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# **Compact for African Recovery**

**Operationalising the Millennium Partnership for the  
African Recovery Programme**

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# Table of Contents

	Pages
<b>Introduction</b>	<b>1</b>
Background	
The Key Features of the Compact	
Issues for Consideration by and	
Expected Outcome of the Conference of Ministers	
<b>Chapter I – Foundations for the Compact for African Recovery - Key Strategic National Actions</b>	<b>8</b>
Africa needs Good Governance, Peace and Security	
The African Economy at the Dawn of the 21 <sup>st</sup> Century	
Improving Macro-Economic Performance	
<b>Chapter II – Key areas for joint African-international action</b>	<b>15</b>
Overcome the HIV/AIDS Pandemic	
Provide Basic Health Services	
Invest in People: Increase Resources for Education	
Provide ICT and Narrow the Digital Divide	
Enhance Research Capacities	
Improve Key Infrastructure	
Strengthen Regional Cooperation	
<b>Chapter III – A New International Partnership with Africa</b>	<b>24</b>
Why International Partnership needs Reform	
Increasing Resource Flows	
<b>Chapter IV – Enhancing Partnerships for Development</b>	<b>30</b>
Guiding Principles	
<ul style="list-style-type: none"><li>• Transformed Assistance Relationships: Putting them into Action</li><li>• Stable long-term resource flows</li><li>• Transformed aid relationship based on mutual accountability</li><li>• Partnership for the diverse conditions of each individual African country</li></ul>	
<b>Chapter V – Enhancing the Role of the Private Sector in Development</b>	<b>42</b>
Private Sector led Growth in Africa: the potential	
Good Corporate Citizenship	
Public-Private Partnerships	
Conclusion	
<b>Chapter VI – Implementing the Compact: The Way Ahead</b>	<b>51</b>
Political Leadership in Africa	
Conclusion	

# COMPACT FOR AFRICAN RECOVERY

## Operationalising the Millennium Partnership for the African Recovery Programme

### INTRODUCTION

*“Africa is beyond bemoaning the past for its problems. The task of undoing that past is ours, with the support of those willing to join us in a continental renewal. We have a new generation of leaders who know that we must take responsibility for our own destiny, that we will uplift ourselves only by our own efforts in partnership with those who wish us well.”*

*Nelson Mandela*

*1. The Millennium Partnership for the African Recovery Programme (MAP) is emerging as the African initiative for development, bringing together all partnership initiatives within a single framework. The Compact for African Recovery is designed to provide technical and analytical support to the MAP. This introduction provides the background to the Compact for African Recovery, its key features and aims. It highlights the issues for consideration at the ECA Conference of African Ministers of Finance and Ministers of Development and Planning in Algiers, 8-10 May 2001.*

### **Background**

2. The Millennium Declaration adopted by the United Nations Millennium Summit in September 2000 devoted a section to meeting the special needs of Africa. It placed particular emphasis on supporting Africa in the areas of consolidation of democracy; encouraging and sustaining regional and subregional mechanisms for preventing conflict and promoting political stability; addressing the challenges of poverty eradication and sustainable development in Africa, including debt cancellation, improved market access, enhanced ODA; and helping Africa build up its capacity to tackle the spread of HIV/AIDS pandemic and other infectious diseases.

3. The Compact for Africa's Recovery represents an important component of ECA's response to the implementation of the Millennium Declaration. The idea of developing the Compact emanated from a speech made by the Executive Secretary of ECA, Mr. K.Y. Amoako, to the

Eighth Session of the ECA Conference of African Ministers of Finance held in Addis Ababa in November 2000. In it, he called for a Compact with Africa in which the developed countries would invest the necessary resources through aid, debt relief and market access to give African economies the jump-start they need. In turn, Africa should be able to put in place the necessary political reforms to ensure that their economies take off.

4. Endorsing the Executive Secretary's proposal, the Conference adopted a resolution requesting ECA to develop the details of the Compact for consideration by the Joint ECA Conference of Ministers of Finance and Ministers of Economic Development and Planning to be held in Algiers in May 2001. The resolution also suggested that the Executive Secretary consult with individuals and institutions, including the United Nations and Africa's development partners, which have the potential to best assure the Compact moves to implementation. As the process of articulating the Compact and the related consultations evolved, it emerged that the Presidents Mbeki of South Africa, Obasanjo of Nigeria and Bouteflika of Algeria were developing an initiative known as the Millennium Partnership for the African Recovery Programme (MAP).

5. Inspired by the firm and shared conviction that African leaders have a pressing duty to eradicate poverty in their countries, the MAP aims to launch Africa on a path of sustained growth and development at the dawn of a new century. The MAP seeks to build on the momentum of change and progress in the continent, reflected in adoption of economic reforms, consolidation of democracy and new resolve to dealing with conflicts. The MAP recognizes that a new and effective partnership with the international community is essential to its success, even as it stresses the African governments and people have the primary responsibility for its implementation. These are also the goals of the Compact, which is indeed conceived as a technical input to the elaboration and implementation of the MAP.

6. At about the same time, President Abdoulaye Wade of Senegal announced his OMEGA Plan for Africa. This identifies the need to develop physical capital and human capital as the key prerequisites for sustained and balanced growth and argues for investment needs in priority sectors to be brought under the purview of a single international authority. The OMEGA Plan has the same vision and objectives as the MAP. Both are inspired by the need to launch Africa on a path of sustained growth and development at the dawn of a new century and both are based on the premise that Africa must assume the primary responsibility for that effort. Thus, at the extraordinary summit of the OAU in Sirte, Libya in March 2001, the Heads of State and Government agreed that the MAP and OMEGA Plan be merged.

7. Following this brief background, the rest of this introductory chapter will present the key features of the Compact, highlighting the main issues for consideration by the Ministers, including the expected outcomes from the ECA Ministerial Conference in Algiers.

## **The Key Features of the Compact**

8. This is the decisive moment for a new approach to Africa's development, drawing on the momentum provided by what the MAP describes as the unprecedented 'determination of Africans to extricate themselves and the continent from the malaise of underdevelopment and exclusion in a globalising world.' We are at a critical moment at which lessons learned can be put to the best use. The Compact is therefore a timely instrument, drawing upon existing modalities and developing emerging best practices, to draw up a comprehensive response to

Africa's development challenges. The Compact does not propose any new aid modalities or instruments. Rather, the intention is to exploit to the full the scope of what already exists and, by providing an African vision for enhanced partnerships, to stimulate a transformation in aid relationships including fostering public-private partnerships.

9. The Compact draws upon extensive research into the many components of Africa's development challenges. The six chapters of the document are:

- I. Key strategic national actions;
- II. Key areas for joint African-international action;
- III. Enhanced partnerships for development;
- IV. A transformed aid relationship;
- V. An enhanced role for the private sector;
- VI. The way ahead.

**10. Chapter I deals with the essential national actions that Africa's leaders must take if they are to claim the 21<sup>st</sup> century. Good governance is central to the Compact.** There is a powerful consensus, in Africa and globally, that the quality of government is critical for poverty reduction. Poor quality governance is manifest in corruption, conflict and high expenditure in unproductive sectors such as the military. This in turn impedes the development of both the public and private sectors, while denying citizens access to adequate health care and education. In extremis, this leads to a vicious cycle of impoverishment, conflict, population displacement and capital flight. High quality government is better able to design and implement effective policies and programmes. It is also relatively transparent and accountable, governing in a constitutional manner, applying the rule of law, managing national finances soundly, and providing citizens with civil liberties, economic freedoms and essential social services. Last but not least, in a globalising economy, international capital seeks secure, rule-governed countries with skilled workforces as its favoured investment locations. Good governance is a sine qua non for poverty reduction.

11. The Compact outlines the necessary governance measures required for Africa's national leaders to establish an effective covenant with their own people on development progress in the years ahead. Actions focus on enhancing structures for political representation and ensuring greater inclusion, promoting transparency and public availability of information, participation of the private sector and civil society in policy-making, and establishing more equitable gender representation and participation.

12. The Compact is based on recognition that, under current conditions and with current trends, Africa's economies are going to fall far short of achieving the rates of growth necessary to meet existing International Development Goals (IDGs) by 2015. Africa is the only region of the globe in which the number of people trying to survive on less than \$1 per day is increasing. To achieve the IDGs, Africa needs to grow at 7% per year: more than double its current rates. It follows that major resource mobilisation is required, both domestically and internationally. Chapter I of this document outlines the measures required to move towards macro-economic stability and economic growth, along with those needed to mobilise domestic resources and close the savings gap.

13. **Chapter II details seven critical areas for joint African-international action.** These areas have been identified as pressing issues of survival, tackling fundamental continent-wide constraints to Africa's development, and opening opportunities for Africa to maximise its potential. First, overcoming the HIV/AIDS pandemic is a basic survival issue, demanding immediate mobilisation on an emergency footing. Second, basic health services are needed across the continent, because without a healthy population, economic development is impossible. Third, Africa's educational systems need rehabilitation: investment in human resources is the sine qua non for development. In these sectors there is need for policy reform, strengthening service delivery systems, and increasing resources.

14. Targeted action in select areas can create significant opportunities. The Compact's fourth critical area is providing ICT and narrowing the digital divide. If Africa overcomes its marginalisation in this area, its economy has the opportunity to surge ahead. Next, Africa should enhance its research capacities, especially in agriculture, health, environmental science and public policy. Sixth, major improvements in key infrastructure can overcome constraints on Africa's competitiveness. Lastly, strengthening regional cooperation is a prerequisite for Africa's economic growth.

### **Africa needs a new international partnership**

15. It is clear that Africa cannot achieve sustainable growth and poverty reduction without a transformed partnership with the international community. **Chapter III outlines the key specific actions that the international community should take as the basis for the Compact for African Recovery.**

16. Much has been learned about how to improve aid performance. Aid has had its successes, but there is growing mutual dissatisfaction with aid outcomes. Today there is an unprecedented frankness in examining the record, identifying best practices, and forging new modalities for cooperation. African ownership of policies and programmes is a precondition for success. The continent is diverse and there is no one-solution-fits-all scenario. Chapter III focuses on quantity of resource flows and Chapter IV on quality.

17. This document argues that Africa needs not only increased resource flows but more effective utilisation of those resources. More ODA is needed to help Africa fill its existing finance gap of approximately \$10bn per annum if it is to meet the IDG goals of halving poverty by 2015. (This figure excludes the estimated financing requirements to address the HIV/AIDS pandemic.) Increased assistance should be targeted on countries that have a demonstrated capacity to use aid well, and should focus on priority areas.

18. A rapid and sustainable exit from the debt crisis is essential. Current debt reduction initiatives need to be enhanced and speeded up, and financial assistance options need to be less reliant on loans, which have the risk of relapse into indebtedness. The Compact entails significant changes in decision-making, assessment and financing of Africa's major development partners, continuing existing reforms.

19. It is through increased international trade that Africa will develop. Export is the means for obtaining long-term investment and finance: it is the necessary engine for growth. For this to be achieved, African products need much-improved international market access. Africa faces too many barriers to the sale of its products internationally—especially for processed primary products where Africa may have a competitive edge. The Compact envisages a range of

measures within the WTO, ACP and bilaterally with trading partners to level the playing field in some areas, and to provide for preferential treatment in others.

20. This document underscores the critical role that FDI has to play in meeting the investment requirements of the African continent. In the decades ahead, Africa will either develop through the dynamism of the private sector—or it will not develop at all. This issue is developed in Chapter V.

**21. Chapter IV presents the heart of the Compact for African Recovery. The Compact makes a significant contribution with its proposal for a transformed partnership between Africa’s best-performing countries and their international partners. While the previous chapter focused on the quantity of resource flow, the focus here is on the quality of aid.** The essential idea is that by upgrading and systematising existing best practices under the umbrella of the MAP, it will be possible to achieve a breakthrough in development cooperation. The Compact has four basic guiding principles underpinning this wider new partnership, which are discussed in this chapter.

22. The first principle is *African ownership* of visions and goals for national development, as well as policies and programmes for poverty reduction and the increased participation of African countries in the global economy. Building on existing country-level modalities such as Comprehensive Development Frameworks and Poverty Reduction Strategies, utilising established institutions and fora, the Compact proposes further measures to entrench and deepen African ownership.

23. The next requirement is *stable long-term resource flows* to Africa and the *predictability of donor support*: these are key to the success of aid and economic management. Several leading donors are moving in this direction, simplifying and harmonising their conditionalities and increasing the commitment horizons of their assistance. An important contribution of the Compact is seeking modalities for institutionalising this principle.

24. The third principle is *transformed partnership based on mutual accountability* to agreed development outcomes, including peer review and performance monitoring among both African countries and international partners. The Compact envisages new mechanisms for joint monitoring of both donor and recipient performance, and (most importantly) outcomes. This is a key area of innovation and is one of the major value added contributions of the Compact. Donors will be required to increase their own transparency and accountability, and focus on sectors where they have strategic advantages.

25. The final principle, and the other key added value of the Compact, is *recognition of Africa’s diversity*. The continent is a mosaic with immense differences between countries. Some countries can immediately benefit from the full range of measures envisaged, while others need to make progress in governance and economic management before they will qualify. The Compact proposes three generic categories of countries: ‘enhanced partnership,’ ‘limited partnership’, and ‘post-conflict’, with modalities of assistance appropriate for each. This should not be seen as an immutable or rigid categorisation, but as an operational framework for organising relationships with different sets of countries.

26. The document proposes that ‘*enhanced partnership*’ countries—those that meet the criteria for governance, economic performance and commitment to poverty reduction laid out in the Compact—can take full advantage of all the measures envisaged, and benefit from the

resulting increase in quantity and quality of resource flow. They should receive direct budgetary support in line with medium term expenditure frameworks towards agreed poverty reduction targets.

27. *'Limited partnership'* countries are those currently unable to make full and effective use of aid flows, which will therefore received limited assistance. Consideration for support to these countries is based on a three-fold rationale. First, poor people in these countries cannot be abandoned. Second, there is a risk that a poor performer may jeopardise the prospects for neighbouring countries. Third, international partnership is a means of building up mutual trust—especially in the case of donors that have strong historical ties with that country. For such countries, the Compact proposes a two-pronged strategy. They can benefit from joint actions in key areas including HIV/AIDS programmes and core pro-poor investments in public health, education, and basic infrastructure under the appropriate sector policy environment and criteria for effectiveness. Meanwhile, international partnerships will seek to promote governance and economic reforms, incrementally leading them towards the goal of enhanced partnership status.

28. This document proposes special measures for the third category of countries, namely *post-conflict countries*. Assistance will include enhancing post-conflict funds and interventions targetted at rebuilding the state and its key institutions, supporting demilitarisation, and reconstructing communities to meet the special needs of this category.

**29. Chapter V deals with the major future engine for Africa's economic development: the private sector.** It is now beyond dispute that the only source of finance that can provide the long-term finance required for economic growth and poverty reduction is the private sector, both national and international. The Compact recognises that business and markets are the cornerstone of development, and are the essential means of achieving a transition from ODA-dependence to sustainable growth. To a significant extent, private sector-led growth is already occurring, and the document marks some of the significant progress that has been made in the last decade. A vibrant and competitive private sector can play a key role in lifting people out of poverty; it can deliver well-managed services; and can provide robust capital markets. The Compact envisages an expanded role for public-private partnerships in Africa, and outlines some mechanisms that may help to achieve this, including the responsibilities of national governments and a regional oversight role. The general message from this chapter is one of optimism: when the conditions are right, private sector finance will develop Africa.

**30. Chapter VI is concerned with the way ahead: putting transformed assistance relationships into action.** The overall framework of the Compact envisages actions at a range of different levels to exploit to the full existing initiatives, and augment them with new processes. Both African and international actions will be required for a mutual buy-in to the principles of the Compact.

31. The MAP Heads of State Forum will be a critical anchor for the implementation of the Compact. The MAP has proposed this as its highest level forum, composed of the leaders of a select group of like-minded countries that can provide the necessary continental leadership, consistent with the 'enhanced partnership' approach under the Compact. The Heads of State Forum can play several key roles. First, it can provide political leadership at the highest level. Second, it can be a key mechanism for mutual accountability towards agreed goals. It enables Africa's leadership to raise the key continental assistance issues with Africa's international partners and obtain coherence of leadership at the highest level in partnership with its



developed nation counterpart, the OECD. Third, the Heads of State Forum, in collaboration with relevant and capable continental institutions, will establish mechanisms for the broad-based buy-in by African governments to peer review of performance on issues of governance and economic management. Lastly, the Heads of State Forum will candidly address the issue of diversity within the African continent.

## **Issues for Consideration by and Expected Outcome of the Conference of Ministers**

32. This document is prepared by the ECA for the Joint Conference of African Ministers of Finance and Economic Development and Planning in Algiers, May 2001. The Algiers Conference provides the first opportunity for African Ministers to give their perspectives on the foundations and guiding principles of the Compact for African Recovery, the proposed implementation approaches and implication for transforming the aid relations discussed therein, the key areas of programmatic focus, and the envisaged linkages between the MAP and Compact.

33. In particular, the Ministerial deliberations will focus on the following issues:

- (a) What should be the key strategic national actions to be implemented by African Governments?
- (b) What strategic actions are required on the part of international development partners?
- (c) What are the substantive transformations sought in the partnership with Africa?
- (d) How should practical effect be given to the four guiding principles of the Compact?
- (e) How should linkages between the MAP and the Compact be strengthened?

34. Through its detailed Ministerial consideration of these issues, the Conference will help advance African ownership of the vision of the continent's transformed development partnership with the international community. The Conference will deepen the appreciation by all stakeholders of the operational implications and the mutuality of commitments implied under this partnership, and help rally international support for this partnership. The analytically informed discussion of the Compact by the African Ministers will demonstrate that the goals of MAP can indeed be achieved. Discussions can also facilitate the merger of the OMEGA Plan and the MAP in line with the agreement in Sirte in March.

35. In the final analysis, the objectives of the MAP can only be operationalised at the country level. Based on the outcome of the Conference, ECA will work with African leaders on the modalities of operationalising the MAP. The details of the programmatic areas will be developed in the enlarged volume that is being prepared in parallel to this document, which is being presented to the Algiers Conference.

# CHAPTER I

## FOUNDATIONS FOR THE COMPACT FOR AFRICAN RECOVERY - KEY STRATEGIC NATIONAL ACTIONS

*36. African governments face formidable challenges if they are to succeed in an agenda of economic transformation sufficient to overcome poverty and claim the 21<sup>st</sup> Century. Governance is the key. African political leaders must have a covenant with their people on development progress in the years ahead. With participatory and inclusive mechanisms for developing the right policies and programmes, African governments need not fall behind in setting their own development agendas. With the institutional capacities to deliver effective policies and programmes, domestic resources need not be squandered and international assistance can be effectively utilised. National, regional and international political leaders are confronting the challenges with unprecedented frankness. We are at a critical moment in which lessons learned can be put to the best use.*

37. This chapter outlines the essentials of good governance. It identifies the key challenges that African governments need to tackle. It reviews the current economic plight of Africa, before turning to the macro-economic foundations for sustainable development and poverty reduction. These provide an overlapping, mutually reinforcing agenda of promoting effective pro-poor policies.

38. A series of sector-specific programmes requiring joint national and international actions are outlined in Chapter II. More details on the necessary governance and economic reform measures will be spelled out in the expanded volume.

### **Africa needs Good Governance, Peace and Security**

39. The foundation of the Compact for African Recovery is a commitment by African governments to put their houses in order. First and foremost this means establishing good governance and peace and security. These are the foundation for the commitment to tackle poverty and to develop pro-poor policies and strategies aimed at achieving the international development goals. .

### **The fight against poverty requires good governance...**

40. There are strong links between good governance, functioning institutions and poverty reduction. A market economy cannot function well in the absence of good governance, and functioning institutions. Resources will not be allocated to their most efficient uses; people will engage in directly unproductive activities such as rent-seeking, bribery and corrupt practices. Productivity growth will be undermined. Fewer jobs will be created and household incomes and welfare will decline. The essential elements of good governance encompass a range of actions aimed at creating more open participatory societies and promoting greater accountability and transparency in public affairs. For poverty reduction to be achieved it is

imperative that there is a commitment to a adopt agreed principles of governance addressing a range of issues relating to the nature and capability of the state to ensure and guarantees the rights of each citizen; that strengthen democracy and promotes the rule of law. This includes, inter alia, the commitment to support assessments of governance and participative processes for determining the actions to be taken, develop suitable benchmarks for measuring improvements in governance overtime, and to develop and implement a programme of measures (e.g. policy or legislative changes and institutional reforms) to address deficiencies in governance.

### **... and conflict prevention**

41. Armed conflict is a major cause of poverty and economic decline in Africa. War consumes resources and kills people, it destroys assets and displaces populations, it undermines democracy and good governance. Armed conflicts have set Africa's economic development back decades. Africa's poverty makes peace all the more essential. Unfortunately, poverty also contributes to armed conflict. Inequitable access to resources is one reason why excluded groups turn to violence. This points to the importance of sustainable and equitable development and improved governance in reducing conflict. Human development interventions that reduce poverty, reduce inequalities in access to resources and encourage the participation of excluded groups in society, all play a role in ameliorating the conditions that lead to conflict.

42. Recent African experience also points to the need for strong mechanisms and institutions for regional peace and security. No country can consider itself secure if its neighbour is embroiled in conflict. Conflict prevention, management and resolution mechanisms should be an integral part of a comprehensive programme of development.

### **The road to good governance is well-mapped out...**

43. Progress in good governance follows well-mapped out steps. African governments can systematically enhance the structures of political representation, so as to ensure inclusion of all national stakeholders. They can develop their institutional capacities and act in accordance with national constitutions. Actions that promote transparency and accountability will have significant impact on the adoption and effective implementation of pro-poor policies.

44. Public availability of information on the workings of government is an important factor. Efficient bargaining outcomes in the legislative process are more probable when parties have access to information that allows them to weigh the costs and benefits associated with alternative policy choices. Independent regulatory authorities should also have open access rules for public hearings of petitions. An office of ombudsman to enable citizens to take up cases of perceived administrative injustice will also help to minimise corruption and increase public confidence in public administration.

45. The participation of civil society and the private sector in policy-making enhances the likelihood of effective implementation of public policy. The inclusion of all social groups in structures for political representation and executive bodies will encourage more equitable social outcomes of policy measures.

46. Gender representation and participation in decision-making at all levels is not only desirable in its own right, but is likely to promote greater orientation towards public goods and effective delivery of social services.

47. Improved information processing and dissemination capabilities within legislatures and independent regulatory authorities facilitates transparent economic impact assessments. Research institutions should be strengthened to provide in depth analytical studies of the potential economic impact of proposed legislation. Bills brought before parliament should be subjected to rigorous analysis from all parts of civil society.

### **...but we need to develop monitoring mechanisms**

48. Monitoring good governance is an essential task. Currently, the ECA is developing indices for good governance, based upon benchmarks that reflect the norms of good governance, which can be assessed through a survey instrument. The indicators reflect three different dimensions of governance.

49. The first is representation: the extent to which all sectors of society are equitably and effectively represented in government structures and processes of decision-making. This includes both qualitative and quantitative indicators, focusing on inclusiveness of all social groups and gender representation as well as the policy outcomes of the participation of these groups. The role of the media and free access to information is an additional element.

50. Institutional effectiveness is the second dimension. The indices focus on executive respect for the rule of law; the extent to which legislatures are proficient in drafting and enacting legislation; independence and capacity of the judiciary; whether law enforcement institutions do their job and are subject to the necessary oversight; the existence of transparent and credible regulatory and oversight institutions; the extent of the participation of civil society and the private sector; the quality of decentralisation and the capacity for effective service delivery to the poor.

51. Economic management capacities. A good macro-economic regime is essential but it is not sufficient in and of itself. The indicators will also look at a core set of issues that relate governance to economic growth and poverty reduction. These include the efficiency of the system for revenue generation and distribution; independent audits; recognition of the role of the private sector; fiscal discipline; transparent and credible procurement system; the extent to which budgetary allocation is disaggregated by gender; independence, effectiveness and credibility of regulatory oversight, and commitment to poverty alleviation. Transparency, accountability and capacity are the cornerstones.

52. It should be stressed that the ECA project goes beyond a monitoring exercise, and that it is not intended as a ranking of countries. It is a mechanism for promoting dialogue, identifying best practices and areas in need of further reform and progress, and fostering governmental commitment to good governance.

## **The African Economy at the Dawn of the 21<sup>st</sup> Century**

53. Africa made significant progress in economic in growth rates in the 1990s. However, the economic recovery is fragile and standards of living are still very low. Projections for the

year 2015 suggest that Africa will not meet the international development targets for poverty reduction even under the best growth scenario. Furthermore, structural transformation, which is the key to sustained growth and poverty reduction, is not occurring fast enough to make significant inroads on poverty.

54. Africa's recent growth is not underpinned by strong domestic savings and investment. In addition, Africa's economies remain vulnerable to changes in climatic conditions and depend heavily on external concessional assistance. Indeed, economic growth for the last decade averaged only 2.1% a year, less than population growth of 2.8% and considerably less than the 7% growth needed to reduce by half the share of Africans in poverty by 2015.

55. Poverty remains widespread and severe. In contrast to other continents, the number of Africans trying to live on less than \$1 per day increased from 217 million in 1987 to 302 million in 1998—52% of the population. The average income of Africa's poor is only 83 cents per person per day. Moreover, Africa has the worst income distribution in the world, with a Gini coefficient of 51%.

56. On current trends the IDG target of halving poverty by 2015 will not be met. Under baseline and low-growth scenarios, the number of people living in sub-Saharan Africa will grow from 302 million to somewhere between 361-426 million in 2015. Africa needs to achieve rates of growth unprecedented in its recent history if it is to reduce poverty at all.

57. Structural transformation is the key to achieving sustainable growth and reducing the vulnerability of African economies to outside shocks. But the pace of structural transformation is disappointingly slow. Africa lags behind, notably in its industrial development. It is still overwhelmingly reliant on primary sectors (agriculture and minerals).

## **Improving Macro-Economic Performance**

*58. Africa needs to become competitive. It requires effective and sustainable macro-economic policies that can overcome the structural weaknesses of its economies, build upon its comparative advantages, and prioritise the reduction of poverty.*

59. The Compact recognises that macro-economic stability and sustainable economic growth are the foundation for poverty reduction. Several factors can contribute to sustainable economic growth. There is now a wide consensus that the following five features of an economy are crucial in this regard:

- Sound macro-economic policies
- A healthy and well-educated population.
- A structurally diversified economy.
- Low external dependency.
- An economy with low transaction costs.

60. In addition, African countries need to mobilise more resources, domestically and internationally. The remainder of this section outlines the challenges in each of these areas.*ound macro-economic policies*

61. Sound macro-economic policies are crucial for sustaining high per capita growth rates because they increase national savings and investment rates and reduce high rates of inflation. Contrary to popular myths, such pro-growth policies are good for the poor because they raise their incomes, for example by reducing inflation.

62. Africa has a history of economic policies that have not favoured investment and growth. Despite two decades of adjustment, a legacy of economic mismanagement and distortion remains. Distorted economic policies also continue to benefit certain influential groups.

63. Necessary actions by African governments focus on maintaining sound macro-economic policy stances, combining a commitment to poverty reduction in line with the IDGs and sound macro-economic fundamentals.

### **A healthy and well-educated population**

64. A healthy and well-educated population is essential for growth and poverty reduction. Health and education illustrate the problem of self-reinforcing disadvantages that trap people in poverty. The poor tend to have low quality human capital, with the head of the household often illiterate. As a result of poverty and illiteracy the household has limited access to health facilities and schools. The poor household then compensates for the low quality of human capital and high death rates with larger families. In such large families, girls will have lower chances of education than boys, and these girls will in turn have large families thus locking them into a poverty trap. Unless this cycle is broken then the prospects for sustainable growth and poverty reduction are low.

65. Specific actions to deal with this issue are dealt with in more detail in Chapter II, in the sections in HIV/AIDS, public health and education.

### **A structurally diversified economy**

66. A structurally diversified economy is important because it will generate higher levels of income and will be better able to withstand external shocks such as droughts, floods and shifts in the terms of trade. Moreover, most of Africa's poor are trapped in small-scale agriculture, with little prospect for substantial improvement. Chances of breaking out of poverty are greater as the share of the agricultural sector shrinks and that of the manufacturing sector increases. Structural diversification is accompanied by enhanced technological capacities, with the production of higher value added products.

67. This challenge requires African governments to implement strategies for balanced growth. Africa in general has strong sectoral inter-dependence between agriculture and industry, so it follows that the most effective strategy for sustainable growth is to seek economy-wide growth. In order to achieve the target of balanced growth and industrialisation, Africa needs to achieve per capita growth rates of 4.1% in agriculture and 3.0% in industry.

68. Necessary actions by African governments include developing and implementing strategies for agriculture, industry, mining and oil and services. In turn, this entails strategies for lowering transaction costs, increasing returns and reducing risks to investors, and promoting regional economic integration.



## **Domestic resource mobilisation**

76. Effective domestic resource mobilisation is the essential prerequisite for economic growth and poverty reduction. If Africa is to achieve the target of halving the number of people living in poverty by 2015, it needs to achieve per capita growth of 4.4% per annum—a gross rate of about 7% per annum. Although this target is almost certainly unreachable, it allows us to focus on the nature and scale of measures needed to achieve serious poverty reduction in the continent. How is this to be achieved?

77. The first component is to promote investment. Africa needs substantially increased investment to reach the targets of halving poverty as well as achieving structural maturity in terms of balanced growth and industrialization. Investment rates of 33% of GDP (40% for SSA) are required to meet the IDG target, and 32% (39% for SSA) to achieve balanced sectoral growth and industrialization. Thus, creating an enabling environment for investment is a necessity. This includes institutional, legal, infrastructure and financial measures. At the national level, it is essential to engender confidence in the sustainability of appropriate macro-economic policies and ensure effective economic management and governance. Upgrading infrastructure to enable the exploitation of economic sectors with comparative advantages is also a prerequisite for mobilizing domestic investment and attracting FDI.

78. Establishing well-functioning and diverse financial systems, consistent with legal and cultural traditions and the capacity for adequate regulation, that respond to the multifaceted needs for financial services, is a major challenge that can simultaneously mobilise existing untapped reservoirs of domestic saving, and provide ready finance for entrepreneurs. Of particular value will be developing appropriate modalities for insurance provision, including public-private partnership and re-insurance, that can minimise risks for businesses of all sizes.

79. Linked to this is the challenge of closing the savings gap. Currently, Africa's domestic savings are far too low to sustain the required investment and growth at the levels needed to reduce poverty. In Africa, domestic investment (in terms of weighted average) has fallen over the decades from 25% of GDP (1974-80) to 19% (1991-98) while it has fallen from 22% to 17% in SSA. Over the same period, domestic savings have fallen from 15% of GDP to 10.5% (from 13% to 9.5% in SSA, excluding S. Africa, Nigeria and Gabon). The gap between savings and investment is about 8% (1991-98). Domestic savings have declined most for poorer countries, and the saving gap has narrowed only in the few best-performing countries. Low and frequently declining levels of real income are the chief culprit for these low savings levels.

80. Given that the weighted average savings rate is about 15% in Africa including the best performers, this leaves about 18% of GDP (25-29% in SSA) to be covered from external sources. There remains a residual development-financing gap of about 9% of GDP (13-17% in SSA) that needs to be covered on an annual basis with current average ODA inflows of about 9% of GDP (12% in SSA).

81. The goal of closing the savings gap requires a range of measures, including taking measures to stem capital flight and attracting savings held overseas back to African countries. These in turn require reforms to increase the returns on domestic investment and reduce risks. Meanwhile, governments can investigate the opportunities for establishing pension funds and other mechanisms to mobilise household savings.



## CHAPTER II

### KEY AREAS FOR JOINT AFRICAN-INTERNATIONAL ACTION

82. *The Compact for African Recovery is concerned with the critical needs of today. It aims at addressing pressing issues of survival and overcoming the constraints to Africa's economic development. This Chapter is concerned with challenges that span the entire continent, which should be implemented in all countries. Four major challenges are identified:*

- *Overcoming HIV/AIDS: a question of survival.*
- *Improving the quality of human resources, by improving basic health and education.*
- *Improving Africa's competitiveness, through utilisation of ICT, investment in research capacities and infrastructural development.*
- *Promoting regional cooperation.*

83. *A bold pro-poor development agenda requires that these challenges be squarely faced across Africa. A common theme runs throughout all these sections: the importance of developing regional public goods. Especially in the fields of science, technology, infrastructure and regional governance, regional public goods are a critical contributor to the prospects for poverty reduction.*

#### **Overcome the HIV/AIDS Pandemic**

84. **What is the nature of the problem?** The scale of the HIV/AIDS pandemic is horrifying. It threatens not only the lives of tens of millions of Africans, but the very economic and political viability of many states on the continent. *This is Africa's number one survival issue.* Without an effective effort to overcome HIV/AIDS, all of Africa's progress in terms of development and governance will be reversed. In badly-affected countries, the pandemic is reducing growth by a percentage point or more each year. Currently, the resources needed to expand education and prevention programmes, to upgrade health services, to provide care and treatment to people living with HIV/AIDS, and to mitigate the economic impact of the pandemic on key sectors such as education, will cost an estimated \$5-10bn per year. This is far beyond Africa's capacity for resource mobilisation. But without it, the outlook for Africa's future is bleak indeed.

85. In addition, HIV/AIDS respects no boundaries. The pandemic will be overcome at a regional level or not at all. For this reason alone, regional partnership and collective action is absolutely essential.

**86. What should African governments do?** HIV/AIDS needs to be treated as a national priority requiring the highest-level leadership. Recommended actions for HIV/AIDS include, among others:

- a) Leadership by National AIDS Councils, headed by the highest level political leadership in the country, to provide coherent policy-making across all governmental institutions and to mobilize national campaigns to engage all branches of government and society in combating the spread of HIV/AIDS.
- b) Resource mobilisation. Spending on HIV/AIDS should be prioritised and governmental, civil society, business and other sources of finance tapped.
- c) Meaningful involvement of people living with HIV/AIDS in all aspects of policy and programming.
- d) Combatting stigma, denial and discrimination through legal measures (where necessary), public education and leadership actions.
- e) Involving religious leaders, business, trade unions, and civil society at all levels.
- f) Reaching out to young people, in schools and out of school, seeking to change behaviour and to involve youth in planning and implementing HIV/AIDS programmes.

87. The ADF 2000 'African Consensus and Plan of Action' for overcoming HIV/AIDS provides a fuller roadmap which should be used to guide action.

**88. What should international partners do?** Africa's international partners need to enter into a comprehensive long-term partnership with African governments, civil society, international organisations and pharmaceutical companies with the aim of combatting HIV/AIDS.

- a) Provide grants not loans for treatment of AIDS patients using Highly Active Anti Retroviral Therapy (HAART). It is simply not logical to provide essential medical treatments in the form of loans.
- b) Facilitate access to generic drugs. International trade law allows for measures to circumvent the rigid enforcement of patent rights in certain cases. Under 'compulsory licensing' a government can respond to an emergency by permitting the use of a critical patent within the country under terms set by the government. Furthermore, the compulsory licensing agreement can be reviewed by the WTO. Africa's development partners should actively support the production of cheap generic drugs.
- c) Work with pharmaceutical companies to reduce the cost of patented medicines. Measures such as tax breaks for companies that sell at affordable prices to Africa should be considered.
- d) Fund research into vaccines targetted at the variants of HIV most prevalent in Africa.
- e) Provide capacity building support to design and manage HIV/AIDS prevention and treatment programmes. An effective programme against HIV/AIDS can only succeed in the context of functioning public health service systems.

89. Complementing the above there is a regional agenda of research, both at the scientific level (developing vaccines and improved ARTs etc.) and the public policy level (identifying and learning from best practices, building transnational coalitions). These are regional public goods that benefit from both international and intra-African partnerships.

## **Provide Basic Health Services**

**90. What is the nature of the problem?** Africa suffers from a range of preventable infectious and parasitic diseases. Tuberculosis and malaria are estimated to kill between 1-1.5 million people each year. Measles and water-borne infections take a huge toll on Africa's children. In addition to the human suffering caused by these diseases, they contribute to impoverishment, through loss of human capital, reduced labour productivity, and diversion of human and financial resources to care and treatment. Meanwhile, most African countries simply cannot afford the necessary health services. Expenditure on health is rarely as much as 4% of GNP and often as low as 1% – grossly inadequate for needs. Average public spending on health is perhaps \$10 per person per year, with a comparable amount contributed by the affected individuals and their families. Realistic assessments of the cost of minimum health care are about \$45-60 per year (compared to \$2,000 or more in high-income countries). A pro-poor development agenda means that this financing gap must be taken seriously.

**91. What should African governments do?** Effective upgrading of health provision can only be effectively realised through reforms in sector policies and improvements in public service delivery systems (i.e. good governance) in the context of improved economic performance. However, African governments should also adopt the principle of prioritising basic public health services. In addition, specific targets for TB and malaria should be adopted:

- a) TB: the WHO Stop TB Initiative calls for a reduction in TB death and prevalence by 50% by 2010, with intermediate targets of diagnosing 70% of people with infectious TB and curing 85% of these by 2005, research and development milestones, and national 5-year TB plans adopted in high-burden countries by November 2001.
- b) Malaria: the WHO Roll Back Malaria plan calls for a reduction in the burden of disease associated with malaria by 50% by 2010, with a range of priority areas focussing on rapid diagnosis and effective treatment, prevention through the use of insecticide-treated bednets, provision of malaria prevention and treatment to pregnant women, and other measures.

**92. What should international partners do?** Overall estimates indicate that there is a financing gap of \$25-40 per person per year for basic public health in low-income countries. This implies an overall resource outlay of \$10-16 billion per year to cover the needs of low-income countries and communities in Africa: an increase of about tenfold in current assistance levels.

- a) Establish the principle that essential health services should be supported by an international partnership, and this funding should ring-fenced from any conditionalities unrelated to the effective delivery of public health.
- b) Provide financial support to health services and public health programmes, including health education, programmes to overcome tuberculosis, programmes to roll back malaria, measles immunisation, etc.

**93.** As with HIV/AIDS, there is a regional agenda for cooperation and partnership, focussed on medical research, public policy research, and common lesson-learning. Infectious diseases will be overcome on a regional basis or not at all.

## **Invest in People: Increase Resources for Education**

**94. What is the nature of the problem?** Africa's education systems are in crisis. The last decade has failed to mark significant advances in terms of literacy and education levels. Without a better-educated population, Africa will not be able to break out of poverty, overcome HIV/AIDS, or achieve democracy and good governance.

**95. What should African governments do?** Many African countries have made major efforts to provide universal primary education. These should be sustained, and others should emulate them.

- a) Resources for primary and secondary education, adult literacy and teacher training should be prioritised in national budgets and public service delivery systems should be streamlined and strengthened to ensure that sector allocation is used for intended purposes.
- b) Special attempts should be made to overcome the gender gap in education, targeting the girl child for education.

**96. What should international partners do?** Africa's international partners need to enter into a comprehensive long-term partnership with African governments, civil society, international organisations and pharmaceutical companies with the aim of providing universal and free primary education. This involves the following:

- a) Increase financial commitment to education UNICEF estimates that the costs of bringing universal primary education to Africa amount to \$2bn per annum, plus the costs of building new schools and enhancing school quality. The goal of universal secondary education is estimated at an additional \$5-10bn per annum.
- b) Establish the principle that basic education provision should be supported by an international partnership, and this funding should ring-fenced from any conditionalities unrelated to the effective delivery of education.
- c) Seek to mobilise a wide coalition of governments, civil society, and international partners with the aim of ensuring that free primary education is available to all.
- d) Support tertiary education and research. This ranges from scaling up support for specialist technical and vocational colleges (teacher training institutes, nursing schools, ICT courses) to rehabilitating Africa's premier universities and scientific research institutes.

**97.** Education is a regional public good. This is especially true of higher education and research, given the relevance of technical, scientific and public policy research activities to countries across the continent. But even basic literacy and primary education brings benefits at a regional level, on account of labour mobility.

## **Provide ICT and Narrow the Digital Divide**

**98. What is the nature of the problem?** The efficient creation, transmission and utilisation of information are the basis for wealth creation in the 21<sup>st</sup> century. Information and communication technology is the means whereby this potential can be harnessed. But if

Africa is marginalised in the world economy, it is *hyper-marginalised* in the world information economy.

99. A digital divide has emerged *among* and *within* countries in terms of access to and use of ICT, including Internet and broad band communication. The digital divide *within* countries is reflected in the substantial barriers to participation in the ICT revolution by the poor and the marginalised in African countries. The digital divide *among* countries is reflected in the fact that developing countries share just 4.6 percent of global Internet host sites while they are home to 85 percent of the world's population.

100. **What should African governments do?** There is a range of important actions, including:

- a) Facilitate the development of the required ICT infrastructures:
  - Develop National Information and Communication Infrastructure plans and strategies, aiming at increasing uptake and reducing costs to the end user.
  - Upgrade and develop telecommunication infrastructure and networks at national and regional levels.
  - Support continental ICT initiatives, such as SCAN-ICT that builds African capacity to influence ICT investments and extend their impact.
- b) Establish effective legal and regulatory systems:
  - Establish independent regulatory institutions.
  - Deepen the process of liberalisation and privatisation in the telecommunication sub-sector.
  - Support networks of sub-regional and continental regulators to open up cross-border and continent-wide markets that can attract private investment; facilitate the operations of networks of ICT experts on Internet governance, and support the African Network Information Centre.
- c) Utilise ICT in specific sectors:
  - Target youth and support education. This can include: initiatives dealing with schools and tertiary education (SchoolNet and VarsityNet initiatives); Out-of-School Youth (OosyNet) network programmes; and utilising skills in the diaspora.
  - Health care, by setting up networks of health professionals, developing health data bases and websites, developing telemedicine projects, and establishing multi-media information systems and web-based clearing sites for health education.

101. **What should international partners do?** International action is needed to extend ICT networks to African countries and to provide wider access to ICT within African countries. Actions include:

- a) Promoting existing and new ICT initiatives:
  - Enhancing the G8 Dotforce initiative launched at Okinawa and hosted by the World Bank, the Global Development Network, and the African Virtual University.
  - Supporting innovative initiatives, for example digital libraries of African studies research in European and U.S. libraries, accessible to African universities.

- Forging partnership mechanisms such as the Partnership for Information and Communication Technologies in Africa (PICTA) and Global Knowledge Partnership (GKP).

b) Supporting infrastructure and capacity:

- Finance investment in hardware and software.
- Support training of personnel for planning, developing and managing Internet applications.
- Assist African countries to develop national and regional backbones, and set up regulatory institutions.

102. Information and communication technology is a prime example of the virtuous circle of regional cooperation and integration. Major ICT investments are most efficiently pursued at a regional level, while utilisation of ICTs in turn facilitates regional economic integration.

## Enhance Research Capacities

103. **What is the nature of the problem?** Africa has massive research needs but its research institutions, universities, and planning departments are weak.

104. First and foremost, many of the most urgent problems facing Africa, concerning agriculture, environmental management, and health, require scientific research. These are major constraints on Africa's competitiveness.

105. Africa remains overwhelmingly a consumer of technologies, ideas, plans and strategies produced elsewhere. This is a major constraint on African-led development. The world's low- and middle-income regions—including the former Soviet Union—have about 84% of the world's population and 42% of its GDP, but account for only 13% of its scientific publications and a mere 1% of all European and U.S. patents. Africa is the most disadvantaged of all these regions: it is practically invisible on the world research map. Even when it comes to African studies, the major research centres and conferences are outside the African continent.

106. In the field of public policy, excessive time and human resources are devoted to handling international assistance: to negotiating with donors, poring over donor plans, and writing and submitting reports on donor-funded programmes. High-quality ideas and plans from Africa—especially innovative ones—have a small chance of being properly debated, refined and implemented.

107. **What should be done?** Several key areas for joint African and international research, planning, monitoring and evaluation can be identified:

- a) Promote scientific research targetted at finding solutions to some of Africa's most pressing problems.
- Agricultural research is a priority area. There is a pressing need for improved strains of crops (higher yielding, more drought-resistant, more nutritious), improved technologies (water harvesting and utilisation, inter-cropping) and improved livestock productivity.

- Medical and public health research is needed. This includes developing vaccines against HIV/AIDS and tuberculosis, medical and environmental measures to roll back malaria and other insect-borne infectious diseases, and low-cost water and sanitation technologies.
  - Environmental science is vital to improving the management of natural resources and combating environmental decline.
- b) Develop research institutions and networks.
- International partners should seek innovative means of financing research and development of technologies appropriate to African problems, through subsidies to R&D, special funds, tax credits etc.
  - Joint efforts to enhance the long-term capacity for scientific research in African higher education and specialised institutes. The broadest spectrum of research should be encouraged with the aim of generating new ideas and developing a critical mass of expertise.
  - Academic freedom is a prerequisite for retaining in-country research expertise. African governments should respect the autonomy of higher education institutions and the freedom of research, expression and association of academics and scientists.
  - Promote academic networking and conferencing within Africa. There are many subregional research collaboration initiatives, but a notable lack is the absence of a functioning continental African studies network or conference in Africa, that brings together African and international scholars working on Africa.
- c) Promote public policy research and partnerships.
- Strengthen national capacity to design and implement national poverty reduction strategies. African ownership of basic national policies and programmes entails African conceptualisation, planning and evaluation of national strategies to achieve IDGs. This in turn requires strong and independent research centres.
  - Generate new mechanisms for monitoring and evaluation of public policy and assistance programmes reflecting in-country priorities. Develop new mechanisms for monitoring and evaluation, such as independent social and environmental audits of policies and programmes.
- d) Encourage joint intra-African research and education initiatives.
- Supporting existing regional centres of excellence in scientific, technical and policy research.
  - Collaboration and networking in higher education and research institutions to achieve specialisation and economies of scale.
  - Harmonisation of educational qualifications to improve labour mobility.

108. Research outcomes are the number one instance of regional public good. Scientific, technical and public policy research products from one African country are highly relevant in others. All stand to benefit. But a high concentration of expertise and (in the case of scientific research) specialist equipment is required, which is best achieved through pooling of regional resources.

## Improve Key Infrastructure

109. **What is the nature of the problem?** Hard infrastructure—telecommunications, power, transport, water and sanitation—is vital for economic growth. But Africa lags behind in these areas. Vast distances and low population density combine with the multiplicity of national borders to pose huge obstacles to putting the required infrastructure in place. In 1997 Africa, excluding South Africa, had 171,000 kilometers of paved roads—less than Poland. Outside South Africa, the continent has just 5 million telephones, and most Africans live two hours from the nearest telephone. Africa is estimated to require \$18 billion per year in infrastructural investments. But infrastructure must also be better managed if increased investment is to pay dividends—the continent is littered with pot-holed roads, irrigation canals subject to salination, and broken down telephone exchanges. Shared resources such as the waters of the continent’s major rivers can also be more efficiently utilised. These weaknesses contribute to higher costs, lower competitiveness, weak market integration and slow growth. They are also a factor in poverty and inequality, especially in remote rural areas.

### 110. **What actions are required by African governments and international partners?**

More resources are needed, but more efficient management and maintenance is equally important. Tapping private sector finance will be essential.

#### a) Boosting investment.

- Rehabilitating ports, railways and long-distance roads.
- Upgrading urban power, water, sanitation and telecommunications systems. Much of this investment can be sought from the private sector.
- Developing rural infrastructure. This is expensive and will provide economic returns only over a long period, and hence will require not only more public investments but also better governance of existing public funds for rural infrastructure provisioning.

#### b) Improving policies and management.

- Seek more efficient ways of maintaining existing infrastructure.
- Institute effective regulation of private sector infrastructural projects as a prelude to liberalisation of the sector.
- Develop private-public partnerships for investment and maintenance.
- Community and user involvement in construction, maintenance and management.

#### c) More efficient utilisation of shared resources.

- Promoting the most efficient use of shared riverine resources.
- Promoting efficient use of trans-border grazing land usage by allowing freer movement of pastoralists.

#### d) Improving regional cooperation.

- Improving cross-border transport networks.
- Common investment in air traffic control systems to create safe skies across Africa.
- Pooled energy grids to take advantage of economies of scale and geographical concentrations of hydro-electric power potential.
- Improved regional ICT networks and links to global information infrastructures.



- Creating trans-border ‘spines’ of high-quality infrastructure to attract investment.

## **Strengthen Regional Cooperation**

111. The benefit of regional integration and cooperation is a common theme running throughout this Chapter. Pandemic diseases such as HIV/AIDS demand a regional approach, while other key actions to spur economic growth and reduce poverty are greatly facilitated by cooperation across the continent. Africa needs more investment in regional public goods. This final section focuses on some of the institutional underpinnings for this cooperation and integration.

112. **What is the nature of the problem?** Africa is the most subdivided continent, with 165 borders dividing 51 countries. Africa suffers from a notable lack of economic integration. Small and landlocked countries suffer particularly from this fragmentation. Experience from elsewhere in the world indicates that consolidation into regional trading blocks is a prerequisite for development. Another building block is the development of regional public goods, especially technologies that are relevant across the region such as ICT, infrastructure, medical and agricultural research, and higher education. The institutional underpinnings of this cooperation are vital. This can be seen most clearly in the weakness of regional structures for peace and security.

113. **What should African governments, regional organisations and international partners do?** This is a prime area for regional and international partnership. Many of the specific actions have already been referred to above, in the context of financial markets, HIV/AIDS, ICT, research and infrastructure.

114. Additional regional instruments for international development cooperation will be useful mechanisms for ensuring that regional public goods and regional infrastructural projects receive their due prioritisation.

115. The final piece of this jigsaw is the regional institutional underpinnings of cooperation. This is a far-reaching agenda, but reflects a broad consensus across Africa that the continent must find the means of achieving greater economic and political unity. An essential first step is building the capacity of existing regional and subregional organisations concerned with peace and security, economic cooperation and integration, and a host of specialized activities. In addition to strengthening these organisations’ capacities individually, there is a pressing need for them to find modalities for harmonisation and cooperation.

116. Regional integration cannot be powered solely from the top. Bilateral and subregional initiatives, civil society and private sector activities, are all components of this agenda. The regional and subregional harmonisation of education, legal systems, and taxation regimes are important fields of activity, along with the strengthening of cross-border links at the level of governments, legislatures, religious organisations, businesses and educational institutions.

## **CHAPTER III**

# **A NEW INTERNATIONAL PARTNERSHIP WITH AFRICA**

*117. While it is true that a brighter future for Africa depends first and foremost on the continent's leaders managing their countries more effectively, it is clear that Africa cannot achieve sustainable growth and poverty reduction without a transformed partnership with the international community. This chapter will spell out the key issues that should underpin the specific actions that the international community needs to take to realise a Compact for African Recovery.*

*118. The first section analyses the nature of the aid partnership, asking what needs to be changed to make this truly effective in the future. The second section details with specific international actions to increase resource flows to Africa. More details on all of these areas will be spelled out in the expanded volume.*

### **Why International Partnership needs Reform**

119. Africa's growing consensus on development policies opens the way for reflection on its international development cooperation relationships. Serious problems exist with regard to current assistance modalities. This section analyses the major problems inherent in the current aid relationship. It asks, what are the main problems with aid as it has been provided for Africa? The lessons learned lay the foundation for a proposed transformation in international partnerships with Africa, which lies at the heart of the Compact for African Recovery, and is presented in Chapter IV

#### ***Aid has had its successes...***

120. Advocates and practitioners of international development assistance can point to important success stories. One of the best examples is the post-war Marshall Plan in which the United States provided generous and effective assistance for European reconstruction, linked to the political imperative of keeping Western Europe out of the Soviet sphere and the economic aim of opening European markets to U.S. exports. Subsequently there was much optimism that this model of transitional assistance leading to sustained economic growth in recipient countries could be replicated in developing countries. Aid financed important successes in terms of developing improved varieties of crops (green revolution technology in

Asia, maize varieties in Kenya and Zimbabwe). International cooperation eliminated smallpox worldwide and eradicated river blindness in West Africa. Much infrastructure was built with aid money, and lives and livelihoods were saved in famine-stricken communities. And in the last decade, with the help of international aid, an increasing number of African countries have succeeded in putting in place the necessary reforms to governance and economic management to enable them to achieve respectable rates of growth. These experiences suggest that international partnership towards specific programmatic goals—overcoming HIV/AIDS, increasing educational provision, developing infrastructure—can certainly achieve its goals. Chapter II has outlined priority areas for international partnership in the coming decade.

### **... but there is growing mutual dissatisfaction**

121. Overall, however, the record of international development cooperation has failed to live up to its high hopes. There has been a circle of high expectations, grand promises, incomplete achievements of goals, and frustrations among recipients. Often, international specialists have given inappropriate advice, and African governments have been encouraged to borrow money for projects that have had little chance of success, or on the basis of economic policies unlikely to deliver. Inadequate attention has been paid to the domestic prerequisites for effective aid utilisation or policy reform. And in some cases, the Cold War confrontation dictated that governments received funds solely on the basis of their loyalty to a particular geopolitical patron. Too often the result has been that African governments have ratcheted up debts that they cannot pay, and a new generation of Africans is growing up saddled with the debts run up by their previous leaders. While international donors tend to blame lack of political will and poor implementation on the part of recipients, African governments prefer to point the finger at unrealistic advice, slow and inadequate disbursement of funds, and an adverse international economic environment.

### ***Lessons have been learned...***

122. Four decades of international partnership have left a rich reservoir of lessons learned. In the current international environment, there appears to be a greater readiness for African governments and international partners alike to examine the record with honesty and humility, and for each to acknowledge that reforms are needed. This frank dialogue is the foundation for exploring the possibilities of a transformed aid relationship.

123. Improving the effectiveness of aid requires changed behaviour by recipient and provider alike. As outlined in Chapter I, good governance, improved macro-economic management and the implementation of pro-poor policies will be required from aid recipients. Capacities need to be built. *African ownership* of aid-related programmes and policies has been often not been achieved—but where it has occurred, it has proven successful. The effectiveness of any social or economic programme or reform is closely associated with the degree to which it is researched, initiated, debated and implemented by institutions and individuals in the countries concerned. The best development programmes and projects are those that are most fully owned by the leaders of the country.

124. *The African continent is diverse* and there is no magic bullet or one-solution-fits-all scenario. Conditions vary enormously. Some countries are in conflict and others are emerging from periods of conflict. There are countries that are stable and democratic, with functioning, fair legal systems and sound economic policies. Other countries are at various stages of

moving in this direction. And sadly some countries that showed great promise are flashing danger signs for relapse. However, too much programme and policy design has assumed that the same prescriptions will work everywhere. Experience has shown that this is not the case: the terms of aid should be appropriate for the recipient. Otherwise, a poorly performing country may borrow money for unsustainable programmes, and just run up greater debts.

### **... the challenge is implementing them**

125. Reforming aid is a task for recipient and donor alike. Past efforts at reform have yielded incremental benefits, but they have been generally too ad hoc, or confined to a single donor or a single sector, to result in far-reaching benefits. However, there is now much more openness among the wider donor community to reforming aid. An increasing number of donors are also showing willingness to try innovative partnership approaches at the country level. What is required is for Africa and its development partners to build on the momentum that is underway to move towards a comprehensive, mutually-agreed transformation of the framework for development partnerships.

126. Much attention has been given to technical aspects of development assistance, but recently the process of aid provision has also come into focus. Most international partners specify recipients' 'good governance' among their policy goals, including transparency and stakeholder participation in decision-making. But for many recipients, the aid process itself conspicuously lacks these same qualities. How can an aid process promote democracy if it itself is not transparent, not subject to stakeholder participation, and can be changed or halted unilaterally by one side without consultation? Even the basic data on assistance flows produced by OECD/DAC are of little value to recipients for their planning purposes. Experience indicates that when the process of assistance provision is itself open to participation by recipients, and information is shared more freely, the prospects for development cooperation are enhanced. This implies that more *transparency and accountability* by Africa's international partners will be a central component of enhanced aid effectiveness.

127. Another lesson is that assistance that has a short planning horizon is unpredictable, and subject to unilateral change or disruption without consultation with the recipient, rarely achieves its goals. Programmes and projects with intermittent stop/go decisions often achieve little. This encourages a cynical short-term view of aid by recipients and low levels of commitment to outcomes. Exceptional events, for example a military coup, will always demand exceptional responses, but there are too many other extraneous political or administrative influences on aid policies and disbursements. Africa needs the provision of *long term and stable assistance* .

128. There is also a need for Africa's external partners to focus upon taking a lead in specific strategic sectors. Drawing on comparative advantages will reduce transaction costs and improve outcomes. For instance, the World Bank, African Development Bank and the European Union could pay greater attention to the finance of regional infrastructure projects. On the bases of comprehensive country-owned development strategies, bilateral agencies may continue to direct a greater share of their country assistance to social sectors, where there is evidence that it tends to be more effective than multilateral institutions' interventions.

Through interaction with various civil society organisations, some bilateral donors have had a particularly impressive impact in social sector interventions.

129. Receiving aid can be an onerous business. Donor assistance is often over-laden with conditionalities, which creates onerous bureaucratic work for recipients and generates uncertainty and cynicism. Different donors may have different conditionalities that increase the workload on recipients and may even contradict one another. Too much aid-related procurement is tied to the purchase of goods and services from the donor country. Too much aid is in the form of technical assistance which does not have a good track record. Many conditionalities are politically-influenced and have no clear criteria for compliance. This all interferes with the prospects of successful assistance. Efforts to *simplify and harmonise aid conditionalities* are clearly in order.

## **Increasing Resource Flows**

130. *Even assuming effective domestic measures to increase investment, Africa will face a resource gap, amounting to about \$10 billion per annum, if it is to achieve substantial poverty reduction and economic growth. The additional resources needed to overcome HIV/AIDS are between \$5-10 billion annually. This gap can be filled by increased official development assistance, debt cancellation, private sector investment, and improved access to international markets for African products. Action is needed in each of these areas.*

### **More aid is needed**

131. **What is the situation today?** Africa requires not only more effective aid. It also needs more aid. Net official ODA transfers per capita to Africa are now more than one third lower, in real terms, than they were in 1990. Even allowing for the hoped-for increase in domestic investment, Africa faces a finance gap of approximately \$10bn per annum.

132. **What should be done?** It is only meaningful to provide more aid to Africa if that aid can be utilised effectively. Increased international assistance should therefore be targeted at countries and sectors that can absorb it and can deliver results. Under the umbrella of MAP, the Compact for African Recovery envisages a two-pronged strategy for increasing aid flows while also ensuring that the increased resources are effectively utilised.

133. First, *target countries that have a demonstrated capacity to use aid well* to promote growth and reduce poverty. Those countries that have stable domestic environments based on sound programmes need additional resources to take advantage of their opportunities and to be able to show their people that the sacrifices made are worthwhile. This leads to the Enhanced Partnership that lies at the heart of the Compact for African Recovery—the central theme of Chapter IV.

134. Second, *focus assistance on priority areas* for survival and for tackling key constraints to continent-wide growth and poverty reduction. Overcoming HIV/AIDS is a basic priority: the pandemic represents a threat to the survival of tens of millions of Africans. Providing basic health and education serves to increase Africa's human capital. Investing in ICT, research capacities and infrastructure addresses other major constraints on African development.

## **A rapid and sustainable exit from the debt crisis is needed**

**135. What is the situation today?** Africa's debt is wholly unsustainable. Measures taken to date are not sufficient for a lasting solution and do not fit the specificities Africa. Specifically:

- a) Current initiatives to reduce debt are too little and too slow.
- b) Current financial assistance options for Africa are still far too reliant on loans with the risk of relapse into indebtedness. Even IDA funds, although highly concessional, have to be repaid, with the risk of further indebtedness if economic targets are not met.
- c) Countries emerging from conflict have too few financial instruments available to meet their specific reconstruction needs.

**136. What should be done?** Africa needs a lasting exit from the problem of debt. This requires action on several fronts.

- a) The great majority of Africa's debt should be cancelled without delay. Action needs to be taken to devise debt relief mechanisms that go further than the enhanced HIPC.
- b) To ensure that debt-relieved countries do not run up new, unsustainable debts, eligible HIPC countries should be provided with greater recourse to grant financing.
- c) Partners should not provide debt-creating support for unrealistic plans or for poor performers.
- d) Countries emerging from conflict face unique problems. Debt relief can yield a 'peace dividend' providing valuable resources for key sectors.
- e) Brady Bond type arrangements based on the voluntary exchange of commercial debt for a menu of options including bonds or new money should be considered for several highly-indebted middle-income African countries.

**137. A new international partnership with Africa entails** significant changes in the decision-making, assessment and development financing practices of Africa's major development partners, including bilateral donor governments and the Bretton Woods institutions. Reforms in the desired direction are already considered or underway. The Compact seeks to tie these reforms in to a mutually-agreed and monitored targets and procedures.

### ***African products need much-improved international market access***

**138. What is the situation today?** It is through increased international trade that Africa will develop. Export is the means for obtaining long-term investment and finance: it is the necessary engine for growth. However, Africa continues to face barriers to international markets, with tariffs imposed on precisely those products in which African countries are more competitive—labour intensive exports of textiles, clothing and footwear, processed agricultural products. Tariff levels for a wide range of goods increase with the level of processing. EU and US regulations on preferential treatment are highly restrictive. Unless these rules are substantially revised in favour of Africa, export-led growth will remain hampered.

**139. What should be done in the context of the international partnership with Africa?** The following is a summary of recommendations:

- a) Conduct the prospective, new round of multilateral trade negotiations as a ‘Development Round’ and Revise the Marrakech Treaties focussing on actions necessary to achieve the IDG targets.
- b) Revise international trade rules to provide for a more level-playing field, including:
  - Enacting strict disciplines on dumping agricultural surpluses produced in developed countries.
  - Revise the relevant provisions of the ACP agreements to allow wider sourcing of raw materials by developing countries.
  - Exempt Africa from certain obligations in the TRIMS Agreement, enabling governments to give preferential treatment to national companies.
  - Extend Special and Differential Preferences provisions of WTO Agreements to support industrialization and economic diversification.
- c) Ensure that international trade agreements enable Africa to exploit its comparative advantages:
  - Provide assistance to African countries to access and assimilate new technologies on concessional terms. The TRIPS Agreement, requires attention to promote technology transfer and protect indigenous technical knowledge.
  - Review immigration restrictions in the context of liberalisation of services, especially those in which Africa has a comparative advantage.
- d) Upgrade Africa’s technical capacity to play an effective role in international trade agreements:
  - Assist African countries to participate fully in international trade rule-making processes and provide technical assistance to help them meet WTO requirements.
  - Streamline and simplify procedures for accessing resources under various trade-related protocols, so that uptake of funds can be increased.
  - Provide additional resources to meet the costs of implementing multilateral agreements.
- e) Promote regional economic integration in Africa:
  - Develop regional capital markets.
  - Reduce or eliminate tariffs and checkpoints for intra-African trade, opening wider markets for African manufactures.
  - Provide tax incentives and simplified ownership regulations for intra-African investment.
  - Promote labour mobility by liberalised and harmonised citizenship, residence and taxation laws and compatibility of educational qualifications.
  - Harmonise of educational qualifications to improve labour mobility.
  - Build the capacity of existing regional and subregional organisations, including provision of legal and technical expertise to specialist inter-governmental organisations concerned with shared resources and multi-country initiatives.

**Details of the present and future role of the private sector in Africa’s development are spelled out in Chapter V.**

## CHAPTER IV

### ENHANCING PARTNERSHIPS FOR DEVELOPMENT

*140. This Chapter focuses on the key added value of the Compact for African Recovery, namely the proposed transformed aid relationship between Africa and its international development partners. The Compact aims to refocus attention on long-term development. It is premised on African leadership and commitment to strategies for reducing poverty through sustainable growth and a mutuality of commitment between Africans and their external partners for long-term partnerships in support of these strategies.*

#### Guiding Principles

141. International partnership has long been an important component of African development. But, as the analysis in Chapter III has outlined, this has a mixed record in terms of delivering development objectives for Africa. Lessons have been learned that enable us to derive key guiding principles that can stand as a minimum for making future development partnerships work. Towards this goal, the Compact aims for partnerships based on four fundamental guiding principles, namely:

- a) **African ownership** of visions and goals for national development, as well as policies and programmes for poverty reduction and the increased participation of African countries in the global economy.
- b) **Stable long-term resource flows** to Africa and the predictability of long-term donor support.
- c) **A transformed partnership** based on mutual accountability to agreed development outcomes, including peer review and performance monitoring among both African countries and international partners.
- d) **Recognition of Africa's diversity.** Some countries can immediately benefit from the full range of measures outlined, while others need to make progress in governance and economic management before they will qualify.

142. Based on the above, the Compact envisages a transformation of aid relations away from fragmented donor-driven projects to predictable long-term support to African-owned programmes. It envisages a change from conditionalities, that are often perceived by Africans as intrusive, in the direction of a mature aid relationship characterised by dialogue and consensus-building and underpinned by African governments' good governance and sound economic management.



143. These principles provide a road map for the way forward. Each of the principles leads to specific actions that can be taken to transform the relationship between Africa and its international partners and thus lead to sustainable growth and poverty reduction. The Compact envisages an evolving set of relationships between Africa and its international partners in which each will hold the other accountable for overall performance towards mutually-agreed development outcomes. African governments will commit to adhere to agreed principles of governance and to meet criteria for sound public finance management, while international partners will undertake to respect priorities, strategies and policies laid down by African governments and reduce the transaction costs by harmonising and improving their aid modalities and practices.

144. The Compact does not propose new aid modalities or instruments, but draws on a number of innovations and approaches and aid practices that are already being tried to foster ownership and participatory development. What is new is that the four guiding principles, appropriately operationalised, are presented as the core minimum set of principles that govern the partnerships envisaged under the Compact.

## **Transformed Assistance Relationships: Putting them into Action**

145. How are the four guiding principles to be put into action? How are we to democratise the aid relationship? This section outlines some of the necessary measures.

### **African ownership of policies and programmes**

146. The centrality of ownership to successful policy reform and development is well recognised. But how is this to be operationalised? The first component is internal to African countries.

147. Ownership entails leadership and capacity to define and implement strategies that ensure the economic and social wellbeing of the country's citizens. National identification of development priorities and strategies is the first and most essential step. Elected officials should promote broad-based consensus around national strategies and related policy choices. Following from this, public officials should be committed and able to govern the affairs of the country in an efficient and accountable manner. The prerequisites for this include: participatory processes for priority setting and consensus building; analytical capacity for defining sound policy options and for accountable policy decision-making; the political will to make the necessary policy corrections based on learning by doing; and mechanisms for peer review and performance monitoring. In addition we can identify encouraging intra-continental learning from best practices, and developing national research and policy-making institutions. In short, there is a need *to identify and use strong African-led processes* to help meet these prerequisites.

148. The second component is a willingness on the part of international donors to coordinate and channel their aid programmes in accordance with African-led agendas and approaches, support national institutions and processes that foster consensus-building and accountable economic management, and redirect technical assistance programmes towards long-term national capacity needs.

### *What is the existing best practice?*

149. International partners have introduced and piloted some important initiatives that have the potential for substantially increasing African ownership. In particular there are the *Comprehensive Development Framework (CDF)* and *Poverty Reduction Strategy Papers (PRSPs)*--both introduced by the Bretton Woods Institutions--which encompass the vision of country ownership and partnerships. The World Bank views the CDF as a framework that brings together all stakeholders in a country's development process around a nationally defined and elaborated development programme and the PRSP as the operational modality that puts the CDF principles to practice. The PRSP is also the trigger mechanism for all concessional funding from the International Development Association (IDA), the World Bank's soft window, the IMF's Poverty Reduction and Growth Facility (PRGF), and for debt relief under the HIPC. Similarly, at the heart of the UN reform is the Development Assistance Framework (UNDAF) which is designed to ensure collaborative UN system support to country-driven priorities. These priorities are articulated in a Common Country Assessment (CCA) prepared by the UN country team. The UNDAF and CCA offer potentially strong tools for promoting African ownership, and UN Resident Coordinators have expressed enthusiasm for UNDAF as the primary mechanism for coordination at the country level.

150. African governments at the highest level have endorsed the PRSP process and implementation progress has taken off. Meanwhile, the CDF is being piloted only in a limited number of countries. The review of the early experience with PRSP implementation points to a number of operational challenges and tensions that could potentially undermine ownership.

151. The key concerns expressed so far relate to: the shortcomings in national capacity to prepare PRSPs; the tension between ownership and the requirements for joint assessment by the staff of the World Bank and the Fund regarding the appropriateness of the PRSP as a basis for debt relief under HIPC; the tradeoff between the time required (an average of two-years) to prepare comprehensive and nationally-owned PRSPs and the need for urgent debt relief under HIPC; and the heavy demands placed on weak institutional capacity by the requirements for participatory and consultative preparation of PRSPs. An independent review of the wider social implications of HIPC by the UN Commission on Human Rights<sup>1</sup> has also pointed to problems of conflicts of goals. Recipient countries have tended to prioritise meeting inflexible macro-economic conditionalities for debt relief required by the IMF and World Bank, at the cost of poverty reduction policies.

152. There is also the concern that the preoccupation with the PRSP preparation has diverted the attention of the donors away from the longer-term national development plan that the government has put in place. Similarly, the PRSP's focus on poverty reduction may also put on the back burner the issues that are of critical importance to Africa's meaningful participation in the global economy.

153. Tackling these shortcomings implies establishing processes for articulating African perspectives on PRSPs, and feeding the lessons learned into the evolution of the PRSP and CDF. *The independent assessment of the Tanzania PRSP* commissioned by the government, in parallel to that undertaken jointly by staff of the Bank and Fund, is an important initiative in this regard. Country-level *civil society consultations on the PRSP* organised by Ghana,

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<sup>1</sup> Africa's Human Rights and Debt Relief Conditions, Fantu Cheru (UN Human Commission on Human Rights, January 2001)

Mali, Tanzania, and Uganda represent good examples of participatory PRSP preparation. Meanwhile, national and regional African NGOs are actively sponsoring civil society consultations on and monitoring the experience with the PRSP.

154. At the regional level, the ECA-initiated *PRSP Learning Group* is designed as a forum for an African dialogue on the PRSP. Meeting annually, the Learning Group will share country experiences on the PRSP process, flag the constraints and tensions in this process, identify capacity gaps, and recommend possible actions by African governments and partners.

155. Inclusive domestic accountability processes are being developed in a number of countries, including annual public expenditure reviews, anti-corruption strategies, institutional reform processes and local government reform (a key instrument for the devolution of responsibility and accountability).

156. African ownership can be deepened by agenda-setting regional forums. The *African Development Forum* (ADF) was established by the ECA with this objective. In the short time since its inception in 1999, the ADF has been acclaimed as a leading African-forum for bringing together national government representatives, their counterparts in civil society, as well as their external partners for focused dialogue around African-established development priorities, policies, solutions and partnerships.

157. The ECA-sponsored '*Big Table*' is another high-level forum that brings together African Ministers of Finance, their OECD counterparts in Ministries of Development Cooperation, and senior officials of aid agencies for dialogue on topical development issues of importance to Africa. The '*Big Table*', which held its first meeting in November 2000 in Addis Ababa, is also an ideal forum for deepening the ongoing dialogue on transforming the aid relations.

158. African ownership of goals and ideas needs to be complemented by the capacity to deliver. Capacity-building is a major component of ownership. Drawing on its comparative advantage and its resource endowment, the *African Capacity Building Fund* (ACBF) could play a significant role in this regard. The approach must draw on the lessons from the disappointing experiences of past attempts at capacity building in Africa through massive injections of technical assistance.

159. Beyond the services it currently provides, ACBF is well positioned to assist African countries with the formulation of coherent national frameworks for public service capacity strengthening based on systematic national capacity needs assessments. These frameworks would serve as the bases for channeling all donor-supported technical assistance and capacity building support. The ACBF could provide seed capital for the establishment of national trust funds that could be accessed by governments to tap the wealth of expertise that resides outside the public sectors for short-term technical assistance and advisory assignments in the public sector.

**Partnership arrangements should provide for stable long-term resource flows.  
Conditionalities should be simplified and harmonised.**

160. The last two decades have been characterised by disruptive suspensions of donor support, for several reasons. Many interruptions have been attributed to failures of countries to meet Bank/Fund conditionalities, and others to political developments. A major ESAF

Review conducted in 1997 found that since its inception in 1986, there were 51 interruptions in SAF or ESAF supported programmes in 28 countries. In almost one-third of these cases ‘the primary cause of program interruptions was not related to the need to correct significant policy slippages<sup>2</sup>.’ Meanwhile, the average number of conditionalities had increased and gone beyond the scope of what was required under the programme objectives.

161. A truly effective partnership requires a shift from excessive conditionality to longer-term predictable relations reflecting a mature relationship characterised by trust. The foundation of such a relationship is African countries demonstrating their commitment to manage their aid effectively for developmental outcomes and to take charge of their development efforts. The critical underpinnings for this are closer linking of policy, planning, and resource allocation (e.g. through mechanisms such as Medium-Term Expenditure Frameworks (MTEFs) and the strengthening of other aspects of public expenditure management so that plans and budgets are translated into action. This will require strong political engagement in the process of budget formulation and execution, policies which are clear and consistent and which recognise hard budget tradeoffs and a focus on transparency and accountability through effective audits and other arrangements for public oversight. .

162. On the part of donors, what is required is a concomitant willingness to realign their aid policies and practices consistent with the spirit of African leadership and ownership of its development. This should include a greater move away from fragmented project support, which at times has been at odds with sector objectives, to long-term programme support channeled through the recipient country’s medium term expenditure framework and a genuine commitment to prevent the diversions in aid relations that are triggered by ad-hoc incidents.

### ***What is the existing best practice?***

163. The focus on country ownership and accountable partnerships has given rise to a renewed sense of urgency for strengthening capacity for public financial management. The European Union (EU) and the World Bank intend to establish a *Trust Fund* to support in-depth assessments of public expenditure-related policies and management practices with a view to identifying benchmarks and performance indicators for public expenditure management. Similarly, one of the technical task teams under the Strategic Partnership with Africa is focusing its work on deepening the understanding of the related issues and improving the public financial management in low-income African countries.

164. The Governments of Great Britain (through the Department for International Development (DFID)) and Rwanda have reached a formal *Understanding on Development Partnership* of a long-term nature in support of Rwanda’s National Development Plan 2020. Rwanda has made a commitment to accelerate the transition from crisis and emergency to national reconciliation, good governance, economic growth, and poverty reduction. In turn, DFID has made a long-term commitment to help meet these objectives through flexible and sustained funding support and remain engaged over a ten-year period. A particularly innovative feature is the agreement by both governments to have progress towards these objectives monitored by an independent external evaluator on the basis of commonly agreed indicators.

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<sup>2</sup> Conditionality in Fund-Supported Programs-Policy Issues (SM/01/60) February 2001

165. The move towards intensified programme support to good performers by the Netherlands and the commitment to by the UK to untying all of its aid to the least developed countries are similar examples of laudable efforts by bilaterals to move towards mature aid relations.

**A transformed aid relationship should be based on mutual accountability. Evaluations should be made mutual, transparent, and/or independent**

166. Accountability is key. To date, accountability has been a one-way street: recipients are required to report to donors and to submit to donor evaluations. At the heart of the Compact for African Recovery is the development of instruments for mutual accountability, as a counterpart to the commitment of African governments to good governance. African governments will need to demonstrate both to their citizens and their external partners, that both public resources and externally acquired funds are properly utilised. There are needs for systematic monitoring and reporting of budget management practices, publishing and making available for public scrutiny periodic Auditor General reports, strengthening auditing systems and practices, developing national capacity to collect reliable and timely data for performance monitoring and evaluation, and strengthening the reliability of systems of accountability.

167. *Mutual accountability* is the shared commitment by African countries and external donors to monitor progress towards agreed goals and to peer review. Such monitoring has relevance not only for reporting purposes, but also for identifying constraints and taking corrective measures.

168. Recipients and donors need to reach an understanding on conceptually simple benchmarks for monitoring. Consistent with the focus on poverty reduction, the International Development Goals (IDGs) represent a minimum set of indicators for monitoring development outcomes. However there is also a need to clarify the operational implications and capacity needs for tracking poverty-related public expenditures, which are now required in order to demonstrate the link between debt relief and poverty.

***What is the existing best practice?***

169. As a follow-up to the Millennium Declaration on Africa, Tanzania is the first country to have provided a report on the progress towards the IDGs. Similar reports are expected from other countries. In the meantime, there is an ongoing effort within the UN to clarify and refine these goals for purposes of monitoring. Similarly, the government of Burkina Faso, in collaboration with the European Union, is engaged in a laudable pilot effort to monitor development outcomes in the education and health sectors. The Burkina Pilot is about monitoring conditionality reform vis-à-vis these outcomes and providing a systematic basis for the government to assess and reorient its policies.

170. Tanzania has also moved on to utilise Consultative Group meetings as a mechanism, not merely for pledging assistance, but also for reviewing and monitoring ongoing commitments.

171. In 1997, the Government of Mali and OECD/DAC launched a joint Aid Review and Evaluation—a pioneering initiative to critically assess the experience with development cooperation between Mali and its external partners. The Review revealed serious problems

with aid coordination, aid effectiveness, and with the poor integration of aid programs in national management structures and triggered a fundamental aid reform process that is still ongoing.

172. Annual OECD/DAC reports provide information on individual donor performance that could be tapped in shaping enhanced partnerships. These reports provide data on commitments, disbursements, and net transfers, tied and untied aid. However, there are many gaps in the information provided relevant to recipient country requirements. A pressing need is the establishment of a mechanism to provide assistance data for recipient countries, relevant to the planning requirements of those countries.<sup>3</sup> This should entail commissioning a regular annual independent evaluation of development assistance that takes account of recipients' requirements for information, analysis and review, including the following:

- a) Recipient country-specific data concerning resource provision.
- b) Degree to which ODA expenditures fall within recipient budgetary system.
- c) Integration and coordination of assistance within national plans and priorities.
- d) Shortfalls from ODA promises.
- e) Existence of compensatory and contingency financing.
- f) Extent of tying of procurement of donor assistance.
- g) Proportion of ODA expended on technical assistance/cooperation.
- h) Qualitative assessments of ownership (by independent evaluators).
- i) Time horizon for ODA commitments: measures of stability and predictability.
- j) Division of ODA into humanitarian versus development assistance.
- k) Donor compliance with recipient requests for information.

173. A reporting mechanism of this kind would help shift the focus of reporting towards strategic aid coordination and as such, assist the recipient country with its own budgeting and planning process. Together with systematic budget management reporting on the part of recipient countries, this approach to reporting would be consistent with predictability of longer-term donor support and would have the further effect of fostering donor performance and evaluation at the country level.

174. The recently established *DAC Task Force on Donor Practices* is a noteworthy effort in this direction. The Task Force will review donor practices and identify good practices in aid modalities from the perspective of strengthening ownership and supporting the development process in partner countries. The Task Force will be informed by proposals emerging from studies and initiatives undertaken by various DAC members, including those on harmonization of reporting, disbursements, and auditing procedures and on pooling of technical assistance. It will also consider the potential role of information technology in this regard.

175. The recently published *DAC Guidelines on Poverty Reduction* offers a strategic checklist of policy issues for poverty reduction and a comprehensive checklist of related organizational and procedural issues. These guidelines benefited greatly from an earlier *DAC Scoping Study of Donor Poverty Reduction Policies and Practices* (1999) which suggested that actual agency performance in this area fell short of expectations. Similarly, the *Informal Group of Multilateral Secretariats* (which includes the World Bank, IMF, and UNDP) is now

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<sup>3</sup> Gerry Helleiner, 'Towards Balance in Aid Relationships: Donor performance monitoring in low-income countries,' *Cooperation South*, 2, 2000.

focusing its attention on strategic monitoring of changes in agency procedures and behaviors to implement country-led partnerships.

176. Coupled with performance monitoring, peer reviews can be a crucial mechanism to help advance mutual accountability. The *DAC peer review mechanism* has proved effective in this regard. The time may have come to consider giving recipients a voice in this mechanism. However, the first required step is for African countries themselves to buy into the principle of African-owned peer reviews.

177. The second step is to reach an understanding on a commonly agreed set of benchmark indicators on the basis of which such reviews can be undertaken. The ongoing work by ECA on identifying indicators to monitor progress towards good governance, public finance management, regional integration, and economic sustainability, offer a good foundation in this direction. Indeed, the participation of member states in such peer reviews should be viewed as a necessary precondition for the successful implementation of the type of enhanced partnerships envisaged under the Compact.

178. Finally, it is important to consider the options for developing independent monitoring and evaluation mechanisms. For example, social and environmental audits of specific programmes and policy measures could be commissioned from independent institutions. Over time, these social and environmental audits can become a significant tool in mutual evaluation procedures, supplementing or even replacing in-house evaluations by donors.

**Partnership should be appropriate for the diverse conditions of each individual African country.**

179. Diversity is a reality across Africa. Societies, economies and political systems have different capacities and prospects, and international partnerships with Africa should reflect this.

180. The Compact recognizes that countries and sub-regions are diverse. There are low-income highly indebted countries, highly indebted middle income countries, relatively good performing countries, and countries emerging from conflict. Each of these countries has special needs that deserve attention. Whereas the Compact sets very high standards for mature partnership, it recognizes that few countries can meet all these standards initially. Three groups of countries are envisaged: ‘Enhanced Partnership’ countries, ‘Limited Partnership’ countries and Post Conflict countries.

181. These categories usefully describe differences that are already emerging in commitment and performance among African countries and in the level and type of development assistance they receive. The Compact uses these categories to differentiate the partnership approaches that can be taken to encourage African countries to adopt policies and undertake action that will enhance the prospects for sustainable development and poverty reduction. As such, these groupings should by no means be taken as an attempt to precisely categorise countries into tightly defined groups. Rather, the spirit is to reward good performers while at the same time making the case for continued support to countries with limited and/or poor performers. The ongoing dialogue under the auspices of DAC/OECD on “working in countries with poor policy and governance environments” offers some guidance on defining

the scope and nature of assistance to such countries on the basis of the underlying causes of poor performers<sup>4</sup>.

**182. Enhanced Partnership countries.** These are countries that meet most of the criteria laid out in the Compact: adherence to agreed principles of governance that relate to the capabilities of the state to manage the economic and political affairs of the state through participatory processes and accountable public finance management systems and a commitment to the macroeconomic fundamentals for reducing poverty through broad-based and sustainable growth. . Such countries deserve a transformed aid relationship that can allow them to unleash their potential. They should expect to benefit from reciprocal commitments from their multilateral and bilateral partners, including increased development assistance under longer-term arrangements.. For these countries, the past history characterised by underfunding of reform programmes should thereby be replaced by a future in which successful reformers are fully rewarded with predictable long term programme support channeled through medium term public finance frameworks. Indeed, much of the increase in aid flows that is advocated under the Compact should be targeted to this group where the commitment, policy environment, and state capabilities for effective utilization of aid exist.

183. Sound management of public finances lies at the heart of mutual confidence between partners. The criteria outlined in the box below, if met, will simultaneously establish domestic public and donor confidence in the management of public finance including aid monies.

**Criteria for sound Public Finance Management:**

- A Medium Term Expenditure Framework should be in place with clear and monitorable objectives, consistent with macro-economic objectives, an indication of medium-term expenditure magnitudes (including debt servicing) and revenue sources and, to underpin this, a budget and public expenditure management system.
- That system requires: a budget formulation process, appropriate and transparent allocation of public expenditure priorities, annual public expenditure review and monitoring (including stakeholder consultation), improved consultation with donors on composition, management and financing of public expenditure, and fuller integration of the public expenditure review process with regular budget processes and integration of the results.
- Appropriate auditing, accounting and reporting systems that are consonant with international norms; regular reports by the Auditor General that are available for public scrutiny.
- Statistical and informational systems that provide the data needed for accurate and timely analysis of all of the above.

184. African ownership entails national commitment to address constraints which cause poor governance. What is required is not yet another new set of governance principles for Africa, but rather concerted action for change through self-generated reforms and peer

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<sup>4</sup> Forum on Elusive Partnerships: Working in Countries with Poor Policy and Governance Environments, sponsored by DAC/OECD, Paris, 5-6 April 2001



pressure. There is no universally accepted set of governance standards or performance indicators. Measures for improving governance will differ from country to country and must be country owned. To be effectively implemented, they must be incorporated into poverty reduction strategies and adopt measurable time bound targets.

185. Governance reforms require a commitment from African countries to establish benchmarks against which progress can be judged and to support suitable monitoring mechanisms nationally and regionally. ECA is developing a tool for monitoring adherence to the commitment for governance reforms. This tool can be used by countries to assess their progress, draw lessons of experience, and provided the basis for peer review. The indicators being developed are illustrated in the box below.

186. Enhanced Partnership countries should commit to systematically assess governance and work with all social groups in developing credible and acceptable reform measures that address their particular situation. Reform will need to be prioritised so that the most serious systemic problems are addressed first.

**Performance indices of good governance** may include:

- *Representation*: Depth and quality of representation; inclusion of social groups; gender balance; participation of civil society and the private sector; measurable outcomes of representation in legislature; access to information; free and capable media.
- *Institutional effectiveness*: Executive respect for the rule of law; legislative proficiency; independence of the judiciary; law enforcement capacity; functioning of oversight institutions; the quality of decentralisation and the capacity for effective service delivery to the poor.
- *Economic management capacities*: Efficiency of the system for revenue generation and distribution; recognition of the role of the private sector; fiscal discipline; transparent and credible procurement system; mechanisms for regulatory oversight; commitment to poverty alleviation.

187. Enhanced Partnership countries can serve as the motor for the economic development of the continent. They can generate capital and provide technological leadership. In the field of governance they can provide role models for others, and with regard to peace and security they can underpin the stability of Africa in the coming decades. The Enhanced Partnership countries can be showcases, demonstrating Africa's capacity for success.

188. A medium-term financial framework (revenue and expenditure) is a key tool for Enhanced Partnerships. Donor support to development budgets and sectoral development projects should be integrated into these expenditure frameworks, moving away from separate budgeting processes.

189. The ideal is for Enhanced Partnership countries to meet all of the criteria in terms of good governance, macro-economic management and effective poverty-oriented policies. However, the reality is that membership of this select category will need to be based on credible progress towards achieving the criteria, rather than on an established record.

190. For these countries, best practices from existing aid modalities can be fully exploited. They can be represented fully in the MAP initiative and its interface with the OECD/DAC. They can benefit from CDFs, PRSPs and other existing best practices outlined above. They will be first in line for the extension of innovative best-practices concerning stable long term resource flows with minimised conditionalities. They should qualify for expedited debt relief under HIPC.

191. Over recent years, best practice development cooperation has evolved from project assistance to sectoral support to comprehensive budgetary support. Each mechanism has its merits and each has represented a step in the right direction. Currently, some donors may not be in a position to utilise fully the Enhanced Partnership mechanisms of budgetary support. These donors can continue to their support for sector-wide programmes, in areas in which institutional capacity and appropriate sectoral policy exists, that are consistent with the macro-economic framework, as part of a process of moving towards Enhanced Partnership.

192. **Limited Partnership countries.** Where African countries choose not to adhere to the governance and macroeconomic fundamentals to adopt policies and undertake action that will enhance the prospects for sustainable development and poverty reduction, development assistance levels are unlikely to increase and other benefits of partnership such as debt relief will not materialise. Such countries constitute a more “Limited Partnership.” For example, they may not have the macro-economic foundations in place, they may have high levels of corruption or questionable commitment to democratic principles. In these circumstances, aid cannot be effective. The empirical evidence is overwhelming that, under the above conditions, assistance will not be efficiently utilised. In addition, continued aid to such an environment may, in fact, make conditions worse, by driving the country to run up unserviceable debts. Where international assistance ceases to be a credible contributor to economic growth and poverty reduction, it is more likely to be a target for rent-seeking or corrupt economic behaviours.

193. For these countries, the Compact envisages a dual approach.. Consideration for support to these countries is based on a three-fold rationale. First, poor people in these countries cannot be abandoned. Second, there is a risk that a poor performer may jeopardise the prospects for neighbouring countries. Third, international partnership is a means of building up mutual trust—especially in the case of donors that have strong historical ties with that country. For such countries, the Compact proposes a two-pronged strategy. They can benefit from joint actions in key areas including HIV/AIDS programmes and core pro-poor investments in public health, education, and basic infrastructure under the appropriate sector policy environment and criteria for effectiveness. Meanwhile, international partnerships will seek to promote governance and economic reforms, incrementally leading them towards the goal of enhanced partnership status. Indeed, this dual approach already exists in practice in that project assistance has continued to many countries even when poor macro performance has stopped policy-based lending.

194. The basic principles of the Compact will remain relevant. Efforts will be made to promote macroeconomic reforms, the basics of good governance: the rule of law, institutional capacities, peace and stability with the long-term objective of moving these countries up to the category of Enhanced Partnership. As a track record of reform is established, the Compact should serve as a vehicle to advance African countries from a status of ‘Limited Partnership’ to one which enjoys the full benefits of ‘Enhanced Partnership’. This process will come about gradually as countries adopt poverty reduction strategies, implement sound

economic management and Medium Term Expenditure Framework for budgeting and introduce reforms to improve governance.

195. **Post-Conflict countries.** Currently approximately one fifth of all Africans live in conflict or post-conflict countries. Post-conflict periods are difficult and potentially hazardous, in which fragile governments need to attempt a number of difficult transitions. These can include some or all of the following: war to peace, dictatorship to democracy, division to reconciliation, relief aid to reconstruction and development, displacement to return home, and command economy to free market.. These challenging tasks require a combination of national leadership and international support.

196. International partnership can be based on some broad principles, reflecting the spirit of the Compact and its applicability to the demands of a post-conflict transition. First, international partnership should start early, and first assistance should be flexible and conditionality-free. Relaunching the economy is a prerequisite for successful post-conflict transitions and any subsequent economic growth and poverty reduction. In these circumstances, obstacles to the resumption of regular assistance flows, such as arrears to multilateral lenders, should be dealt with in a flexible and generous manner.

197. Second, existing and planned assistance modalities targeted at post-conflict countries should be expanded and new special instruments established. An example is the proposal by the World Bank to establish a Post-Conflict Fund, which is intended to provide rapid conditionality-free assistance for reconstruction and essential economic reform measures. Another World Bank measure is the proposal to broaden the scope of IDA to provide grants to help meet the special financing needs of countries coming out of conflict. Other similar assistance instruments explicitly targeted on post-conflict countries should also be considered.

198. Third, governance interventions should focus on rebuilding the state and its key institutions, supporting demilitarisation, and reconstructing communities. Good governance conditionalities cannot be sensibly applied to a country emerging from conflict. Instead, a range of assistance modalities to develop the necessary participatory processes and institutional capacities should be considered. There is scope for innovation, especially in the engagement of civil society and the private sector, in this field.

## CHAPTER V

### ENHANCING THE ROLE OF THE PRIVATE SECTOR IN DEVELOPMENT

**199. The Enhanced Partnerships envisaged in Chapter IV will represent a major step towards meeting Africa's development needs. However, debt relief and ODA on their own will not be sufficient to finance the continent's development. Africa needs a vibrant private sector (domestic and foreign) to provide the level of funds necessary. The higher rates of growth that are required to lift people out of poverty can only be achieved with a robust private sector. The Compact recognises that markets and private enterprise are the cornerstone of economic success. Private enterprise will be more effective in moving people out of poverty as progress is made towards enforcing the rule of law, reducing the costs of doing business and promoting economic policies conducive to rapid growth and openness to the outside world.**

*200. The Compact does not have a blueprint for the future of the private sector in Africa. Markets and private enterprise will find their own way towards economic development. The Compact is optimistic about the potential for private sector-led growth. It also recognises and endorses select best practices by African and donor governments that can promote enhanced public-private partnerships.*

#### **Private Sector Led Growth in Africa: the Potential**

201. Private sector led growth is essential if African countries are to undertake an orderly transition from the current high levels of ODA for financing economic and social development. The current annual total capital inflows of \$9.5 billion will need to be doubled over the next ten years in order to raise the investment/GDP ratio to 33% to achieve annual growth rates of 6-8%, the requirement if Africa to meet the IDGs for poverty reduction. A combination of debt relief, reforms of the current aid regime and enhanced policy environment should allow a managed transition to lower levels of ODA and increased private capital flows.

202. Although it remains lower than in other regions of the developing world, private investment has been increasing since 1994. FDI is increasing. But investment by TNCs into Africa still represent only 1.2% of global FDI flows and just 5% of total FDI into all

developing countries. Moreover it is highly selective. Five countries account for 70% of Africa's FDI—Angola, Egypt, Nigeria, South Africa and Morocco. Portfolio equity flows, which did not focus on Africa before the 1990s amounted to \$3.6 billion in 1996.

203. Official figures for FDI understate the real picture. Statistics generated by governments and international agencies have tended to target multinationals, large banks and bond issuers, and have neglected the dynamic sectors of small and medium-size African regional and expatriate investors, entrepreneurs from other developing countries, equity funds and short-term trade finance. In many countries, significant unidentified private capital flows are marked down as 'unrecorded transactions', 'errors and omissions' and 'private transfers'. Many of these transfers are in fact for investment in small businesses and real estate. Improvements in reporting systems in Uganda and Zimbabwe, among others, have enabled the re-labelling of many of these transfers as small-scale FDI, allowing a more accurate and more optimistic picture of the economy to be painted.<sup>5</sup>

204. Africa has no alternative except to tap foreign capital in order to raise the productivity levels necessary for sustained increases in living standards. Fortunately, returns to FDI have been high: between 1990 and 1996 rates of return were between 24 and 30 percent, which is about 60 percent higher than in other regions. While FDI can immediately make up for the remaining 5% of required external funds, the objective is to make private capital flows provide 70% of external finance in the medium term and 100% in the long term. This will represent the economic normalisation of the African continent and an end to external dependency.

205. Current FDI in Africa is focused on a handful of economic sectors. Firms exporting fruits, vegetables, fish and shrimp are playing an important role than in the past. Investment in telecommunications, tourism, beverages and food processing is increasing. However, oil and sold mineral exports continue to dominate foreign investment. Africa now provides more oil to the U.S. than any other region of the world and oil revenues—if well used—could transform the prospects of a range of African countries. In addition to well-established mining enterprises, mining exploration is on the rise. Expenditure on mining exploration alone is estimated to have risen from \$80 million in 1991 to over \$1 billion in 1999.

### **A vibrant and competitive private sector plays a key role in lifting people out of poverty**

206. Sustainable economic growth grounded in entrepreneurship and successful private investment is key to poverty reduction. A vibrant and competitive private sector plays a key role in lifting people of poverty in several ways. First, a vibrant private sector increases household incomes by creating more and better jobs. For instance in Kenya between 1993 and 1998 the private sector created 173,000 jobs compared with only 13,000 jobs in the public sector—a ratio of 13 to 1.

207. Second, private enterprises provide a path out of poverty by improving the quality of human capital through upgrading individual job skills and introducing new technologies. The private sector thereby has a direct impact on that key indicator of economic development: education. The common interests between the public and private sectors is an area worthy of exploration and innovation.

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<sup>5</sup> Nils Bhinda, Stephany Griffith-Jones, Jonathan Leape and Matthew Martin, *Private Capital Flows to Africa: Perception and Reality*, The Hague, FONDAD, 1999.

208. Third, the private sector plays an important role in bringing new ideas and innovations to the marketplace in the form of products, processes and services thus broadening choices for the poor as well as the more affluent consumers. Chapter II has identified Africa's weak research and technology capacities as a key constraint on economic development. As Africa matures economically, the private sector will increasingly fill the requirements for the continent's research and development, partly on its own and partly in partnership with governments.

209. Fourth, the private sector generates the taxes that finance the bulk of government expenditure that benefit poor people such as health, education, social safety nets and agricultural research. Lower business taxes may have a short term adverse impact on public finance, but this will quickly be offset by increased private sector growth.

210. The private sector may also provide a range of social services directly. This is most notably in private delivery of water, sewerage, health and education services. Experience around the world has demonstrated that a well-regulated private sector can deliver efficient and well-managed services—like reliable electricity, modern telecommunications and clean drinking water—that are necessary for a modern economy. Special provisions can be made under regulatory frameworks to ensure that poor people are not excluded from essential service provision.

211. The link between infrastructure services and improved living standards is direct. Easy access to potable water improves health and frees up time for other activities—for a woman to work or for a child to go to school. Access to sanitation dramatically reduces debilitating and life threatening diseases, particularly among children. Access to electricity cuts the time a household spends meeting its energy needs, and provides a reliable source of light for a child to do her homework and improves the local environment. Access to improved transportation makes it easier and cheaper to get goods to market, increasing farm incomes, or to get to work. Access to modern telecommunications can put a remote village in touch with a wide range of services, including health and education and allows local entrepreneurs to connect to global markets.

212. A fine example of private service provision is in telecommunications. Private enterprises have led the effort to bring modern telecommunications to Africa through wireless mobile telephony. Africa now leads the world in the proportion of its mobile telephones that use the state of the art GSM standard (95.61 % in Africa compared to just 49.75% in the rest of the world). There are about 14 million GSM cellular service subscribers in Africa. Several countries have three national operators (Egypt, DRC, Madagascar, Tanzania, Uganda) which has increased competition domestic markets with the resulting reduction in costs and improvement in service. In 2000 the growth rate in subscription was 101.85% in Africa (compared to 52% in the rest of the world). South Africa has the largest market size of 7 million users followed by Morocco and Egypt with about 1.5 million users each. The South African market is currently worth SA Rands 13 billion and is estimated to grow to around SAR 20 billion by 2004. The South African market is dominated by two private enterprises MTN (45% market share) and Vodacom (55% market share). People in previously underserved areas are making over 35 million calls (65 million minutes) per month using Vodacom's 2, 135 community phonestops. Vodacom's network covers almost 13, 000 Km of national roads about 80% of the country's population and 52% of the total land service.

213. Uganda provides an excellent example of how private enterprise can improve the quality of people's lives. In Uganda in the early 1990s there were fewer than three phones for every thousand people. A state run telecommunications company (UTL) charged high prices for local and international calls. The waiting list for a telephone was over six years. Businesses often cited the poor state of telecommunications as a disincentive to investing in Uganda. However, access began to improve dramatically only after the successful entry of private firms led by CelTel Cellular and MTN. The market has grown tremendously to close to 200,000 subscribers from zero in 1990. In mid-2000 the Uganda State owned UTL was privatised and a third national mobile license was granted to a consortium of Detecon GmbH of Germany, Telecel International of Switzerland and Orascom of Egypt. The parent company of CelTel—Mobile Systems International Cellular Investment Holdings—has developed plans for advanced cellular systems in several overlooked African countries, including Chad, Malawi and the Republic of Congo. Even in Somalia, lacking a functioning central government for a whole decade, the private sector has been able to establish a highly efficient and competitive telecommunications system.

214. Clean water is essential for improved living standards. Unlike telecommunications its attractions to the private investor are less obvious—but there are impressive examples of efficient and profitable provision of water supplies. Until the late 1980s Guinea had one of the least developed water supply sectors in Africa. Less than 40% of urban dwellers had access to piped water. Where water connections existed service was often interrupted and water treatment inadequate. To improve this situation the government of Guinea in 1989 entered into a lease arrangement for private sector operation of water service in Conakry and 16 other cities and towns. By 1996 connections had increased from about 12,000 to 23,000. Metering has increased from 5 percent to 98 percent for private customers and 100 percent for government customers. Investments in new supply capacity combined with rehabilitation and maintenance have brought about a substantial increase in the population with access to safe water from 38 percent to 47 percent in 1996. The water management companies revenue rose tenfold between 1989 and 1996. In an environment in which earlier attempts to secure reliable access to safe water had foundered and in which financial sustainability and seemed unreachable, these achievements are truly impressive.

215. Increasing private sector activity in infrastructure is one of the most encouraging signs in Africa. This takes two forms: privatisation of existing state assets, usually followed by modernisation and expansion, and greenfield projects. Altogether, excluding South Africa, as of the end of 1999, 3,700 state enterprises had been privatised, generating about \$5 billion in revenues. As well as putting former state-owned enterprises in private hands—with associated efficiency benefits—such privatisation programmes have also been entry points for investors with wider ambitions.

### ***Robust capital markets are handmaidens of growth***

216. A broad and deep financial sector is fundamental to building a vibrant private sector. Financial institutions and capital markets play a special role in development and poverty reduction by mobilising savings and allocating resources to the most productive uses. Private financial institutions play a key role in this process. In the past decade, several new private financial institutions have been created in Africa, for example leasing companies, merchant banks, commercial banks, venture funds, insurance companies and securities markets. The rewards of investing Africa are considerable. Returns to both direct and portfolio investors have been among the highest in world and the outlook is good.

217. There are twelve active security markets and many new ones are due to come into operation in the next two years. Excluding South Africa, market capitalisation has gone up from \$5 billion in 1991 to nearly \$13 billion in 1998, the number of listed companies has grown from 327 to 412, and value traded from \$117 million to \$1.5 billion. Africa's security markets performed well in 1997 posting a 14% advance compared to a global loss of 13.9% for a benchmark emerging markets composite index. Cote d'Ivoire registered the best performance with a 141% gain in dollar terms. Nigeria recorded a 131% gain. South Africa (+17.8%) and Zimbabwe (+16.71%) were the top two performing markets in 1997 in terms of total returns among the components of a benchmark global emerging markets index.

218. There are now more than a dozen dedicated African Funds with more than \$5 billion in assets. In recognition of their potential the IFC added five African stock markets to its global index in 1996 (Botswana, Côte d'Ivoire, Ghana, Kenya and Mauritius) in addition to the existing ones (Nigeria, South Africa and Zimbabwe). Two thirds of the region's markets are now included in the global composite index, paving the way for an eventual formation of an Africa emerging markets index that could boost domestic and foreign investor interest.

219. Liquidity is increasing in most markets and will improve further as a result of the strengthening of the domestic investor base, partly through the move to private pension schemes, insurance and collective investment vehicles. Market capitalisation will improve sharply as the 'jewels in the crown' (natural resources and infrastructure companies) are privatised. The recent privatisation of Ashanti Gold in Ghana and Kenya Airways are just two examples. Finally, liquidity is improving as a result of the increasing involvement of both domestic and foreign investors. These investors have also prompted better quality research and information. For example there are now more than a dozen stockbrokers in Ghana. Another positive sign is the powerful trend towards regionalism of African stock markets, which will increase choice and liquidity for portfolio investors.

220. There are also significant opportunities for intermediary financing mechanisms targeted at small and medium sized local enterprises (SMEs). In the past, lack of access to finance for SMEs has been a major obstacle to private sector growth, as banks have been geared to large loans, collateral requirements for lending are high, and property rights may be difficult to document or simply absent. The up-side is that when SME finance becomes available, uptake is rapid. Options that have been tried, in Africa and elsewhere, include the following: facilitating access to finance for local businesses through the provision of credit and appropriate guarantee schemes, as well as through the introduction of segments of stock markets that are adapted to the needs of small and medium-sized enterprises and where more flexible rules apply.

### **Credit provision can be a key factor in reducing poverty**

221. Global experience of poverty reduction indicates that micro-credit systems that can serve the poor and marginalised are among the most effective means of bringing people out of poverty. Low income households, including those headed by women, have delivered high loan repayment rates—indicating that a focus on catering for the poor can also return a healthy profit. The components of a poor-oriented credit provision strategy include the following:



- (a) Develop a rural credit plan that provides farmers and small rural producers with equitable access to long and short-term credit, crop insurance and other financial services.
- (b) Facilitate access to financial services for the poor and vulnerable by fostering a wide range of financial intermediaries which target small savers and small borrowers, micro-enterprises, including micro-finance institutions, cooperatives, credit unions and postal savings. Countries should seek to remove institutional and regulatory obstacles such as restrictions on cost recovery, lack of secure transaction laws and weak property registries.
- (c) Support a comprehensive approach towards the development of sustainable social protection systems by designing such systems in a manner that facilitates risk management at the individual and family levels, particularly for women.<sup>6</sup>

### ***How the private sector can support trade capacity development***

222. An expanded role for the private sector, both national and international, can have important benefits across the board. Businesses are likely to invest in human resource development with positive implications for capacity building through education and training, and the development of a more skilled workforce and increased management capacity. A higher level of commercial activity will also generate more business start-ups, thereby supporting small and medium enterprise development. This can be further encouraged by policy measures, including for example:

- (a) Giving preference to management buyouts when selling non-core businesses and allowing payments from future cash flows (i.e. keeping title over assets and dividends until the full purchase price is paid).
- (b) Creating SMEs out of non-core activities (e.g. cleaning, security, catering, repair and maintenance etc.) while allowing for a captive market period.
- (c) Developing subcontracting strategies that include mentorship and training elements and performance based compensation.
- (d) Implementing employee share ownership schemes based on profit improvement share payment mechanisms coupled with productivity enhancement training.<sup>7</sup>

## **Good Corporate Citizenship**

223. As major corporations have grown to become some of the wealthiest and most influential entities on the planet there has been a growing demand by citizens to ensure that they are subjected to basic requirements for accountability. Public outrage over environmental disasters and human rights abuses, such as sweatshop practices and forced displacement from areas of oil exploration, which have been linked to some multinational companies and their subcontractors, have put the media spotlight on corporate ethics. The agenda of corporate responsibility is important to Africa. TNCs investing in Africa need to recognise the positive role they can play in strengthening an otherwise fragile social fabric in

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<sup>6</sup> See: UN General Assembly, Report of the Secretary-General to the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development,' UN, A/AC.257/12, December 2000, paras 40-45.

<sup>7</sup> See: OECD/DAC, 'DAC Workshop: Towards good practices for donors on capacity development for trade: Case study of East African Enterprise Network, Southern African Enterprise Network, West African Enterprise Network,' DCD(2000)10/ANN5, May 2000.

Africa, and thus lowering the risk to their investment. In this regard, there is much they can learn from the experience of aid. The core values of the Compact, namely African (co-)ownership, stability and long-term predictability, and mutual accountability towards agreed goals, are highly relevant in this respect.

224. The Global Compact initiated by United Nations Secretary-General Kofi Annan in 1999 provides a framework for good corporate citizenship. This set out to ‘give a human face to the global market’ by focussing on the responsibility of businesses to ‘embrace, support and enact a set of core values in the areas of human rights, labour standards, and environmental practices.’ In 2000, more than fifty major transnational corporations from diverse sectors took a public stand on the Global Compact and its principles.

225. Reflecting the Global Compact and related initiatives, some of the core components of good corporate citizenship include the following:

- (a) Upholding environmental codes of conduct, such as those developed by UNEP and adopted at the 1992 UNCED Rio Declaration.
- (b) Respecting labour standards, as developed by the ILO. These include upholding freedom of association and the right to collective bargaining, eliminating all forms of compulsory or forced labour, abolishing child labour, and eliminating discrimination in employment and occupation.
- (c) Engaging with human rights organisations, including the UN High Commissioner for Human Rights and key partners such as Business for Social Responsibility.

226. The April 2001 decision by major international pharmaceutical companies to drop their law suit against the South African government, thereby enabling South Africa to manufacture or import generic HIV/AIDS drugs at much cheaper prices than the companies’ patented medicines, marks an important breakthrough in good corporate citizenship.

227. In addition to FDI, foreign portfolio investment is increasing in importance across Africa. Important measures can be taken that simultaneously promote good corporate governance and promote transparency, disclosure and accountability to the widest group of stakeholders. Organisations such as the International Accounting Standards Committee, the International Federation of Accountants, the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting can play an important role.

228. It is important to develop best practices on a range of finance and tax questions arising from the growth of international production and trade, to ensure that African countries are not adversely affected by measures such as transfer price manipulation that may reduce tax payments by international corporations.

## **Public-Private Partnerships**

229. Public-private partnerships, both in African countries and between international corporations and international partner governments, present significant opportunities for enhancing the role of the private sector.

230. Several public-private infrastructure projects in Africa involve franchise arrangements. Under these projects the World Bank has helped design management contracts, leases or

concessions for infrastructure service. These included management contracts for Airlines (Chad), Telecomms (Guinea) and power (Guinea, Mali, Sierra Leone), leases in power (Côte d'Ivoire, Rwanda) and water (Gambia, Guinea), concessions in water (Côte d'Ivoire); and contracting out of rail service (Tanzania) and government contract services (Tanzania).

231. Outright privatisation of airports often meets political resistance, as airport assets tend to be seen as strategic for national security. However public-private partnerships involving operations and management contracts has been the most common way to involve the private sector. For instance, Build-Own-Operate-Transfer (BOOT) arrangements were made for the construction of three new airports in Egypt. In Kenya, Build-Own-Operate (BOO) contracts were used for the construction of cargo terminals. In South Africa the partial privatisation of the airport resulted in private management of the airport facilities. All airport public-private partnerships have granted private sponsors the right to raise revenue by selling concessions (such as restaurants, parking facilities and duty free shops). In Cameroon, private sponsors made commitments to finance both profitable airports and secondary facilities that have traffic flows too small to break even but are essential for integrating areas

232. The private sector has become increasingly involved in the operation of common-user seaport facilities during the 1990s following public sector dominance of the sector in the 1980s. In North Africa in 1999 Morocco awarded a contract to private consortium for the development of a new container facility at the port in Tangiers (Tanger-Atlantique) on a build-operate-transfer basis. Mozambique and Kenya have been the only two countries in Sub-Saharan Africa to award private contracts for port operations. Mozambique awarded lease contracts for Maputo Coal Terminal in 1993 and container terminals in 1996. Kenya entered into a management contract for a container facility with an international operator in 1996. In 1998 a consortium invested in the development of a grain and fertiliser terminal at the port of Mombasa.

233. Public-Private partnerships can also reduce poverty. One example is AGETIPS (Agences d'Execution des Travaux d'Interet Public) which are independent and privately managed agencies for executing public works. The agencies evaluate small (\$50,000-\$100,000) largely community-initiated civil works and maintenance projects such as schools, roads, and health centres and run competitive bids for potential contractors. Because the contracts stipulate labour-intensive methods, only small and medium sized private enterprises are likely to bid. The aim is to promote employment and to contribute to private sector development. To ensure local 'ownership' the projects must include a contribution from the locality—usually 5 to 10 percent of the total cost.

234. Enterprise networks have been launched in west, southern and east Africa beginning in 1993. By 2000 they involved over 500 businessmen and women. Their dual mission is to improve the business climate in African countries and to promote cross-border trade and investment. The three subregional enterprise networks serve as fora for trade capacity development, intra-regional transactions and also North-South cooperation.

235. There are numerous existing modalities for investment and export guarantees that can be utilised and upgraded. The rationale of these is that the developed country governments can underwrite the risks of investment in developing countries.

236. There is an opportunity here for commercial insurance providers. Commonly, the *perceived* risks of doing business in Africa are considerably higher than the *actual* risks.

Because of the low density of foreign investment in African countries, potential investors tend to rely for information more on the mass media than on business information networks. The media, as is well known, tend to focus on crises and disasters, so that accurate information about the business climate may not be available to potential investors. Commercial insurance brokers could exploit this disparity, and themselves underwrite their risks by looking to government investment guarantees for reinsurance.

237. Improved information will be one of the most important factors in encouraging investment. This ranges from upgraded monitoring systems for key economic data, especially in the private sector, to targeted surveys of investors themselves to discover more about their motivations, analyses, and the problems they face. The example of Uganda demonstrates that legal and transparent processes for returning seized assets, and targeted publicity campaigns, can be highly effective. Research, data collection and information sharing is a prime area for public-private partnerships at national and international levels.

## **Conclusion**

238. In the coming decades, trade and investment should replace ODA as Africa's source of finance. The objective is to make private capital flows provide 70% of external finance in the medium term and 100% in the long term. The long term goal of the Enhanced Partnerships envisaged by the Compact is to create the conditions in which aid relationships are redundant, because of private sector-led growth. The transformed aid relationship outlined in Chapter IV is designed to establish an environment in which domestic governance and economic management in African countries will be appropriate to attract FDI and develop a flourishing indigenous business sector, and in which international corporations will find it attractive and profitable to invest in Africa. Thus, the new partnership envisaged will not be restricted to governments (on either side) but will have room, in an incremental fashion, to accommodate the business sector, on both sides.

239. Meanwhile, the basic values of the Enhanced Partnership under the Compact also have relevance to the way in which international corporations conduct business in Africa. For example, African co-ownership of foreign-financed enterprises can be an important factor in their success. Investments with indications that they will provide stable long-term employment and tax revenue are more likely to prove profitable. Mechanisms for consultation with and accountability to stakeholders, towards agreed outcomes can be developed as a tool for developing good corporate citizenship.

## CHAPTER VI

### IMPLEMENTING THE COMPACT: THE WAY AHEAD

*240. The Millennium Partnership for the African Recovery Programme (MAP) led by Presidents Mbeki, Obasanjo and Bouteflika, represents the way ahead. The Compact seeks to identify and refine the mechanisms whereby the political vision of these prominent African leaders, and the political momentum manifest in the MAP, can become operationalised. The particular unique contribution of the Compact lies in its facilitation role and support for the transformation of the aid relationship that is required to realise the goals of MAP.*

#### **Political Leadership in Africa**

241. Political leadership at the highest level is a fundamental precondition to realise the objectives of the Enhanced Partnership that is envisaged by Africa's leaders. In recognition of this, the MAP is setting up the Heads of State Forum (HSF) in order to provide the necessary political leadership. The MAP Heads of State Forum will be a critical anchor for the implementation of the Compact. It will be composed of the leaders of a select group of like-minded countries that can provide the necessary continental leadership, consistent with the 'enhanced partnership' approach under the Compact. A forum of this nature is an essential component, in order to discuss the critical issues for African recovery and achieve consensus. A particular role for the HSF will be to identify the Enhanced Partnership countries.

242. The Heads of State Forum symbolises and realises *African ownership*. It provides the high-level leadership necessary to obtain continent-wide consensus and momentum on the challenges of good governance, economic management, sectoral initiatives and regional economic integration.

243. The Heads of State Forum is a key *mechanism for mutual accountability* towards agreed goals. It enables Africa's leadership to raise the key continental assistance issues with Africa's international partners and obtain coherence of leadership at the highest level. It should do this in partnership with its developed nation counterpart, the OECD.

244. The Heads of State Forum in collaboration with relevant and capable continental institutions will establish mechanisms for the broad-based buy-in by African governments to

peer review of performance on issues of governance and economic management. Enhanced Partnership countries also offer the basis under the MAP for peer review involving an external assessment of progress in implementing agreed commitments or achieving the international development goals. A possible model for this is the DAC reviews of OECD development assistance. In this connection, the Heads of State Forum can provide the political underpinnings for mechanisms for peer review of country performances with regard to governance and economic management. The Heads of State Forum will also be well-placed to obtain the required high-level commitment to apply the lessons drawn from such reviews in the formulation of national actions.

245. The Heads of State Forum will candidly address the issue of diversity within the African continent. It represents the necessary political leadership to overcome the challenges of overcoming the challenges of diverse performance and prospects within Africa. Selecting the Enhanced Partnership countries will be a political challenge requiring leadership at the highest level. It will be necessary to achieve explicit agreement on the performance indices on good governance and economic performance underpinning the Code of Conduct at the earliest stage.

### **Commitments by International Partners**

246. Operationalising the Enhanced Partnership as envisaged by MAP and detailed by the Compact requires commitments by Africa's international partners to respect the four guiding principles. Several international partners, both multilateral and bilateral, have led the way in recognising the importance of African ownership, predictable long-term resource flows, mutual accountability and appropriateness for specific African country conditions. The select group, including the UK, Netherlands and the Nordic countries, will take a leadership role among the international community, forming a core of progressive like-minded countries. This group will provide the counterpart for the MAP Heads of State Forum, and should meet with the HSF periodically.

### **Technical Underpinning**

247. Political leadership on its own will not be sufficient: a technical underpinning is also essential. Implementing the MAP and the Compact for African Recovery requires a specialist secretariat, that can produce the data, the analysis and indices, and the monitoring necessary for the Enhanced Partnerships to function. A capacity for monitoring at country and regional levels is required alongside specialist forums for dialogue on technical aspects of the Compact and its components.

248. The work of many institutions can help in this regard, including the DAC initiatives outlined above. Within Africa, the ECA, operating under the principles laid down in the Compact, has already undertaken significant initiatives that are relevant to the tasks of generating the necessary dialogue, data and analysis. The African Development Forum, the 'Big Table' and the PRSP Learning Group are three key African-owned initiatives located at the ECA which can contribute significantly to systematically upgraded modus operandi for peer review, common learning and mutual accountability. In addition, the ECA's work on performance indicators (see boxes, Chapter IV) can prove a critical input in this regard. These and other initiatives will generate the data necessary for making the judgements as to which countries will benefit from Enhanced Partnership. Appropriate performance indices will need

to be developed and utilised. However, membership of this select group will ultimately be self-selecting, through the processes of mutual accountability with international partners.

249. The technical support functions provided by the DAC to the OECD governments may provide a model for how the Compact and the ECA may stand vis-à-vis the MAP Heads of State Forum.

## **Conclusion**

250. Under the onslaught of adverse international economic conditions, conflict, corruption and the HIV/AIDS pandemic, it seems that Africa needs to run as fast as it can just to stay in the same place. In order to get anywhere, it needs to run even faster than that. But this pessimism must be balanced by the success of certain African countries in overcoming formidable obstacles and achieving high rates of growth, and the fact that even in the most difficult circumstances, Africans have demonstrated formidable survival skills and have managed to achieve individual economic triumphs against the odds. The energies and capacities of Africans to achieve economic growth are not in question. Providing the enabling environment in which these energies can be unleashed is the challenge.

251. The Millennium Partnership for the African Recovery Programme and the Compact for African Recovery jointly provide the necessary political vision, momentum and implementation modalities for Africa to achieve the necessary conditions for transforming its prospects. They provide the foundation for a transformed partnership relationship with international donors and creditors and the private sector that can radically transform the prospects for Africa.

