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The Way Forward

Africa's overall economic performance has improved since adoption of the Monterrey Consensus in 2002. However, this has not translated adequately into progress with poverty reduction, the ultimate objective. Africa, particularly Africa excluding NA, is still the region with the highest percentage of people living in extreme poverty and deprivation. The 2007 Report on the MDGs published by the United Nations indicates that countries in the continent have not made sufficient progress in reducing poverty. The report stresses that if African countries are to meet the MDG target of halving poverty by 2015, they have to double and scale up their recent successes.

> *"There is need for an improved investment climate as well as policies and strategies that are better able to attract FDI and mobilize domestic resources"*

The implementation of the Monterrey Consensus is vital to accelerating progress in meeting the MDGs in Africa. Available evidence from both published macroeconomic data and the ECA Survey of African Policymakers indicate that significant progress has been made in the area of debt relief and sustainability. In other areas of the Consensus, progress remains very limited. The Survey of African Policymakers identified key challenges and constraints inhibiting implementation of the Monterrey Consensus. At the national level, poor governance, corruption, and the lack of credible institutions were mentioned by many respondents as challenges to be addressed in order to achieve the objectives of the Monterrey Consensus. Weak governance and institutions make it difficult to mobilize domestic resources and also increase the country risk premium, thereby militating against efforts to mobilize external resources. In addition, the inability to enforce laws creates insecurity and makes it difficult for firms to invest and operate in Africa. There is need for an improved investment climate as well as policies and strategies that are better able to attract FDI and mobilize domestic resources.

Weak infrastructure and other types of supply-side constraints were mentioned by many respondents as challenges and constraints to the promotion of exports and trade. These problems are compounded by the lack of effective capacity to negotiate, which has made it difficult for African countries to defend their interests and increase their participation in the international trading system. Transformation of African countries from producers of commodities to exporters of dynamic products was also identified as a key challenge and constraint to the realization of the ultimate objective of the Monterrey Consensus, namely, to reduce poverty through sustained economic growth.

A very interesting result from the survey is that middle-income countries in the continent feel that they have more difficulty accessing aid and other forms of development assistance relative to other African countries. LDCs, small island economies, and landlocked countries also expressed the view that their special economic circumstances and vulnerability to external shocks present a serious obstacle to realization of the objectives of the Monterrey Consensus. The lack of national ownership of development strategies was also identified as a constraint by a number of respondents. There is the concern that development partners have undue influence in setting national development strategies and that this inhibits a country's ability to define and follow its own priorities. Mobilization of support from the broader public and key stakeholders was also identified as a challenge.

"The continuing market access barrier faced by African countries in developed country markets is also a key concern and challenge"

With respect to donors, one of the main issues raised by respondents was the inadequate levels and unpredictability of aid, which has made it extremely difficult for African countries to finance key development projects that have potential for poverty reduction. Predictability of aid flows would allow governments to have better estimates of resource flows and hence make better policy choices and decisions.

Added to this is the lack of alignment, coordination and harmonization of aid, as well as slow progress in reducing the proportion of tied aid. The continuing market access barrier faced by African countries in developed country markets is also a key concern and challenge. Several respondents indicated that such protectionism has prevented them from exploiting potential gains from the multilateral trading system. Boosting donor support for trade capacity development to enable countries to derive more gains from the multilateral trading system is also an important challenge for African countries (Dupasquier and Osakwe 2007b).

Clearly, the slow pace of progress in achieving the goals of the Monterrey Consensus has serious consequences for growth and poverty reduction in Africa. There is need for both Africa and its development partners to accelerate their efforts to ensure that the objectives of the Consensus are achieved in the near term. This requires specific actions in each of the six core areas:

6.1 Domestic resource mobilization

African countries need to recognize that domestic resource mobilization is the most reliable and sustainable source of development finance. Thus, they need to take concrete actions to boost savings and reduce or eliminate domestic capital flight. They also have to exploit the development potential of thriving microfinance institutions in mobilizing savings and channelling them into productive investment. Their role as effective instruments of employment creation and income generation to the poorest population in Asia and parts of Africa has been widely documented. Micro-finance institutions can be efficient vehicles for a pro-poor growth strategy, particularly in transforming the agricultural sector in rural areas and the informal sector in urban areas. Capital market development will also play an important role in the mobilization and intermediation of domestic savings. Regional integration of capital markets should also be explored as an effective way to boost stock market development in the continent. The small size of the existing capital markets precludes realization of economies of scale. Regionalization of capital markets will increase the liquidity of capital markets and provide a larger pool of investment resources for national and regional development.

It should be noted, however, that national measures to enhance domestic savings are also affected by developments in the multilateral trading system. To the extent that trade liberalization erodes the fiscal base of national economies, it has serious implications for domestic resource mobilization. African countries should therefore ensure that trade reforms are accompanied by fiscal policy changes that would off-set any potential loss of revenue from trade taxes. In this regard, a gradual rather than rapid sequencing of trade reforms should be preferred.

"African countries need a coherent and comprehensive policy aimed at attracting foreign capital to complement domestic resources and external aid"

6.2 International resource mobilization

African countries need a coherent and comprehensive policy aimed at attracting foreign capital to complement domestic resources and external aid. The competition for foreign capital has become intense as a result of increasing globalization of trade and finance. Consequently, African countries will have to improve their investment environment and develop their infrastructure if they are to reverse their low, declining or stagnant share in global private capital flows.

FDI is the most reliable source of private capital flows available to the continent. However, countries have to be selective in the choice of FDI. They must ensure that they seek and attract FDI in sectors that have high value-added, have high potential for employment creation, and do not have any negative impact on the environment. Efforts should also be made to ensure that domestic investors are not discriminated against in the drive to attract private capital flows. In addition, investment policies should be liberalized and harmonized within Africa to encourage cross-border investment between countries.

Remittances are becoming increasingly important as a source of finance to Africa. Yet, African governments have not made any coherent efforts to harness the potential of this source of finance for development. At the national level, governments should increase and improve access to financial services to make it easier for people to use the banking system and other formal channels to receive remittances from abroad. At the international level, development partners should take actions to reduce the transactions costs of remitting money to developing countries. In this regard, the recent promise by G-8 countries at the Heiligendamm Summit, to take measures to enhance the effectiveness of remittances of Diaspora Africans is welcome.

"Africa's development partners must scale up efforts to meet their pledges on aid quantity and quality"

6.3 Trade as an engine of development

Development partners should assist in creating a trading environment that allows African countries to unlock their export potential. They should offer duty and quota free access to the exports of African countries and provide more stable and adequate funding for trade capacity-building programmes. Progress in the implementation of the AfT initiative is vital, especially for low-income African countries, in designing trade policies that are appropriate to local conditions.

On their part, African countries have to remove such obstacles to export promotion as poor infrastructure and lengthy customs procedures that increase transactions costs. They should also diversify their production and export structure to reduce vulnerability to external shocks and increase their share of benefits from trade.

6.4 Official Development Assistance flows

Most countries in Africa will continue to rely on the flow of ODA to finance much needed investment projects to meet the globally agreed development goals. The quantity as well as the quality of ODA flow will remain an agenda item of utmost importance in the next couple of years. Africa's development partners must scale up efforts to meet their pledges on aid quantity and quality. They should also live up to their promise to untie aid flows and make them more predictable. More efforts should also be made to enhance aid effectiveness.

In this regard, there is the need for: division of labour among donors to reduce the transactions costs of managing and delivering aid; decentralization of decision making by donors to field staff; increased use of country systems in aid delivery and management; and more accountability to local stakeholders. In addition, more donors should support the new and innovative sources of financing such as the international finance facility for immunization, the air ticket levy, and the advance market commitment.

6.5 Debt relief

Although significant progress has been made on debt relief in the last two years, there is need to extend eligibility for current debt relief programmes to non-HIPC African countries. It is also important to reduce the number of years it takes for countries to move from decision to completion points in the HIPC programme. African countries should also put in place a mechanism to ensure that loans from new creditors do not lead to a new cycle of indebtedness.

In this regard, the use of existing Debt Sustainability Frameworks (DSFs) as guides for assessing the risks associated with new loans would be appropriate. Furthermore, more attention should be given to the issue of domestic debt since it is equally a threat to the achievement of sustained economic growth in several African countries.

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6.6 Systemic issues

The international community should take the issue of increasing the voice of African countries in decision-making bodies of international institutions more seriously. This will prove to be a very good way of making international institutions more democratic and sensitive to the needs and concerns of poor countries. WTO is already making strides in this area and it is hoped that it will continue in this spirit. The IMF and the World Bank should continue to follow the WTO lines of approach and take more proactive measures to increase the voting power of African countries. It is through a democratic process that guarantees proper and adequate representation that these multilateral financial institutions can win back the trust and confidence of African countries and make progress in effectively integrating the continent into the global economy.

Economic Commission for Africa

African Union

In 2007, Africa sustained the high growth momentum of the past few years, registering an average growth rate of 5.8 per cent. As in previous years, Africa's growth performance in 2007 was driven mainly by robust global demand and high commodity prices. Other factors underpinning growth in Africa include continued consolidation of macroeconomic stability and improving macroeconomic management, greater commitment to economic reforms, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. Africa has also witnessed a decline in political conflicts and wars, especially in West and Central Africa, though peace remains fragile in some parts of the continent. However, growth in Africa has not yet led to substantial employment generation. At the same time, vulnerable groups such as the aged, youth and people with disabilities have not benefited from Africa's growth recovery. African women and girls in particular continue to experience various forms of discrimination and social exclusion.

Midway between the adoption of the MDGs and the 2015 target date, the available evidence indicates that the vast majority of African countries will not meet the goals if current financing trends continue. Consequently, the international community has now focused attention on how to scale-up financing for the continent. Implementation of the commitments in the Monterrey Consensus is critical to achieving this objective. Consequently the 2008 edition of the Economic Report on Africa assesses progress in terms of meeting commitments to Africa in the six core areas of the Monterrey Consensus: mobilizing domestic financial resources for development; mobilizing international resources for development; promoting international trade as an engine of development; increasing international financial and technical cooperation for development; external debt relief and sustainability; and addressing systemic issues.

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