Overview

Structure of the Report

This report is organized into two parts. The first part comprises three chapters that review the main developments in the world economy (chapter 1), recent economic performance and growth prospects in Africa (chapter 2), and major global development challenges for Africa (chapter 3). The second part contains three chapters that discuss Africa's progress in meeting the goals of the Monterrey Consensus (chapter 4), the results of the ECA survey on African policymakers' views on the implementation of the Monterrey Consensus (chapter 5), and the way forward (chapter 6).

Developments in the World Economy and Implications for Africa

In 2007, world economic growth slowed to 3.7 per cent from 3.9 per cent in 2006.[1] High prices for oil and other inputs combined with some turbulence in financial markets have contributed to this slowdown. Globally, growth rates were highest in the Commonwealth of Independent States (CIS) as well as in East Asia, with rates above 8 per cent. Growth in developing countries declined only slightly from 7.0 per cent in 2006 to 6.9 per cent in 2007. Africa has maintained the strong growth momentum of the last few years and achieved a 5.8 per cent growth rate in 2007, up from 5.7 per cent in 2006 and 5.2 per cent in 2005. For 2008, world growth is projected to be around 3.4 per cent.

Despite continued high oil prices, global average inflation remained low in 2007 (2.8 per cent compared to 2.9 per cent in 2006), partly due to restrictions on wage increases, a tight macroeconomic policy stance in both advanced and developing countries, and the supply of cheap manufactures from China. However, inflation risks have increased as unemployment has fallen, especially in Europe, and commodity prices remain high.

1 All the growth and price data used in this report are from UN/DESA, October 2007, except for Swaziland and Seychelles, for which the data are from the EIU online database.

Current account imbalances are large but stabilized in 2007. Among developed countries, the deficit remained constant in 2007 at around $US600 billion, despite sizable surpluses in Germany and Japan. The US trade deficit declined from a record high of $844 billion in 2006 to $780 billion in 2007, due to higher exports. Oil-exporting countries have a combined surplus of $500 billion and most developing regions are running surpluses. Developing Asia's surplus exceeded $200 billion, with China being the largest contributor. The current trends are expected to continue in 2008.

The recent crises in the subprime mortgage market in the USA and its knock-on effects are a reminder of the fragility of international financial markets. Triggered by the decline in US house prices, subprime mortgage markets experienced significant losses and created the worst credit and liquidity squeeze in world financial markets in a decade. Central banks in the USA, Europe and Japan had to inject short-term liquidity to stabilize money markets. This immediate reaction slowed down the fall of stock markets but they remained volatile. The subprime mortgage crises resulted in lower than expected USA growth rates and lower demand for imports. Thus, the slowdown in the USA is exerting some negative effects on growth in other industrial countries, although these have been balanced by domestic demand-led growth in other regions.

Prices of commodities such as coffee, cocoa, cotton and tropical logs have remained stable. However, the recent promotion of the use of bio-fuels has already led to a price increase for agricultural commodities such as maize and sugar. Political support for bio-fuels in the European Union (EU) and the USA is mainly driven by concerns about future energy supply and the environment. These price increases for agricultural products have the potential to increase the income of the rural population in many African countries.

One if the important developments in the world economy that is of high relevance for Africa is the rapid increase in South-South trade and capital flows. Foreign Direct Investment (FDI) from the South increased from just 5 per cent of world outward flows in 1990 to 17 per cent in 2005. FDI to Africa is increasingly coming from Asia, especially China, India and the Gulf States. At the same time, FDI flows within Africa increased substantially in 2006, mainly originating in South and North Africa. These flows are concentrated in the natural resource and services sectors.

The intensification of ties with Asia in terms of aid, trade and FDI holds both benefits and challenges for Africa. African exports to China have more than quadrupled between 2000 and 2005 to $19.5 billion. Asian growth expands export markets for African and creates new opportunities for employment creation in local and foreign firms. However, African manufacturing firms confront the risk of loosing local markets if they are not able to compete with imports from Asia.

Recent Economic Performance in Africa

Africa sustains strong economic performance in 2007

In 2007, Africa recorded a high growth rate (5.8 per cent), slightly higher than in 2006 (5.7 per cent). As in previous years, its 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, rising oil production in a number of countries, increased private capital flows, debt relief and increasing non-fuel exports. The continent 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.

Many African countries have implemented macroeconomic as well as microeconomic reforms that have resulted in a generally improved business environment and investment climate. In addition to increased aid and debt relief, this has helped to attract high net private capital inflows ($26.5 million in 2005, $17.3 million in 2006 and $42.1 million in 2007). These improvements need to be widened, deepened, and sustained if Africa is to accelerate and sustain growth beyond the ongoing commodity boom.

The continent also needs to promote high-quality growth that is broadly shared in terms of generating decent employment, poverty reduction and achievement of the Millennium Development Goals (MDGs). The recorded real per capita income growth rate (0.3 per cent during 1990-2002 and 3.0 per cent per cent in 2003-2007) is insufficient for Africa to make any significant progress towards achieving the MDGs. Its ability to accelerate and sustain high-quality growth hinges crucially on successful diversification of the sources of growth and mobilization of domestic and external financial resources, used to increase domestic demand in general and investment demand in particular.

Fiscal sustainability is a major concern, especially for oil-importing countries

The average fiscal position of Africa, which shows a budget surplus of 2.4 per cent of Gross Domestic Product (GDP) in 2007, is mainly a reflection of developments in the 13 oil-exporting countries that maintained an average fiscal surplus of 5.3 per cent of GDP in 2007 and 6.1 per cent in 2006. For the oil-importing African economies, the average budget deficit increased slightly from –1.1 per cent of GDP in 2006 to –1.2 per cent in 2007. The largest budget-deficit countries are generally exposed to recurrent internal shocks (e.g. rainfall irregularities and political conflicts) and also external shocks (e.g. agricultural commodity markets). They lack adequate economic diversification, needed to help them to absorb the impact of such shocks on their fiscal performance.

In most African countries, fiscal deficits remain relatively low and contained. Further privatization of public enterprises and rationalization of government consumption of oil have had a positive impact on their fiscal balances. At the same time, many countries were able to increase tax revenue thanks to GDP growth and tax reforms, including introduction of Value Added Tax (VAT) and other strategies that enhance efficiency in tax administration. Given the important adverse effects of expenditure reduction on growth and social development, it is critical that donors and the international development community at large should scale-up financial support to oil-importing African countries, especially in the form of grants and debt relief.

Inflationary pressure is intensifying due to high oil prices

High oil prices pose a major threat to Africa regarding the control of inflation in both oil-exporting and oil-importing countries. Africa seems to be more exposed to this threat than other developing regions. On average, inflation has been contained at around 7 per cent over the last 5 years, but Africa's inflation has generally been greater than that of Latin America and the Caribbean, East and South Asia and the average for developing countries. About 60 per cent of African countries recorded a 5 per cent or more inflation rate in 2007, up from 52 per cent in 2006. The respective percentages for oil-exporting and oil-importing economies are 46 per cent and 65 per cent in 2007. This underscores the mounting inflationary pressures on the continent and that inflation can be a problem for both oil importers and oil exporters.

Whereas high oil prices push production costs up for oil-importing countries causing prices to increase, rising oil revenues fuel rapid increases in domestic demand that cause prices to rise in oil-exporting countries (overheating). Intensifying inflationary pressure is a major concern for the poor, who lack adequate safety nets, as high inflation rates always have stronger impact on the price of basic consumer goods. At the same time, governments rely on tighter fiscal and monetary policies and currency appreciation to avoid acceleration of inflation at the cost of lower growth. The potential adverse growth impact of these policies makes macroeconomic management increasingly difficult and costly for oil-importing countries.

Oil-exporting countries must direct a sizeable proportion of oil revenues to finance domestic investment. This will help them to build productive capacity instead of fuelling government and private consumption. Such consumption creates excess demand while the economy still does not have the capacity to respond. Oil-exporting countries must also consider saving an appropriate part of the revenues for stabilization purposes and for the benefit of future generations.

External balances in oil-importing countries are worsening due to high oil prices

Africa's current account surplus declined from 5 per cent of GDP in 2006 to 1.7 per cent in 2007, owing to widening current account deficits in oil-importing countries (from –4.4 per cent of GDP in 2006 to –5 per cent in 2007). Due to high transportation costs and weak international competitiveness, landlocked African economies continue to have larger current account deficits compared with other African countries, but the deficits have been declining thanks to increased aid flows (especially in the form of debt relief).

As in previous years, persistent high oil prices are of major concern to oil-importing African countries in terms of current account sustainability and the ability to maintain the recent growth momentum. Rationalizing oil consumption and developing alternative sources of energy such as hydropower is one way that oil-importing African countries can reduce their import bill. In the short term, many of these countries need external support to meet their expenditure needs while minimizing macroeconomic instability. Medium- to long-term strategies must focus on increasing investment in infrastructure, building productive capacity, diversifying exports and promoting international competitiveness.

Currency appreciation threatens international competitiveness

In line with the Euro, the CFA appreciated substantially against the US dollar in nominal terms. As a result, exports of the Franc Zone are losing competitiveness outside the Euro area. Most other African currencies have also continued to appreciate against the US dollar in 2007. Since the bulk of African exports are valued in US dollars and export prices have remained fairly stable, currency appreciation, in addition to discouraging imports from Africa, implies a decline in the profitability of African export-oriented activities.

On the other hand, currency appreciation makes imports cheaper in domestic markets, putting pressure on the current account balance. This has been the case in most oil-exporting countries, with adverse effects on economic diversification and job creation. Thus, managing exchange rates is a major challenge for oil-exporters and other countries with high commodity income, such as Zambia.

Real effective exchange rate (REER) appreciation in oil-importing countries resulted from scaled-up expenditures, aid, remittances and other capital inflows, and high earnings from tourism and non-oil commodity exports. Seventy per cent of oil-exporting countries experienced REER appreciation due mainly to rising oil revenues and increasing expenditures and capital inflows. To address possible "Dutch Disease" problems, oil-exporting countries in particular may need to closely coordinate monetary and fiscal policies, increase productivity and strengthen the supply side of their economies by using the oil revenues to finance public infrastructure, which will promote economic diversification and private sector development.

The need to reduce external debt and increase non-debt generating resources

To alleviate financing constraints, Africa needs to reduce external debt and mobilize more domestic and external non-debt-generating resources. Despite debt relief initiatives, Africa's external debt remains high and unchanged, at about $255 billion in 2006 and 2007. While official debt declined considerably with the debt relief initiatives, from $205.7 billion in 1999 to $144.5 billion in 2007, the debt owed to banks and other private creditors rose from $92.4 billion in 1999 to $110.2 billion in 2007.

As domestic resource mobilization is insufficient for Africa to finance the investment needed for achieving the MDGs, African countries continue to rely on external capital inflows (mainly Official Development Assistance (ODA), FDI and remittances) to fill the resource gap in the near future. However, FDI inflows tend to go mainly to resource-rich countries to finance investment in extractive industry, whereas more ODA flows are directed to financing development in non-oil economies. The international community is urged to meet its commitments to scale-up aid to Africa under various initiatives such as the Multilateral Debt Relief Initiative (MDRI). In the meantime, African governments should ensure that external assistance is used to build productive capacity and deliver public services.

Sectoral performance

The service sector had the largest share in Africa's GDP (44.7 per cent) in 2006, followed by industry (41.5 per cent) and agriculture (13.8 per cent). In 2006, all the three sectors continued to grow. Despite modest growth in the manufacturing subsector, the industrial sector had the highest growth rate (5.7 per cent), followed by agriculture (5.0 per cent). Growth in industrial output in 2006 was underpinned by high commodity prices, especially for oil and gas, and the increasing output of non-manufacturing industries (mining and quarrying) in many African countries.

Africa's tourism potential remains largely unexploited, while tourism is becoming a dominant sector of economic activity worldwide. Africa as a whole attracted fewer than 4.6 per cent (or 37.3 million) of the 802 million world tourist arrivals. In terms of receipts, Africa accounted for 3.2 per cent (or \$21.6 billion) of the total \$678 billion international tourism receipts in 2005. Only four African countries (Egypt, South Africa, Morocco and Tunisia) are listed in the top 50 worldwide destinations in terms of both arrivals and receipts. To exploit the potential for economic diversification through manufacturing and tourism, African countries must improve national and regional infrastructure, while reducing barriers to movement of people, goods and services between countries.

Economic growth recovery in Africa has not yet translated into meaningful social development and inclusion of vulnerable groups

Growth in Africa has not yet led to substantial employment generation, particularly in the formal sector. At the same time, vulnerable groups such as the aged, youth and people with disabilities also face particular challenges in participating in Africa's economic recovery. African women and girls often experience various forms of discrimination and social exclusion.

Even though Africa is referred to as the youngest continent in terms of the age structure, the number of older people is changing more dramatically than in other regions and will continue to do so over the coming decades. This is important for policymakers because older people experience higher rates of poverty as a consequence of low levels of education and the burdens imposed by the HIV/AIDS epidemic. This predicament needs to be tackled by financing social protection schemes targeted at the aged.

Most Africans with disabilities face the prospect of being excluded from participating in society, and, consequently, are more likely to experience poverty. Despite this, there has been inadequate recognition of disability issues in the mainstream development agenda. Women with disabilities in Africa thus experience two levels of discrimination, based on gender and on disability. It is estimated that around 10 per cent of the world's population has some form of disability, of which some 80 per cent live in low-income countries. However, there is a severe lack of data at the country-level, which constrains analysis of disability issues on the continent.

African governments and their development partners need to put policies, legislation, and resources in place to promote the rights of people with disabilities and those of their families. In particular, governments need to sign and ratify the United Nations Convention on the Rights of Persons with Disabilities, and implement the recommendations of the African Union Continental Plan of Action for the African

Decade of Persons with Disabilities, 1999-2009. African countries need to increase their efforts to target such socially excluded groups, to achieve the MDGs and promote an inclusive society.

Prospects for 2008: brighter outlook despite risks

Real economic growth in Africa is projected to slightly improve to 6.2 per cent in 2008 compared with 5.8 per cent in 2007. It is expected that the slowdown in the US economy will not have a substantial effect on Africa and that robust commodity demand and prices will continue with high growth in Asia and no significant drop in growth in Europe. Continued effective macroeconomic management and the improving governance and security situation is another factor that contributes to a positive economic outlook in 2008 and beyond, though many parts of Africa still suffer from conflicts and insecurity.

On the downside, there are many risks to Africa's growth over the medium term. Any substantial slowdown or adverse adjustment in the global economy could cause demand for Africa's exports to contract. A fall in demand and prices would have negative effects on Africa's growth outlook. Fluctuations in oil prices would also have adverse growth impacts on oil-importing countries.

The continent also needs to manage risks to growth prospects emanating from unpredictable fluctuations in capital flows (especially aid) and from currency appreciation that can adversely affect international competitiveness. Unpredictable weather changes, conflicts and epidemics (HIV/AIDS and malaria) are additional factors that influence Africa's growth prospects in 2008.

Development Challenges for Africa in 2007

The Doha Round edges closer to an agreement but serious issues remain

The year 2007 saw progress towards finalization of the Doha Round of the World Trade Organization (WTO). The focus was on tackling the divergences on liberalization in the areas of agriculture and industrial goods. The negotiations sought to resolve the triangular differences between the USA, EU and the advanced developing countries. The market access and domestic support pillars of the agriculture negotiations were two of the convergence points sought in this triangle, with the level of liberalization under Non-Agricultural Market Access (NAMA) constituting the third point.

Overall, convergence occurred as deliberations on the two agriculture pillars moved towards the 2005 proposals by the G-20 countries. This proposal had sought an improved market access offer from the EU and more ambitious reduction in domestic support by the USA. Nevertheless, a deal is yet to be reached since both EU and the USA have continued to link their respective final offers in agriculture tariff cuts and reductions in domestic support to further liberalization of industrial goods by advanced developing countries.

From the perspective of African countries, the remaining challenges are to ensure that the negotiations result in a final agreement with concrete reductions in agriculture tariffs, domestic support and liberalization of industrial goods. In addition, the negotiations still have to deal conclusively with the twin issues of sensitive and special products in the agriculture chapter. For African countries, exclusion of sensitive products from tariff cuts, is a severe limitation to liberalization of agricultural trade. For special products, the issue is how developing countries can meaningfully contribute to global agricultural trade reforms while safeguarding their ability to protect rural livelihoods, ensure food security and promote rural development. Only after the challenges in agriculture and NAMA negotiations have been resolved will concrete steps towards conclusion of the Doha Round be effectively made. While the other areas of the negotiations such as services and rules among others are making progress, it is important to emphasize that development gains and effective special and differential (S&D) treatment will only accrue from the agriculture and NAMA negotiations.

This is the case for African countries, which are still expecting to achieve reasonable gains through increased trade as a result of a pro-development Doha Round outcome. In the meantime, operationalization of the Aid for Trade (AfT) initiative has started, to prepare African economies to develop and reinforce supply-side capacities in order to maximize gains from the Doha Round.

A general mood among World Trade Organization (WTO) members is that the AfT must be operationalized, as it will play a major role in promoting the development dimensions of global trade reforms. The AfT review that was jointly organized by ECA, AfDB, and WTO in Dar-es-Salaam, Tanzania, 1-2 October 2007, focused on Africa and identified several crucial issues:

- There is now consensus that AfT matters for Africa, after increasing realization that products from the region lose their competitiveness when they enter international markets;

- African countries need to have a range of projects and programmes at the national and regional level aimed at enhancing the competitiveness of their products , through the AfT initiative;
- There is a broad array of areas where AfT support is required, especially among the Regional Economic Communities (RECs). This calls for clear prioritization. African priorities identified in the review are in three key priority areas: infrastructure, trade facilitation, and standards. AfT resources targeted at the three areas would help address the paradox of African products, which are competitive at the factory and farm-gate, but uncompetitive on most global markets; and
- Success in implementation of competitiveness-enhancing strategies is contingent upon strengthening the human capital development on the continent and deepening private sector involvement.

Accelerating progress towards the MDGs remains a challenge in 2008

Currently, few countries in the region are on track to meeting the MDGs. However, there have been positive developments in recent years that give hope that the challenge of meeting the MDGs on the continent is not insurmountable. Progress requires scaling-up of efforts both at national and international levels.

Commitment to the MDG agenda has been strong at the highest decision-making levels in Africa. AU has placed them at the centre of the New Partnership for Africa's Development (NEPAD) vision. It concretely expressed its commitment to facilitating acceleration of progress through its adoption of a Common Position at the 2005 Summit.

Acceleration of progress towards the MDGs is constrained by a number of important challenges that require the concerted efforts of African governments and their development partners. These challenges include climate change, infrastructure bottlenecks and rising inequality. Climate change poses a major threat to Africa's future and is likely to have a significant impact on biodiversity and to increase the vulnerability of poor people to natural disasters. The poor state of infrastructure in Africa is a major impediment to domestic market and regional integration, to equitable access to social services, and to growth. Expansion of infrastructure has positive growth effects that would help the continent accelerate progress towards the MDGs.

Evidence suggests that income inequality is rising in African countries, with the continent ranking second to Latin America as the region with the most unequal distribution of income. Rising inequality constrains growth while reducing the gains from growth for the poor, thus undermining progress towards poverty reduction.

Tracking development finance commitments in Africa

The slow pace of implementation of commitments on financing for development has led African governments to take initiatives to improve monitoring of the implementation of their own commitments as well as donors' commitments towards the continent. The first bold step towards setting-up a framework to monitor translation of commitments into action was taken at the African Ministerial Conference on Financing for Development in Abuja, Nigeria, in May 2006. The theme of the Conference was "*Financing for Development: From Commitment to Action in Africa*".

African countries committed to taking the leadership in monitoring development financing commitments and to setting up a number of initiatives, including ten-year education plans, establishment of mechanisms to increase transparency, efficiency, and accountability in budgeting processes, and a call for new innovative financing mechanisms to meet the large investment requirements for the fight against major diseases and epidemics (malaria, HIV, tuberculosis).

In May 2007, African governments held the second Ministerial Conference on Financing for Development, which was devoted to "*Infrastructure for Growth: The Energy Challenge.*" This was a follow-up to the summit of the Forum of Energy Ministers of Africa (FEMA) in Mozambique in March 2007. The Forum aimed at giving political direction and advocacy to increase access, and better utilization and management of energy resources for sustainable development. It called on African countries to prioritize energy in national budget allocations and mainstream energy into the Poverty Reduction Strategy Papers (PRSPs). The conference explored various options for financing Africa's infrastructure needs and underscored the importance of regional integration in promoting cross-border trade in energy. Governments also committed 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 tasked with organizing the annual Ministerial Conference on Financing for Development, and with monitoring and following up the meeting of commitments. These initiatives are expected to strengthen the framework for monitoring and implementing development financing mechanisms both at the national and international level, and contribute significantly to accelerating progress towards the MDGs.

Post-Monterrey economic performance has improved but remains insufficient to finance the MDGs

Since the dawn of the new millennium, several promises have been made by Africa's development partners as part of an overall effort to scale-up resources for development in the continent. The Monterrey Consensus, the World Summit Outcome, the Paris Declaration and the G-8 Gleneagles Declaration capture the main commitments in this area. These commitments were all driven by the need to accelerate progress towards meeting the MDGs.

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. It has been acknowledged that implementation of the commitments in the Monterrey Consensus is critical to achieving this objective.

Against this background, it is important to assess the progress in meeting the commitments to Africa in the six core areas of the Monterrey Consensus, namely:

- 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.

Modest improvement in mobilizing domestic resources

In the area of domestic resource mobilization, there has been a modest increase in domestic savings, although it has not led to an increase in investment. This observation from macroeconomic data is consistent with findings from the ECA Survey of African Policymakers on the Monterrey Consensus, which shows that mobilization of domestic resources for development has been rather modest. Most of the respondents identified weak financial infrastructure, weak governance and extensive corruption as some of the major factors hampering effective mobilization of domestic resources. Another key factor contributing to weak domestic mobilization efforts is the reluctance of commercial banks to set up branches in the rural areas, which renders them ineffective in savings mobilization.

There is, therefore, a need to reform the banking sector with a view to improving efficiency as well as increasing rural household access to financial services. African countries should also pay attention to the potential role that micro-finance institutions and mechanisms can play in mobilizing savings and channelling them to productive investment. Concerted efforts must also be made in promoting capital market development. Given the small size of African stock exchanges, it is advisable to pursue a regional approach to capital market development.

Furthermore, given the negative implications of trade liberalization for domestic resource mobilization, trade reforms must be accompanied by fiscal policy reforms to offset any loss in tax revenue. An international environment that supports a gradual approach to trade liberalization in Africa would be welcome.

Some progress has also been made in the mobilization of international resources for development. Net FDI flows to the continent increased from an average of $11.9 billion in the pre-Monterrey period (1998-2001) to $18.1 billion in the post-Monterrey period (2002-2005). However, FDI continues to be concentrated in the extractive sector and in a few countries.

The results from the ECA survey indicate that 68 per cent of the respondents believe they have national frameworks for attracting FDI. However, they consider that support from regional and international institutions for attracting FDI to infrastructure and other priority development areas is still inadequate.

There has also been an increase in remittances. African countries need to adopt a coherent and comprehensive policy aimed at attracting such Diaspora capital to complement domestic resources and external aid. African countries also have to harness the potential of remittances for development and improve access to financial services to make it easier and more cost efficient for people to use the banking system and other formal channels to receive remittances from abroad.

To increase their shares of investment from global FDI flows, African countries need to develop not only better infrastructure but must also improve investment climate. In addition, they need to be selective in the type of investment they seek to attract. Most needed are FDI flows into sectors with high-value added, high potential for employment creation, and environment- friendly impact. Efforts should also be made to give non-discriminatory treatment to domestic investors in the drive to attract private capital flows.

Limited progress in promoting international trade as an engine of development

The share of exports in GDP increased from 29 per cent in the pre-Monterrey period to 33 per cent in the post-Monterrey period, but Africa's share in international trade remains low, and there has been little progress in improving its international trading environment. The findings from the survey show that, of all the areas of the Monterrey Consensus, African countries are most concerned about the lack of progress in international trade.

African policymakers view the lack of market access and supply-side constraints as the key factors limiting Africa's export growth potential. In this regard, the countries must take measures to address obstacles to export promotion such as poor infrastructure and lengthy customs procedures that increase transaction costs. These must be complemented by measures at the international level such as the provision of stable and adequate funding for trade capacity building.

There is also an urgent need for development partners to ensure that any potential trade deals under the Doha Round address the development concerns and needs of African countries. The recent AfT initiative of the WTO has an important and welcomed role to play. There is an urgent need for all parties involved in the initiative to fast-track its implementation so that valuable time is not lost in increasing the capacity of African countries to take advantage of existing opportunities in the multilateral trading system.

Aid quantity has improved but is still below the levels required to finance accelerated and sustained growth

Macroeconomic data indicate notable progress in terms of increasing aid quantity and improving aid effectiveness. Results from the Survey of African Policymakers on the Monterrey Consensus that was conducted by ECA in 2007 show that a substantial majority (76 per cent) of respondents somewhat or strongly agreed with the statement that there has been a significant reduction in the proportion of tied aid. Aid remains concentrated in a few countries, with emergency assistance and debt relief accounting for the bulk of aid flows.

Thus, African countries have not received the promised additional injection of resources for financing development. More disconcertingly, there is a wide gap between the actual aid flows and the donor commitments that were made. The quantity of aid is still below what is needed to ensure accelerated and sustained growth in the continent.

Another concern of African policymakers is the unpredictability of aid flows, which undermines budget planning and implementation of development projects. More remains to be done to increase aid effectiveness in line with the Paris Declaration on Aid Effectiveness. This calls for, among other measures:

- Better division of labour among donors to reduce the transactions costs of managing and delivering aid;
- Decentralization of decision-making by donors to field staff;
- More accountability to local stakeholders; and
- More donor support for new and innovative sources of financing such as the International Finance Facility for Immunization (IFFI), and the Air Ticket Levy.

Progress in the area of debt relief is encouraging

In the area of debt relief, significant progress has been made over the last two years, thanks to the implementation of the Heavily Indebted Poor Countries (HIPC) initiative and the MDRI. It is, therefore not surprising that African policymakers consider this to be the only area of the Monterrey Consensus where progress has been significant. Thanks to these debt relief initiatives, many of them now view their country's external debt situation as sustainable.

With respect to the sources of external debt, the survey shows that the majority of respondents identified excessive borrowing and low growth rates as factors contributing to the external debt crisis. Despite improvement in the external debt situation of some African countries, there are a number of heavily indebted African countries that are not eligible for HIPC debt relief. Therefore, there is a 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. Furthermore, African countries need to ensure that borrowing from new creditors does not lead to a new cycle of unsustainable debt.

Africa's participation in global economic governance institutions remains marginal

On systemic issues, progress has been very limited. African countries still lack fair representation on the decision-making organs of international institutions. This is confirmed by the findings from the survey, which shows that the majority of the respondents (57 per cent) view the current economic governance structures as not facilitating their effective participation in the global economy. African Least Developed Countries (LDCs) are even more skeptical, with two-thirds of respondents expressing the view that the current structure of global economic governance does not allow for their effective participation in the decision-making and norm-setting of key financial, monetary and multilateral trading institutions.

In this context, efforts should be made by the international community to increase the role of African countries at the IMF, World Bank and WTO. This will increase the sensitivity of these institutions to the needs and concerns of African countries and make them more accountable to the continent.

Conclusions

The first main conclusion of this Report is that African countries have recorded strong economic performance for the third consecutive year, with an average growth rate of 5.8 per cent. This strong performance is due to a range of factors, including high commodity demand and prices and increased output in key sectors such as agriculture and services.

The second is that despite high growth rates in recent years, this strong performance has not translated into meaningful gains in terms of social development. African governments need to increase investments in social sectors, and also improve the efficiency of social sector expenditures. At the same time, gains from growth need to increase, by better targeting of employment creation through broader and more flexible macroeconomic frameworks and sectoral policies.

The third is that persistently high oil prices remain an important challenge to growth and macroeconomic stability in the medium term. Increased energy costs are constraining investment and growth in many oil-importing African countries that are also confronted by macroeconomic instability, including intensified inflationary pressures and increasing fiscal and current account deficits. In addition to good macroeconomic management, oil-importing countries will need increased external support to maintain growth and reduce growth volatility. Oil-exporting countries on their part need to manage oil revenues to ensure diversification of the sources of growth and of the export base and avoid excessive currency appreciation and build-up of reserves.

Fourth, African governments and partners need to establish strategies to ensure that economic growth benefits socially excluded groups, including women, youth, the aged, and people with disabilities. Besides increasing public investment in social services that target these groups, African governments need to consider policies that promote their access to education/training and health facilities, their participation in the labour market, and in general, their human rights. At the same time, development partners need to use their assistance programmes to support these objectives. In the longer term, a more inclusive society will help countries remain politically and socially stable and enhance their growth potential.

Finally, the evidence on implementation of the Monterrey Consensus suggests that substantial progress has been made in the area of external debt relief. In contrast, very limited progress has been made in the other core areas of the Consensus. Monitoring of the commitments made by both African countries and their development partners is essential if the objectives of the Monterrey Consensus are to be realized. African leaders have recognized this and put a mechanism in place to monitor progress with implementation of their own commitments as well as those of their development partners.

The recent institutionalization of an African Ministerial Conference on Financing for Development by African leaders is a bold step forward in this area. The international community has also put mechanisms in place to monitor donor performance. For example, they have established the African Partnership Forum (APF) and the African Progress Panel (APP), both of which will monitor progress with implementation of key development finance commitments.

Ultimately, the effectiveness of these monitoring mechanisms will be assessed in terms of how they are able to turn the promises made by development partners into deeds. For it is only through the implementation of these commitments that African countries can achieve meaningful results in poverty reduction and lay the foundation for a brighter future for its peoples.