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Discussion Forum on the "Problematique of Financing Development in Africa": An Issues Paper

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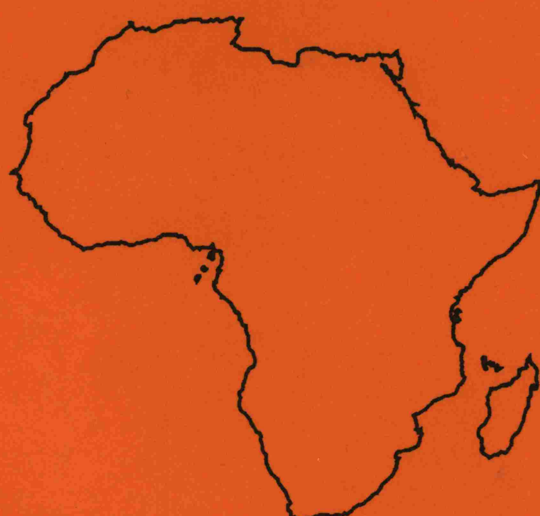

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Discussion Forum on the "Problematique of Financing Development in Africa": An Issues Paper

Introductory Note by the UNECA Secretariat

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I. Overall View

1. The problems of financing the development process in Africa have in recent years been compounded by a number of adverse factors. These have included the collapse of commodity prices for a number of primary products exported by African countries; the escalation of the external debt burden; reduced real resource flows to African countries and a shift in its composition; poor performance of economies of industrialized countries as well as restricted access to markets of industrialized countries because of non-tariff barriers. Furthermore, the poor performance of most African economies during the last decade made mobilization of domestic savings more difficult.

2. The 1980s were generally characterized as a lost decade for Africa. The decade had been characterized by a general decline in real incomes in many African countries; falling standards of living and a general decay of infrastructure as maintenance capacities of many economies declined. The economic situation of the continent was exacerbated by political and civil strife in a number of African countries which resulted in massive flow of refugees and displaced persons.

3. For many African countries, the dawn of the 1990s brought a number of new challenges, but also a ray of hope that the decade would see a recovery in the continent. The challenges have included: increased competition for global savings; increased momentum towards regionalism in various parts of the world; globalization of world trade; and rapid expansion of new capital markets in Latin America, Asia and Eastern Europe as avenues for international flow of funds.

4. The optimism that the 1990s would be a better decade for Africa than were the 1980s partly emanated from the fact that many African countries had during the preceding decade been implementing structural adjustment programmes supported by the World Bank, the IMF and the donor community. The belief was that these would lay the much needed foundation for future socio-economic recovery and sustainable development. It was under similar optimism that the United Nations General Assembly adopted the United Nations New Agenda for the Development of Africa in the 1990s (UNADAF) as a successor to UNPAAERD.[1]

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1 United Nations: United Nations New Agenda for Africa's Development in the 1990s (UN-NADAF), adopted by the United Nations General Assembly as a successor programme to the United Nations Programme of Action for Africa's Economic Recovery and Development (UNPAAERD), 1986-1990.

5. Under this New Agenda, African countries and their partners committed themselves to a target growth rate for sustained recovery and accelerated growth. UNADAF calls for accelerated transformation of African economies; the development and maintenance of infrastructures as an essential element of this process; closer regional economic cooperation and integration in order to benefit from economies of scale and joint exploitation of the continent's resources; rapid progress towards the achievement of human development goals; increased agricultural production; rural development and attainment of food security; sound government; and an appropriate enabling environment to promote private enterprise.

6. African countries acknowledge that in order to attain the goals of UN-NADAF, much needs to be done at a country, sub-regional and regional levels. Furthermore, for these goals to be achieved it is essential that adequate resources be mobilized to finance the development process. However, as indicated earlier Africa faces a difficult task in its endeavors to generate and mobilize such resources. A number of developments are making it more difficult to raise sufficient resources to support human development as well as infrastructural improvements. The key to Africa's development is to raise its human capacities in order to generate a critical mass of skilled and trained personnel that will provide the needed foundation for transformation and more importantly enable African countries to absorb and adapt new technological advances currently taking place in the world. The purpose of this Discussion Forum on the "Problematique of Financing Development in Africa", is to share views and ideas on this key topic and more importantly to determine the policies that need to be taken by both African countries and the donor community in order to get the continent onto a path of sustainable development. The solutions to this problem are not tailor-made, but through dialogue a common ground may be found.

II. The Determinants of Financial Flows

7. The problems of mobilizing adequate resources for Africa's development have been made more complex by a number of developments in recent years. Firstly, the progressive decline in commodity prices of primary products has eroded significantly the export earning capacity of many African countries. Secondly, the debt problem has also contributed to a vicious circle between lack of credit worthiness of African countries and their capacity to borrow abroad as well as to attract foreign direct investment. Thirdly, the collapse of centrally planned economies in Eastern Europe has ushered new entrants in the demand for global savings and in turn greater competition for such savings. Finally, the end of the Cold War has to a certain extent reduced the political strategic importance of a number of African countries and accordingly the basis for aid flows to such countries.

8. During the 1960s many developed countries felt morally obliged to support development efforts in third world countries. However, over the years such commitment has waned, particularly in the face of aid fatigue. Furthermore, there appears to have been a shift in the factors determining aid flows more in favour of economic interests of developed countries and less on political considerations. Conditionalities for aid flows have also intensified as donors have sought transparency in utilization of the resources they provide.

9. There has also been a significant shift in the composition of the resource flows to developing countries in recent years. Private sector capital flows to Latin America, Asia and Eastern Europe have risen sharply and have benefited from the development of new capital and money markets in those regions as well as new instruments in the debt secondary market. Unfortunately, Africa has not been a major beneficiary form such developments. The challenge facing Africa is how to mobilize adequate resources for its development process. External resource flows will remain for sometime a major source of funding for the continent's development efforts and accordingly, Africa will need to devise appropriate strategies for attracting foreign direct investment and other forms of external finance.

10. The African continent needs aid flows in the short-to-medium term in order to sustain its development process. More importantly, Africa needs to reverse past trends of declining foreign direct investment. This requires putting in place appropriate policy measures aimed at attracting foreign direct investment as well as promoting investment by nationals.

11. Mobilizing adequate external finance by African countries also requires understanding the realities of current international economic, monetary and financial relations.[2] These realities relate to: the likelihood that aid flows will in future finance a smaller proportion of Africa's financing gap; that due to financial constraints and internal demands many donor countries are finding it more difficult to justify external aid flows.

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2 For further details on new developments in international economic and financial relations see, United Nations Economic Commission for Africa: Impact of New Developments in Economic, Monetary and Financial Relations on Economic, Monetary and Financial Situation in Africa, December 1993, Document E/ECA/TRADE/93/30.

12. Effective utilization of external finance is also important to ensure future servicing of such obligations. Furthermore, it is imperative that African countries put in place measures designed to enhance their productive capacities,including diversification of their production and export bases. The task is formidable but attainable with consistent commitment.

III. Creating An Enabling Environment for Enhanced Development Financing

13. An appropriate enabling environment is a necessary, although not a sufficient condition, for promoting sustainable development. It is generally acknowledged that some of the key elements for promoting sustainable development comprise of: a clear demarcation in a country of the roles of the public and private sectors in economic management; enhanced investment in human development as well as infrastructural development in support of development; appropriate macro economic policies conducive to investment and savings; and a financial structure which provides effective financial intermediation.

14. Political instability and/or civil strife and war has been a major impediment to Africa's socio-economic development as a number of African economies have been completely ruined by these developments. Achieving peace and stability in the countries currently in civil strife and/or war is a necessary prerequisite to sustainable economic development. Furthermore, the winds of change towards political pluralism and democracy have not been without problems in Africa. Africa and the international community should support the efforts of those countries that are striving to attain "peace and stability".

15. A clear demarcation in economic management of the roles of the public and private sectors is also a necessary element in an environment conducive to development. This does not imply that governments in Africa should surrender their functions. On the contrary, the call is for African governments to re-orient their intervention in African economies towards those activities which support the development process and away from those that tend to compete with the private sector and non-governmental organizations.

16. In recent years, many Africa countries have adopted policies designed to improve the "enabling environment" for Africa's development. accordingly, the majority have adopted policies aimed at: reducing rates of monetary expansion and inflation; cutting down budget deficits as a proportion of Gross Domestic Product (GDP) as well as domestic financing of such deficits; reducing the size of the public sector through privatization of public enterprises and rationalization of government machinery; elimination of price controls and/or subsidies and deregulation of interest rates; reduction and/or elimination of over valuation of exchange rates of their currencies; and provision of incentives for private sector investment. Most African countries have moved to cut budget deficits and indirect fiscal losses to reduce the need for inflationary financing of such deficits. Furthermore, many have adopted financial reform programmes designed to improve financial intermediation in their economies as well as enhance the role of the financial system in promoting sustainable development.

17. It is acknowledged that in the last few years, many African countries have earnestly moved in implementing structural adjustment programmes related economic policies, but there is also a consensus that for the continent to achieve sustainable development, much more needs to be done.

Box 1: Providing an Enabling Environment for Africa's Development: Issues for Consideration

In order to improve the enabling environment in support of accelerated development in Africa, it is essential to critically consider the necessary measures that African countries need to adopt in order to improve the macro economic environment needed to promote growth as well as the support factors complimentary to the process.

Accordingly, a discussion on this topic needs to focus on a number of important issues such as; what are the appropriate public policies African countries need to adopt to promote accelerated economic growth; what should be the approach to development that is conducive to sustainable development; what are the measures needed to achieve macro economic stability and rapid economic growth; and what have been some of the weaknesses in the policies currently being pursued by African countries.

The need for building the institutional basis for growth in Africa is acknowledged. The central issue is the policies needed to promote the principle of shared growth, economic development with equity and effective participation of the population in formulation and implementation of economic and social programmes.

Development of human capacities is key to Africa's development and to enhancing its capacity to absorb and adapt to new technological changes. African countries need to rethink their policies on human development and utilization, including educational strategies. A number of African countries have made significant progress towards rationalizing their exchange rate policies in order to remove anti-export bias and distortions in the pricing of foreign exchange. Nonetheless, the recent devaluation of the CFA Franc has raised to a higher plane the debate on the efficacy of devaluation in contributing to sustainable development and the need for complimentary measures in its support.

IV. Sources For Development Financing

18. The main sources for development financing are domestic and foreign direct investment; external financing in the form of debt; and aid flows, either concessional or non-concessional. For Africa to attain self-sustaining economic development, it is imperative that the rates of domestic savings and investment be increased from their current low levels. Domestic savings in Africa are generally relatively low compared to other developing regions. Accordingly, Africa remains heavily depended on foreign resources to support its development process.

A. Domestic and Foreign Direct Investment

19. Savings and investment are two sides of the same coin. Accordingly, raising domestic savings requires in the long term raising investment in order to promote growth. A mixture of policies is called for to promote and increase public and private savings.

20. Investment fell in many African countries in the 1980s as economic difficulties forced many governments to curtail capital expenditures and the private sector reduced investment. Many African countries were forced by the economic crisis of the 1980s to significantly reduce capital expenditures as part of fiscal stabilization. Furthermore, the poor economic situation prevailing in many of these countries, coupled with the debt problems, resulted in a significant decline in private investment. Foreign direct investment in many African countries fell precipitously. Accordingly, for sustainable development, investment ratios in many African countries need to be raised significantly from their current low levels.

21. The surest way for increasing savings in the long term is to boost growth. Evidence appears to indicate that growth and savings are part of a virtuous circle, with high growth leading to high savings and in turn to higher growth. However, in the short-to-medium term, a number of policies can be undertaken that are conducive to increased savings. These include increasing public sector savings by reducing wastage, improving tax assessment and collection, and increasing the tax base; maintaining positive real interest rates that are conducive to savings but not a disincentive to investment; improving the financial infrastructure; and adopting policies that stem capital flight.

22. There is need to raise domestic savings in Africa in order to support development. The United Nations Economic Commission for Africa (UNECA) has estimated that in order for low-income countries to attain the target growth rate of the United Nations new Agenda for Africa's Development in the 1990s (UN-NADAF) of 6 percent per annum by the year 2005, gross domestic savings rate would have to increase from 22.5 percent in 1993 to 26.1 percent by 1998 and then fall to 19.5 percent by the year 2005. Similarly, for upper-income African countries the rate would have to increase from 22.9 percent in 1993 to 28.6 percent and 31.4 percent in 1998 and 2005, respectively.[3] These figures are based on optimistic assumptions about future net resource transfers to Africa and indicate that the continent would have to exert significant efforts to raise domestic savings rates from their current low levels.

23. The main components of a policy designed to increase domestic savings in Africa would have to include : improving the financial structure; liberalizing entry into the financial sector; maintaining positive interest rates; maintaining realistic exchange rates; and reducing inflationary financing of fiscal deficits. Asian newly industrializing countries have effectively utilized specialized financial institutions, such as sectorial development banks and people's banks, to mobilize domestic savings and support the development process.

24. Africa is making significant efforts to restructure its financial sectors. Financial reforms are currently in progress in a number of African countries. However, undue emphasis has been placed on improving balance sheets of banks and recapitalizing them. In the course of doing this, local financial intermediary capacities have been lost to foreign institutions that have not met development needs of the countries. African countries should continue improving financial infrastructure and deepening the range of institutions as well as the instruments available to savers and investors. The process of opening up the banking and non-bank financial sector to the private sector, in order to reduce government monopoly, should be encouraged. This increases efficiency of allocation and utilization of financial savings.

Box 2: Increasing Savings and Investment in Africa: Issues for Discussion

Investment has traditionally been viewed as one of the driving forces of economic growth. Although investment can be financed by borrowing from abroad and/or by foreign direct investment, nonetheless sustainable development requires that a country raise its domestic savings rate in the long-term. Inadequate domestic savings has a tendency of eventually pulling down investment rates, either directly or indirectly through the constraints on the continued build-up of foreign liabilities which must eventually be repaid from domestic savings.

A virtuous circle exists between high growth rates and high savings rates, with high growth giving rise to higher savings which in turn give rise to high growth. The key is how to start this chain reaction and that is the challenge facing Africa.

The main issues facing the continent are: formulating and designing appropriate policies to promote higher savings and investment; how to improve efficiency in allocation and utilization of both human and financial capital; strengthening the institutional framework for effective financial intermediation; and putting in place policy measures needed to stem massive capital flight out of Africa.

Although many African countries now accept the need to reduce direct government intervention in economic life of African countries, nonetheless well directed intervention can yield positive results as long as the cost of such intervention is minimized. Asian countries achieved rapid growth rates through such selective intervention. Furthermore, in trying to raise domestic savings African countries will also need to direct their attention to mobilizing non-financial savings.

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3 United Nations Economic Commission for Africa: <u>Strategies for Financial Resource Mobilization for Africa's Development in the 1990s</u>, 18 February 1993, Document E/ECA/CM/19/5.

25. Furthermore, to increase domestic savings also requires improving the institutional structure. Accordingly, measures need to be taken to; deepen the financial intermediation process; liberalize entry into provision of bank and non-bank financial services; promote the development of capital and money markets; and integrate the informal financial sector into the formal financial system. Liberalizing entry into the financial sector, is not synonymous with a laissez-faire type of situation in the banking sector, but rather with a transparent framework that permits the development of an effective financial intermediation infrastructure.

26. Measures needed to mobilize domestic savings would also have to include: raising public savings; controlling public expenditures; and increasing private savings. Controlling public expenditures would invariably have to encompass: control of military expenditures; tightening of procurement procedures to avoid wastage; and budgetary planning which delineates national priorities. Similarly, raising public savings requires restructuring of the taxation system; and adjusting prices on public utilities to reflect the cost of providing such services.

27. The United nations Economic Commission for Africa has estimated that for low-income countries to attain the growth target of 6 percent by the year 2005, Gross Domestic Investment (GDI) as a proportion of Gross National Product (GNP) would have to rise from 26.2 percent in 1993 to 40.7 percent by 1998 and then decline gradually to 37.3 percent by the year 2005. Similarly, for upper-income countries this would have to increase from 24.4 percent in 1993 to 32.8 percent and 33.5 percent by 1998 and 2005, respectively. Providing an enabling environment which promotes private sector initiative is key to increased domestic and foreign investment. Evidence from Latin America and Asia appears to indicate that an environment which induces citizens of a country to investment in their country is more likely to attract foreign direct investment than one that inhibits domestic private sector initiative.

B. Aid and Concessional Flows

28. Recent statistics indicate that there has been a significant decline in ODA flows to Africa, reflecting both the economic situation prevailing in aid donor countries and competing demands for such resources. Accordingly, Africa has in recent years become heavily dependent on multilateral resources. The outlook is that ODA resource flows to Africa are not likely to recover significantly, except for humanitarian aid. The irony of the situation is that while food aid is short-term relief, what Africa needs most is long-term finance that will enable the contain to achieve self-sustaining economic growth and thereby reduce its dependency on external food aid.

29. Net resource flows to Africa declined to $18.4 billion in 1992 from $22.2 billion in 1990 and when measured in constant 1985 prices, this meant that Africa received net resource flows of just $14.7 billion in 1992, below the $15.8 received in 1985 and far below the requirements needed to support sustainable development. Overall aid flows to Africa fell sharply in 1992 as official development assistance (ODA) to the continent, in current dollars, declined from a peak of $19.7 billion in 1990 to $12.1 billion in 1992. For Sub-Saharan Africa ODA fell by 22 percent in 1992.

30. The decline of ODA flows reflects to a large extent a fall-off in bilateral aid from the largest donor countries partly as a result of tighter budgets in those countries and conflicting demands for aid flows. Furthermore, multilateral aid institutions which had increased significantly resource flows to Africa in the latter in 1980s tapered off during the early 1990s and indications are that multilateral flows to Africa may not increase significantly in the face of resource constraints in the donor countries that replenish various lending facilities of these institutions. Continued reductions in aid will be devastating for Africa, especially Sub-Saharan Africa, since ODA now accounts for 80 percent of financial flows to the sub-region.

C. External Debt and Debt Relief

31. The African debt problem persists notwithstanding past initiatives designed to provide debt relief to Africa. The debt burden continues to be a major constraint to Africa's socio-economic recovery and debt servicing obligations still absorb almost nineteen percent of the continent's export earnings on goods and services. Although a number of debt relief initiatives have been announced, and some implemented, these have been considered inadequate even by most creditor countries in terms of their cash-flow savings to African countries and in reducing the debt overhang. Accordingly, most people are in principle agreed that the continent needs much more debt relief in order to achieve sustainable development. It is the modalities of providing greater relief that are proving elusive.

32. A more comprehensive debt initiative is needed for Africa within the framework of overall financing of the continent's development process. Despite strenuous adjustment efforts, Africa is the only region where debt indicators have not improved significantly and accumulation of arrears has increased,rather than decreased. Furthermore, the debt burden has tended to exacerbate the economic and social situation of African countries, partly by discouraging foreign direct investment. Africa is one of the few regions still experiencing stagnation or a decline in foreign direct investment. The economic situation, as well as the continent's capacity to service its external debts, is further complicated by the continuing decline in commodity prices of export interest to Africa.

Box 3: Africa's External Debt Problems: Issues for Consideration

The debate on the African debt problem is currently not centered on the need to provide debt relief to these countries but rather on the amount and quality of such relief in the framework of financing the development process in Africa.

The issues are now centered on: the amount of debt cancellation needed for sustainable development; the need to improve the institutional framework for debt rescheduling and negotiations; additionality of resource flows in the framework of such rescheduling; and complimentary measures needed to improve productive capacities of African countries as well as their capacities to service debt.

The nature of Africa's debt problem is mainly linked to the debt overhang diverting resources from productive investments to reinforce the region's capacity to meet its external obligations. Furthermore, the problem is complicated by the fact that a large proportion of the continent's debt service payments are now on private sector and multilateral debt. Accordingly, unless a solution is found to deal with this type of debt, the African debt problem will persist.

The fundamental issues facing this Forum include: recommendations that can be made to enhance the amount of debt relief to African countries in support of development; measures needed to improve the institutional framework of the Paris Club and the related bilateral negotiations; how to deal with multilateral debt and the large share of private sector debt service payments for Africa; and whether there is scope for rationalizing the donor's fora, such as the Paris Club, the Consultative Group and the Round Tables. Furthermore, the African debt problem cannot be resolved without improving the export earning capacities of African countries.

33. The arguments for a more comprehensive solution to the African debt problem as advocated by the African Heads of State and Government, and echoed by the Secretary-General of the United Nations and the United Nations Economic Commission for Africa (UNECA), remain valid. A consensus appears to have emerged between African countries and the donor community that more needs to be done to alleviate the African debt burden if the continent is to move towards sustainable growth. Furthermore, it is also agreed that while an impressive ray of new debt relief initiatives have emerged, such as the "Toronto terms", "the Enhanced Toronto terms", the Trinidad and Tobago terms", "the World Bank Debt Reduction Facility", and the "IMF Rights of Accumulation Facility" among others, nonetheless these have not adequately dealt with the African debt problem. The general call now is for efforts to be made to substantially reduce the debt servicing burden of these countries.

34. A number of donor countries have also announced unilateral debt reduction schemes in favour of some African countries. The Nordic countries were among the first to do so and were later followed by others such as the Federal Republic of Germany, France, the United Kingdom, Switzerland, and now the United States of America. Two recent additional proposed bilateral initiatives, from France and the United States of America, provide additional impetus to the resolution of the debt problems of countries in Sub-Saharan Africa.

35. The French proposal which was tabled during the 1992 Franco-African Summit, unilaterally creates a "Debt Conversion Fund" of US$830 million to convert bilateral debt of some middle-income African countries (Cote D'Iviore, Cameroon, Gabon and Congo) into support for development projects in those countries. The areas that have been earmarked for funding from such resources include: environment, education, agricultural development, and productivity improvements. Utilization of the resources, however, requires approval of the Caisse Francaise de Developpement (CFD). The fundamental question facing analysts of Africa's debt problems is whether this initiative will result in a significant reduction of the debt burdens of these countries; and how much cash-flow savings and new resources will it generate in support of development in these economies. Preliminary estimates appear to indicate that the initiative may actually cost France only US$30 million, while the African countries concerned will still be required to generate local currency counterpart of the debt to support the Fund.

36. The problems of the CFA zone have been compounded by the recent devaluation of the CFA Franc. The devaluation will not only result in an increase in the domestic currency equivalent of the external debt of these countries but will also require them to generate additional local currency equivalent to service such debt. Although, in the long term improved competitiveness of exports of these countries (if their export base diversifies from primary commodities to manufactures with high level of local content) could result in improved capacity of the countries to meet these obligations, in the short-to-medium term, the problem is real. Furthermore, in the context of declining commodity prices such an improvement may not be forthcoming. Additional debt relief measures will therefore need to be considered along with the current devaluation of the CFA Franc if significant economic and welfare losses are to be avoided.

37. The United States of America recently proposed to write-off one half of the debts of the poorest African countries (approximately eighteen in number). It has been estimated that only about US$228 million of non-concessional bilateral debt would be eligible for this treatment and the execution would be to grant Enhanced Toronto terms to beneficiary countries. It is estimated that this exercise would actually cost the U.S. government only about US$20 million as a large proportion of the debt is already unrecoverable.

38. While the cash-flows to African countries of the U.S.A. initiative may appear negligible, nonetheless, it's significance lies in the acceptance of the principle by the U.S. government of debt cancellation in the framework of Paris Club debt rescheduling exercises. In the past, the U.S.A. government and Japan have held back implementation of debt reductions as a matter of principle. These developments may therefore open new opportunities for carrying forward the principle of providing greater debt relief to African countries by canceling a substantial proportion of their debt overhang.

39. The Tokyo International Conference on Africa's Development (TICAD) called for an examination of the possibility of the Paris Club considering a substantial reduction of the stock of debt of African countries in line with the Trinidad and Tobago terms. This call has yet to be taken up by the Paris Club. The Discussion Forum may therefore wish to address itself to the measures that can be taken to accelerate the implementation of these recommendations by the Paris Club. Furthermore, there are also a number of issues currently under discussion within the framework of the Paris Club which if resolved could significantly enhance debt relief to African countries. These issues relate to: the amount of debt cancellation that should be agreed upon, the range currently being discussed being from 50 to 80 percent of pre-cut-off and reschedulable debt; the possibility of inclusion of selected post-cut-off debts in the rescheduling exercise; the inclusion of post-cut-off interest rate arrears in the exercise; and consideration of a country's total debt stock in rescheduling. Resolution of these issues could result in a significant improvement in the debt relief package provided under the Paris Club. The Forum may wish to deliberate extensively on these issues and submit appropriate recommendations to the Group of Seven (G-7) and the Paris Club.

40. Africa continues to operate from a weak position in the Paris Club negotiations, both in terms of individual countries facing a cartel of creditors as well as in preparing and negotiating the Paris Club Agreement and the subsequent "bilateral rescheduling exercises" that follow. While some efforts have been made to improve the institutional framework for debt rescheduling, a lot remains to be done. The exercise is still cumbersome and time consuming. Many African countries spend a lot of time chasing creditor governments in order to reach bilateral agreements which implement the "Paris Club Minute". Furthermore, concerns have emerged that in the estimation of financing resource gaps, macro economic assumptions have at times been inaccurate, with the attendant effect that countries are at times given debt relief not commensurate with their financing needs. The Forum may wish to examine this issue and make suggestions on improving the process. Finally, there is also need for greater coordination between the Paris Club and donor's fora, such as Consultative Groups and Round Tables. The multiplicity of these fora imposes a cost on African countries which have to spend the scarce foreign exchange and human resources to attend and to service such meetings. Consideration could be made for a possible merging of some of these.

D. The Issue of Africa's Absorptive Capacity

41. The paradox which appears to have emerged is that while Africa makes requests for additional external funding the continent has been unable to utilize resources made available to it under various facilities; including the Lome Conventions and World Bank lending facilities. This is indeed a challenge to Africa and one that our countries should take up seriously by trying to identify the factors that have given rise to under utilization of donor funds. A critical examination of this situation is called for in order to establish whether the under utilization of such resources is the result of weaknesses in project planning and management; poor disbursement methods by donors; or conditionalities attached to the use of such resources.

42. Many donor countries will not commit additional resources to Africa if those that they initially committed remain unutilized.

V. The External Environment and Africa's Economic Recovery

43. African countries have had to deal not only with internal factors that have adversely affected economic activity but also an external environment which has often been harsh and unaccommodating. Many of these countries have experienced, and continue to experience periodically, man-made and natural disasters which often incapacitated economic activity. The severe drought of 1991 which affected a large number of countries in East and southern Africa is a case in point. Furthermore, most African countries have been adversely affected by a progressive decline in their terms of trade and/or loss of market shares for their exports.

44. The progressive decline in commodity prices of export interest to Africa during the last decade, a situation which has continued into the 1990s, has had a debilitating impact on African countries. In the face of declining export earnings, many African countries have been forced to sharply curtail their capital expenditures as well as expenditures on social sectors (education and health).

45. Market access has also been a major problem for Africa, notwithstanding the various preferential arrangements agreed upon between Africa and some of its trading partners, such as the European Community. Increased protectionism in the markets of industrialized countries, especially through non-tariff barriers, resulted in a significant loss of market shares of African countries, even in traditional exports. Agricultural subsidies in industrialized countries partly contributed to the decline in agricultural production in Africa, as cheap subsidized products replaced African products. It is hoped that the recently concluded Uruguay Round of Multilateral Trade Negotiations may provide a framework for transparency in agricultural trade.

46. The problem of declining commodity prices is fundamental to the issue of whether Africa can attain sustainable development and also grow out of its current debt problems. Most African countries recognize the importance of adopting appropriate policies that will enable them to regain lost market shares and improve their export capacities. However, to achieve this, an enabling external environment is essential. Accordingly a conducive post-Uruguay Round global trading system is fundamental to Africa's recovery as is a stable international financial system.