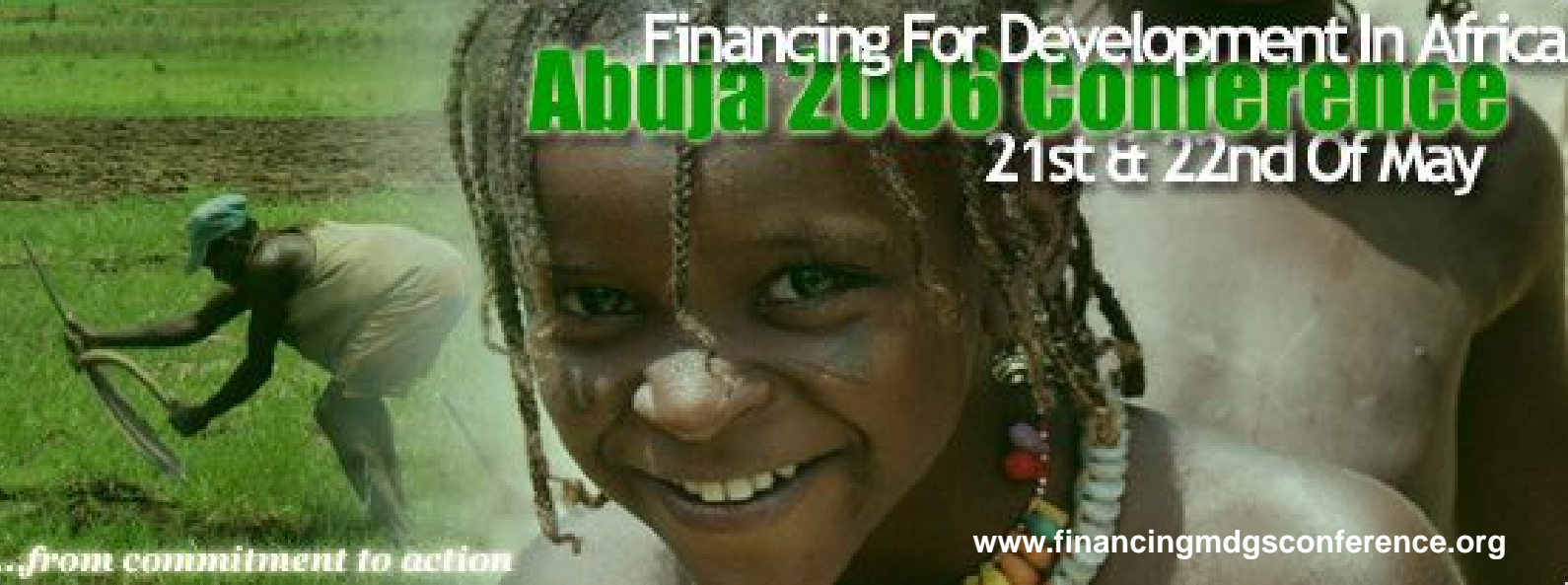


Financing For Development In Africa Abuja 2006 Conference 21st & 22nd Of May



Synopsis of Technical Papers at the Abuja Conference

On 21 and 22 May 2006, over 200 delegates from more than 30 countries gathered in Abuja, Nigeria, for the Financing for Development: From Commitment to Action in Africa conference. The conference was called to operationalise the G8 and World Summit commitments in support of the Millennium Development Goals (MDGs) in Africa. The conference revolved around four sessions:

- Dealing with the Macroeconomic Impacts of Scaling Up Aid;
- More and Better Aid: Monitoring Commitments and Action;
- PRSPs as Framework for Scaling Up Country Level Efforts to Reach the MDGs; and,
- Addressing Emerging New Aid Architecture.

Each of these sessions was informed by a technical paper prepared in preparation of the conference. Summaries of these papers are given in this handout. The full text of each paper is at www.financingmdgsconference.org.

1. Dealing with the Macroeconomic Impacts of Scaling Up Aid

In order to attain the Millennium Development Goals, it is widely acknowledged that **a rapid and substantial increase in aid to developing countries is needed**. However, the rapid scaling up of aid raises new concerns of the **potential threat to macroeconomic stability** in recipient countries. Potential adverse effects could include excessive appreciation of the real exchange rate resulting in loss of competitiveness, and high inflation. This paper reviewed some of the major policy concerns emerging from the debate on the macroeconomic impact of increased aid flows. There are concerns with potential Dutch disease effects, ensuring macroeconomic stability in an environment of high aid flows, and coping with potential volatility of aid flows.

This paper discussed a range of **policies and practices that should be addressed to minimize adverse macroeconomic effects of increased aid**. For recipient countries, effective dialogue is needed between government authorities and central banks on the extent to which aid should be 'absorbed' as well as 'spent'. Dutch disease effects could be minimized if aid resources finance government spending with high import content, or are used in financing infrastructure investments which enhance domestic productivity of the private sector.

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The 2006 conference was organised by:

- Federal Republic of Nigeria
- African Development Bank
- United Nations Economic Commission for Africa

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Increased dialogue between governments and central bank authorities to discuss appropriate levels of macroeconomic indicators such as inflation and interest rates would also be needed. Central banks may also permit gradual absorption of aid by accumulating reserves, which can also serve as a precautionary buffer against volatile, future aid flows.

Donors can assist by disbursing aid in line with long-term commitments of resources, and in a predictable manner which supports planning in recipient countries. International financial institutions can also assist aid-recipient countries with periodic policy advice on how to increase aid effectiveness and manage potential adverse effects.

Further information: At the conference, the International Monetary Fund gave all finance ministers a copy of their recently published (2006) 'Macroeconomic Challenges of Scaling Up Aid to Africa: A Checklist for Practitioners' by Gupta, Powell and Yang. Electronic copies can be found at <http://www.imf.org/external/pubs/ft/afr/aid/2006/eng/index.htm>.

2. More and Better Aid: Monitoring Commitments and Action;

African governments have made commitments to implement national development strategies ambitious enough to achieve the Millennium Development Goals (MDGs). These efforts are to be financed by both domestic resource mobilization and a **scale up of international development assistance**.

Throughout 2005, commitments were made by the United Nations system, G8, European Union, and others to deliver "**more and better aid**", more substantial debt relief, and more coherent 'joined-up' policies in support of development that is consistent with achieving the MDGs. Commitments to improve the 'quality' of aid aimed to improve the effectiveness of development assistance. 2005 also saw real improvements in the monitoring architecture available to track these commitments.

To achieve the MDGs, the financing commitments must now become a reality, both in terms of the quantity and quality of aid. In terms of quantity, the trend over recent years has been encouraging. In terms of quality of aid, the Paris Declaration on aid effectiveness and the development of the African Partnership Forum, amongst other initiatives, were important steps in the right direction.

Effective monitoring of commitments is a vital factor in the achievement of the MDGs. Whilst there is certainly progress being made in this area, there are still important issues to be resolved at the country, regional, and international levels. This paper provides an analysis of these issues and articulates key points for discussion.

Further information: Participants at the conference session on monitoring included members of civil society, representatives of the OECD's Donor Assistance Committee and the African Partnership Forum. Further information on the monitoring activities of some of these groups can be found at www.africanmonitor.org (African Monitor), www.igt.org/page/608/1 (AWOMI), www.data.org (DATA), www.oecd.org/dac (DAC), and, www.dfid.gov.uk/News/files/africa-partnership-forum.asp (APF).



3. PRSPs as Framework for Scaling Up Country Level Efforts to Reach the MDGs

The Poverty Reduction Strategies (PRS) approach has transformed the development planning process in Africa. Although most PRSPs in their current form are an adequate framework for scaling up aid (starting now), **they are not sufficient for scaling up efforts to achieve the MDGs.** In order to provide a consistent framework, PRSPs need to be ambitious enough to achieve the MDGs; i.e. they should be MDG-based.

Impressive progress has been made in implementing the PRS approach and despite the challenges the approach has been a learning experience, both for countries and for donors. The main lessons learned have been:

- **The PRS approach has challenged governments to make growth strategies pro-poor;**
- **The macroeconomic frameworks in PRSPs have often been weak;**
- **Ensuring the integration of cross-cutting issues has been a challenge;**
- **There has been significant variation in the depth of participation in the PRSP process;**

Drawing from these lessons this paper presents number of issues need to addressed in order for PRSPs to be a more effective framework for achieving the MDGs. These issues relate to: the policy content of PRSPs, the actions needed to improve the PRSP process, and how PRSPs can be used to deliver effective development partnerships. This paper concludes with a number of issues for further discussion.

Further information: Poverty Reduction Strategy Papers (PRSPs) describe a country's macroeconomic, structural and social policies and programs to promote growth and reduce poverty, as well as associated external financing needs. PRSPs are prepared by governments through a participatory process involving civil society and development partners, including the World Bank and the International Monetary Fund (IMF). A general introduction can be found at www.worldbank.org/prsp.



4. Addressing Emerging New Aid Architecture.

A doubling of aid to Africa (from US\$25 billion to US\$50 billion) will increase pressures on the aid architecture at a time when development partners are already grappling with the challenge of improving aid effectiveness. The recent trend has been towards an increase in special purpose grants, debt-forgiveness and emergency aid. These trends are likely to be short term, and increasingly budget support will replace traditional methods of administering aid. Increased aid volumes will bring about a corresponding need for accountability and donor harmonization.

Thus, the emerging aid architecture will have to address numerous challenges:

- **Aid is frequently misallocated;**
- **Aid is often not aligned with national priorities and programmes;**
- **Aid delivery is not harmonized with national systems and processes;**
- **Donor practices and procedures are not coordinated and harmonized;**
- **Much bilateral aid is still tied;**
- **Aid is unpredictable; and,**
- **The problems with conditionality.**

Any framework for aid has to be relevant and responsive to Africa's needs. Crucially, it must be flexible enough to adapt to the specific conditions and demands of Africa's diverse regions. Aid allocation systems need to become more transparent and their relationship with nascent African systems such as the African Peer Review Mechanism should be more explicit.

A number of new instruments, such as the International Financing Facility, Tobin tax, and Millennium Challenge Account, have begun to address these issues. However, resolution will require increased efforts from donors and recipients alike.

Further information: The Aid Architecture session gave Mr. Richard Manning, Chair of the OECD's Development Assistance Committee an opportunity to present a paper on the current state of development assistance and the key challenges ahead. The paper can be found at www.financingmdgsconference.org/speeches_presentations.

Conference web site

The full text of the technical papers, along with numerous background documents, presentations, speeches and other resources can be found at the conference web site:

www.financingmdgsconference.org

The site will be a continuing source of information on the conference series, regularly updated by the current conference host.

In 2007, the conference will be handled by the Ministry of Finance in Ghana, and the conference held in Accra.