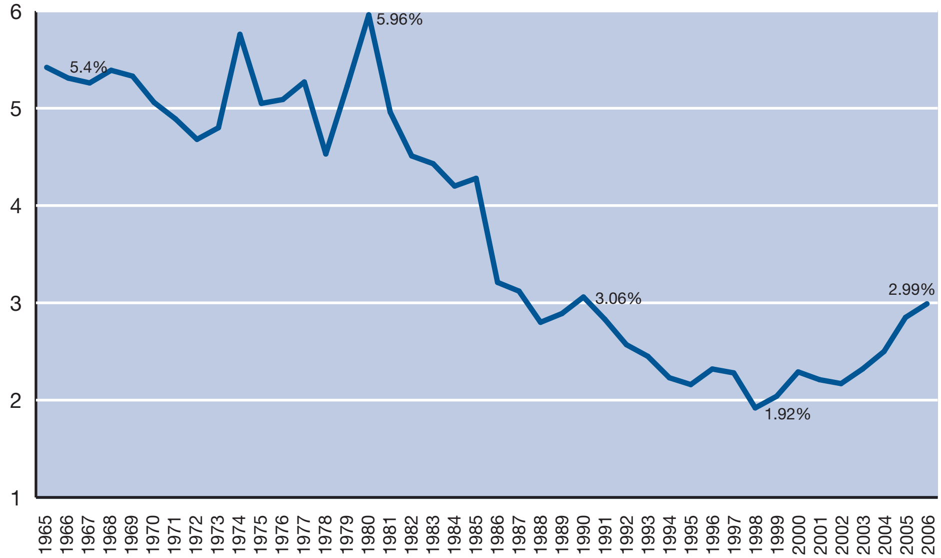
On the back of continued high-commodity prices and strong world growth, African exports progressed further in 2006 to reach $US 360.9 billion, up 21 per cent from 2005. This has been the fourth year in a row that Africa's exports grew by more than 20 per cent.

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

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

Figure 3.1

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



Source: *WTO, 2007c.*

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

Table 3.1

Top 10 African countries in exports in 2006

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

Source: *WTO, 2007c.*

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

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

Table 3.2
Growth rate of exports, 1997-2006 (per cent)

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

Source: *WTO, 2007c.*

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

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

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

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

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

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

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

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

Source: UNCTAD, 2006.

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

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

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

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

3.1.2 Trade negotiations: the state of play

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

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

Africa's regional and global trade

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

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

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

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

The Doha Round: making sense of the modalities

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

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

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

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

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

Unlocking the negotiations and the Lamy triangle

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

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

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

Agriculture negotiations

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

Overall Trade-Distorting Domestic Support (OTDS)

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

Box 3.1
Domestic support in WTO

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

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

Table 3.4

Modalities proposals for tiered formula for OTDS cuts

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

Source: *WTO, 2007a.*

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

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

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

Final bound total AMS and product-specific AMS caps

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

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

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

Source: *WTO, 2007a.*

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

De minimis

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

The Blue Box and New Blue Box

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

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

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

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

African cotton and domestic-support measures

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

The Green Box

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

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

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

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

The Market Access Pillar

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

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

Table 3.6
Tiered formula coefficients in the July 2007 draft modalities

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

Source: *WTO, 2007a.*

Sensitive products

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

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

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

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

Special products: limited progress so far

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

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

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

Other issues in the market access pillar

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

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

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

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

Export competition

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

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

Negotiations on non-agricultural market access (NAMA)

The sense of the formula

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

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

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

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

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

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

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

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

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

Unbound tariffs and the expectations of African countries

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

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

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

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

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

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

Other negotiation issues

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

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

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

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

3.1.3 EPA negotiations: state of play

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

Comprehensive review of the EPA negotiations

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

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

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

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

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

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

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

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

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

EPA conclusions

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

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

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

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

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

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

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

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

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

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

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

EPA continental coordination

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

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

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

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

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

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

3.1.4 The Aid for Trade initiative

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

Box 3.2

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

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

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

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

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

The three regional reviews of Aid for Trade (AfT)

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

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

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

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

Key issues from the African regional review of the AfT Initiative

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

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

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

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

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

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

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

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

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

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

Conclusions from the Africa Aid for Trade review meeting

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Climate change

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

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

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

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

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

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

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

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

Infrastructure bottlenecks

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

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

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

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

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

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

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

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

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

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

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

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

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

Rising inequality

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

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

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

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

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

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

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

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

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

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

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

3.3 Tracking development finance commitments in Africa

3.3.1 African countries take leadership in monitoring commitments

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3.3.2 Impact of the initiatives

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

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

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

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

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

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