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Regional Review of Financing and Development: Perspectives of African countries on the Monterrey Consensus

Survey results

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Acronyms

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

Executive summary

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

- Overall, very limited progress has been made in realizing the objectives of the Monterrey Consensus. Significant progress has been made in the area of debt relief. However, performance in the areas of international trade as well as external and domestic resource mobilization has been disappointing.

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

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

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

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

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

- Although there have been recent attempts to improve the governance of international monetary, financial and trading systems, donors need to scale up efforts to increase the voice of African countries in international organizations.

- The main challenges and constraints to implementing the Monterrey Consensus are poor governance, weak infrastructure, a non-supportive investment climate, inadequate implementation of policies and strategies by African governments, lack of national ownership of development programmes, lack of harmonization of aid

by donors, the unpredictability and tying of aid flows, and reduced access to the markets of developed countries.

- To accelerate progress, African governments need to improve infrastructure, capacity development, governance and policy-making. At the same time, development partners need to accelerate the level and effectiveness of aid, harmonize and untie aid flows, provide more market access opportunities for African exports, intensify debt-relief efforts, and provide more voice for the region in international organizations.

1. Introduction

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

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

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

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

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

Despite the enormity of the commitments and declarations that have been made since the Monterrey Consensus was adopted, there is concern that very limited progress has been made in honouring the commitments and hence meeting the key goals of the Consensus in the six core areas. G-8 leaders acknowledged these concerns in their 2006 Summit in St Petersburg as well as in the Heiligendamn Summit held in 2007. It was also the main reason for their decision to launch the Africa Progress Panel (APP) in April 2007 with the objective of working with African countries and their development partners to ensure the delivery of promises made to the region. The concern about low delivery on promises has also led African governments to take the lead in monitoring the implementation of commitments by donors through an annual African Ministerial Conference on Financing for Development. The first Conference was held in Abuja, Nigeria, from 20 to 22 May 2006 and the second was held in Accra, Ghana from 30 to 31 May 2007.

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

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

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

2. Sample characteristics

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

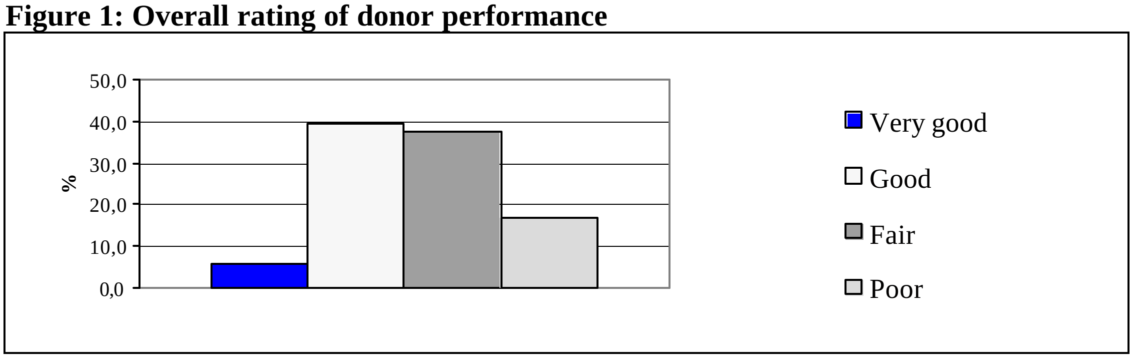
Of the 106 questionnaires sent to African policy makers, 57 were returned, representing 32 countries and covering all five subregions of Africa as well as LDCs, landlocked countries, petroleum exporters and island economies.[1] Responses were obtained on the condition that the names and views of individual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

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

3. Overview of the results

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

Figure 1: Overall rating of donor performance



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

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

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

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

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

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

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

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

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

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

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

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

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

Mobilizing domestic resources

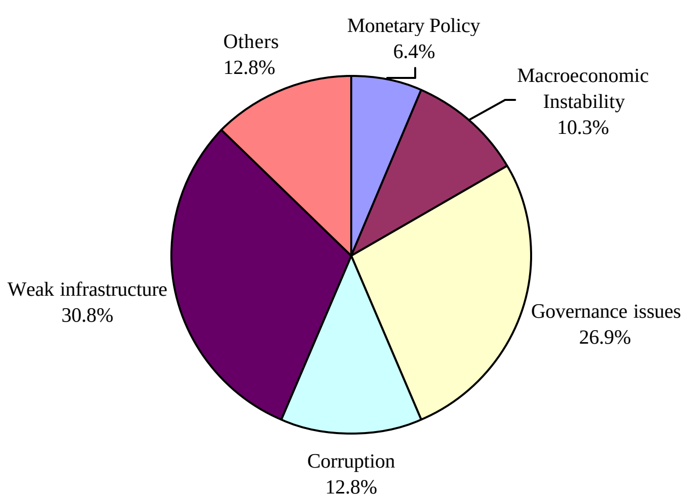
As reflected in the Monterrey Consensus, there is increasing recognition that African countries need to rely more on domestic resources to finance development on the continent. Available macroeconomic data show that the average annual savings-to-GDP ratio increased slightly from 19 per cent in the pre-Monterrey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

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

Of those who responded to the questionnaire, 41 per cent rated their country's performance in mobilizing domestic savings as good.[4] Some 28 per cent felt that it was fair and 25 per cent considered it poor. This is consistent with the evidence from macroeconomic data on savings, which suggest that progress in this area has been modest. Nevertheless, 58.9 per cent of respondents indicated that national economic policies had been moderately supportive of the mobilization of domestic resources for development, compared with 23.2 per cent of respondents who stated that these policies had been highly supportive. Only 17.9 per cent felt that domestic policies were not supportive. Respondents also indicated that a substantial majority of countries (65.4 per cent) had a national development strategy to mobilize domestic resources, though almost 60 per cent also stressed that implementation of this strategy had either been low or completely absent.

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

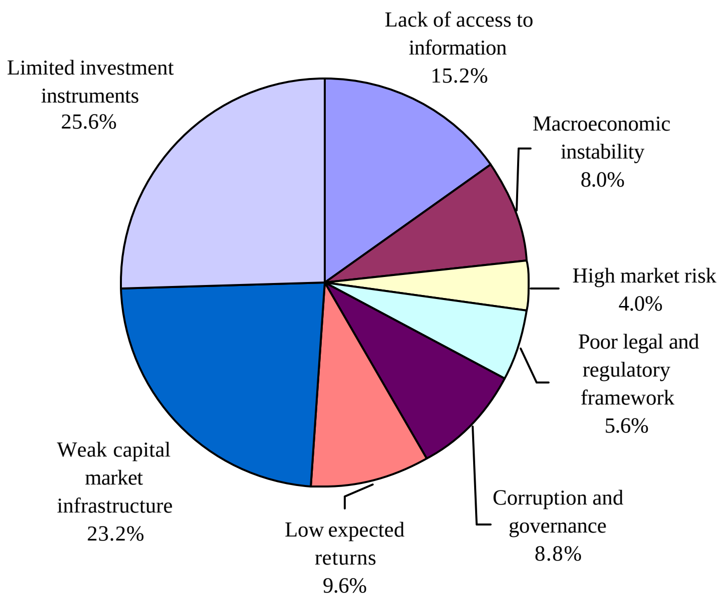
Figure 2: Obstacles to the mobilization of domestic resources



[4] For LDCs and oil exporters, the figures are 29 per cent and 54.5 per cent respectively. The overwhelmingly positive response from oil exporters may be explained by the fact that recent increases in oil prices have led to a boost in public and hence domestic savings (IMF 2007).
[5] Financial infrastructure refers to the set of rules, institutions and systems within which agents carry out financial transactions (see Bossone et al. 2003).

Some 73.5 per cent of the respondents indicated that the domestic banking system was only partly effective or entirely ineffective in mobilizing savings. Reform of the banking sector to improve efficiency and increase the access of rural households to financial services would play a key role in boosting domestic savings in the region. Capital markets can also play an important role. They make it possible to allocate resources efficiently, mobilize domestic and foreign capital and facilitate privatization efforts. Yet, African countries have not been able to exploit this potential for resource mobilization and financial intermediation.

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



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

Though governments are making efforts to mobilize domestic resources, savings in African countries remain inadequate relative to their investment requirements. Banking infrastructure and governance need to be improved and the potential of capital markets and micro-finance institutions need to be harnessed for resource mobilization.

Mobilizing international resources

The Monterrey Consensus underscores the important contribution of international resources, particularly foreign direct investment (FDI), to development. However, FDI in sub-Saharan Africa is low in comparison to other developing subregions. It is also concentrated in few countries and is largely targeted to the natural resources sector. However, macroeconomic data show that, in recent years, FDI flows to the region have been growing strongly in response to not only high commodity prices, but also improved macroeconomic stability. Net FDI inflows to Africa increased from an average of $US11.9 billion in the pre-Monterrey period to $US18.1 billion in the post-Monterrey period. In line with this trend of increasing foreign investment on the continent, a majority of African policy makers in the sample indicated that FDI inflows have improved over the last five years (17.3 per cent agreeing strongly and 46.2 per cent agreeing somewhat with this statement).

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

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

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

International trade as an engine of development

The catalytic role that trade can play in accelerating economic growth and development is widely accepted (McCulloch et al. 2001). Africa's trade position remains marginal, with its share of global merchandise exports in 2006 standing at 2.8 per cent and its share of global export of services at 2.4 per cent (UNCTAD) 2007. Nonetheless, as a result of increasing commodity prices, exports are now growing more strongly in the region. The challenge for

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

African countries is to sustain this increase in exports and exploit the potential of trade for growth and poverty reduction. In this regard, African countries have a great stake in the conclusion of the World Trade Organization (WTO) Doha Round, which has so far not delivered the gains promised in key areas such as agriculture, non-agricultural market access and development.

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

Figure 4: Barriers to export promotion and development

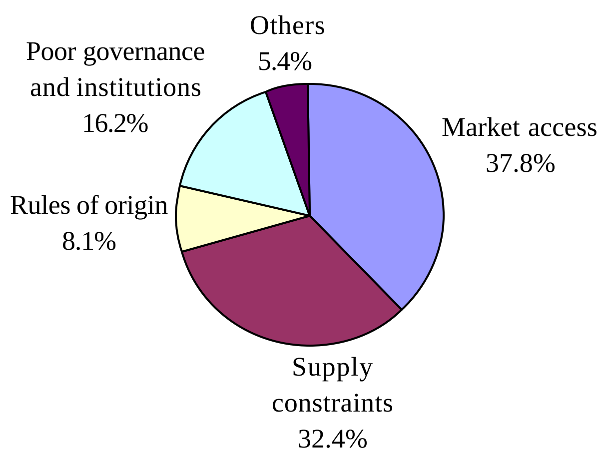


Figure 4 illustrates the most important barriers to export promotion as cited by respondents. It shows that market access and supply constraints are perceived by African policy makers as the biggest barriers to international trade. For non-trade policy barriers, respondents cited poor infrastructure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

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

International financial and technical cooperation

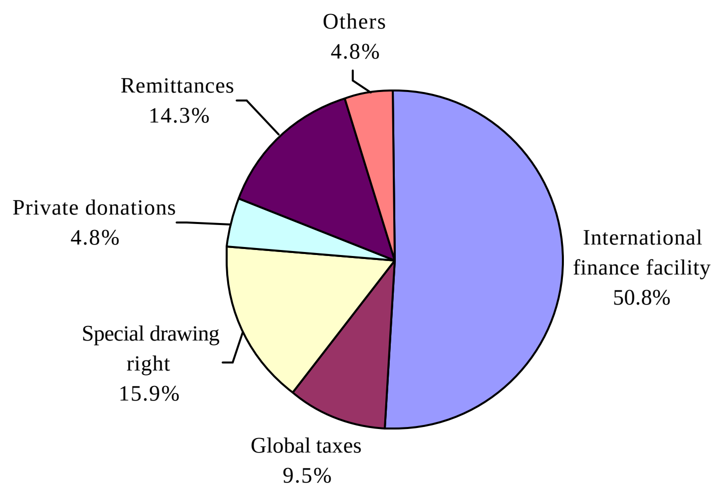
ODA continues to be a vital source of resources for African countries, particularly those without the capacity to attract private capital flows such as those emerging from conflict (World Bank 2002). As a consequence of recent commitments and a stronger engagement with the continent, ODA to Africa has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

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

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

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

Figure 5: Preference for innovative forms of financing development



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

External debt

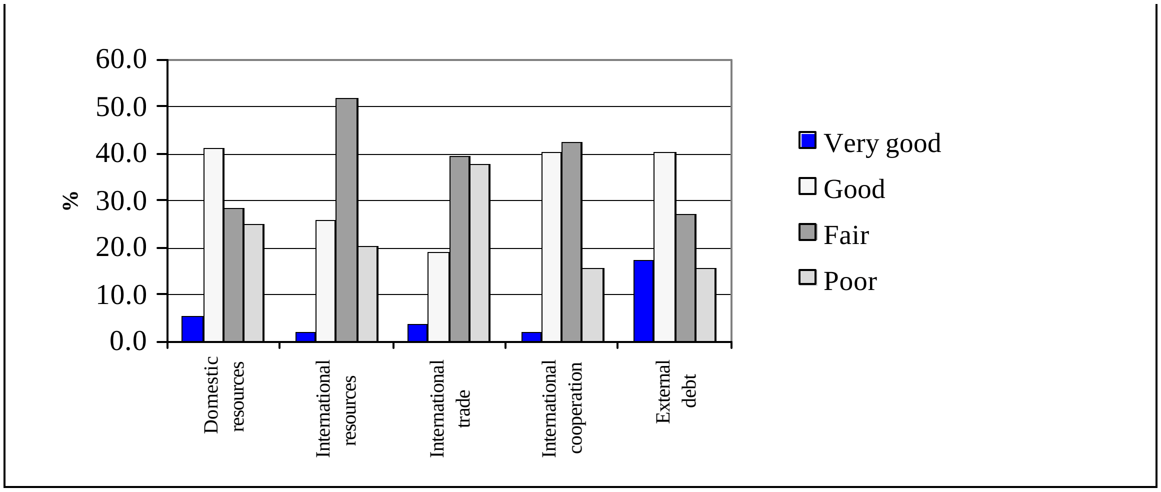
Facing a persistent financing gap, most African countries have had to borrow from both bilateral and multilateral lenders over a number of decades, leading to stockpiles of debt which they could not service. External debt problems constrain spending on social services and infrastructure and reduce investment, with dire consequences for economic growth and poverty reduction (Krugman 1988; Birdsall and Williamson 2002). Responding to this situation, lenders have accelerated debt-relief efforts in recent years under the auspices of the HIPC scheme and the MDRI. As a result of these efforts, debt-to-GDP ratio in Africa dropped from an average of 62 per cent in the pre-Monterrey period to 47 per cent in the post-Monterrey period.[7]

In line with the positive impact of these initiatives seen in macroeconomic data, respondents of the survey indicated that the performance of donors in the area of external debt has been the strongest of all the areas, with 17.3 per cent stating that the performance was very good and another 40.4 per cent stating that it was good (see figure 6). Moreover, 24.5 per cent of respondents agreed strongly and 52.8 per cent agreed somewhat with the statement that there has been significant progress in reducing the external debt of African countries. Some 70.6 per

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

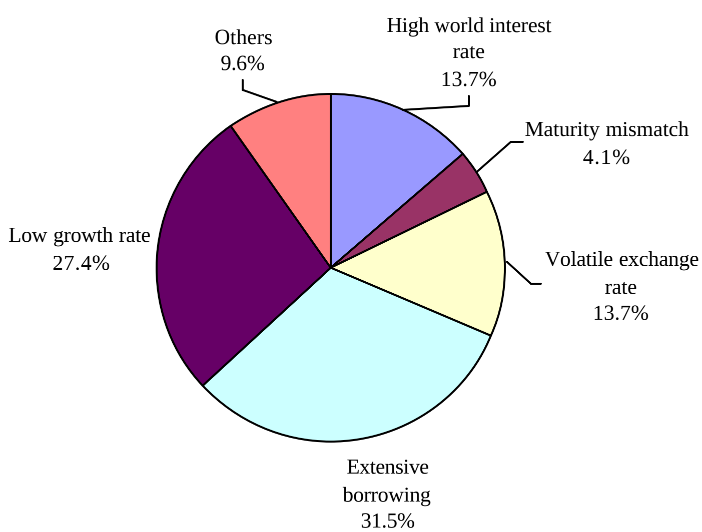
cent of respondents believe that the external debt situation in their country is sustainable. Clearly, these perceptions reflect the impact and awareness of recent debt relief provided by HIPC, MDRI and bilateral initiatives.

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



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

Figure 7: Sources of external debt in African countries



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

Systemic issues

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

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

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

4. Challenges, constraints and lessons learned

The survey also sought to identify the perception of African policy makers on the challenges and constraints inhibiting implementation of the Monterrey Consensus in Africa. At the national level, respondents highlighted several issues that need to be addressed, including poor governance, corruption and the lack of credible institutions. Weak governance and institutions make it difficult to mobilize domestic resources and also increase country risk premiums, thus inhibiting efforts to mobilize external resources. In addition, the inability to enforce laws creates insecurity and makes it difficult for firms to invest and operate in the region. The investment climate therefore needs to be improved and new policies and strategies established to attract FDI and mobilize domestic resources.

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

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

With respect to donors, one of the main issues raised by respondents was the inadequate levels and unpredictability of aid, which has made it extremely difficult for African countries to finance key development projects that can help alleviate poverty. Predictability of aid flows would allow governments to better estimate resource flows and hence make better policy choices and decisions. Added to this is the lack of alignment, coordination and harmonization of aid, as well as slow progress in reducing the proportion of tied aid.

The continuing market access barriers faced by African countries in the markets of developed countries is another key concern and challenge for the region. Many respondents indicated that such protectionism has prevented them from exploiting potential gains generated by the multilateral trading system. Boosting donor support for trade capacity development to enable countries to derive more gains from the trading system is also an important challenge for African countries (Dupasquier and Osakwe 2007b).

5. Concluding remarks and the way forward

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

- Increase the quantity of aid to the region as promised in the Monterrey Consensus and the G-8 Gleneagles Summit Declaration and to ensure that future increases in aid are not concentrated in a few countries and sectors;

- Improve the effectiveness of aid by establishing fewer conditionalities, reducing in the proportion of tied aid and improving the coordination, alignment and harmonization of aid;

- Provide more opportunities for African exports to enter the markets of developed countries;

- Build capacity in African countries and use local expertise in technical assistance programmes so as to enhance the transfer of skills;

- Reduce the time it takes for eligible HIPC countries to move from decision to completion points and extend the coverage of existing debt-relief programmes to include non-HIPC countries;
- Pay more attention to the issue of domestic debt;

- Improve participation of African countries in the decision-making processes of international organizations.

Clearly, African governments also have a vital role to play in meeting the objectives of the Monterrey Consensus. In this regard, respondents recommended the following actions at the national level.

- Improving the quality of infrastructure in order to reduce transactions costs;

- Enhancing the competitiveness and diversification of African economies to reduce vulnerability to external shocks and boost economic growth;

- Increasing the involvement of the private sector in the development process, and improving the business environment and investment climate;

- Boosting domestic resource mobilization by improving governance and financial infrastructures, developing capital markets, stemming capital flight and increasing the awareness and confidence of domestic savers and investors;

- Promoting intra-African and international trade by eliminating constraints and improving market access;

- Enhancing and fast-tracking regional integration efforts;

- Strengthening governance by improving the legal and regulatory frameworks, transparency and accountability; and

- Developing stronger and clearer national strategies and policies, and ensuring that they are effectively implemented and matched by the necessary commitment from both governments and donors.

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