Economic Commission for Africa

The Challenges of Mobilising Finance For African Development

Conference of African Ministers of Finance

Addis Ababa, Ethiopia

20-22 November 2000

I. Africa's Development Challenges

1. The Economic Commission for Africa (ECA) has estimated that for Africa to achieve the goal of the Copenhagen Social Summit of reducing poverty by half by the year 2015, this will be a monumental challenge to mobilise both external and domestic finance in order to attain this target.. ECA has observed that to reduce poverty in Africa by half by the year 2015, a goal ratified at the World Summit for Social Development in Copenhagen in 1995, it will require a 4 percent reduction in the number of people living in poverty each year (Economic Commission for Africa: Economic Report on Africa, 1999). The minimum requirement to achieve this will have to include an average growth rate of 7 percent per year and this in turn requires an investment rate equal to 33 percent of GDP. At the current domestic savings rates in Africa, of around an average of 15 percent of GDP and ODA of 9 percent of GDP, this leaves a resource gap of about 9 percent. Africa also faces formidable challenges in mobilizing development finance, especially in the face of declining official development assistance and difficulties of raising foreign direct investment.

2. Achieving the targets of poverty reduction as indicated above will require intensified efforts by both African countries and their development partners to mobilise official development assistance (ODA), private sector investment flows to Africa, debt relief, mobilisation of domestic savings and reversal of capital flight. Recent trends in ODA give much cause for concern and a clear indication that large increases in ODA are unlikely, even as the prospects for aid effectiveness in Africa are improving. Furthermore, Africa has not benefited from the phenomenal growth in foreign investment and the continent faces policy challenges and key conditions needed to attract foreign investment.

3. Given the current declining trends in official development assistance, depressed commodity prices, and the inability of many African countries to attract private sector capital flows, debt relief will emerge as an important source of development finance. Accordingly, providing greater relief will need to become an integral part of the efforts by the donor community to assist African countries in mobilising development finance needed to support sustained economic growth and poverty reduction. In meeting this challenge, Africa and its development partners will need to mobilise all types of development finance, i.e. aid, debt relief, foreign direct investment and domestic finance. Furthermore, to meet this challenge and cover this resource gap, policy-makers will need to take actions to promote domestic resource mobilisation, reverse capital flight and attract foreign direct investment.

4. Dealing effectively with the African debt problem has to be part and parcel of the equation for mobilising development finance in Africa. The heavy debt service payments that African countries have to make on their external debt absorb much needed resources and foreign exchange that countries could use to support sustained economic growth and poverty reduction. Furthermore, raising domestic savings has to be part of the broader equation for mobilising development finance in Africa as well as developing innovative ways of attracting foreign direct investment and reversing capital flight.

II. Official Development Assistance and Aid Effectiveness

1. To reduce poverty in Africa by half by the year 2015, a goal ratified at the World Summit for Social Development in 1995, will require a 4 percent reduction in the number of people living in poverty each year. The minimum requirement to achieve this will have to include an average growth rate of 7 percent per year. This in turn requires an investment rate equal to 33 percent of GDP. At the current domestic savings rates in Africa, of around an average of 15 percent and ODA of around 9 percent, this leaves a "resource gap" (investment gap) of about 9 percent. In meeting this challenge Africa and its development partners will need to work together to mobilise all types of development financing, i.e. aid, debt, foreign direct investment, and domestic finance. Furthermore, in order to cover this gap policy-makers will need to take action to promote domestic resource mobilisation, reverse capital flight and attract foreign direct investment.

2. The need to reduce Africa's dependency on aid in the long term is acknowledged, and it is generally accepted aid levels to Africa need to be increased in order to reduce poverty and resuscitate economic performance in African countries. Furthermore, the need for resource flows- whether they are in the form of aid, debt and or foreign direct investment - to be viewed in a holistic and integrated framework for financing the continent's development is also recognised.

3. The reality, however, has been that ODA has continued to decline as a proportion of GDP, in spite of the improving policy environment in most African countries. The ineffectiveness of aid in most African countries has contributed to aid fatigue among donor countries and led to significant cut back in aid budgets. Furthermore, the decline in aid flows to Africa was taking place at a critical time when many of these countries are implementing economic and financial reforms.

2.l Policy Reforms and Aid Effectiveness

4. Several factors are cited as having contributed to aid ineffectiveness in Africa, among them, lack of a stable macroeconomic policy environment, lack of good governance, lack of recipient ownership, ineffective management of aid resources by donors and recipients, the prevalence of donor-driven programmes, and a shortage of resources for recurrent operations and maintenance. For these reasons, corrective measures would need to include the sustenance of a stable macroeconomic environment, good governance, strong institutions and

capacity-building to enhance aid effectiveness, which are not currently in place in most African countries.

5. Furthermore the need for a new "donor-beneficiary" relationship based on partnership and a shared vision is now recognised by both the donor community and African countries. If implemented, such measures are likely to improve the quality of management of aid resources by donors and recipients and enhance coordination, cohesion, focus and impact of donor-supported programmes and development assistance in general. More importantly, the new relationship should focus on African-driven agenda, to foster a sense of ownership in the recipient countries.

6. A number of important issues have been emphasised on the debate on aid and development and include: what should constitute the elements of a new more effective aid relationship; improving coordination among donors; transferring the responsibility of aid management to African governments; the fallacy of the "aid dependency" argument; and the politics of aid allocation.

7. Many have emphasised the importance of a "new aid relationship" based on shared values and mutual appreciation of each other's role in making aid effective. The tendency for some donors in bypassing key Ministries to implement programmes and projects in African countries created conflicts rather than partnership. The need for cooperation between donor countries and recipient countries was therefore imperative for improving aid effectiveness. Donors had quite often imposed projects on African countries. Moreover, recipient countries have had to contend with numerous missions from donor countries as well as with numerous agencies. In such an environment, duplication of efforts was unavoidable. Improving aid effectiveness in Africa would entail shared responsibilities. Aid donors needed to improve ownership of aid-funded programmes and projects by Africans and ensure that aid was "demand-driven" and not "donor-driven". The need for donors to improve the reliability of aid flows and make them more dependable was emphasised.

8. Ms. Herfkens, The Minister of Development and cooperation of the Government of Netherlands has indicated that the Government of the Netherlands intends to limit its ODA support in Africa to 20 countries based on selective criteria. The key criteria will include: the degree to which a country's development programmes made "poverty reduction" a key element; and the extent to which a country was pursuing good policies and good governance. The Government of the Netherlands was committed to the principle of African ownership of aid-funded projects and programmes; provision of aid within a holistic approach by focusing on the overall fiscal position of a country; and decentralisation of implementation of programmes and projects and strengthening local participation. Aid allocation would increasingly be given to recipient countries on multi-year basis and as budget subventions. For aid resources to be used efficiently, it was stressed that recipient countries needed a transparent fiscal framework; a focal coordinating point; and effective public sector management.

9. Many have argued, including Mr. Collier that many of the arguments that have been used to question aid effectiveness in Africa, based on the "aid dependency syndrome", were

flawed in many important respects. The underlying assumption of the "aid dependency syndrome" is that there was too much aid resources. The arguments against high levels of aid flows have included: high levels of aid flows may contribute to slow growth; there are diminishing returns to aid flows to a country; and countries become aid dependent just like "households on welfare" become dependent on such payments. The negative consequences of the aid dependency principle often becomes self-fulfilling as donors reduce aid. The analogy of the "aid dependency syndrome" is "trade dependency" of some years past which has been rendered obsolete by the increasing process of globalization..

10. Mr. Collier has stated that the argument that "high aid has been the cause of slow growth" in Africa is not true. Subject to a satisfactory policy environment, aid raises growth, until remarkably high levels of aid are reached, and the more aid that is provided the more growth occurred. The argument that aid has a disincentive analogous to "welfare dependency" is also flawed as any disincentive effects of aid on national work effort are negligible and that indeed there might be positive incentive effects arising from the reduced distortionary effects of the tax system. As regards the argument that aid detracts from private investment, the evidence shows that in economies in which policy had recently been reformed, aid plays a vital role, both in sustaining growth until private investment increases, and in leading private investment. Contrary to popular view about the fickleness and riskiness of aid as a core component of the budget, aid has actually been less volatile. Far from needing to emerge from aid dependence, Africa is entering a phase during which "big aid" will make its most vital contribution. The next decade in Africa will be an opportunity for aid to be vindicated. African countries were urged to learn from each other, "best practices", not only in terms of effective utilisation of aid, but also in other areas such as attracting private investment and promoting labour intensive manufacturing.

11. Furthermore many have observed that aid policy of donors and aid allocations were not always based on considerations of promoting economic and social development in African countries. Indeed, in a number of cases in Africa, aid was provided for purely "political reasons" the need for donor countries to be visible in certain regions. There were also pressures from lobbyists in developed countries, and pressures from legislators. In this situation, aid had supported corrupt governments in the past. Among the factors that explain poor allocative choice of aid and faulty implementation are the facts that most aid agencies are "political entities" and hence subject to all types of pressures; the aid agencies lacked the capacity in view of the expanded missions and mandates; political entities did not have the leverage to implement programmes and projects which would have yielded higher returns to human development in Africa. Moreover, it was noted that aid agencies were always under pressure: to spend available resources as quickly as possible for political reasons; to support their governments' non-economic agendas and at times to play favours of leaders; and from legislators, ministries of foreign affairs and non-governmental organizations as well as public opinion. Consequently donor policies and practices were partly responsible for the problem of aid effectiveness in Africa.

12. The bureaucratic procedures of agencies had in some cases been a major contributory factor to their observed inefficiencies. Moreover, duplication of effort by various agencies and non-governmental organizations was not uncommon in Africa. Furthermore, in the face of

expanded missions, bilateral aid agencies had proven weak in political influence within their own countries. They are often below the cabinet level, have limited constituencies, and are often asked to work on non-priority issues. Expanded portfolios often stretch staff expertise and make it difficult to be effective. While the current shift towards "managing for results" is intended to improve aid effectiveness, this could also lead to greater control of aid-funded programmes and projects. It is imperative that donors and aid recipients evaluate the institutional framework for aid delivery, the need to review "aid targets" as well as "aid counterpart funds", and the need for redesigning the aid relationship in general.

2.2 *Redesigning the Aid Relationship*

13. It has been observed that aid had been effective in the right policy environment, and conversely had been ineffective in a poor policy environment. Although most African countries had pursued macroeconomic reforms, these reforms had been inadequate to achieve aid effectiveness. Some delegates noted that corrective measures would need to include the sustenance of a stable macroeconomic environment. The participants also emphasised the need for good governance, transparency, a good institutional framework and capacity building in order to enhance the effectiveness of aid. Some participants noted that more efficient allocation of aid resources among countries on the basis of their relative poverty levels, and on the quality of their economic performance could enhance the impact of aid.

14. Past experience with aid, on the part of donor and beneficiary countries, suggests an urgent need to re-examine current aid modalities with the aim of increasing aid effectiveness. Both donors and recipients seem to diverge on this issue. However, the need for reforms that will build capacity in the recipient countries (for programming, monitoring and evaluation), and reduce donor intrusiveness in public expenditure decisions (motivated by the urge to disburse funds), which has also weakened recipient-country capacity is generally accepted. The key is to put in place a mechanism for consensus building among key African development stakeholders (including donors) around an African-led agenda and to return spending authority, control and accountability to the beneficiary countries. This underscores the need for a partnership approach in ensuring aid-effectiveness.

15. This strategic partnership needs to recognise the responsibilities of the recipient countries as well as those of the donors. The need for both donors and recipients to establish clear and coherent objectives by demonstrating how development cooperation serves shared interest of the people in the donor countries as well as the recipient countries, as a means of gaining the support of their constituencies. Furthermore, in the new partnership, the role of the donors should be to complement resources mobilized by the recipient countries themselves, encourage recipients initiative, enhance opportunities in global markets and foster the strengthening of recipient countries' capacity for self-reliance through trade and private investment. In particular, the need for transferring responsibilities (for aid programming and implementation) to the recipients to foster a sense of ownership needs to be stressed.

16. It was the general consensus that if these measures were implemented, they would likely lead to improved quality of management of aid resources by donors and recipients and to enhance coordination, cohesion, focus and impact of donor-supported programmes and development-assistance in general.

Main Issues of the Current Debate on Aid

Relatively high aid ratios, coupled with the observed lacklustre economic growth performance of Africa since the mid-1970s, have led to the renewed debate on aid. The current debate on aid flows to Africa has centred mainly on the following issues: aid effectiveness; the intensity of aid in Africa; aid dependency; the impact of aid dependency on governance and institutions in Africa; and the aid relationship.

Aid Policies, Investment and Growth: One important aspect of the current aid debate deals with impact of aid on investment and growth. Two major approaches could be distinguished in this respect: the aid-financed investment approach and the aid-induced policy reform approach. The aid-financed investment approach has its roots in the dominant growth models of the 1950s and 1960s, i.e. The Harrod-Domar models, the two-gap models or the financing-requirements models. The most important results of critically examining the implied claims of this approach could be summarised as follows: aid has not led to growth in Africa; in the short-to-medium term, investment did not lead to growth; and there exists no correlation between growth predicted for aid-financed investment and the actual rate of growth.

The alternative approach is to analyse economic policies that countries have pursued over the years and the role aid has played therein. The idea is to assess the extent to which governments implementing growth-enhancing reforms can be assisted by foreign aid. According to this approach, although foreign aid cannot promote sustainable policy reforms in countries that lack local support, aid can be a powerful tool for growth when reforms are endogenously owned. In this respect, the combination of private investment, good policies, and foreign aid is a powerful conduit through which growth can be achieved.

However, as some have observed, the major issue raised by the two above approaches is the hidden proposal for adopting ex-pots conditionality in the allocation of aid. Under this proposal, developing countries would be classified according to their economic-policy environments, appropriately defined: good-policy countries would receive aid, while bad policy countries would be denied.

The point for discussion is whether good policy environments can be defined appropriately. The current practice of defining policy stance based purely on macroeconomic indicators may prove to be rather restrictive, especially in the context of development objectives. The introduction of the Poverty Reduction Strategies Paper (PRSP) is an effort to inject developmental objectives in such performance indicators.

Aid and the Exchange Rate: One of the contributions to the analysis of the impact of aid was focused on the potential conflict between aid flows, especially sustainable and excessive aid flows, and export competitiveness. It is argued that some of the "unsustainable" aid flows will be used to finance expenditure on non-tradable goods and services. With prices of tradable goods given, the effect of such expenditure on non-tradable goods is that there will be a relative price shift in favour of non-tradable goods. The immediate effect is that more of the (cheaper) tradables, especially imports, will be demanded, leading to deterioration in the external balance, which in turn will require more aid flows.

The main issues for discussion as regards the impact of aid flows on a country's exchange rate hinge on the following aspects. First, is the issue of how to manage an orderly transition to less aid dependence and how to effectively utilise aid flows in the transitional period without undermining export-oriented real exchange rate (RER) competitiveness. Second, how can Africa participate positively and actively in the private capital market, without risking destabilising financial crisis or undermining its export-oriented growth strategies.

Redesigning the Aid Relationship: In the current discourse on aid, four related widespread beliefs can be identified and can jointly be termed the "aid dependency school." These beliefs are: that Africa has grown more slowly than other continents, in part because it has received much more aid relative to GDP than other developing areas; that the enormous increase in private capital flows to developing countries has made aid unnecessary and indeed a distraction, i.e. that governments should focus on attracting private capital rather than aid. The other elements of these arguments are that aid flows, determined by "donor fads" are so fickle that they are a source of instability rather than a basis for sustained growth; and that aid is, in any case doomed, the forces against which have recently led to reductions in aid budgets will continue into the future, so that aid will rapidly decline in real terms. These are some of the pessimistic positions about future prospects of aid flows to Africa.

Major Conclusions and Recommendations WA

In essence, the current debate on aid could be interpreted as an acknowledgement that the level, composition and mechanisms of aid delivery continue to be problematic. Thus the nature of aid and its mechanism to deliver it make local administrative and political processes beholden to external constituencies, and are inefficient and uncoordinated. Taking into consideration strategic development objectives of African countries, one proposal for an ideal aid system starts by recognising that the current aid system is a spiral of weak recipient capacity (for monitoring and evaluation) leading donors to take an ever increasing and intrusive role in decisions regarding public expenditure, resulting in further weakened recipient capacity. The key to breaking this spiral is to return spending authority, control and accountability to the country in question.

The components of an ideal aid system that could bring about the desired results would include the following: an overall development strategy in the context of which the government will present its rolling expenditure and revenue plans; a mechanism to discuss these plans with domestic and donor constituencies. They would also include an understanding between development partners that expenditure and revenue plans would be scrutinised for broad coherence, feasibility and policy consistency, not for the details of the projects; and once plans are agreed, donors would contribute to a pool of aid which, along with government's own resources, would finance the entire expenditure package.

Practical suggests for a transition from the current aid system to the "ideal system" may include the following: institutionalising of a national conference on development strategy, to be attended by all local stake-holders, in which the rolling plans for expenditure and revenue are presented, discussed and agreed upon; and the preparation of public expenditure review documents, and all other important documents, embodying economic and social policy reform measures by recipient governments. Also included would be advanced donor coordination aimed at pooling aid resources at the sectoral level; increased investment in recipient countries' capacity for accounting and auditing public expenditure; reform of the current donor consultation for a by moving them to countries, co-chairing them with countries, servicing them with government documents only and enlarging participation; and formal agreements between two or more donor agencies on a division of labour in a particular country.

The 1996 Development Cooperation Report described a convergence of thinking in the international community that has led to a broad consensus of support for a result-oriented and people-centred model of development cooperation. The main elements of this consensus are: development cooperation is based on giving the central responsibility for formulating and carrying out integrated national development strategies to each developing country's government, institutions and people; and in this new environment development partnership, the role of responsible external actors should be to complement local resources, encourage local initiative, enhance opportunities in the global markets and systems, foster the strengthening of local capacities and self-reliance. There appears to be a new orientation in the context of development cooperation towards emphasis on promoting trade and private investment in developing countries. Capacity building for increased trade and private investment in aid-dependent countries is now on the international agenda.

III. Debt and Debt Management in Africa

3.1 *The Heavily Indebted Poor Countries (HIPC) Debt Relief Initiative: Scope and Performance*

1. A number of initiatives have emerged in recent years aimed at alleviating the debt burden of the most-heavily-indebted poor countries, both within the framework of bilateral arrangements and also as part of the process of trying to improve the debt relief provided under the Heavily Indebted Poor Countries (HIPC) Initiative. Leaders of the world's industrialised countries meeting in Cologne, Germany, 18-20 June 1999 agreed in principle to cancel an additional US$45 billion in debt owed by the heavily indebted poor countries. This was to reduce significantly debt service payments of at least 16 countries.

2. The Heavily Indebted Poor Countries (HIPC) Initiative represented the first step in an effort to deal with the debt problems in a holistic approach. It represented a commitment by the international community to reduce to sustainable levels, the external debt burden of eligible heavily indebted poor countries that had successfully established a strong policy track record. It encompassed all debt owed by these countries, in order to target overall debt sustainability. It had the participation of all creditors, as it was based on broad and equitable sharing of the burden of providing debt relief. Furthermore, its overarching objective was to target overall debt sustainability, focusing on the total debt of a country and its associated debt service burden. Debt sustainability of a country is to be determined on a case-by-case approach, depending on the circumstances of a country.

3. More recently, the World Bank and the International Monetary Fund have undertaken an extensive review and consultation on the HIPC Initiative. Beginning in 199, the World Bank and IMF organized a global process to solicit recommendations from governments and civil society on modalities to enhance the effectiveness of the HIPC Initiative. The aim of the consultation was to inject some form of transparency in the reform and the re-designing of the HIPC Initiative. The first phase of the review process focused on issues of; debt sustainability and modalities for deepening, broadening the Initiative as well as ways of accelerating disbursement of resources made available under the Initiative. The second phase focused on modalities for linking debt relief to poverty reduction strategies.

4. Consultations with governments, non-governmental organizations, church groups and the press were undertaken through an "interactive web-page and through formal dialogue and consultations. The result of these consultations has been proposals for an "Enhanced HIPC Framework" which could, subject to funding, provide much deeper, broader and faster debt

relief to the heavily indebted poor countries. The main features of the proposed enhanced framework would include:[1]

(i) Net present value to export target of 150%, down from 200-250%;
(ii) Net present value to revenue target of 250%, down from 280%;
(iii) Lowering of the export/GDP and revenue/GDP thresholds to 30% and 15 % respectively;
(iv) Fixing debt relief at the decision point, instead of the completion point;
(v) Debt relief determined on the basis of actual numbers, instead of projected figures; and
(vi) Timing; no generalised shortening of the qualification period has been agreed upon, but introduction of "floating completion points", i.e. the completion point is tied to the fulfilment of a set of reform commitments, rather than an interim track record of 3 years.

5. These proposals could increase significantly the cost of the HIPC Initiative, which would rise from roughly US$12.5 billion in net present value terms under the original framework to more than 28 billion in NPV terms under the enhanced framework. As at the end of February 2000, the World Bank and the IMF had reviewed eligibility for debt relief of sixteen (16 countries) and of these fourteen (14) qualified for debt relief packages. Debt relief totalling $10.5 billion in debt service relief has been agreed for eight (8) countries; and preliminary eligibility for debt relief has been undertaken for six (6) other countries which could benefit nearly $14 billion in debt service relief.[2]

6. The debt relief already agreed for the eight countries is both from the "original HIPC framework" and also under the "enhanced HPIC framework". Bolivia, Burkina Faso, Cote d'Ivoire, Guyana, Mali, Mozambique and Uganda are expected to receive nearly $6.8 billion in debt service relief over time ($ 3.4 billion NPV terms) under the original HIPC framework. On the other hand, Bolivia, Mauritania, and Uganda are expected to benefit from the enhanced HPIC Initiative and receive nearly $3.7 billion in debt service relief over time ($2.1 billion in NPV terms).

7. For countries where preliminary eligibility had been reviewed by the Bank and the Fund, Ethiopia and Guinea-Bissau were expected to receive debt relief packages amounting to $ 2 billion ($936 million in NPV terms) under the original HIPC framework. These packages were put on hold because of armed conflicts, although that for Guinea-Bissau has been reactivated. Countries whose preliminary eligibility has been evaluated and could benefit from the "enhanced HIPC framework include Guinea, Honduras, Nicaragua, and Tanzania. These countries could benefits from debt service relief amounting to $12 billion over time ($ 6.2 billion in NPV terms).

8. Two African countries, Benin and Senegal, were considered to be sustainable under the original framework, but will be reassessed under the "enhanced framework". Furthermore, the

[1] World Bank: HIPC Review: Outcome of the 1999 Review
[2] World Bank: HIPC Initiative: Progress Through February 2000.

World Bank and the IMF intend to re-evaluate some other countries, which were completely excluded in the original HIPC framework. These include Cameroon, Chad, Malawi, Yemen and Zambia.

3.2 The Debt Burden and Africa's Long-term Development

9. The Agreement by the Group of Seven (G7) leaders to provide additional debt relief came as a result of intense pressure by the international community for the G7 to provide meaningful debt relief to the poorest countries. Furthermore, African countries and the international community have been calling for improvements in the HIPC Initiative. These have focused on the need for additionality of resources provided by the HIPC Initiative; the need for flexibility in the sustainability analysis; the need to take into account fiscal impact of debt service; and the need to reconsider the cut off period before a country can access resources of the HIPC facility. A number of changes have been made to the HIPC Initiative in response to the concerns raised by African countries and others. However, many are still of the view that the Initiative still lacks flexibility to deliver appropriate debt relief, and in a timely manner, to be of help to poor countries achieve sustainable development.

10. Notwithstanding recent debt relief initiatives, it is generally acknowledged that for many African countries, debt service burdens continue to exert significant pressures on financial resources of these countries, with a negative impact on their growth prospects. Accordingly, many are calling for further debt relief to be provided not only to the heavily indebted poor African countries, but also to middle income heavily indebted countries. African countries and the international community have been calling for improvements in the HIPC Initiative. Notwithstanding the notable efforts that have been so far undertaken to resolve the African debt problem, many still believe the problem is far from being satisfactorily resolved. It is the belief of many that a durable solution to the African debt problem has to be anchored within a broader framework of providing adequate development finance to African countries to enable them to achieve sustained economic growth with poverty reduction. In the final analysis this will require a combination of a substantial reduction in Africa's stock of debt and additional financing to support development.

3.3 Poverty Reduction Strategies and Debt Relief

11. Following extensive consultations, the Development and Interim Committees of the World Bank and the International Monetary Fund endorsed a mandate for change in the HIPC Initiative and to integrate specific proposals to modify the framework of the Initiative. The fundamental basis of the proposed changes was how to integrate poverty reduction strategies in the context of debt relief to be provided to the HIPC countries. The Phase II of the HIPC Review therefore focused on the link between debt relief and poverty reduction.

12. In this respect, modalities were sought on how to integrate the multidimensional international goals and internationally agreed targets for the year 2015 in the development agenda of the HIPC countries. These internationally agreed targets included: reducing the incidence of extreme poverty by half by the year 2015; reducing infant mortality by two thirds during the same period; achieving universal enrolment in primary education; and eliminating gender disparity in education by 2005.

13. It is acknowledged that these long –term targets cannot be achieved without sustained per- capita income growth. Substantial reduction in poverty ratio targets can only be achieved if per capita real income rises sufficiently, as it is infeasible to achieve more than a fraction of this through income redistribution with low-income countries. Since sustained growth in per capita income is essential to tackle the pervasive poverty in most HPIC countries, strategies must be integrated into an overall policy framework that will allow countries to move to a new path of sustainable faster growth. A sound macroeconomic framework geared to stability is a prerequisite for economic growth. However, other requirements for sustained growth are also necessary and include appropriate economic structures, good governance and social stability, which encourage private sector investment and economic activity.[3]

14. Although growth is necessary for sustained attach on poverty, it is not alone sufficient to reduce poverty, and policy actions directed specifically at poverty reduction are required, such as directing public social spending at helping the poor improve their health and education. Also, there is evidence of a two-way causation between economic growth and social conditions. Investment in human capital can play an important role in the development of a virtuous circle of growth and poverty reduction.

15. The proposals which emerged from the HIPC country experiences and consultations with other members of the development community indicated that an enhanced framework for poverty reduction would invariably have to require long-term action on numerous fronts, including recognition that poverty is multidimensional and not limited to social services; sustained poverty reduction will not be possible without economic growth; focusing on transparent, poverty-related goals and establishing mechanisms for broad-based monitoring of intermediate proxy indicators are essential to ensure that action programs and resource management processes are not only well designed but also effectively implemented; and broad-based participation is essential to sustained implementation of anti-poverty strategy. A core of this approach would be the understanding of the nature and locus of poverty in each HIPC country.

16. Following these extensive consultations, the Development and Interim Committees of the World bank and the international Monetary Fund endorsed in September 1999 a framework to strengthen the link between debt relief and poverty reduction and to enhance the poverty focus of the Bank and the Fund concessional lending. The new approach is based on poverty reduction strategies prepared by countries and embodied *in "Poverty Reduction*

[3] International Monetary fund: Heavily Indebted Poor Countries (HIPC) Initiative: Strengthening the Link between Debt Relief and Poverty, August 26, 1999.

Strategy Papers (PRSPs)". PRSPs will provide the context for concessional assistance to low-income countries provided by IDA of the World Bank and by the IMF. Ministers endorsed the proposal to make poverty reduction a key and more explicit element of the Fund's growth-oriented strategy for low-income countries, replacing the ESAF with the Poverty Reduction and Growth Facility (PRGF).[4]

17. The PRSP program is expected to go beyond a revision of the way in which concessional financing by the World Bank and the IMF is provided. Its underlying goal is to support a comprehensive, country-led effort to help sharpen the poverty focus and effectiveness of development strategies in low-income countries, and support for their strategies by external partners. It is expected that the resulting strategies need to focus on policy actions to increase growth and reduce poverty, all within a coherent macroeconomic framework. Poverty reduction strategies re expected to be country-owned and designed in a participatory fashion; and comprehensive in approach, recognising the multidimensional nature of the causes of poverty and strategies to alleviate it. They should also be based on a medium and long-term perspective, including appropriate monitoring indicators linked with agreed international development goals (IDGs) for poverty reduction, education, health and gender equality. Furthermore, to be effective, PRSPs need to be built on partnerships with multilateral and bilateral donors to support national poverty reduction strategies.

18. While many have welcomed efforts to put poverty reduction at the core of the development agenda of the HIPC countries, nonetheless linking debt relief to poverty reduction strategies has raised a number of issues. Firstly, preparation of full Poverty Reduction Strategy Papers (PRSPs) takes times. Often one to two years depending on individual country circumstances. Thus there is unavoidable tension between the principle of government-owned PRSPs prepared with the participation of a broad spectrum of stakeholders on the one hand, and the need to avoid delays in bringing as many countries as possible to their HIPC Decision Points within a timeframe appropriate to their need for debt relief. Secondly, at the center of preparation of PRSPs are efforts to articulate the elements of a strategy for poverty reduction that is based on a comprehensive view of the nature and causes of poverty. Furthermore, central is the recognition that poverty reduction strategies need to take into account the multidimensional elements involved in both the determinants of poverty and efforts to alleviate it. Experience has shown that there is a two-way linkage between growth and poverty. Rapid growth is essential for reducing poverty, but persistent poverty and inequality can reduce growth potential. These aspects make the drawing up of PRSPs a complex and complicated undertaking. Thirdly, it is recognised that the PRSP process would need to evolve over time, early experience would need to be evaluated and used to refine the process of strategy implementation on an ongoing basis.

19. The main concerns of the HIPC countries, including those in Africa, is that while putting poverty reduction at the center of the development agenda of these countries is a step in the right direction, making preparation of PRSPs a condition for access to aid flows and debt relief will exacerbate the debt problems of these countries. The complexity of designing PRSPs and

[4] World Bank and IMF: Progress Report on Poverty Reduction Strategy Papers (PRSPs), April 2000.

the time needed in the participatory process for their formulation may give rise to further delays in these countries accessing debt relief under the HIPC Initiative. These are issues that need to be resolved. For many African countries, debt relief is long overdue if they are to attain meaningful development and poverty reduction.

20. Africa's external debt remains a very significant impediment to the region's orderly growth. As such, resolving the debt problem was fundamental to providing adequate financing for development. While some of the recent initiatives on debt reduction were a welcome step in the right direction, the current mechanisms to resolve the debt problem, particularly the HIPC initiative, were far too slow, too late and often little, selective in coverage, and too highly-laden with conditionalities. While most donor countries agree on the need to increase debt relief to developing countries, especially the poorest, they are yet to agree on modalities of funding such additional debt relief.

IV. Domestic Resource Mobilisation and Development

4.1 The Challenges of the vicious circle in Africa between Low levels of Income and Low savings rates;
4.2 Modalities for Mobilising Private Savings;
4.3 The Role of Tax Reforms and Rationalisation of Government Expenditures in Mobilising Public Savings;
4.4 The Contribution of the Informal Sector and Thrift Institutions in Mobilisation of Domestic Savings;
4.5 The Importance of Reversing Capital Flight out of Africa

V. Financial Sector Reforms in Africa

5.1 The Content and Elements of Financial Sector Reforms in Africa;
5.2 The Scope and Direction of Financial Sector Reforms in Africa;
5.3 Lessons from Country Experiences with Reforms;
5.4 Major Issues on Financial Sector Reforms in Africa

VI. Promoting the Development of Effective Capital Markets in Africa

6.1 The Rationale for Development of Stock Markets;
6.2 The Challenges of Creating Stock markets in Africa;
6.3 Privatisation and Development of Stock Markets;