



**Economic Commission
for Africa**

A stylized map of the African continent is centered on the page. The map is white with a thin outline. Overlaid on the map are three dark brown footprints, suggesting a path or journey across the continent. The background is a solid yellow color with faint white lines representing latitude and longitude.

Perspectives of African Countries on the Monterrey Consensus

Results of a Survey

OCTOBER 2007



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Acronyms

ADF	African Development Forum
AFT	Aid for Trade
EPA	Economic Partnership Agreement
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries
IDA	International Development Association
IMF	International Monetary Fund
LDC	Least Developed Country
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
ODA	Official Development Association
OECD	Organization for Economic Cooperation and Development
UNECA	United Nations Economic Commission for Africa
UNCTAD	United Nations Conference on Trade and Development
WTO	World Trade Organization

Executive Summary

It has been five years since the Monterrey Consensus was adopted by Heads of State and Government in March 2002. Globally, there are concerns about the degree of progress in the implementation of the Consensus. Against this background, the United Nations Economic Commission for Africa (UNECA) conducted a survey of countries in the region to find out their views and perceptions on the degree of progress in meeting the goals of the Consensus in the six core areas. The key messages emanating from the results of the survey are as follows:

- Overall, very limited progress has been made in realizing the objectives of the Monterrey Consensus. Significant progress has been made in the area of debt relief. However, performance in the areas of international trade, as well as external and domestic resource mobilization, has been disappointing;
- Although African governments are making efforts to mobilize domestic resources, savings remain inadequate relative to investment requirements. There is the need to improve banking infrastructure and governance as well as exploit the potential of capital markets and micro-finance institutions for resource mobilization;
- African governments have policies in place to attract private capital flows, but response from foreign investors has so far been muted. Foreign direct investment inflow has increased, but it is still insufficient and too concentrated in the natural resources sector to accelerate growth and development. There is the need for more support from donors, as well as regional and international institutions, in creating appropriate conditions for attracting more private flows;
- Though exports have increased in recent years, respondents are of the view that donors have not made much progress in supporting African countries in the area of international trade. The main barriers to export promotion are market access and supply constraints;
- ODA flows to Africa are on the increase as indicated by both the data and perceptions of African policymakers. However, donors are still not on track to meet their commitments and recent aid flows tend to be concentrated in a few countries and in the social sectors (emergency aid and debt relief). There is the need to increase aid allocation to productive sectors and also to scale up efforts to improve aid effectiveness;
- There has been a significant reduction in the external debt burden of African countries as a result of recent debt relief initiatives. Overall, more debt relief needs to be provided and African governments should exercise caution in undertaking future borrowing to ensure that they have sustainable debt ratios;
- Although there have been recent attempts to improve the governance of international monetary, financial and trading systems, donors need to scale up efforts to increase the voice of African countries in international organizations;
- The main challenges and constraints to implementing the Monterrey Consensus are poor governance, weak infrastructure, a non-supportive investment climate, inadequate implementation of policies and strategies by African governments, lack of national ownership of development programmes, lack of harmonization of aid by donors, the unpredictability as well as tying of aid flows, and low access to the markets of developed countries; and
- To accelerate progress, African governments need to improve infrastructure, capacity development, governance and policymaking. At the same time, development partners need to accelerate the level and effectiveness of aid, harmonize and untie aid flows, provide more market access opportunities for African exports, intensify debt relief efforts, and provide more voice for the region in international organizations.

1. Introduction

Development finance has a critical role to play in accelerating growth and reducing poverty in the African region (World Bank 2003; UNECA 2006). It can provide access to resources for investment in key development projects necessary for sustained economic growth. It can also make it possible for governments to garner the resources needed for public investments in social and physical infrastructure which have positive effects on poverty reduction. Yet, several countries in the region continue to face serious challenges in mobilizing domestic and international resources for development. These challenges include how to attract sustained capital flows, including remittances, and ensure that they are in sectors with high valued-added and employment impact; improve domestic resource mobilization through increased savings, higher tax revenue and reduction of capital flight; find an effective and sustainable solution to the external debt crises facing several countries in the region; increase the quantity and improve the effectiveness and absorptive capacity of aid in recipient countries; and use international trade as an effective vehicle for resource mobilization.

The Monterrey Consensus adopted at the International Conference on Financing for Development in 2002 was the first global attempt to comprehensively address these challenges of financing development, especially in the context of meeting the Millennium Development Goals (MDGs). The Consensus calls for a new partnership between developed and developing countries covering six main areas of action (United Nations 2002):

- Mobilizing domestic financial resources;
- Attracting international financial resources (private capital flows);
- Promoting international trade as an engine for development;
- Increasing international financial and technical cooperation for development;
- Sustainable debt financing and external debt relief; and
- Addressing systemic issues.

The commitments in the Monterrey Consensus were reaffirmed in the outcomes of several high-level meetings held in 2005 namely: the World Summit Outcome; the G-8 Gleneagles Summit Declaration and the Paris Declaration on Aid Effectiveness. At the Gleneagles Summit, Leaders of G-8 countries made a commitment to increase, along with other donors, total Official Development Assistance (ODA) to Africa by \$US25 billion a year by 2010. They also promised to cancel 100 per cent of the outstanding debts of eligible Heavily Indebted Poor Countries (HIPC) to the International Monetary Fund (IMF), the International Development Association (IDA) and the African Development Fund (ADF). These promises on debt are being carried out through the Multilateral Debt Relief Initiative (MDRI).

The Paris Declaration focused attention on the issue of aid quality by providing a framework for delivering and managing aid in a manner consistent with the ultimate goal of poverty reduction in recipient countries. The Declaration provides guidelines in five key areas: ownership; alignment; harmonization; managing for results; and mutual accountability. It also outlines specific actions to be taken to improve aid effectiveness by 2010 and these are to be monitored using a set of indicators and targets.

Despite the enormity of the commitments and declarations that have been made since the Monterrey Consensus was adopted, there is concern that very limited progress has been made in honouring the commitments and hence meeting the key goals of the Consensus in the six core areas. G-8 leaders acknowledged these concerns in their 2006 Summit in St Petersburg as well as in the Heiligendamn Summit held in 2007. It was also the main reason for their decision to launch the Africa Progress Panel (APP) in April 2007 with the objective of working with African countries and their development partners to ensure the delivery of promises made to the region. The concern about low delivery on promises has also led African governments to take the lead in monitoring the

implementation of commitments by donors through an annual African Ministerial Conference on Financing for Development. The first Conference was held in Abuja, Nigeria, from 20-22 May 2006 and the second was held in Accra, Ghana, 30-31 May 2007.

Furthermore, these concerns have led to actions at the international level. For example, the United Nations General Assembly is organizing a “Follow-up International Conference on Financing for Development” in Doha, Qatar, in the second half of 2008 in order to take stock of progress made in the implementation of the Monterrey Consensus, discuss challenges as well as lessons learned, and explore options for moving the development finance agenda forward.

Against this background, the United Nations Economic Commission for Africa (UNECA) conducted a survey of countries in the region, with a view to ensuring that their opinions, interests and concerns are adequately articulated and presented to the international community. The survey covers the six core areas of the Monterrey Consensus and was based on a set of questionnaires sent out to various experts and government officials located in central banks and ministries of finance, planning and economic development. This paper summarizes the results of the survey, which was conducted in March and April 2007.

The survey is unique in that it is the first comprehensive attempt to obtain the views of African countries based on survey data. Previous assessments of progress in the implementation of the Monterrey Consensus in Africa have been based on secondary data published by international organizations. While this is useful in presenting stylized facts, it is often the case that perceptions differ from facts and the former can have a profound impact on the attitudes as well as behaviour of policy makers. Consequently, it is useful to compare the results of the survey to what is known based on published macroeconomic data.

2. Sample Characteristics

Africa is made up of a heterogeneous group of countries. It has oil exporters, island and landlocked economies, emerging markets, least developed countries (LDCs), and economies with relatively high income: for example, South Africa and Mauritius. Consequently, development financing needs and concerns differ from country to country. It is therefore important that the survey covers as many countries or groups of countries as possible. In recognition of this heterogeneity, two questionnaires were sent to each of the 53 African countries: one to the central bank and another to the ministry of finance and planning or a government department in charge of economic development issues. The questionnaires were addressed to central bank Governors and Ministers of Finance, Planning or Economic Development in each country and they were asked to select an appropriate staff member to complete it.

Of the 106 questionnaires sent to African policy makers, 57 were returned, representing 32 countries and covering all 5 subregions of Africa as well as LDCs, landlocked countries, petroleum exporters, and island economies.¹ Responses were obtained on the condition that the names and views of individual countries would not be revealed. Consequently, in the questionnaire, respondents were not asked to indicate their country. However, they did indicate whether they were LDCs, petroleum exporters, island or landlocked economies. Twenty-nine (52.7 per cent) questionnaires were received from senior managers, fourteen (25.5 per cent) from middle-level managers, while twelve (21.8 per cent) were returned by lower-level managers. The responses mainly came from central banks (50.9 per cent) followed by ministries of finance, planning and economic development (40.4 per cent).² Only five responses were sent by other government departments.

The questionnaire contained nine parts. Part A dealt with general questions on the characteristics of the respondents. In particular, it identified the managerial level of respondents, whether they worked for the central bank, ministry of finance, or any other government department, and whether they came from a landlocked, LDC or any other country groupings. Part B of the questionnaire dealt with the general impressions and opinions of African policy makers on the Monterrey Consensus while parts C to H focused on opinions in the six core areas of the Consensus. The last part, I, dealt with challenges, constraints and the way forward.

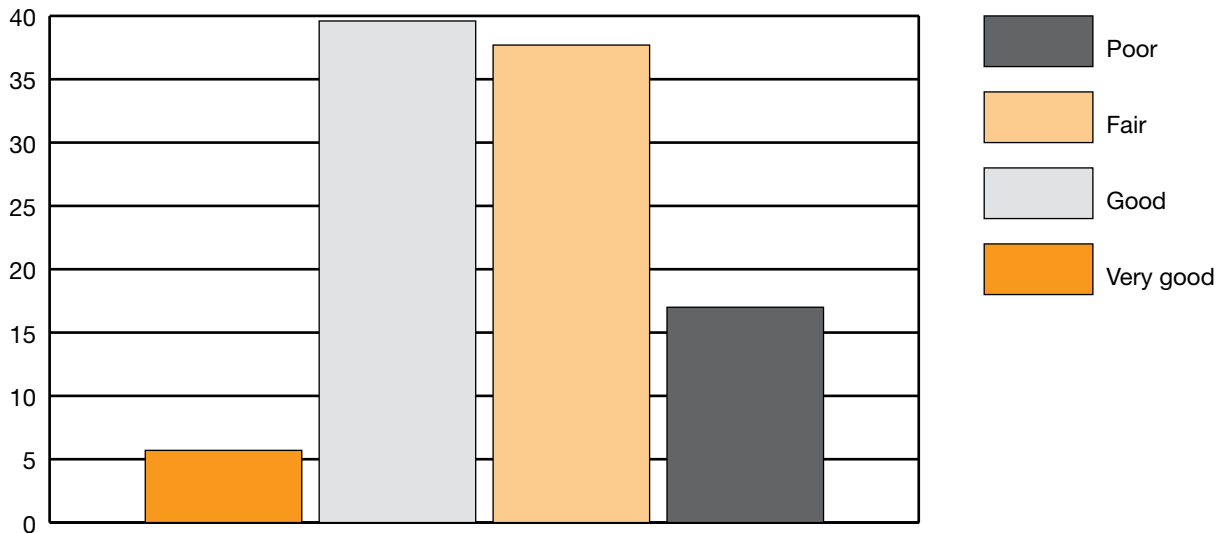
1 Note that these groups are not mutually exclusive. For example, some landlocked countries are LDCs and some LDCs are petroleum exporters.

2 For several countries, the completed questionnaires were returned by only one institution: either the central bank or the ministry of finance.

3. Overview of the Results

The survey sought to elicit the views of African policy makers on the performance of donors in terms of meeting the general commitments made in the Monterrey Consensus. Figure 1 presents the results of the survey. Respondents indicated that donor performance in terms of the commitments of the Monterrey Consensus has been, in general, modest 39.6 per cent rated donor performance as good and only 5.7 per cent gave a rating of very good. The majority of the respondents (55 per cent) consider donor performance to be either fair or poor. Of course, donors are not responsible for all aspects of the Monterrey commitments. For example, in areas such as domestic and external resource mobilization, African countries have a key role to play in ensuring success. Consequently, the survey also sought the views of African policy makers on their performance in these areas and the results are the subject matter of one of the subsections below.

Figure 1: Overall rating of donor performance



The result is consistent with the evidence based on published macroeconomic data which indicate progress in the implementation of the commitments has been modest (table 1). The ultimate objective of the Monterrey Consensus is to enhance growth and reduce poverty in poor countries. Table 1 shows that, based on recent aggregate data, economic performance in the Africa region has improved slightly since the Monterrey Consensus was adopted in 2002. Average annual growth of real Gross Domestic Product (GDP) increased from 3.3 per cent in the pre-Monterrey period (1998-2001) to 4.0 per cent in the post-Monterrey period (2002-2005). In 2007, the region is expected to grow at 6.2 per cent. There have also been modest improvements in inflation, which declined from 11.8 per cent in the pre-Monterrey period to 9.2 per cent in the post-Monterrey period.

Table 1: Selected macroeconomic indicators for Africa, (averages)

Indicator	Pre-Monterrey (1998-2001)	Post-Monterrey (2002-2005)
Overall		
Economic growth (%)	3.3	4.0
Inflation (%)	11.8	9.2
Domestic resources		
Savings/GDP (%)	19.0	22.0
Investment/GDP (%)	19.7	20.1
International resources		
FDI (current billion \$US)	11.9	18.1
FDI/GDP (%)	2.1	2.4
Trade		
Real export growth(%)	3.7	4.9
Exports/GDP (%)	29.0	33.0
Cooperation		
ODA (current billion \$US)	16	28
External debt		
Debt (billion \$US)	274.0	293.0
Debt/GDP (%)	62.0	47.0
Total debt service/GDP (%)	5.9	4.4

Sources: ECA (2007); World Bank (2007); OECD (2007a).

With respect to the six areas of the Consensus, the results show that there is most concern about the lack of progress in international trade as an engine of development. About 34.6 per cent of the respondents indicated that this is the area where there has been the least progress (table 2). In a sense, this result is surprising given the fact that macroeconomic data show that there has been an increase in the growth of real exports in Africa in the post-Monterrey period. Furthermore, the ratio of exports to GDP increased from an average of 29 per cent in the pre-Monterrey period (1998-2001) to 33 per cent in the post-Monterrey period (2002-2005). That said, the responses are understandable given the extremely low share of Africa in world trade and the increasing frustration of African countries in the Doha Round of trade talks (Osakwe 2007).

Respondents also identified the mobilization of international resources and domestic resource mobilization as areas where progress has been very limited. Some 17.3 per cent of respondents identified both of these as areas of concern. External debt seems to be the only area that very few respondents (4.9 per cent) identified as an area of least progress. This is consistent with the macroeconomic data presented in table 2 which shows that there has been a significant reduction in the ratio of external debt to GDP in Africa in the post-Monterrey period.

Table 2: Areas of least progress in the Monterrey Consensus (%)

Area	Full sample	LDCs	Oil exporters
Mobilization of domestic resources	17.3	14.0	7.1
Mobilization of international resource	17.3	14.0	14.3
International trade as an engine of development	34.6	34.0	42.9
Increasing international financial and technical cooperation	11.1	16.0	0.0
External debt	4.9	4.0	14.3
Systemic issues	14.8	18.0	21.4
Total	100.0	100	100

Respondents from oil-exporting countries had less positive views than either the full sample or LDCs on the degree of progress in the area of international trade. About 43 per cent of respondents from oil-exporting countries indicated that it was the area of least progress compared with 34 per cent for the full sample and LDCs (table 2). This is surprising given that oil-exporting countries have better access to world markets for their key exports than do LDCs and so one would expect them to have more favourable views in this area than LDCs.

When asked how likely it is that the goals of the Consensus would be achieved in their country by 2015, African policymakers were cautiously optimistic. About 38 per cent indicated that it was somewhat likely while 44 per cent considered it less likely. At the two extremes, only 11.1 per cent and 5.6 per cent felt it was very likely or not likely at all. These responses reflect the general mood in the region that more needs to be done by both African countries and their development partners to enhance the prospects of meeting the goals of the Consensus and the MDGs in general. Interestingly, respondents from LDCs had a less favourable response to this question than the full sample. Some 60 per cent of the respondents from LDCs indicated that it was less likely that the goals of the Consensus would be achieved in their country by 2015, compared with 44 per cent in the full sample and 45 per cent by oil exporters.

Very limited progress has been made in realizing the key objectives of the Monterrey Consensus. Although significant progress has been made in the area of external debt, performance in the areas of international trade and external and domestic resource mobilization is far below expectation.

Mobilizing Domestic Resources

As reflected in the Monterrey Consensus, there is increasing recognition that African countries need to rely more on domestic resources to finance development on the continent. Available macroeconomic data show that the average annual ratio of savings to GDP increased slightly from 19 per cent in the pre-Monterrey period to 22 per cent in the post-Monterrey period (table 1). Clearly, this is low relative to what is observed in fast-growing economies in East Asia and Latin America and the Caribbean.³ It is also low relative to the region's investment requirements for the achievement of the MDGs.

In terms of the questionnaire, 41 per cent of the respondents rated their country's performance in mobilizing domestic savings as good.⁴ Some 28 per cent felt that it was fair and 25 per cent considered it poor. This is consistent with the evidence from macroeconomic data on savings which suggest that progress in this area has been

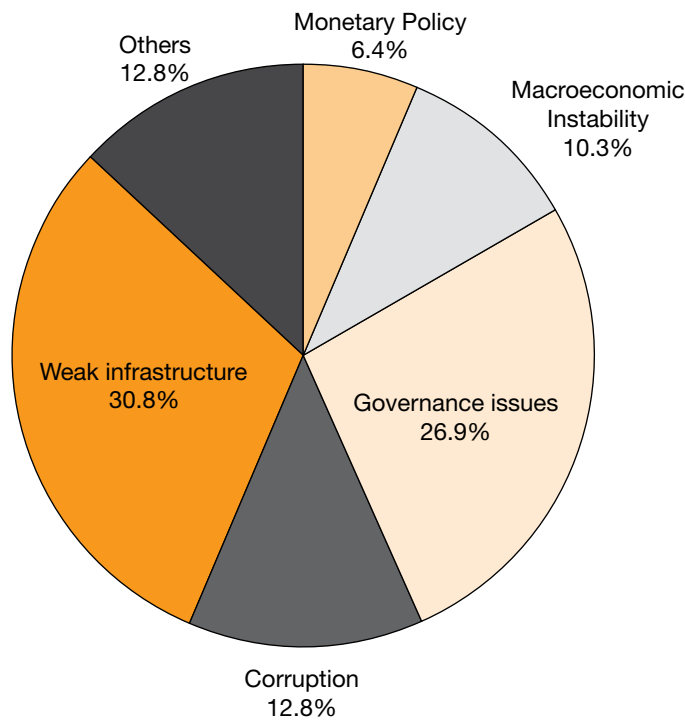
³ Loayza et al. (2000) discuss the determinants of savings in developing countries. See also Aryeetey and Udry (2000).

⁴ For LDCs and oil exporters the figures are 29 per cent and 54.5 per cent respectively. The overwhelmingly positive response from oil exporters may be explained by the fact that recent increases in oil prices have led to a boost in public and hence domestic savings (IMF 2007).

modest. That said, 58.9 per cent of respondents indicated that national economic policies have been moderately supportive of the mobilization of domestic resources for development, compared with 23.2 per cent of respondents who stated that these policies have been highly supportive. Only 17.9 per cent felt that domestic policies were not supportive. Respondents also indicated that a substantial majority of countries (65.4 per cent) have a national development strategy to mobilize domestic resources, though almost 60 per cent also stressed that implementation of this strategy has either been low or completely absent.

The survey revealed that most respondents felt that the level of domestic savings relative to investment requirements in their country was either low (57.1 per cent) or very low (16.1 per cent). This is in line with the trends reported in table 1, which show that savings in Africa have only increased marginally and remain inadequate to meet the financing needs of the continent. As displayed in figure 2, responding African policy makers highlighted a number of obstacles that have hindered the mobilization of domestic resources. The greatest obstacle is weak financial infrastructure (30.8 per cent) followed by governance issues (26.9 per cent) and corruption (12.8 per cent).⁵ Interestingly, for oil exporters, the greatest obstacle is governance issues (33 per cent) followed by weak infrastructure (26 per cent). It is not surprising that respondents in the full sample, as well as LDCs, identified weak infrastructure as the major constraint given the widespread scarcity or lack of financial institutions and services in rural areas where a large segment of the population lives. Although banks dominate the financial systems in African countries, they are generally reluctant to set up branches in rural areas and so are unable to play an effective role in mobilizing rural savings.

Figure 2: Obstacles to the mobilization of domestic resources

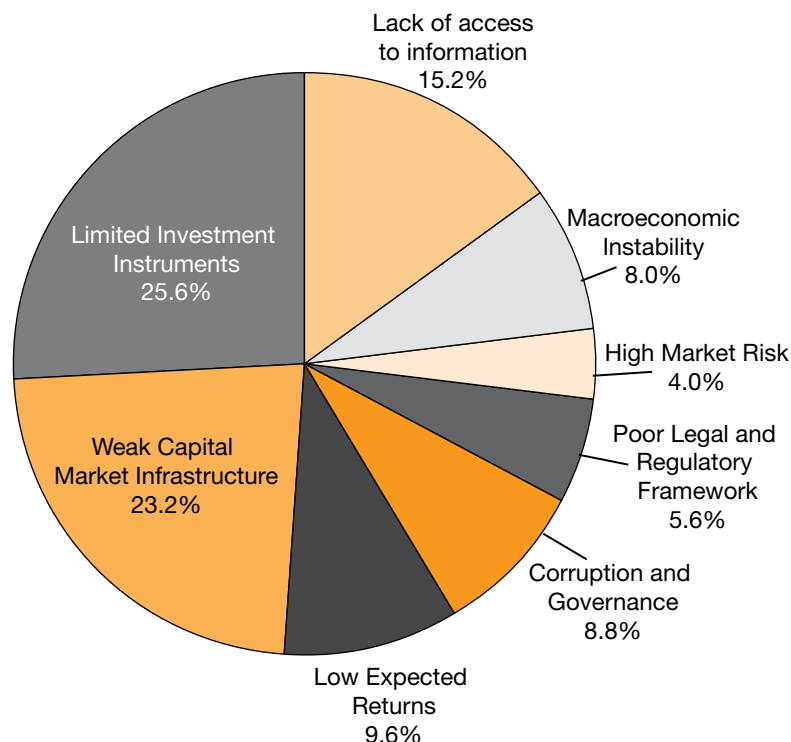


In terms of the role of the domestic banking system in mobilizing savings, 73.5 per cent of the respondents overwhelmingly indicated that it was only partly effective or entirely ineffective. Reform of the banking sector to improve efficiency and increase the access of rural households to financial services would play a key role in boosting domestic savings in the region. Capital markets can also play an important role. They make it possible to allocate resources efficiently, mobilize domestic and foreign capital, and facilitate privatization efforts. Yet,

⁵ Financial infrastructure refers to the set of rules, institutions, and systems within which agents carry out financial transactions (see Bossone et al. 2003).

African countries have not been able to exploit this potential of capital markets for resource mobilization and financial intermediation.

Figure 3: Obstacles to use of capital markets for savings mobilization



Clearly, capital market development requires building institutions, developing new instruments, and creating or improving legal and regulatory frameworks. As shown in figure 3, the main obstacles to the mobilization of savings via capital market development were cited as limited investment instruments, weak capital-market infrastructure, and lack of access to information. There is the need for African governments to make more concerted efforts to lift these constraints inhibiting capital market development in the region. They should also promote macroeconomic stability and a hospitable investment environment to create an incentive for the private sector to increase transactions on the capital market. Macroeconomic uncertainty inhibits capital market activities and also encourages capital flight.

Though governments are making efforts to mobilize domestic resources, savings in African countries remain inadequate relative to their investment requirements. There is a need to improve banking infrastructure and governance as well as exploit the potential of capital markets and micro-finance institutions for resource mobilization.

Mobilizing International Resources

The Monterrey Consensus underscores the important contribution of international resources, particularly foreign direct investment (FDI), to financing development. However, FDI in sub-Saharan Africa has been characterized as low in comparison to other developing subregions. It is also concentrated in few countries and largely targeted to the natural resources sector. It is encouraging that macroeconomic data show that, in recent years FDI flows to the region have been growing strongly in response to not only high commodity prices but also to improved macroeconomic stability. Net FDI inflows to Africa increased from an average of \$US11.9 billion in the pre-Monterrey period to \$US18.1 billion in the post-Monterrey period. In line with this trend of increasing foreign investment on the continent, a majority of African policy makers in the sample indicated that FDI

inflows have improved over the last five years (17.3 per cent strongly agreeing and 46.2 per cent somewhat agreeing with this statement).

At the same time, most respondents stated that there was less progress by donors in mobilizing international resources for development in the region, with 51.9 per cent and 20.4 per cent identifying progress as either fair or poor, respectively.⁶ However, the difficulty in linking donor performance to private capital inflows is that they can only play an indirect role, through, for example, human capacity development, assisting in building infrastructure, and disseminating information about available investment opportunities. Domestic government actions affecting the investment climate are more important determinants of success in this area of the Monterrey Consensus. The results also indicate that the vast majority of countries (67.9 per cent) have a national framework/strategy to attract international capital flows such as FDI.

More specifically, the questionnaire responses reveal that changes in the provision of physical infrastructure, a key driver of economic growth, has been only moderate (46.3 per cent of responses) or insignificant (42.6 per cent). Furthermore, respondents felt that support from regional and international institutions for assisting in attracting FDI to infrastructure and other priority areas was moderate (55.6 per cent) or insignificant (31.5 per cent). In comparison to the perception of inadequate donor support, government policies to attract private capital flows were mostly rated as being very good (20.4 per cent) or good (55.6 per cent).

African governments have policies in place to attract private capital flows, but response from foreign investors has so far been muted. FDI inflow has increased, but it is still insufficient and too concentrated in the natural resources sector to help accelerate economic growth and development. There is need for support from donors, as well as from regional and international institutions, to attract more private capital flows.

International Trade as an Engine of Development

The catalytic role trade can play in accelerating economic growth and development is widely accepted (McCulloch et al. 2001). Africa's trade position remains marginal as evidenced by the fact that in 2006 its share of global merchandise exports was 2.8 per cent and its share of global export of services was 2.4 per cent United Nations Conference on Trade and Development (UNCTAD 2007). Nonetheless, as a result of increasing commodity prices, exports are now growing more strongly in the region. The challenge for African countries is how to sustain this increase in exports and exploit the potential of trade for growth and poverty reduction. In this regard, African countries have a great stake in the conclusion of the WTO Doha Round, which has so far not delivered the gains promised in key areas such as agriculture, non-agricultural market access and development issues.

In comparison to other areas of the Monterrey Consensus, the survey results reveal that donor performance in the area of international trade has not been positive, with 77.3 per cent stating that progress was either fair or poor (see figure 6). The majority of responding African policy makers indicated that the degree of access to the export markets of developed countries was inadequate, rating access as fair (38.5 per cent) or poor (34.6 per cent). These perceptions are negative despite the increase in real export growth in the post-Monterrey period, as shown in table 1. As indicated earlier, the low share of Africa in world trade and lack of significant progress in concluding the Doha Round are in part responsible for these responses. Moreover, although there has been an increase in exports from the region, this has been driven by an increase in demand for commodities by emerging economies of China and India and so it is not clear if this increase in export is sustainable. Excessive dependence on commodities increases the region's vulnerability to external shocks with consequences for macroeconomic instability (Dupasquier and Osakwe 2007a).

⁶ The response from oil exporters was quite different from the full sample. Some 90 per cent of the respondents considered donor performance as fair, compared to 51 per cent for the full sample and LDCs.

Figure 4: Barriers to export promotion and development

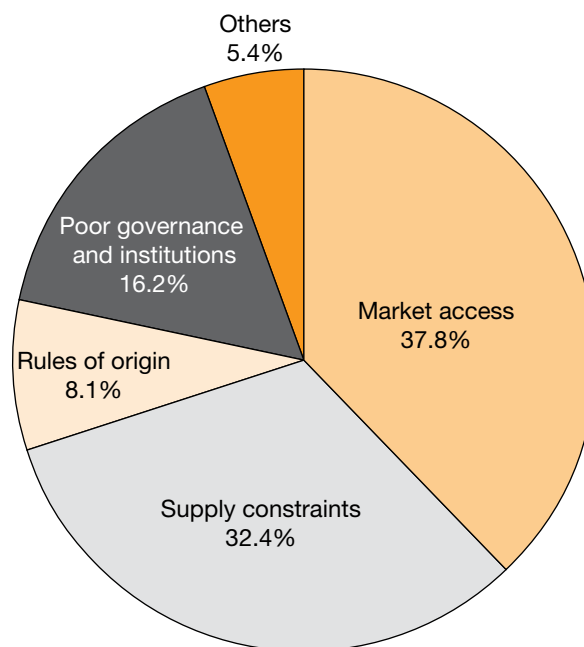


Figure 4 illustrates the most important barriers to export promotion as cited by respondents. This shows that market access and supply constraints are perceived by African policy makers as the biggest barriers to engaging in international trade. In terms of non-trade policy barriers countries face, respondents clearly underscored the problem of poor infrastructure (43.5 per cent of responses) followed by other supply-side constraints (35.5 per cent) and being a landlocked country (16.1 per cent). Only 4.8 per cent of responses indicated port inefficiency as a serious barrier to trade. With respect to government policies, 17.3 per cent of the respondents strongly agreed with the proposition that trade policy has been successfully integrated into national development strategies, while 36.5 per cent somewhat agreed with the proposition.

Though exports have increased in recent years, respondents believe that donors have not made much progress in supporting African countries in the area of trade. The main barriers to export promotion are market access and supply constraints.

International Financial and Technical Cooperation

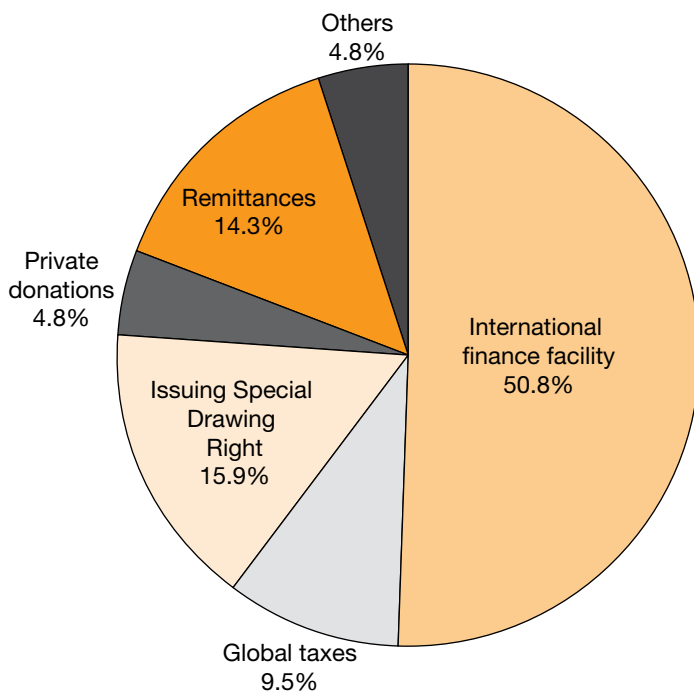
ODA continues to be a vital source of resources for African countries, particularly those without the capacity to attract private capital flows such as those emerging from conflict (World Bank 2002). As a consequence of recent commitments and a stronger engagement with the continent, ODA to Africa has increased over recent years, reaching an average of \$US28 billion over the period 2002-2005 (table 1). Along with increased ODA flows, there has also been some progress in aid effectiveness.

That said, respondents to the survey indicated that donor performance in the area of international financial and technical cooperation has been better than in such areas of the Monterrey Consensus as trade, though responses are mainly split between a rating of good (40.4 per cent) and fair (42.3 per cent) (see figure 6). In addition, 66.1 per cent of respondents felt that donors' performance in meeting their commitments on the quantity of aid has been either fair or poor. Furthermore, there is the concern that recent aid flows tend to be concentrated in a few countries and that emergency assistance and external debt relief account for a significant percentage of aid flows.

In contrast, the survey results show that African policymakers perceive that more progress has been made in terms of aid efficiency and reducing the proportion of tied aid than the quantity of aid. Over 62 per cent of respondents reported that they somewhat or strongly agree with the statement that aid efficiency has improved. Similarly, 75.5 per cent of respondents somewhat or strongly agreed with the proposition that there has been a significant reduction in the proportion of tied aid. These ratings are much higher than those from a recent global evaluation of the Paris Declaration (OECD 2007b). With the statement that donor actions are more harmonized, transparent and collectively effective, the respondents were quite split, with 48.1 per cent indicating that they somewhat agreed with this statement, while 40.4 per cent somewhat disagreed with it. At the same time, 64.1 per cent of respondents strongly or somewhat agreed with the proposition that aid is aligned with national development priorities.

In terms of establishing more innovative forms of financing for African countries, the survey revealed that most respondents (50.8 per cent) supported the creation of a new international finance facility, followed by the issuing of a special drawing right with a development focus (15.9 per cent) and the mobilization of more remittances (14.3 per cent). The results are presented in figure 5. The preference for an international finance facility reflects the general support for this form of financing in both developed and developing countries.

Figure 5: Preference for innovative forms of financing development



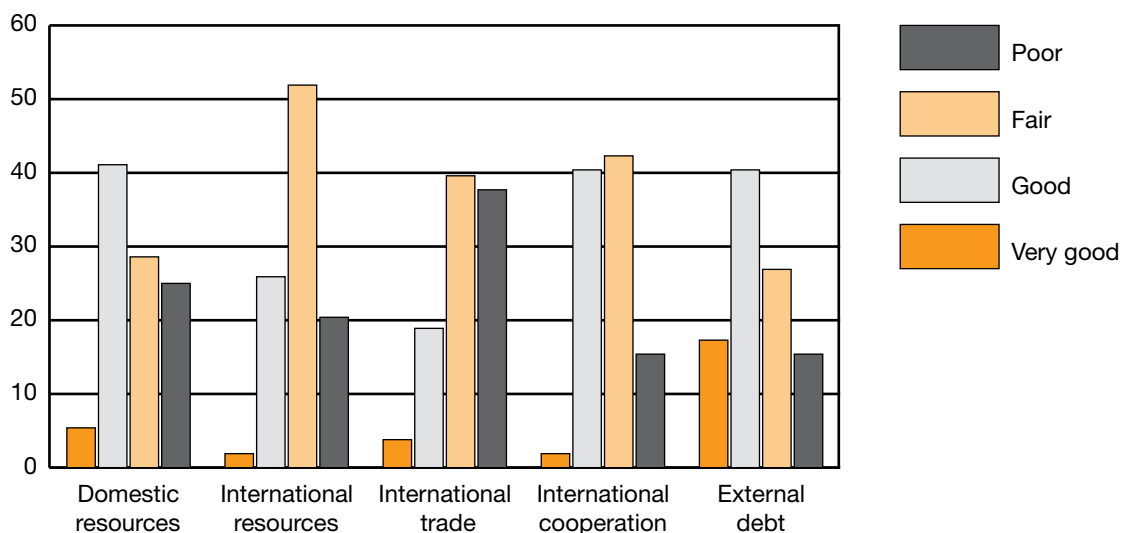
ODA flows to Africa are on the increase as indicated by both the data and perceptions of African policymakers. However, donors are still not on track to meet their commitments and recent aid flows tend to be concentrated in a few countries and social sectors (emergency aid and debt relief). There is need to increase allocation to the productive sectors and also to scale up efforts to improve aid effectiveness.

External Debt

Facing a persistent financing gap, most African countries have had to borrow from both bilateral and multilateral lenders over a number of decades. Consequently, these countries had accumulated large stocks of debt, which they eventually had difficulties servicing. External debt problems constrain spending on social services and infrastructure and leads to a reduction in investment with dire consequences for economic growth and poverty reduction (Krugman 1988; Birdsall and Williamson 2002). Responding to this situation, lenders have accelerated debt relief efforts in recent years under the auspices of the HIPC scheme and the MDRI. As a result of these debt-relief initiatives, ratio of debt to GDP in Africa dropped from an average of 62 per cent in the pre-Monterrey period to 47 per cent in the post-Monterrey period.⁷

In line with the positive impact of these initiatives seen in macroeconomic data, respondents of the survey indicated that the performance of donors in the area of external debt has been the strongest of all the areas, with 17.3 per cent of respondents stating that the performance was in fact very good and another 40.4 per cent stating it was good (see figure 6). Moreover, 24.5 per cent of respondents strongly agreed and 52.8 per cent somewhat agreed with the statement that there has been significant progress in reducing the external debt of African countries. Some 70.6 per cent of respondents believe that the external debt situation in their country is sustainable. Clearly, these perceptions reflect the impact and awareness of recent debt relief provided by HIPC, MDRI and bilateral initiatives.

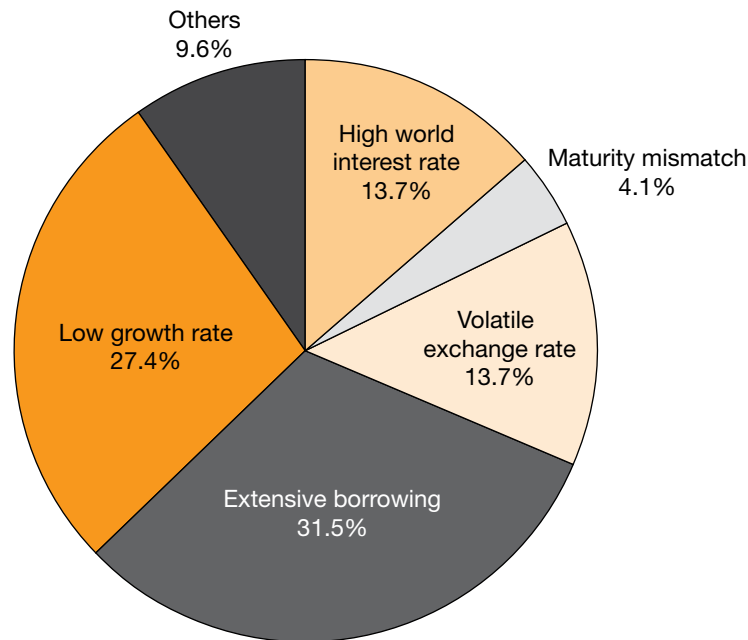
Figure 6: Assessment of performance in selected areas of the Monterrey Consensus



However, there is a sense of caution amongst African policy makers with a vast majority (64.8 per cent) stating that these debt relief initiatives are only somewhat likely to lead to a resolution of the debt problem in Africa, with 11.3 per cent believing that this is not likely to happen at all. The survey results also reveal how respondents perceive the source of the debt problem in their country. As displayed in figure 7, the most cited source is extensive borrowing, followed by a low growth rate and then by a higher interest rate and the volatility of the exchange rate. Respondents from LDCs had a different view on this issue. About 35.6 per cent of these respondents felt that the main source of their external debt problem was low economic growth followed by extensive borrowing (26.7 per cent). It is well known that the rate of economic growth has serious consequences for a country's ability to maintain sustainable debt ratios. More importantly, if a country has a sustained growth rate higher than the rate of growth of its debt, it can grow out of debt.

⁷ Despite the popularity of debt relief, some authors have the controversial view that it is unlikely to stimulate investment and growth in the world's poorest countries because they do not really suffer from a debt overhang (Arslanalp and Henry 2006).

Figure 7: Sources of external debt in African countries



There has been a significant reduction in the external debt burden of African countries as a result of recent debt relief initiatives. Overall, more debt relief needs to be provided and governments should exercise caution in borrowing to ensure that debts in African countries remain sustainable.

Systemic Issues

In addition to the specific areas raised above, the Monterrey Consensus also recognizes the importance of enhancing the coherence, governance, and consistency of the international monetary, financial and trading systems. During recent years, there have been a number of multilateral dialogues on key systemic issues for improving the governance structure of international financial institutions and for clarifying the role of official financing of emerging markets.

With respect to this area of the Consensus, the survey results indicated that most respondents somewhat disagreed (56.6 per cent) with the notion that the current governance structures of financial institutions allow for effective participation of African countries in the global economy. LDCs had a less favourable response on this question with 66 per cent indicating that they somewhat disagree with the question. Nonetheless, most respondents rated the recent efforts to enhance the coherence and consistency of international monetary, financial and trading systems as somewhat satisfactory (52.8 per cent) or satisfactory (24.5 per cent). This may reflect the recognition that serious efforts have been made by the WTO to enhance the participation of African countries in decision-making. It may also reflect an appreciation of the fact that discussions are taking place in a number of international organizations (IMF, World Bank) on how to get poor countries more involved in their decision-making processes.

Although there have been recent attempts to improve the governance of international monetary, financial and trading systems, respondents believe donors need to increase efforts to improve the participation of African countries in the decision-making organs of international organizations.

4. Challenges, Constraints and Lessons Learned

The survey also sought to identify the perception of African policy makers on the challenges and constraints inhibiting implementation of the Monterrey Consensus. At the national level, respondents highlighted several issues that need to be addressed. 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 in the region. Weak governance and institutions make it difficult to mobilize domestic resources and also increase country risk premiums 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 the region. There is therefore a need for a better investment climate as well as for 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 several 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-to reduce poverty through sustained economic growth.

A very interesting result from the survey is that middle-income countries in the region feel that they have more difficulty accessing aid and other forms of development assistance relative to other countries in the region. LDCs, small island economies, and land-locked countries also expressed the view that their special economic circumstances and vulnerability to external shocks present a serious obstacle to the 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 its own priorities. Mobilization of support from the broader public and from key stakeholders was also identified as a 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 the markets of developed countries is also a key concern and challenge for the region. Many 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 trading system is also an important challenge for African countries (Dupasquier and Osakwe 2007b).

5. Concluding Remarks and the Way Forward

In general, the survey of African policymakers suggests that very limited progress has been made in the implementation and achievement of the goals of the Monterrey Consensus. The results also indicate that considerable efforts are required by both African governments and donors to mobilize the resources needed for development in the region. At the international level, respondents stressed the need for donors to:

- Increase the quantity of aid to the region as promised in the Monterrey Consensus and the G-8 Gleneagles Summit Declaration. Ensuring that future increases in aid are not concentrated in a few countries and sectors was also seen as an important area for donor action;
- Improve the effectiveness of aid through less use of aid conditionalities, reduction in the proportion of tied aid, and increasing coordination, alignment and harmonization of aid;
- Provide more market access opportunities for African exports in the markets of developed countries;
- Build capacity in African countries, while also utilizing local expertise in technical assistance programmes so as to enhance transfer of skills;
- Reduce the time it takes for eligible HIPC countries to move from decision to completion points and also extend the coverage of existing debt relief programmes to include non-HIPC countries. Respondents also stressed the need for donors to pay more attention to the issue of domestic debt; and
- Improve participation of African countries in the decision-making processes of international organizations.

Clearly, African governments also have a vital role to play in meeting the objectives of the Monterrey Consensus. In this regard, respondents were of the view that at the national level, the following actions are needed for success in moving the Monterrey agenda forward.

- Improving the quality of infrastructure to reduce transactions costs;
- Enhancing African competitiveness and diversification of economies to reduce vulnerability to external shocks and boost economic growth;
- Increasing the involvement of the private sector in the development process, while also improving the business environment and investment climate;
- Boosting domestic resource mobilization by improving governance and financial infrastructure, developing capital markets, stemming capital flight, and increasing the awareness and confidence of domestic savers and investors;
- Promoting intra-African and international trade by eliminating constraints and increasing market access;
- Enhancing and fast-tracking regional integration efforts;
- Strengthening governance in terms of legal and regulatory frameworks, transparency and accountability; and
- Developing stronger and clearer national strategies and policies, ensuring that these are effectively implemented and matched by the necessary commitment from both governments and donors.

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