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WHAT NEPAD IMPLIES FOR AFRICAN POLICY MAKERS

Boxes:

OVERVIEW

The New Partnership for Africa's Development (NEPAD) is the framework for fulfilling Africa's promise of a brighter future. Conceived and developed by African leaders, it has been well received by the international community. It aspires to reverse Africa's economic decline, end Africa's marginalization, and consolidate new political and economic systems of responsive and accountable government.

The expected outcomes of the implementation of NEPAD are: high and sustainable economic growth; reductions in poverty and inequality; diversified productive activities, enhanced international competitiveness and increased exports; and greater African integration.

This Issues Paper explores the implications of NEPAD for African policy makers. Drawing on the content of the NEPAD document, the paper shows that finance and economic development framework will be critical in ensuring the successful implementation of NEPAD. Why? Because sound economic policy-making and execution are preconditions for the renewal of Africa.

African policy makers need to:

- Develop comprehensive development plans based on and consistent with the NEPAD guidelines.
- Take the leadership role in articulating and implementing such plans within government.
- Ensure that the objectives of public expenditures are SMART: specific, measurable, achievable, realistic, and time-bound.
- Establish and promote effective partnerships between the government and the private sector, between government and civil society and between government and international development partners.
- Support and champion the peer review mechanism as a way to promote and speed up the implementation of NEPAD.
- Articulate an African position on market access, on ODA, and on debt reduction.
- Work together to harmonize economic policies and governance practices throughout Africa for faster regional integration.

None of this will be easy, but it is all doable.

I. WHAT IS NEPAD?

Africa's leaders have promulgated an initiative to spur growth and reduce poverty on the continent. Entitled the New Partnership for Africa's Development (NEPAD), it is couched on five core principles—good governance; entrenchment of democracy, peace, and security; sound economic policy-making and execution; productive strategic partnerships; and domestic ownership and leadership—all seen as preconditions for Africa's renewal.

Previously known as the New African Initiative, NEPAD is a consolidation of two proposals—the Millennium Partnership for the African Recovery Programme (MAP), which had its driving force in Presidents Mbeki of South Africa, Bouteflika of Algeria, Obasanjo of Nigeria, and Mubarak of Egypt, and the OMEGA plan of Senegal's President Wade. It also draws on the *Compact for African Development*, prepared by the Economic Commission for Africa (ECA), following a request from the African Ministers of Finance in Addis Ababa in November 2000.

NEPAD adds substantial value in four ways. First, it is a visionary consensus approach to building a prosperous, stable future for the continent, based on key principles that are universally accepted as essential for political and economic development. The various past attempts at continent-wide action plans for development were failures, in part, because they ignored these key principles—such as good governance and public financial accountability.

Second, NEPAD is developed, owned, and managed by Africans, something new and necessary. The principle of ownership demonstrates sovereignty and independence. It cancels out the charge of "intellectual poverty" in Africa and signals to the international community that Africans can determine their own destiny within norms that are globally embraceable. Past initiatives were primarily externally driven.

Third, NEPAD is predicated on building a new relationship with international partners, based on mutual obligations, commitments, interests, and benefits. Emphasis is placed on aid effectiveness, with a monitoring and peer review process in place for the mutual accountability of recipient country and donors alike. Consequently, the fungibility of aid is being squarely tackled.

Fourth, NEPAD stresses appropriate policies that take into account the diversity of Africa's economies and their varying levels of development. Past policy initiatives tended to be "one size fits all." Yet, the development prospects facing most African countries today are complex and multi-dimensional, involving some economic, socio-cultural, political, and environmental factors that cannot be addressed with an across-the-board strategy. At the same time, however, NEPAD correctly focuses on the advantages of regional cooperation and the need to pool resources in certain areas to increase productivity and international competitiveness.

The most innovative dimension of NEPAD is the creation of the African Peer Review mechanism (APRM). In place of the intrusive role that western nations increasingly played in promoting economic and political reforms, African governments have now established their own monitoring mechanism to produce more acceptable ways of ensuring compliance with nationally, regionally, and internationally accepted norms of political, economic and corporate governance.

This Issues Paper draws on the content of the NEPAD framework to identify five major themes that can provide the basis for concrete actions by African policy makers.

- Improving economic policy-making and execution to operationalize the development goals.
- Unleashing the private sector for poverty reduction.
- Capacity building and market access for deeper integration into the global economy.
- Matching donor assistance and instruments with national needs and capacities.
- Moving to self-monitoring and peer learning.

These areas can provide a core set of objectives for action by Ministers of Finance, Planning and Economic Development and by Central Bank Governors. Through greater mutual responsibility and accountability, action on all of them would begin to transform Africa's partnerships with the broader development community. And progress in all of them would be a major achievement, putting African countries well on their way to achieving the NEPAD goals.

II. FIVE THEMES FOR AFRICAN POLICY MAKERS

Theme 1. Sound economic policy-making and execution for operationalizing the development goals

According to the NEPAD framework document (para. 49) sound economic policy-making and execution loom large in making the benefits of NEPAD a reality. This precondition for the renewal of Africa entails the restoration and maintenance of macroeconomic stability, especially by developing appropriate standards and targets for fiscal and monetary policy and by instituting transparent, legal and regulatory frameworks for financial markets and the auditing of private companies and the public sector.

NEPAD endorses the Millennium Development Goals (MDGs), (para. 59). But on present trends, only the five countries of North Africa—with significantly lower poverty levels and better access to education, health and other social services than the rest of the continent—are on course to meet the poverty reduction and social development goals. Sub-Saharan countries are unlikely to meet the goal of reducing poverty in half or reversing the spread of HIV/AIDS by 2015. But progress on the social development goals is more varied, with a number of countries poised to meet them. In Burkina Faso measles and yellow fever vaccinations are at 65%, against the target of 60%. In Botswana and some countries of Southern Africa, it is estimated that over 25% of the adult population is infected with HIV, the virus that causes AIDS. In Mauritania despite a dispersed populace, primary school enrollment is at 90% and school access at 95%. And in Chad, gross primary enrollment has risen to 60%, up from 31% in 1994.

Accelerating progress towards meeting MDGs will require that a more effective framework is put in place for channelling public resources. Country-owned Poverty Reduction Strategy Papers (PRSPs) have elicited unequivocal recognition in NEPAD as the principal framework for building continent-wide priorities into national poverty reduction programmes and for coordinating international support. There are six principles underlying the PRSP process and they complement the five core principles of NEPAD:

- Being country driven—involving broad-based participation by civil society and the private sector in all operational steps.
- Being results oriented—focused on outcomes that will benefit the poor.
- Being comprehensive—recognizing the multi-dimensional nature of poverty.
- Being prioritized—so that implementation is feasible in both fiscal and institutional terms.
- Being partnership oriented—involving the co-coordinated participation of development partners (bilateral, multilateral and non-governmental).
- Being based on a long-term perspective of poverty reduction.

There is a large spectrum of views on the achievements of the PRSP approach so far (see Box 1 below). It is generally agreed that it is too early to assess the impact of the implementation of PRSPs on poverty outcomes. But some weaknesses of the PRSP have been noted. These include the lack of a long-term growth strategy; the weak integration of sector plans in the PRSP; and a tendency to focus on improved and pro-poor public expenditure management rather than private sector investment and employment generation. A general problem noted by the European Commission is that the PRSPs have a missing middle: that is, the mechanism that leads from policies to outcomes is not elaborated. The

Highly Indebted Poor Country (HIPC) Ministers of Finance and PRSP coordinators have echoed this concern about the missing middle:

"The scale of growth planned under the PRSP is frequently adequate to halve poverty by 2015…[but] there is no in-depth analysis of how the sectoral and structural measures in the programme will produce the targeted growth rates, nor have programmes examined sufficiently how macro, sectoral and structural measures will translate into changes in the distribution of the benefits of growth. Savings, investment, domestic resource mobilization and employment remain under analyzed; insufficient attention is being given to social inclusion and equity in many PRSPs."

Box 1
PRSP Learning Group—insights from experiences

NEPAD's recognition of the importance of PRSPs as the country level framework for translating vision into action provides added impetus for finance ministers to address three broad sets of issues that emerged from the recent ECA-sponsored Learning Group on PRSPs.

Legitimacy of the PRSP participatory process: For the most part, the participatory process surrounding the PRSPs has been regarded as successful. However, participants pointed out that the participatory PRSP processes tend to be ad hoc at the moment and need to be institutionalized. For the PRSP process to be successful, there must be high-level political commitment to the process. Some participants felt that most governments in Africa are not yet ready to accept civil society groups as serious stakeholders in policy formulation. A clear and comprehensive strategy for information, education and communication is a prerequisite for developing successful participatory processes.

National capacity needs: Capacity constraints in government were emphasized as seriously hampering institutional capacity to undertake systematic analysis of the causes and consequences of poverty, design and implement poverty reduction policies and programmes, and monitor their impact. Participants agreed that governments should take measure not only to build capacity but also to retain it. Civil service reforms are key in this regard to correct the incentive and wage structure of the public sector. Future donor support for capacity building must also become more strategic and needs to reach out to local universities and think tanks to support them to play a catalytic role.

Aligning donor policies with the PRSP: Innovations in donor aid modalities and partnership arrangements (for example, in Mozambique, Rwanda and Tanzania) are being tried in a few countries. But to forge a partnership genuinely reflecting the PRSP principles, donors need to do much more to replicate in more countries the positive innovations that are already being tried, harmonize aid procedures, and improve coherence in their aid and trade policies. There was also a consensus that more needs to be done by external partners to respect the centrality of the priorities articulated in the PRSP and to realign their programs accordingly. Participants felt that donors still placed undue emphasis on procedures and process and needed to shift their focus to be on impact. At the same time, participants stressed that African governments on their part have to realize that the primary responsibility to ensure that aid is being effectively used and to envisage the strategies that over the long run would reduce their dependency on external aid rested with Africans themselves.

Turning to macroeconomic policy, the HIPC Ministers state that "our main concern is not realism, but that many programmes continue to be too restrictive…especially for countries which have achieved sustained low inflation. Nor has there been much evidence of exploring possibilities for alternative macroeconomic paths, taking into account non-demand causes of inflation, recovery of demand for money and private sector credit needs." All these lessons need to be taken into account as more countries develop full PRSPs.

The NEPAD framework document also gives special attention to the reduction of poverty among women. It prescribes specific actions such as establishing a gender task team to ensure that the specific

issues faced by poor women are addressed in the poverty reduction strategies of NEPAD. Some country level attempts are already being implemented.

Past attempts to implement plans such as the PRSP have often been frustrated by a lack of implementation mechanism and resources. Today, a general consensus is emerging on the appropriate implementation strategy to overcome these problems. The implementation strategy consists mainly of better public expenditure management through strategic planning, MTEFs, and monitoring mechanisms.

Public expenditure management and MTEFs

Effective and strategic use of public resources is a critical ingredient of a country's development strategy. Yet public expenditure management in many African countries has suffered from overprogramming, inadequate prioritization, weak project screening and expenditure management, lack of ownership of project and programmes, and inadequate monitoring and supervision. These problems have caused real budget allocations to fall to about half the level of the mid-1990s, bringing down project completion rates and productivity. These fiscal problems are also at the heart of poor macroeconomic performance—high inflation, overvalued exchange rates and poor economic growth—of many African countries.

Box 2

Is MTEF a panacea?

Experience suggests that identifying the essential components of a successful MTEF is not easy. Despite their theoretical popularity, there are few established medium-term frameworks. Those that do exist, especially in developing countries, have only been recently introduced and are still evolving. As one set of pioneers resolve teething problems, other apparent successes unexpectedly collapse. But some lessons are emerging from MTEFs in OECD countries, as well as from the contrasting experiences of the extended MTEFs currently under development in Ghana and Malawi and the more basic MTEFs introduced in South Africa and Uganda.

- Experience in OECD countries suggests that stringent conditions have to be fulfilled before the full benefits of medium-term frameworks can be realized (IMF 1999).
- These conditions are unlikely to be fulfilled in most developing countries. However, even the basic acceptance of the principles of medium-term budgeting may improve the realism of sector budgets. This is a significant gain for many developing countries where a large gap between stated policies and actual resources leads to ad hoc spending cuts in budget implementation.
- Budget reforms are only sustainable if they demonstrate early benefits to key players in the process. It is particularly important that the introduction of any form of medium-term framework brings improvements in the predictability of organizational funding. This appears to have been achieved in South Africa, despite resistance from those agencies facing reductions in funding. In Uganda the designation of protected sectors (health, education, roads) has restricted unpredictability to lower priority areas. In contrast, little predictability seems to have been achieved in Ghana or Malawi and there are indications that this is impeding progress.
- Improved predictability relies on reducing the gap between forecast and actual revenue, thereby reducing the need to cut expenditures during the budget year. Technical improvements to revenue and debt forecasting are therefore key to giving public sector managers the budget predictability they need to manage effectively. They can also highlight situations where revenue estimates are being inflated in order to avoid hard budget decisions.
- Improvements in the costing of policies and programmes will take longer to achieve. They require a fuller information base and cannot be delivered without the active involvement of sector ministries. Successful budget reforms depend on introducing and sustaining appropriate incentives for these ministries to support the changes. The Ugandan experience with protected sectors may suggest a useful way forward where such conditions are difficult to establish for government as a whole.

Experience of budget reform in OECD and developing countries suggests that MTEFs can help improve budget processes and outcomes through greater clarity of policy objectives; predictability in budget allocations; comprehensiveness of coverage; and transparency in the use of resources. But experience also illustrates that MTEF is not a panacea – a successful MTEF must be diagnostic, rather than formulaic. In other words, improving budget outcomes requires a focus on where the real problems lie.

The medium-term expenditure framework (MTEF) is seen as an appropriate response to the problem. MTEF is an approach to government planning and budgeting that ensures that ministries, departments, and agencies state specific things they will do to achieve their overall mission in a given period. Then they plan activities needed to achieve the set objectives and identify the inputs required, costing them. The objectives and activities must be SMART. That is, they should be specific, measurable, achievable, realistic, and time-bound. While there are some concerns about the efficacy of MTEF for many African countries, it is widely accepted as the best available strategy for public expenditure management (See Box 2 above).

In defining a medium-term framework as an operational concept, it is useful to distinguish three levels of development. A Medium-Term Fiscal Framework (MTFF) is the first, necessary step towards an MTEF. It typically contains a statement of fiscal policy objectives and a set of integrated macroeconomic and fiscal targets and projections. A Medium-Term Budget Framework (MTBF) builds on this first step by developing medium-term budget estimates for individual spending agencies. The objective of an MTBF is to allocate resources to the nation's strategic priorities and ensure that these allocations are consistent with overall fiscal objectives. This gives some degree of budget predictability to spending agencies, while ensuring overall fiscal discipline. In fact, an MTBF is the most basic type of

MTEF. A Medium-Term Expenditure Framework (MTEF) develops the approach further by adding elements of activity and output-based budgeting to the MTBF framework. These methods seek to improve the value of money for public spending, in addition to reinforcing fiscal discipline and strategic prioritization.

Medium-term expenditure frameworks (MTEFs) have been found to improve the effectiveness of the budget and governance of budget management. The framework links outputs and outcomes to ensure consistency of sectoral expenditure levels with the overall resource constraints, in order to ensure macroeconomic stability and to maximize the efficiency of public expenditure in attaining predetermined outcomes. MTEF, by identifying sector strategies and by prioritizing programmes, will help in achieving the objective of poverty alleviation. In the meantime, spending will be within an affordable financial envelope.

Other innovations in managing resources include establishing Public Expenditure Review Commissions (such as in the Kingdom of Nepal). The tasks of the Commission can include prioritizing projects and regular expenditures, strengthening financial discipline, rationalizing expenditures by public enterprises and local authorities and reorganizing and rationalizing the government offices at the central, regional and district levels.

Another promising innovation is gender-based budgeting (see Box 3 below). Gender-responsive budgets empower women's organizations and civil societies to hold public spending accountable to international and national commitments for promoting gender equality.

Recent lessons from developing country experiences suggest that improvements in public expenditure management, requires the government to: integrate the regular and development budgets; reduce the number of projects; initiate a medium-term framework for the development budget; emphasize the completion of core programmes of priority projects; institutionalize the mid-term budget review; strengthen the capacity for monitoring expenditure as well as the physical progress of projects and programmes; decentralize some of the functions of the central government including primary education, health and agricultural extension activities; introduce performance-based budget allocations in selected areas; and increase budget allocations to priority sectors.

Box 3
Gender-responsive budget initiatives—an increasingly popular tool

Gender responsive budgets are an innovative new tool that empowers women's organizations and civil societies to hold public spending accountable to international and national commitments for promoting gender equality. In recent years such initiatives have spread to more than 40 countries. They are globally networked with the support of agencies such as the commonwealth Secretariats, United Nations Development Fund for Women and Organization for Economic Cooperation and Development. Still experimental, the initiatives will take time to develop and bear fruit.

What are gender-responsive budgets?
Gender-responsive budgets are not separate budgets for women and girls. Rather, they are analyses of public spending through the lens of gender. They are a way of ensuring consistency between social commitments to achieve gender quality goals—such as in education or work—and the resources being allocated. The key question is, what impact does fiscal policy have on gender equality? Does it reduce gender inequality, increase it or leave it unchanged?

Gender-responsive budgets were started by Australian activists who pushed the government to assess the impact on gender equity of all elements of the national budget between the mid-1980s and mid-1990s. Many other countries later adopted the concept to expand participation and accountability in budgeting, especially in light of international commitments to promote gender equality.

Diverse country initiatives
Over the past decade advocates for gender equality began using gender-responsive budgets in a multitude of ways. Government, as in Australia, initiated some. Civil societies groups, as in the Philippines and South Africa, initiated others. And parliamentarians initiated others**.** Most focus on monitoring, while some engage in preparatory phases, as in Brazil and the United Kingdom. Most work at the national level, but some—as in Uganda—focus on local levels, where traditional and oppressive gender relations are stronger. All point to the effect of this new tool in stimulating a new participatory politics challenging the "power of the purse".

In *South Africa* the Women's Budget Initiative empowers parliamentarians and others with analysis and information to oversee and critique government budgets. It has been a collaborative venture of the Gender and Economic Policy Group (part of the parliamentary Committee on Finance) and two non-governmental organizations (NGOs) focused on policy research. By linking researchers and members of parliament, the researchers could be assured that their work would be taken forward into advocacy, while the parliamentarians would have a solid basis for their advocacy. From the start the core members of the initiative were also expected to draw in others as researchers and reference people. The initiative published a series of books and, more recently, a series of papers called *Money Matters,* written to be accessible to a broad range of readers. South Africa's government has also introduced gender budget analysis within the government, led by the Ministry of Finance. This and the above initiative have had some positive effects. For example, all sectoral budget reviews now include gender-sensitive analysis.

In *Tanzania* gender budgeting drew inspiration from Australia and South Africa. Initiated by the Tanzanian Gender Networking Programme, and NGO, the programmer's main strengths are the alliances created with government, especially its gender equality activists. Teaming up an NGO researcher with a government officer, the initiative has commissioned research on four sectoral ministries (education, health, agriculture, industry and commerce), on the Ministry of Finance and Planning Commission and on the budget process. It has also done research in selected districts.

Source: UNDP (2002).

Monitoring progress towards the Millennium Development Goals

If MDGs are to serve their purpose as guideposts for NEPAD, progress must be regularly monitored using reliable data and subjected to critical evaluation. This process of monitoring and evaluation will strengthen policy-making by leading to revisions in policies and strategies aimed at achieving MDGs. Monitoring progress will also help build accountability and keep key agents at all levels of government and in civil society informed about the progress towards MDGs.

At the country level, monitoring progress towards the goals set in PRSPs is the responsibility of government with the engagement of civil society and their international partners. Thus**,** it will be difficult to introduce, design or modify poverty-related programmes unless one knows the profile and dynamics of poverty. Inadequate information has led to limited coverage of successful targeted programmes, and social service delivery has not been adequate. To make progress in poverty alleviation and in controlling HIV/AIDS and other diseases of poverty that hamper Africa's growth, policies and programmes must be designed on the basis of full information. Implementation must be effectively monitored and programmes evaluated regularly.

At the country level, monitoring should be structured at different layers. Annual reports should be prepared to provide an update on the progress of meeting individual but key development targets related to MDGs. Data gaps can then be identified and the indicators and the design of the report finalized with the consultation and participation of the line ministries, the central bureau of statistics, and other relevant agencies.

Governments should initiate, improve, and institutionalize data collection and analysis of poverty and social development indicators as well as of the impact of national policies and projects. Regular detailed household surveys that generate high quality estimates of trends in poverty and social development can provide much useful information.

For instance, to initiate and implement targeted poverty reduction programmes, a poverty mapping system needs to be introduced by gathering information on the spatial distribution of poverty—to identify the pockets of poverty.

Monitoring of grant-financed projects by the local authorities and NGOs should also be initiated and strengthened. Evaluation and monitoring of other related programmes should also be regularly undertaken. Line ministries, NGOs, and other relevant agencies should be coordinated for this purpose.

Key issues for discussion

- How can African policy makers scale up efforts to establish better statistical systems to monitor and evaluate progress, better public expenditure management systems to ensure efficiency of resource allocation and better integration of poverty reduction strategies with macroeconomic targets in development plans?
- What mix of skills and knowledge is required for countries to incorporate long-term growth strategies—including trade and industrial policy, technological progress and structural transformation—in their national plans?
- How can donors best support capacity building in the technical areas needed for effective implementation of MTEF? Key specific skills required are capacities for establishing comprehensive and coherent budgets and medium-term expenditure plans, economic forecasting, and debt management. Technical capacity for auditing and accounting—the backbone of government accountability—also requires greater emphasis.

Theme 2. Unleashing the private sector for poverty reduction

As emphasized in the NEPAD framework document (para. 76), the availability of substantial private sector flows—both domestic and external—is a crucial ingredient for financing development. A well-functioning private sector and sound markets help a society invest its scarce resources efficiently and create productive employment.

Investment in Africa currently averages about 20% of GDP, well below the efficiency levels of investment observed in South East Asia. But, even if the efficiency of investment were raised to Asian levels, Africa would still need investment rates on the order of 30% of GDP to finance its growth—a tall order.

Investment is needed not just for growth but also to reduce poverty. Poor people will find routes out of poverty from the expansion of activities in farms and enterprises—particularly in rural areas. Further, competitive markets provide poor consumers with more choices and better prices.

However, the prospects are grim. Gross domestic savings are extremely low in Africa—barely 5% or less of GDP. Net official ODA has halved since the early 1990s, with even the better managed economies seeing a decline to 15% in net ODA. Trade performance in Africa has also been lacklustre. For sub-Saharan Africa the loss of world export share since 1970 is equivalent to an inflow of $US70 billion a year.

The private sector may also be constrained by the spread of HIV/AIDS, which is thinning out the continent's labour force and reducing effective demand. AIDS is also stigmatizing Africa in the eyes of foreign investors and as a consequence is reducing the attractiveness of the continent as a destination for their investments.

On the positive side, there is growing consensus—reflected in NEPAD—that the higher investment rates can best be achieved with much more engagement of the private sector—both domestic and foreign—in investing in African economies. This is not to be seen as giving up on better trade performance, increasing domestic savings or even debt relief. But Africa's best chance at sustainable development lies through more private investment. Indeed, NEPAD recognizes that a massive injection of new resources is required and that a large part of these resources must be mobilized in Africa. It recommends specific measures to enhance savings, improve tax revenues, overcome capital flight, and encourage domestic private investment.

One key step that NEPAD advocates to enhance the private sector role in the continent's development is good economic and corporate governance. Good economic governance is necessary to enhance the capacity of the state to deliver on its economic mandate. Independent central banks, impartial regulatory authorities, effective public expenditure tracking systems, anti-corruption statutes that are implemented, government auditors that have authority, and efficient commercial justice systems are all desirable features of good economic governance.

In placing good governance at its core, NEPAD clearly recognizes the importance of an enabling environment for promoting growth and reducing poverty. At the African Union (AU) Summit in July 2002, African leaders endorsed a ***Declaration on Democracy, Political, Economic, and Corporate Governance***, which, among other things, included eight prioritized codes and standards. These codes and standards are elaborated on in the document developed by ECA entitled ***Guidelines for Enhancing Good Economic and Corporate Governance in Africa***. They represent those fundamental

internationally, regionally, and domestically accepted codes and standards that all African countries should strive to observe within their capacity capabilities. In other words, they are the codes and standards that need to be complied with as a minimum requirement, given a country's capacity to do so.

These eight prioritized codes and standards set out below have the potential to promote market efficiency, control wasteful spending, consolidate democracy, enhance transparency in financial management, and encourage private financial flows—all critical in the quest to reduce poverty and enhance sustainable development.

- Code of Good Practices on Transparency in Monetary and Financial Policies.
- Code of Good Practices on Fiscal Transparency.
- Best Practices for Budget Transparency.
- Guidelines for Public Debt Management.
- Principles of Corporate Governance.
- International Accounting Standards.
- International Standards on Auditing.
- Core Principles for Effective Banking Supervision.

If governments rigorously ensure compliance with these codes, they will make great strides towards improving the conditions for private investment in their respective countries.

An important market failure that governments need to address is the limited access of small and medium-sized enterprises to formal bank credit—and the mismatch between the short-term nature of financing and the longer term requirements of productive investment. There are no easy solutions to financing domestic enterprises. But suitable instruments and institutions must be created to provide financial services with different profit, risk, and liquidity profiles to channel resources into long-term productive investments and to ensure that credit reaches agricultural small holders. Development banks and venture capital funds both have an important role to play in this regard.

Another key step to enhance the role of the private sector is a strong partnership between African governments and the private sector, in which each side effectively discharges its responsibilities. Such partnerships are at the core of NEPAD.

These partnerships do not always happen on their own. They need to be systematically nurtured and supported, with each partner playing a pro - active role in fostering a dialogue. The Ghana Private Sector Roundtable, which meets periodically with the government to make the views of the private sector known on major issues affecting the sector, is a very good example of such a dialogue.

Indeed, private-public partnerships have been gaining in popularity worldwide since the 1980s. The most visible examples have been in the provision of major economic infrastructure, such as in power, telecommunications, transportation, and water and sanitation.

In Africa, the first wave of private-public partnership projects resulted from the privatization of public utilities. Typically, governments turned over majority ownership and management of existing parastatals in these sectors to major private companies, and have assumed the roles of regulators and overseers. Examples are the telecommunications company in Senegal and the water company in Gabon.

Another group of private-public partnerships, perhaps less visible but potentially more feasible and hence more relevant in Africa, involves the direct provision of a range of social services. Under this approach, instead of transferring ownership and management of large public enterprises to large private ones, the provision of the service remains in the public sector but aspects of it are contracted out to small businesses. The management of the Kampala (Uganda) main market is a good example of this form of public-private partnership. So too are the business of removing garbage and cleaning drains in informal settlements in Dar Es Salaam (Tanzania) and the private delivery of veterinary services to small farmers in Kenya.

Two factors are critical for successful private-sector-led growth in Africa. The first is the climate for investment, which largely determines the opportunities for entrepreneurship and the extent to which financial resources are mobilized and the dynamic efficiency with which they are allocated. A thriving private sector is also a crucial component of the capacity African countries need to realize the potential gains from expanding market access for their goods and services into developed country markets. The second is improvement in the health status of the African population. This requires that urgent action be taken to bring under control diseases such as HIV/AIDS, TB and Malaria. Implementation of the recommendations of the World Health Organization's Commission on Macroeconomics and Health can be helpful in this regard.

Key issues for discussion

- What can African policy makers do to address the limited access of small and medium-sized enterprises to formal bank credit and the mismatch between the short-term nature of available financing and longer-term requirements for productive investment?
- How can the public and private sectors work together to improve health conditions in Africa and stem the spread of AIDS?
- Given that African policy makers should emphasize the importance of the investment climate to generate both domestic and foreign investment, what major reforms of the policy and regulatory framework will this require?
- How can African countries influence its development partners to ensure that their sound investment climates make them priority recipients of financial assistance—including guarantees and technical assistance to attract private investment?
- What steps can African countries take to champion public-private partnerships in the social services, where circumstances permit?

Theme 3. Capacity building and market access for deeper integration into the global economy

Trade is a vital engine for financing development, growth and poverty reduction and, hence, a key component of NEPAD (Para 139). Finance ministers often overlook the important role that trade plays in financing development. For instance, of the developing countries GDP in 2001, 34 % came from the exports of goods and services. For sub-Saharan Africa, the figure was higher at 40 %. Clearly trade earnings are a major inflow of resources into African economies. Developing countries that have intensified their links with the global economy through trade and investment have tended to grow more rapidly over a sustained period and have experienced larger reductions in poverty than other developing countries. Unfortunately, many African countries have not shared in the benefits of globalization and still lag in trade growth and in policies and institutions conducive to the integration process.

To be emphasized is that gaining the benefits from trade is far from automatic. A country's social and institutional preconditions determine whether the benefits from trade can be reaped for the entire populace. That is why trade is not just a matter for trade ministers. It is also at the heart of the agenda for finance and development ministers.

A world trade regime that is good for development would provide greater market access to developing countries. Expanding market access for African countries' exports is a clear priority and must be complemented by a concerted effort to ensure that all countries, including small islands and other countries facing special challenges, are in a position to benefit from increasing trade liberalization. That global trade regime would also give developing countries the policy space to allow them to make institutional innovations in promoting domestic production and finance. Clearly one size does not fit all in the rules being devised by (developed-country-led) the World Trade Organization (WTO).

Africa requires access to international markets

Tariff and non-tariff barriers imposed by rich countries, together with the agricultural subsidies that they give to their farmers, cost developing countries much more than the $57 billion that they receive in foreign aid every year.

WTO calculates that abolishing OECD agricultural subsidies would provide developing countries with three times their current ODA receipts. WTO has calculated that the elimination of all tariff and non-tariff barriers could result in gains for developing countries of around $182 billion in the services sector, $162 billion in manufactured goods, and $32 billion in agriculture. Such issues are of particular importance at a time when the United States has passed legislation to increase its agricultural subsidies by some 80 %, providing nearly $200 billion of subsidies to its farmers over the next 10 years under the new Farm Act, a move that will rob African countries of export opportunities and potential trade earnings.

Expanding market access for manufactured goods, agricultural commodities, and services would generate large income gains in developing and developed countries alike (see Box 4 below). Such gains would be greatest if the very significant barriers to trade in developing countries were also reduced. This suggests the need for broad-based reciprocal liberalization of trade in goods and services, that is achievable only through a new WTO trade liberalization round. Indeed, for the key trade issues facing developing countries, a new trade round with an appropriate focus on development would offer the best solution.

Tariff peaks—rates above 15 %—are often concentrated in products that are of export interest to developing countries. Two sectors that matter most from a developing country export perspective are textiles and agriculture. Although textile quotas will be abolished by 2005, tariff barriers in this sector remain high. High tariffs for agricultural commodities and continued subsidization of agriculture in many OECD countries also have detrimental effects on agricultural exports and world commodity prices. In addition to labour-intensive manufacturing and agriculture, barriers to trade and investment in services remain high. These barriers, which impede service exports and reduce the competitiveness of developing countries, should be high on the market access agenda.

Gains from reciprocal market access achieved through a new trade round will take time. Given the urgent needs of most African countries, a good case can be made for OECD countries to front-load

the benefits of trade liberalization for the poorest countries by providing immediate duty-free and quota-free access.

Box 4

Good opportunities for export development in African LDCs

The International Trade Centre has identified a number of key products that may be particularly promising for export promotion:

Sectors	All LDCs: average annual exports, 1995-1999 ($million)	Countries with Potential
Goods		
Cotton fabrics, textiles and clothing	2681	Malawi, Madagascar, Mozambique, Benin, Ethiopia
Fish Products	1800	Madagascar, Mozambique, Equatorial Guinea, Mauritania, Senegal,
Coffee	1300	Uganda, Tanzania, Ethiopia, D.R. Congo, Burundi, Madagascar
Cotton and fibres	1010	Mali, Benin, Sudan, Chad, Burkina Faso, Togo, Zambia, Madagascar, Tanzania
Wood and wood products	856	Equatorial Guinea, D.R. Congo, Madagascar
Oilseed products	405	Sudan, Senegal, Benin,
Vegetables	288	Sudan, Ethiopia, Senegal, Zambia, Burkina Faso, Gambia, Madagascar
Fruits and nuts	249	Tanzania, Mozambique, Madagascar, Guinée-Bissau, Somalia, Malawi,
Spices	92	Madagascar, Comoros, Tanzania, Uganda, Malawi, Niger, Zambia
Cut flowers and foliage	31	Zambia, Tanzania, Uganda, Malawi, Ethiopia, Rwanda, Madagascar
Medicinal Plants	31	Sudan, D.R. Congo, Madagascar
Services		
Tourism	2360[a]	Tanzania, Senegal, Uganda

Realizing the gains from expanding market access

Four major issues are key to the ability of many developing countries to benefit from market access opportunities:

- National commitment to, and external support for, improvements in the investment climate (including macroeconomic stability and sound governance).

- ♦ Assistance to low-income countries to integrate trade into national development strategies—as already being provided on a pilot basis under the auspices of the Integrated Framework. If proven useful, such assistance should be extended to all African countries engaged in the PRSP process.

- ♦ Initiatives to address specific issues of common concern to all developing countries, including middle-income economies. Examples include product standardization, trade facilitation, intellectual property, and service sector regulation. The needs in these "behind the border" areas are great. Efforts to strengthen trade-related private and public institutions in these areas are necessary to enable a coherent approach to developing country policy reforms, negotiated WTO agreements, and the assistance provided by the development community to be 'coherent'.

- ♦ Sustainable technical assistance to help developing countries to participate effectively in multilateral trade negotiations. Though there may be as many as 100 countries requiring assistance (including LDCs), synergies could be realized through networking and collaboration between advisors.

Finally, in moving towards a new trade round, consideration must be given to implementation concerns of developing countries and to the burden imposed on many countries by some WTO agreements—not so much because of the rules themselves, but because of the ancillary investments required. Assessing the impacts of agreements, a costing necessary for ancillary reforms and investments as well as mobilizing financial assistance to meet these costs, must be an integral part of this effort—and a priority for NEPAD (See Box 5 below).

Needed particularly is for Africa's development partners to make:

- Binding commitments to increase access to markets by reducing applied tariffs to a level at least as low as the average for non-agricultural products, increasing trade volumes through the use of tariff quotas, and substituting *ad roman* tariffs for all specific tariffs.

- Binding commitments to eliminate export measures that distort trade. This is achievable by prohibiting export subsidies, export credits and the misuse of food aid for commercial purposes.

- Binding commitments to eliminate market distortions arising from domestic support through progressive reductions of actual levels of domestic support in all countries.

- Binding commitments to provide greater, more secure and predictable resources for trade related technical assistance and capacity building. This is required to ensure the meaningful and full participation of developing countries in multilateral trade negotiations.

- Concrete actions to broaden and improve on existing market access initiatives, such as the African Growth and Opportunity Act (AGOA) and the EU's Everything But Arms (EBA) by making the duration of these initiatives longer, inclusive of all African countries and all products.

- Faster progress in phasing out the Multifibre Agreement and other reforms in trade in textiles and apparel.

Box 5
The urgent need for capacity building in trade—Africa lacks representatives at World Trade Organization headquarters

In WTO few African country members are able to participate effectively in negotiations and decision-making. Decisions are based on "one country, one vote" and made by consensus in the General Council or by representatives in subsidiary bodies (such as the TRIPS council or Agricultural Committee). Major decisions are made or endorsed by WTO ministers at ministerial conferences, usually held every two years.

But in practice, a few major industrial countries dominate WTO ? the poorest developing countries have little or no representation or negotiation capacity. In 2000 as many as 15 African countries did not have a representative at WTO headquarters in Geneva ? while Mauritius, a very small country, had five. WTO has responded to these disparities by seeking to establish a technical assistance unit to help developing countries with negotiations. The large number of Africa countries without representation points to the urgent need for regional approaches in research and advocacy—such as that conducted by AERC and ECA—to provide the necessary expertise and analysis to support country negotiating teams.

Number of Countries	Number of Representatives
15	0
16	1 to 3
6	4 to 6

Note: As of August 2001.

Source: UNDP 2002.

Key issues for discussion

- What can be done to ensure that trade is at the heart of the agenda not just for trade ministers but for finance and development ministers as well?
- How can African policy makers maintain their momentum towards a new development round and work with trade and regional cooperation ministers to focus on "behind the border" reforms that can help ignite the supply response?
- How can the autonomy of African countries be preserved while respecting the legitimate objectives of development partners to maintain high labour, social, and environmental standards at home?
- How can the focus of the global trading regime be moved beyond market exchange to development?

Theme 4. Moving to self-monitoring and peer learning

NEPAD proposes an African Peer Review (APR) mechanism to encourage self-monitoring and peer learning. The APR mechanism is perhaps the most innovative aspect of NEPAD. But, like many innovative ideas, there are many different views as to what constitutes a peer review, how it works in practice, and what it can achieve. It is therefore useful to start with a brief summary of the concept of peer review as understood by ECA.

What is peer review?

Peer review refers to the systematic assessment of the performance of a country by other states (peers), by designated institutions, or by a combination of states and designated institutions. The ultimate is to help a country undergoing review improve its policy-making, adopt best practices, and comply with established standards, principles, codes and other agreed commitments. Peer review assessments are conducted in a non-adversarial manner, and they rely heavily on the mutual trust and understanding between the country being reviewed and the reviewers.

Peer reviews can be based on subject areas or themes. For example, an individual country peer review could relate to macroeconomics, governance, education, health, or other government priorities. Whatever the subject or theme, country peer reviews are typically undertaken on a regular basis, with each review resulting in a report that assesses accomplishments, points out shortcomings, and makes recommendations. Peer review hardly ever implies a punitive decision, sanction, or any form of legally binding acts or enforcement mechanisms—but it could, as in the case of the European Union's Growth and Stability Pact which sets a deficit limit of 3% of GDP, for example.

Related to the concept of peer review is the concept of peer pressure. Indeed, the effectiveness of peer review lies on the influence of peer pressure—that is the persuasion exercised by peers. The peer review process can give rise to peer pressure through, for example: (1) a mix of formal recommendations and informal dialogues by the peer countries, (2) public scrutiny, comparisons and rankings among countries, and (3) the impact of the foregoing on domestic public opinion, policy makers, and other stakeholders. Lessons from peer review done elsewhere suggest that the greatest impact is derived when outcomes of peer reviews are made public.

The African Peer Review mechanism is the means to ensure that the policies and practices of participating states conform to the agreed political, economic and corporate governance codes and standards contained in the **Declaration on Democracy, Political and Economic and Corporate Governance,** adopted by the African Union Summit in July 2002. APR will assess the key features of the capable state, looking at the political, economic, and institutional aspects of governance. Can the state safeguard peace and security for its citizens? Is it providing the enabling environment for sustained growth and poverty reduction? Is it facilitating the private sector's contribution to development?

What will be the basis for the peer reviews?

The applications of the principles of NEPAD and their outcomes on development performance necessitate periodic and systematic assessment that will enable the tracking progress of outcomes, identifying and reinforcing of best practices, assessing of capacity gaps, and implementing the required corrective actions. The APR mechanism is the modality agreed to by African countries to traffic progress in the context of NEPAD.

Basically, and as discussed in the document ***The African Peer Review (APR) Mechanism: Process and Procedures***, the goal of tracking progress is to help African states improve their policy-making, adopt best practices, and comply with established standards, principles, codes, and other commitments. To accomplish that, the tracking process must be specific and based on frameworks and methodologies that are practical, politically acceptable, and applicable across all countries concerned.

For progress to be tracked and development outcomes assessed in the context of NEPAD and beyond, some core indicators need to be identified. These indicators, as developed in the document ***The African Peer Review Mechanism: Core Indicators for Tracking Progress***, will provide the basis for specific determinations of country performance that offer traction in drawing robust conclusions on development outcomes. In other words, these will be factual indicators of outcomes that will be used to inform judgments about the development progress of countries and, hence, the effectiveness of their relevant policies and institutions. At the same time, comparisons across countries will also be possible.

Providing the factual basis for specific determinations of country performance, the core indicators required to track progress and assess development outcomes fall into three categories:

- **Political representativeness and rights*:*** These indicators cover issues of political systems and electoral processes, representation, participation of various stakeholders in decision-making and civil, human and political rights.
- **Institutional effectiveness*:*** These indicators address issues related to the nature and workings of the legislature, judiciary and executive branches of government, as well as the state of the non-governmental sector.
- **Economic management and corporate governance*:*** These indicators will track issues pertaining to macroeconomic management, public financial management and accountability, monetary and financial transparency, accounting and auditing systems, and regulatory oversight of the monetary and financial sectors.

For each of the three categories of indicators, a number of basic indicators will be drawn from the relevant data. Some of these indicators and their data sources will be derived from ongoing work at ECA. In particular, the ECA governance assessments, implemented with national research institutes in 24 African countries, will provide information on the quality of governance and development outcomes as the basis for the reviews.

APR has the potential to replace the intrusive role that Western nations increasingly played in promoting economic and political reforms. Instead of externally imposed conditionality, African governments have now established their own monitoring mechanism to produce more acceptable ways of ensuring compliance with nationally, regionally, and internationally accepted norms of political, economic, and corporate governance.

<u>Key issues for discussion</u>

- What can African countries do to encourage their development partners to support the APR mechanism by strengthening the institutions—technically and financially—involved in the peer reviews? A best practice in this respect is the G-8 commitment to support ECA's participation in OECD/DAC peer reviews reflected in Canada's willingness to permit ECA to observe its (Canada's) own review.
- What steps can be taken to encourage African countries to hasten their accession to the APR mechanism?
- How can African countries ensure that the conduct of the peer review process is free from political interference and is consistently conducted in an independent and technically competent manner?
- What contribution can African countries make to the application of peer review pressure for compliance with the recommendations of the peer review reports?

Theme 5. Focusing on transformed partnerships

A core principle of NEPAD, as a precondition for the renewal of Africa, is the development of more productive partnerships (para. 47). NEPAD calls for transformed partnerships, underpinned by African ownership of the continent's development strategies, joint commitments to shared development goals, and a focus on long-term predictable partnerships accompanied by increased resource flows, particularly to the countries that have a clear commitment to these shared goals.

Partners need to recognize Africa's diversity

African countries are ranged across a wide spectrum in the quality of their governance and the capacity of their institutions, the degree of peace and security, and the existence and scope for civil society. At one extreme are countries with solid policy frameworks, strong governance structures, good institutional capabilities, and less demanding needs for external assistance. At the other extreme are countries in exactly the opposite situation.

Differences also exist in the extent of commitment to poverty reduction and preparation of country-owned poverty reduction strategies, the depth of the knowledge base on the nature and locus of poverty on which poverty reduction strategies can be based, and the availability of good data on poverty, which could be used to measure poverty outcomes. There are also different levels of commitment to improving social indicators and stemming the spread of HIV/AIDS. Also relevant is the representativeness of governments, and their capacity and willingness to engage civil society, the extent to which civil society organizations are representative and active, as well as the extent to which the private sector is allowed to flourish.

Recognition of this diversity requires that a range of donor instruments channel funding to national development strategies—from budget support, poverty reduction strategy credits, sector wide adjustment programmes, sector investment programmes, project financing to technical assistance. The mix will depend on each country's commitment and performance.

NEPAD makes a strong case for channelling resources directly into country budgets. Under the ideal setting of a renewed commitment to good governance and poverty reduction as envisaged by NEPAD, the case for channelling external support to the country through the budget is strong (see Box 6 below). But given the diversity that exists among African countries both in capacity and needs, only a few countries would be in a position to benefit from such partnerships initially.

In some states moving out of conflict, the instruments of partnership may indeed be part of the way forward. Where partnership of any sort is difficult, the donor community is working to identify ways in which development cooperation can be effectively continued at some level, using non-state actors as necessary and possible.

Box 6
Ghana—blazing a trail towards donor budget support

African leaders have proposed in NEPAD that donor finances should be ploughed into African budgets, returning ownership of resources to the countries themselves. Ghana is blazing a trail in this direction. The government of Ghana has established a multi-donor budgetary support programme. The aim of the program is to support the Ghana Poverty Reduction Strategy (GPRS) by:

- Consolidating high real economic growth by supporting economic reforms and sound economic policies
- Providing financial contributions for increased allocations to priority sectors for poverty reduction
- Creating an enabling environment for sector wide approaches by addressing key issues thus laying the basis for more efficient and effective public service delivery.

This innovative budget support programme requires that donors provide resources through the government budget and in line with the budget cycles. Funds are not earmarked for specific activities. Participating development partners follow common rules for disbursement and commit themselves to firm financing over the forthcoming year with indicative commitments for the following two years.

The Government of Ghana and the development partners participating in this programme have agreed to focus on five key reform areas viewed as being critical for the successful and efficient implementation of GPRS. These areas are public finance — accountability reforms, budget process—especially translation of GPRS into the budget, decentralization, public sector reform and governance. For these areas a number of priority actions and a policy matrix would be designed to provide benchmarks against which progress would be monitored.

Regular dialogue, monitoring, and audits are considered critical for continued development partner commitment to the programme. Dialogue will therefore take place through the quarterly mini—Consultative Group Meetings. Regular monitoring reports from the government will be in a standard format and will include quarterly reports on macroeconomic indicators, on the policy matrix, on expenditures against the budget and releases, and progress in the implementation of GPRS. In turn development partners would provide quarterly reports on disbursements and provide projections of disbursements for the next two quarters.

The programme is open to all development partners but only five have signed on so far — the African Development Bank, Canada, the European Commission, The Netherlands, The United Kingdom, USAID and the World Bank. Denmark hopes to be able to participate in the near future.

Source: Government of Ghana and official sources.

Indeed, donor countries should be cautious in seeking debt-creating support for African countries with weak policies, governance and institutions. Not only is such assistance almost certain to be ineffective, creating additional debt without creating equal or greater assets, it actually leaves the borrower in a worse position. For countries not yet in a position to use outside investment funds effectively, humanitarian assistance may be quite appropriate. Also, in such countries there may be good opportunities for grant funds to be used for carefully selected purposes. (For example, to support a well designed AIDS programme.)

Partners need to deliver more aid and deliver it more effectively

More aid is needed and it needs to be delivered more efficiently. The cost of achieving the MDG targets—worldwide—has been estimated at around $50 billion of additional development assistance 2001-15. This figure does not take account of the pressing needs for humanitarian assistance ($4 billion extra per year) or for global public goods such as peace-keeping, action to combat HIV/AIDS,

agricultural research, measures to reduce greenhouse gases and to preserve biodiversity ($15 billion extra per year). For African countries judged to be in a position to use external assistance effectively, it is estimated that an increase of $25 billion in ODA from the current $13 billion to $38 billion would be required to reach MDGs.

The recent announcements at the Monterrey Conference on Financing for Development of substantial increases in ODA goes some way to closing the resource gap. The European Union announced an increase of $US7 billion a year—as an intermediate target en route to meeting the 0.7 % of GNP target—that all member states should seek by 2006 to meet or exceed current European Union average of 0.33 % of GNP. The United States announced that it would provide—through its Millennium Challenge Accounts—an extra $5 billion of aid per year from 2006 onward, and an extra $10 billion between now and 2006. This amounts to an extra $12 billion per year from 2006, a long way short of the $50 billion per year from 2001 for the MDG targets, but a step in the right direction.

The Canadian commitment at the G-8 Summit in Kanananskis of an additional CAN$6 billion to Africa over five years—including the CAN$500 million Canada Fund for Africa announced earlier—is especially welcome because it is in the December 2001 budget and is therefore built into existing fiscal frameworks. The challenge ahead is to ensure that these commitments actually become available, deployed more effectively than in the past.

For the African countries with reasonably sound polices, institutions, and governance, the aid horizon needs to be lengthened and the conditionality reduced. Many countries in this category—Tanzania and Uganda, for instance—are receiving assistance from several partners in the same economic sectors, with each partner insisting on detailed conditions for their assistance. This presents a significant administrative burden for the recipient country, and the time frame for the partner agreements tends to be short, creating uncertainty for ongoing programmes and requiring considerable time of national leaders to negotiate follow-on agreements.

African countries should insist that development partners emphasize their areas of expertise, draw their areas of comparative advantage. Although each partner is interested in the bottom line of reducing poverty, each partner need not be involved in every facet of a nation's programmes. Some bilateral partners have considerable expertise and experience in programmes, for example, to strengthen civil society, promote NGOs and develop village administrative capacity. The long experience of multilateral organizations in large infrastructure projects and sector programmes should be drawn on.

Several major challenges facing Africa—such as the HIV/AIDs pandemic, resistant malaria and tuberculosis strains, underprovision of agricultural research, and environmental degradation—have global and regional dimensions and therefore require international collective action. These challenges have attributes of global and regional public goods. Knowledge, health, financial stability, peace and environmental sustainability are all global and regional public goods.

Partners need to revisit the continuing debt problems of African countries

For Africa's HIPCs, debt relief is a crucial part of establishing a virtuous circle of poverty reduction and human development. But, there are concerns that HIPC debt relief has not been deep enough to ensure a lasting exit from the debt overhang problem for many countries.

First the process is too slow. After six years of HIPC process only five African countries—Uganda, Mozambique, Tanzania, Burkina Faso and Mauritania—have reached the completion point. Second, the definition of debt sustainability is rather arbitrary, taking little account of the developmental needs of poor countries or the resources needed to reach the MDG targets. Third, many countries are likely to exit the process with unsustainable debt burdens, even using the IMF and World Banks measures of sustainability. This is due in part to the fact that the decisions about the amount of debt relief to be granted were made on the basis of unknown future levels of exports and over-optimistic projections of economic growth, and in part to the fact that many African countries—unsurprisingly—suffered a series of economic shocks which knocked them off (see Box 7 above).

Box 7
Debt relief has not been misspent—but much more needs to be done

Cynics have always claimed that debt relief rewards "bad behaviour" and will only make the debt problem worse because countries will simply use debt relief to increase military spending or other non--poverty reduction related spending (this is the moral hazard argument against debt relief). However, a recent study by Greenhill and Blackmore (2002) has reached tentative conclusions that show that this is simply not the case. Resources freed up from debt relief have been used productively to promote expenditure on health and education.

Spending on education and health has risen in 10 countries that had already reached the "Decision Point" (reached after three years of structural adjustment) by the end of 2000. These countries are Burkina Faso, Cameroon, The Gambia, Guinea Bissau, Madagascar, Malawi, Mauritania, Niger, Rwanda and Uganda. The study documents a clear and marked upward trend in education spending in the 10 countries from only $929 million in 1998 to $1306 million in 2002. The trend is similar in health spending with an overall increase from $446 in 1998 to $796 million in 2002. The study also finds that military spending remained relatively constant between 1998 and 2001, at approximately 2% of GDP, or $580m.

Despite this good news, much more needs to be done. Only five countries—Burkina Faso, Mozambique, Mauritania, Tanzania and Uganda—have reached the "Completion Point" under HIPC. This is the point at which they receive a reduction in their stock of debt. In total these countries have received only $13.6 billion in debt relief. Of this $1.6 billion is accounted for by "traditional" debt relief by bilateral creditors that would have been granted under the old Paris Club mechanisms anyway. However, Uganda, a star performer and the first to reach Decision Point, already has an unsustainable level of debt once again. Uganda's exports have fallen dramatically because of falling coffee prices.

NEPAD recognizes the limitations of HIPC and argues that for debt relief to be effective it needs to be linked to costed poverty reduction outcomes. Because the costings can take time, in the short run NEPAD calls for the debt service ceiling to be fixed as a proportion of fiscal revenues with different ceilings for IDA only countries—those that are able to borrow from the World Bank at concessionary rates—and non-IDA countries. The NEPAD proposal for using fiscal revenues—rather than the export criteria used under the HIPC initiative is because it is fiscal revenues that really matter for debt sustainability. This is because, while export revenues provide governments with the hard currency from export earnings to repay debt, governments do not own all of the export revenues their country earns. It is government tax revenues that really determine how much a government can afford to pay.

The Greenhill and Blackmore study shows that if implemented the NEPAD proposal of linking debt cancellation to costed poverty reduction goals would require over the long run additional debt cancellation of about $134 billion. If NEPAD's short-term proposal—that debt service payments should be limited to a certain proportion of revenues—were implemented, the total amount of cancellation needed to bring debt service levels down to 5% for IDA countries and 10% for non-IDA would be about $147 billion.

Source: Greenhill and Blackmore (2002) "Relief Works—African proposals for debt relief and why debt relief works".

NEPAD recognizes the limitations of the initiative, arguing that for debt relief to be effective it needs to be linked to costed poverty reduction outcomes. Because the costings can take time, NEPAD

calls in the short run for the debt service ceiling to be fixed as a proportion of fiscal revenues with different ceilings for IDA-only countries (those able to borrow from the World Bank at concessionary rates) and non-IDA countries.

To ensure that the countries that receive debt relief avoid getting themselves into the same problems all over again, there should be greater recourse to grant financing for eligible HIPC countries.

Countries emerging from conflict (Angola, Sierra Leone, Democratic Republic of Congo) face unique problems in rebuilding a peacetime economy. Actions by the international community to provide debt relief is important if the momentum from conflict to peace is to be maintained. Debt relief will yield a "peace dividend" that can yield valuable resources to governments to build physical infrastructure destroyed during the conflict. The peace dividend can be used to deliver services in health and education. The peace dividend can also provide the conditions that will allow the private sector and institutions of civil society to resume commercial and productive activities.

Strong partnerships must be developed within society, not only between governments

There is a growing consensus that the surest foundation for development is social consensus. This requires transformed partnerships between government and civil society, the private sector, trade unions, and faith based organizations. This view is reflected in the NEPAD programme to renew Africa, implying at least three levels of partnership, that of partnership: (within countries, between governments, private sector and civil society), continental (between countries) and global (with development partners).

Key issues for discussion

- How can African policy makers in countries that have not yet made even the most basic reforms identify a highly focused reform agenda likely to result in rapid and substantial payoffs?
- How can African policy makers in countries that have already made first and second generation reforms maintain the momentum by championing additional reforms?
- How can development partners best work strategically to provide the correct balance between financial and knowledge transfers to African countries? A consensus is emerging that knowledge transfers will be more important in countries with weak polices, institutions, and governance, financial transfers will need to be scaled up in countries with solid track records.
- How can development partners ensure that debt relief provides additional real resources to tackle pressing poverty-related problems such as HIV/AIDS, and not at the expense of other ODA flows?

III. CONCLUSION: TRANSFORMED PARTNERSHIPS DO NOT JUST HAPPEN—THEY REQUIRE MUTUAL RESPONSIBILITY AND ACCOUNTABILITY

One of the imperatives of forging and sustaining this new more mature partnership between donors and Africa is the need for mutual accountability. What does this mean? It means that both Africa and its development partners must agree to a set of binding commitments and a way to monitor each side's promises (see Box 8 below).

In other words the practical implementation of mutual accountability involves the exchange of a concise set of key complementary commitments between African countries and their external partners.

- While African countries have been accustomed to making external commitments in the form of conditionalities, the African countries themselves will advance the commitments under mutual accountability.
- For the bilateral donor community, mutual accountability will involve exposing their aid efforts to the critiques of their development partners.

Box 8
Tanzania - best practice in donor performance monitoring

One practical way to improve aid effectiveness and promote greater partnership in aid relationships is to institute systems for donor performance monitoring at the recipient country level as part of the PRSP process. At the present time, the major official source of aid performance data and performance evaluation is the Development Assistance Committee (DAC) of OECD.

Such a system has already been set up in the United Republic of Tanzania. Efforts have been made to improve the aid relationship since 1995, when an independent assessment of that relationship, funded by the Danish Government in agreement with the Tanzanian Government, made a number of concrete recommendations for the Tanzanian Government and the donors. Agreement was reached between the Government and the Nordic countries on how the aid relationship could be improved, and this led to a broader discussion with the donor community on concrete steps, which needed to be taken. At the meeting of the Consultative Group in 1999, it was agreed in principle that an independent process of monitoring of aid relationships should be instituted. This was followed in 2000 by the preparation of the Tanzanian Assistance Strategy (TAS) to govern the ongoing aid relationship between the Tanzanian Government and its development partners. At the meeting of the Consultative Group in 2000, it was agreed that implementation of the TAS would include independent monitoring and evaluation of donor performance as well as of Tanzanian performance.

Since then the Economic and Social Research Foundation, an independent Tanzanian not-for-profit NGO, has been appointed to work as an honest broker coordinating the independent monitoring with donor funding coordinated by UNDP. The Independent Monitoring Group consists of three Tanzanians, three experts from donor countries and one African non-Tanzanian. All members of the Group were selected on the basis of their independence from the Tanzanian Government and from donor administrations. The work of the Group started in early 2002, and its report will be presented at the Consultative Group meeting in 2002. All parties are committed to supporting the work of the Group up to the end of 2002, after which the situation is to be reviewed in the light of the experience gained.

The commitments required for mutual accountability, discussed in various points throughout this document, are summed up below.

What is needed from development partners?

Binding commitments and actions to:

- Ensure that all policies affecting Africa's development prospects—including those in the areas of ODA, market access, and debt—are consistent with achieving MDGs.
- Ensure that assistance is provided through direct budget support, where appropriate.
- Harmonize aid practices, so that there is a decisive reduction in the burden of aid management and a clear contribution to increasing the scope, quality and capacity of African countries' public sector management and public finance systems.
- Make local capacity-building a specific objective in the design and execution of country assistance programmes.

What is needed from African countries?

Binding commitments and actions to:

- Establish and maintain peace and security, democratic transitions of power, and inclusive political systems that guarantee the rule of law.
- Maintain sound macroeconomic policy frameworks.
- Establish medium-term fiscal frameworks supported by accountable and transparent public finance systems.
- Foster private enterprise and entrepreneurship.
- Implement national development strategies incorporating MDGs, with particular emphasis on health and education.
- Mainstream national comprehensive capacity development strategies, incorporating the public sector, private sector and civil society.

What modalities can be used to monitor mutual accountability?

The key concept underlying mutual accountability is that all development partners should be accountable for outcomes—and that all should have a responsibility to promote best practices among themselves. The way accountability is framed around outcomes, which are commonly stated in terms of MDGs, means that the process of mutual accountability can draw on the mechanisms for monitoring MDGs. Modalities for mutual accountability can also, in principle, be the subject of the African Peer Review Mechanism.

Mutual accountability holds out the potential to become the key interface between OECD donors and African countries. Enhanced by such regional mechanisms as the African Peer Review, it can proceed independently at the country level. It will occur in the context of PRSPs, CDFs, and other best practices for development partnership. It requires that all partners agree on the desired outcomes and on best practices. It also requires that donor agencies examine their own best practices, and bring them into conformity with the principles of long-term predictability, transparency, and accountability. It is a work in progress, with much to be done to establish workable mechanisms.