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Mobilization of additional resources for African development: a study on overall resource flows to Africa

Progress report of the Secretary-General

Addendum

Contents

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I. Introduction

1. Africa's need for additional resource mobilization remains today as important and as urgent as it was when the General Assembly approved, in December 1991, the United Nations New Agenda for the Development of Africa in the 1990s. Indeed, for several reasons, the need and the urgency are greater now than before, as Africa enters the new millennium. The growth rate in GDP has not yet reached the target of 6 per cent under the new agenda, far lower than the rate of 8–9 per cent, which some development experts claim would be needed to significantly reduce poverty in Africa.

2. After a period of negative growth in per capita GNP in the 1980s and early 1990s, Africa as a region and several individual African countries have recorded consistently positive, albeit small, growth in real per capita incomes for the past four years. However, this recovery is fragile and cannot be sustained at current levels of investment. Thus, even to maintain the current rate of economic growth, investment rates in Africa need to be increased above the present rate of 19–20 per cent of GDP.

3. While the need for investment is growing, domestic savings rate in Africa has stagnated at around 16–17 per cent of GDP, reflecting mainly the low propensity to save because of the low level of incomes, which cannot meet even the basic needs of the vast number of people. A portion of these savings has to be diverted into meeting Africa's external debt obligations and is thus not available for domestic investment. At the same time, aggregate net resource flows to Africa over the past five years have not increased to fill the growing gap between investment needs and domestic savings.

4. The situation with respect to Africa's share in total net resource flows, especially official development assistance (ODA), is discouraging. For example, Africa's share in the total net aggregate resource flows to developing countries declined from 15.4 per cent in 1992 to 7.4 per cent in 1996. Similarly, the share of sub-Saharan Africa in net aggregate resource flows also declined, from 11.7 per cent in 1992 to a low of 6.1 per cent in 1996, and only marginally increased to 6.8 per cent in 1997.

5. Additional resources required for Africa's development cannot be met from domestic sources alone and need to be supplemented by external inflows. In view of their debt-servicing difficulties, African countries must rely on non-debt-creating flows, especially ODA and (private) foreign direct investment (FDI). However, private capital flows are likely to remain small in the immediate years ahead, and many African countries must continue to depend on ODA as the major external source of finance. This would imply that not only should the industrialized countries increase their ODA to Africa but that they should also take all possible measures to make such assistance predictable and stable.

6. The present report is a follow-up to the Secretary-General's report, entitled "Mobilization of additional resources for African economic recovery and development: a study on overall resource flows to Africa" (A/48/336, 7 October 1993). Against the backdrop of recent economic and financial developments in Africa, the report analyses the trends in resource flows, as well as the prospects. Section II briefly reviews the growth experience of African countries and discusses trends in savings and investment since 1992, factors affecting the savings rate, the widening gap between investment needs and domestic savings and the increasing need for higher inflows of external resources to fill the gaps. Section III analyses trends in resource flows and their composition. Section IV advances some recommendations concerning ways and means to enhance resource flows, including domestic savings, for African development, while section V sums up major conclusions arising from the study.

II. Savings and investment

7. Gross domestic investment in Africa has remained very low compared to the level required to achieve accelerated growth as well as in comparison with the high-performing countries in South-East Asia. Over the past five years, the volume of investment in the Africa region remained virtually static at 19–20 per cent of GDP, which is far below the average level of 30–33 per cent of GDP in parts of South-East Asia. A major reason for the low and declining volume of investment in Africa is the low mobilization of resources from both domestic and external sources.

8. For over a decade, until 1994, Africa experienced sluggish growth in GDP which resulted in a continuous decline in per capita incomes. In the five-year period 1990–1994, for example, the average annual growth rate of GDP was about 1.6 per cent for the Africa region (excluding the Libyan Arab Jamahiriya).[1] That trend, however, was reversed in 1995, and the upturn has been maintained in the subsequent years. In the three-year period 1995–1997, the average annual rate of growth of GDP increased to 3.9 per cent. Thus, for the first time in over a decade, Africa has registered consistent year-by-year increases in per capita incomes since 1995.

9. Gross domestic savings, defined as GDP minus consumption, have been consistently declining in Africa. The average savings ratio in Africa was 25.9 per cent during 1976–1983, 17.7 per cent during 1984–1991, and 15.6 per cent during 1992–1997. However, behind these worrisome averages, there are some reasons for optimism. The savings ratio for Africa reached its lowest level (13.9 per cent of GDP) in 1993; since then it has been increasing and reached 16.8 per cent in 1997. Although encouraging, the savings ratio in 1997 is hardly close to that in 1992.

10. Not all the domestic savings are available for domestic investment, since Africa is a net transferor of resources abroad in the form of net factor incomes less public grants from abroad. It is estimated that the net transfer of resources from Africa averaged 3.8 per cent of GDP in 1990–1997, as compared to 3.3 per cent in 1975–1984 and 4.6 per cent in 1985–1990.[2] As a proportion of domestic savings, such transfers amounted to over a quarter in 1990–1997. As a result, net domestic resources available for investment, as represented by domestic savings less net transfers abroad (or gross national savings), were reduced by that much, thereby adversely affecting the level of domestic investment and increasing the gap between investment and savings. It is estimated [3] that the latter gap averaged 9 per cent of GDP during the first half of the 1990s for Africa. The widening gap between national savings and domestic investment affirms the widely held view that inflows of external resources are most critical to achieving accelerated investment and growth.

11. Trends in investment rates are similar to those in domestic savings (see fig. I). The investment rate of 18.6 per cent in 1997 for Africa remained well below the level necessary to sustain satisfactory growth. A number of factors influence saving levels in developing countries, including Africa. They include, among others, macroeconomic stability, inflation rates, fiscal policy, exchange rates, trade policy, and structural and institutional factors, especially the degree of financial intermediation as the principal factors.[4] The recent increase in domestic savings would lend support to these findings, since economic indicators relating to these variables have shown some improvement.

Figure I. Savings and investment

12. The above factors also influence the level of investment. In addition, however, the level of external debt, the debt service burden, and the availability of foreign assistance assume particular importance in Africa. High external debt ratios are also indicators of "debt overhang" which includes expectations of higher future taxes leading the private sector to transfer funds abroad rather than invest them at home. Also, while the influence of foreign financial assistance on the level of domestic investment is obvious, uncertainty regarding the predictability and perceived permanence of such flows could affect private investment sentiment.

III. Trends in resource flows

13. Resource flows are analysed in this section under two main concepts: aggregate net resource flows and net resource transfers.[6]

14. Aggregate net resource flows to Africa have fluctuated relatively widely and show no underlying trend. For example, the net flow declined from $22.2 billion in 1992 to $17.6 billion in 1993, increasing thereafter to $25.9 billion and $28.2 billion in 1994 and 1995, respectively, but declining once again to $20.8 billion in 1996.

15. The fluctuations in resource flows to Africa are in marked contrast to the steady year-by-year growth of resource flows to developing countries as a group, from $143.9 billion in 1992 to $300.3 billion in 1997 (see table 1), representing an increase of 109 per cent, or about 18 per cent annually, during this period. Africa's share in total resource flows to developing countries not only halved, from 15.4 per cent in 1992 to 7.4 percent in 1996, but also fluctuated from year to year (see also fig. II). The main reason for these different trends lies in the relative contribution of official development finance (OF)[7] and private flows in total flows and the divergent trends in these two types of flows.

Table 1
Aggregate net resource flows to Africa and developing countries
(Billions of current US $)

	1992	*1993*	*1994*	*1995*	*1996*	*1997*
Developing countries	143.9	208.1	206.2	243.1	281.6	300.3
Africa [a]	22.2	17.8	25.9	28.1	22.2	..
Sub-Saharan Africa	16.8	14.6	20.7	24.1	17.2	20.8
Percentage share, Africa	15.4	8.6	12.6	11.6	7.9	..
Percentage share, sub-Saharan Africa	11.7	7.0	10.0	10.0	6.1	6.8

Sources: World Bank, *Global Development Finance, 1998* (Washington, D.C.), country tables. World Bank, *Debt Tables, 1994–1995* (Washington, D.C., 1996).

[a] Calculated as sub-Saharan Africa plus Algeria, Egypt, Morocco and Tunisia.

Figure II. Aggregate net resource flows to developing countries, Africa and sub-Saharan Africa

Figure III. Aggregate net long-term resource flows to Africa, 1996

16. Aggregate net transfers to Africa have fluctuated widely, ranging from a low of $4.6 billion in 1993 to a high of $14.5 billion in 1995. In 1996, these flows almost halved, to $7.6 billion (see table 2). These trends are evidence of the fluctuations in aggregate net resource flows, as interest and profit remittances from Africa, after declining from $15.7 billion in 1992 to $13.0 billion in 1993, remained thereafter at an average of around $13.5 billion annually (table 2).

17. The major types of long-term financial flows to Africa can be broadly categorized as: official development finance (OF), foreign direct investment (FDI), and private loans. Trends in each type of flow are discussed below.

A. Official flows

18. Official development finance (OF) includes official (multilateral and bilateral) debt and official grants. OF remains the major source of resource flow into Africa, particularly since Africa's access to international capital markets is limited. Total OF to Africa, after increasing to a high of $18.4 billion in 1994, declined to $16.3 billion in 1995 and $15.4 billion in 1996 (table 2). The share of OF in aggregate net resource flows declined from a high of about 98 per cent in 1993 to 74 per cent in 1996 (table 2).[8]

1. Official Development Assistance

19. The main element of OF continues to be the official development assistance (ODA) which is provided largely by member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) (74 per cent in 1996 compared to 82 per cent in 1992). The overall effort, as measured by the ratio of ODA to GNP of DAC member countries to developing countries, has fallen for five consecutive years, from 0.33 per cent in 1992 to 0.22 per cent in 1997, its lowest level ever. African countries also experienced a decline in net ODA from both the DAC and non-DAC countries (table 3). In 1996, total ODA at $20.7 billion was 17 per cent lower than that of $25 billion in 1992. ODA from DAC countries declined by almost 26 per cent, from $20.7 billion in 1992 to $15.4 billion in 1996. As a result, ODA share in Africa's GDP declined from 5.8 per cent in 1993 to 5.3 per cent in 1995 and less than 5 per cent in 1996. The decline in ODA was experienced in almost all African countries.

20. Despite the decline in ODA flows, Africa's share in total ODA remained the highest among recipient regions. Among the providers of ODA to Africa, the largest donors have traditionally been France, Germany, the Netherlands, and the United States of America. The amount of assistance provided by the United States has been declining, and in 1996 it was only 41 per cent of that in 1993 (at 1995 prices and exchange rates). In terms of the percentage of their respective GDP/GNP allocated to ODA, however, the largest donors are Denmark, Norway, the Netherlands, and Sweden, all of whom have exceeded the United Nations target of 0.7 per cent of GDP for ODA. On the recipient side, major receivers of ODA in Africa have been Egypt, Ethiopia, Ghana, Mozambique, the United Republic of Tanzania, and Uganda.

Figure IV. Net ODA flows from DAC countries to Africa, 1995 and 1996

21. While sectoral distribution of ODA over the period has continued to change, the trend favouring social-sector investment is apparent. In 1994–1995, the latest year for which data on sectoral distribution of ODA is available, DAC donor countries provided 5 per cent of their total aid as emergency assistance, compared to only 1 per cent in 1975–1976, as the growing internal and external conflicts and natural disasters on the continent raise the requirements for humanitarian and other assistance. Productive sectors, such as agriculture, industry and related activities, have yielded their claims on aid to the service sectors such as social, economic, and administrative infrastructure (51 per cent in 1994–1995 compared to 31 per cent in 1975–1976), because greater emphasis is being put on capacity-building in those areas (see table 4).

22. The multilateral donors, especially the World Bank and the Inter-American Development Bank (IDB), are also shifting their assistance away from large physical infrastructure projects to social sectors that focus on human resource development and poverty alleviation. For example, in 1996, the World Bank devoted 27 per cent of its total lending in Africa to the social sector, compared to 11 per cent in 1986 and 22 per cent in 1991. The corresponding ratio for the IDB was 30 per cent in 1996, 11 per cent in 1991, and 31 per cent in 1986.

23. The decline in absolute amount in ODA to Africa and in Africa's share in total ODA does not augur well, with the new orientation of the aid policies of donor countries aimed at supporting the development efforts of "strong" performers. Recent years in many African countries are marked by improved economic performance, greater democratization, better governance and accountability; and the outlook for the continent has brightened. All of these developments should have attracted larger ODA flows into Africa under the new aid policies, but this has not happened.

2. External debt

24. External debt also constitutes an element of resource flow. Africa's outstanding total debt stock amounted to $323 billion in 1996. Out of this, long-term bilateral debt accounted for 40 per cent; multilateral, for about 23 per cent; and for the remaining 37 per cent, private loans and short-term and IMF credit. The debt profile of African countries for the years 1995 and 1996 is given in table 5. Payment for debt servicing represents a negative flow of resources. For example, for sub-Saharan Africa, interest payments on long-term loans accounted for $5.2 billion in 1997 and principal repayments for another $6.4 billion for the same period. Thus debt service is a significant item in affecting net resource flows to Africa, and Africa's debt servicing difficulties have long been recognized.

25. A number of debt relief initiatives have, over the years, been taken to tackle the issue of external debt of developing countries. They have not effectively solved the external debt problem of African countries. In 1996, the IMF and the World Bank launched a debt initiative for heavily indebted poor countries with the objective of bringing their debt burdens to" sustainable" levels. Since the adoption of the initiative, six countries, including four in Africa (Burkina Faso, Côte d'Ivoire, Mozambique, and Uganda), have reached the decision points and received commitments for assistance from all the creditors totalling $5.7 billion. Uganda has already reached the so-called "completion point" which enables it to draw upon the commitments to reduce its debt ratio. It is calculated to receive debt relief equivalent to about $345 million (in net present value terms) which is projected to reduce its debt-to-export ratio to 202 per cent. Burkina Faso is expected to receive assistance of about $115 million (net present value terms), representing a debt reduction of about 14 per cent.[9]

26. The international community has also provided assistance to debtor countries in the restructuring of their debt to commercial banks. This has occurred largely through buy-backs

supported by the World Bank's Debt Restructuring Facility and the IMF's Economic Structural Adjustment Facility for low-income countries and through officially supported debt and debt-service reduction programmes (Brady operations) for middle-income countries. As of the end of 1997, 11 African countries had completed operations that involved buy-backs at large discounts. The total principal debt extinguished as a result amounted to $1.9 billion, at a total cost of $345 million (implied discount of over 80 per cent for these countries).

B. Private flows

27. There are three main categories of private resource flow: loans, foreign direct investment (FDI), and portfolio equity investment. In the 1990s, while OF was declining, private flows (debt- and non-debt-creating) into developing countries surged continuously, from $42 billion (43 per cent of net long-term flows) in 1990 to $247 billion (87 per cent of total flows) in 1996, and to an estimated $256 billion (83 per cent of total flows) in 1997.

28. Most of the increase in private capital flows to developing countries bypassed African countries, which received only $3.1 billion (3.4 per cent) of the total flows in 1992, and $6.8 billion (or about 2.7 per cent) in 1996. In sub-Saharan Africa, the flows are concentrated in a few countries, with South Africa being the largest recipient. The North African countries also received net private capital inflows – albeit small – due to large repayments of private loans (over $6 billion between 1990 and 1996).

29. Private loans, which were so prominent in the late 1970s and early 1980s, have virtually ceased for Africa and have either been negative or only slightly positive during most of the 1990s. In 1997, total outstanding short-term private debt of sub-Saharan Africa was $46 billion, or $6 billion lower than in 1990. Commercial bank lending has generally remained negative or only slightly positive since African countries have yet to restore normal credit relations with the financial markets and gain access to credit. However, the increase in lending in 1997 was based largely on increased lending from commercial banks (35 per cent of the commercial bank flows went to Angola). Some 13 African countries in sub-Saharan Africa borrowed on the syndicated loan in 1997, and among them commitments to South Africa accounted for 73 per cent of the total. Credit-worthiness ratings for most African countries are still very low, though improving. Bond issuance, which has acquired increasing importance as the channel for private capital flows in other regions, has been limited to modest amounts in Africa. South Africa was the only country in sub-Saharan Africa to issue on international bond or equity markets in 1997.

30. Foreign direct investment (FDI) flows to developing countries have continued to increase during the 1990s, from $23.7 billion in 1990 to $120.4 billion in 1997[10] or by five times during this period. The surge in FDI flows to developing countries has been due mainly to the liberalization of developing countries' economies, particularly privatization and the removal of restrictions on FDI, strong growth in GDP and trade, and the rising quality of communication and transportation services, including information technology.

31. The annual inflow of FDI into Africa, although modest, increased from $3.1 billion in 1992 to $5.5 billion in 1994 and thereafter declined to $4.5 billion in 1996 (table 2). Even though modest and declining, trends in FDI in the 1990s are encouraging, compared to a flow of only $800 million in 1990, but well below the requirements to fill the potential savings investment gap. FDI flows to sub-Saharan Africa are highly concentrated, with about 70 per cent of the total flow going to Nigeria, South Africa and Uganda. Nigeria alone accounts for 47 per cent of the flows to sub-Saharan Africa. Another feature of FDI flows to Africa is that they are largely concentrated in the oil and mining sectors.

32. With the liberalization and privatization of most African countries' economies, the new enabling environment that has been created in recent years and the recent economic turnaround in Africa provide better prospects for attracting increased and significant FDI inflows into the continent. In addition to the mining and oil sectors, certain other sectors – namely, manufacturing, especially agro-based industries, energy and tourism – are promising for foreign investment.

33. Portfolio equity flows in sub-Saharan Africa were virtually non-existent prior to 1990s but are slowly emerging – e.g., increasing from $100 million in 1992 to $4.9 billion in 1995, and then declining to $2.1 billion in 1997.[11] In North Africa, Morocco has begun to receive small, but growing, amounts of portfolio investment, mainly in response to its privatization programme which has also animated its stock exchange. At the end of 1995, there were 15 African countries with stock markets. There are encouraging signs of growing investor interest in African securities portfolios. Since 1992, 17 African regional or single-country funds with net assets totalling $600 million have been set up, and their number may be growing. Initially the focus of these funds was on South Africa (which accounts for 86 per cent of portfolio flows to sub-Saharan Africa), but it now extends to a number of other African countries, including Côte d'Ivoire, Kenya, and Zimbabwe.

IV. Ways and means of advancing resource flows to Africa

34. An average real growth rate of about 7 per cent annually, on a sustainable basis, would need to be achieved to effectively reduce the problem of poverty in Africa. This would require an investment of 25 per cent compared to the present rate of 18-19 per cent of GDP. The figures suggested by some earlier studies of the African Development Bank, the World Bank and the Economic Commission for Africa on external resource requirements for African economic recovery up to the year 2000 range between $50 billion and $60 billion. The following are some of the specific areas in which national and international efforts could be made to meet Africa's need for additional financial resources.

A. National efforts at resource mobilization

35. To achieve sustained growth, a major portion of the resources required for investment must come from domestic sources. Even in present conditions, when Africa is heavily aid-dependent, more than two thirds of the investment in Africa is domestically financed. Africa can increase its savings rate in a variety of ways:

(a) As an essential part of their reform programmes, African Governments should target quantitative and substantial increases in national savings, separately for both the public and private sectors;

(b) Policies to raise savings should include redressing fiscal imbalances, addressing urgently the problems of weak and unviable state enterprises, and providing private savers appropriate incentives and opportunities for savings and efficient financial intermediation facilities;

(c) African Governments should improve the productivity of public expenditures by undertaking, on a regular basis, a systematic economic analysis and review of public expenditures and reducing or eliminating unproductive expenditures;

(d) Policies to stimulate and mobilize private savings, including appropriate legal and justice system to enforce property rights, positive real interest rates, and a savings-oriented tax system, should be reinforced;

(e) Efforts should be made to promote financial intermediation and its efficiency so as to be able effectively to mobilize and invest domestic savings and private capital inflows along the lines recommended in the Secretary-General's report "Towards advancing financial intermediation in Africa" (A/50/490), and the conclusions of the Asia/Africa High-level Workshop on Advancing Financial Intermediation in Africa (organized by the Office of the Special Coordinator for Africa and the Least Developed Countries, of the Department of Economic and Social Affairs, United Nations Secretariat, in April 1998).

B. Debt reduction

36. Africa's external debt burden is the highest among developing countries in terms of the ratio of external debt to GDP and its debt service ratio. The recent advances in the international strategy to relieve the debt burden of highly indebted poor countries (HIPC) will have some effect, but more may need to be done, not only for the low-income countries of Africa but also for its highly indebted middle-income countries. Accordingly, the creditor community may consider the following measures to further relieve the debt burden of African countries:

(a) Provide full support for an expeditious application of the HIPC initiative to the eligible countries by providing adequate financial contributions to the World Bank's HIPC Trust Fund;

(b) Extend the expiry date of the HIPC initiative at the time of its scheduled review in September 1998;

(c) Provide, at the time of the review, further flexibility in the sustainability ranges and include national savings ratios in the vulnerability criteria;

(d) Assess the debt sustainability of middle-income countries in Africa and elsewhere and extend appropriate debt relief, if needed;

(e) Encourage debt conversion programmes, particularly for social development.

C. Meeting aid targets and improving aid coordination

37. As noted above, aid flows to the developing countries, in general, and to Africa, in particular, have been decreasing. For DAC member countries, ODA has fallen for five consecutive years, to 0.22 per cent of GNP in 1997. The decline in ODA is inconsistent with the policy pronouncements of the donor community. As noted in the Secretary-General's report to the Security Council in April 1998, "The causes of conflict and the promotion of durable peace and sustainable development in Africa" (A/52/871–S/1998/318), concrete actions must be taken, since it is in deeds rather than in declarations that the international community's commitment to Africa will be measured.

38. The following recommendations are made to improve both the quantity and the effectiveness of aid:

(a) DAC countries in general, and G-7 countries in particular, should halt any further decline in their ODA as a proportion of GNP and restore their ODA to their own historical high ratios within a mutually agreed, but short, period;

(b) DAC countries and other traditional donors should fulfil the aid target of 0.7 per cent of their GNP;

(c) Make aid more effective through promotion of African "ownership" of the programmes and projects being assisted and through better coordination of donor assistance;

(d) Make greater use of the budget-support approach to enhancing sector-level coordination, particularly in those countries that have successfully completed the stabilization phase and have embarked on the development phase;

(e) Reverse the tendency to tie donor assistance, directly or indirectly.

D. Private flows

39. Of the three forms of private capital flow (loans, FDI and portfolio equity), FDI and portfolio equity investments are more relevant in the present context of African economies. Complementary actions on the part of African and capital-exporting countries could assist in attracting and increasing private flows.

40. African Governments should establish and enhance an environment of economic security that promotes the savers' and investors' confidence by taking the following steps:

(a) Take a proactive role in fostering financial intermediation and improve the efficiency of their financial systems;

(b) Improve the collection and dissemination of financial and other data necessary for investors to take judicious investment decisions;

(c) Liberalize their trade and payment systems and proceed judiciously with capital liberalization, as circumstances permit, to make possible, *inter alia*, the promotion of the investment climate;

(d) Promote regional money markets and stock exchanges as well as cross-listing of stocks;

(e) Encourage the establishment of global/regional mutual funds to minimize risks associated with a single-country fund.

41. Capital-exporting countries, in their turn, should eliminate any restrictions, legal or informal, on capital exports. Alongside, the international community should consider ways to reduce the volatility of capital flows and avoid the Asian type of financial crisis through better international surveillance mechanisms, regulatory and prudential frameworks, and information dissemination.

V. Conclusion

42. The issue of resource flows to Africa has been an ongoing concern in the United Nations and for the international community. Despite this concern, the net flow of resources to Africa has been declining. Donor countries have cut back on their aid budgets as part of their fiscal consolidation and are relying more on private capital flows to meet the resource requirements of developing countries. Even more disconcerting is the fact that Africa's share in this shrinking pie has fallen at a time when economic growth in Africa has picked up, in response to strong policy reforms being implemented by African countries. As the international community has tried to contain the spillover damage of the crises in South-East Asia and in

the Russian Federation, aid funds and aid donors' attention have been diverted away from the success story in Africa. Finally, even the huge increase in private capital flows to developing countries has bypassed the Africa region so far, partly reflecting its underdeveloped financial system.

43. The international community cannot be complacent about the present African recovery. Based as it is on stagnant investment rates, the recovery is very fragile and could well unravel despite policy reforms, if not sustained with higher investment rates. Furthermore, the growth rate of the recent years (4 per cent in 1996, down to 2.7 per cent in 1997) is well below the target of 6 per cent set in the New Agenda and is not sufficient to meaningfully reduce poverty levels in Africa, which are unacceptably high. For all these reasons Africa's growth rates need to be substantially higher than at present, and thus Africa must mobilize additional domestic and external resources.

44. African countries must first of all look to the domestic sources, if the higher growth rates are to be sustainable. Savings rates in Africa are low and have stagnated. African Governments should adopt specific savings targets and policies for promoting domestic savings as part of their overall macroeconomic policies and programmes. Enhancing and improving financial intermediation would be a precondition for the realization of higher savings targets.

45. Notwithstanding the need to increase domestic savings rates in Africa, those rates will still fall short of total investment requirements, and Africa could legitimately look to the international community to provide supplementary resources. In recognition of the changed character of international flows and the dominance of private flows, African Governments must take measures, including trade liberalization and accelerated privatization, to provide an environment of economic security and an efficient financial system, in order to attract foreign private investment. Recent inflow, albeit relatively small, of private capital into Africa demonstrates that, with appropriate institutions, structures, and policies, Africa could potentially be a beneficiary of much higher inflows. The international community should support those initiatives on the part of Africa by removing any remaining obstacles to capital migration and liberalizing their markets to allow free entry for African exports.

46. In the foreseeable future, nonetheless, private capital flows are unlikely to meet the residual financial requirements of African countries. Moreover, in certain sectors – e.g., social and infrastructure – it is difficult to attract private capital. Thus such sectors must be developed with public funds. In fact, without appropriate development of infrastructure, even private capital may not flow in. Thus official assistance is pivotal, even as a catalyst. The international community, therefore, must not only continue with its current assistance but increase it and provide it on concessional terms – preferably as grants. With a good track record and the continued implementation of "strong" policy measures, African countries have legitimate claim on the international aid purse and, consistent with the reorientation of aid policies, on increasing its share of that purse.

Table 2

Aggregate net long-term resource flows to Africa[a]

(Billions of US$)

		1992	1993	1994	1995	1996
1.	External debt	4.9	2.3	5.8	5.5	1.2
	a. Official	6.3	5.5	4.7	3.5	2.5
	(Multilateral)	(4.2)	(4.2)	(3.8)	(3.1)	(2.9)
	(Bilateral)	(2.1)	(1.3)	(0.9)	(0.4)	(-0.4)
	b. Private	-1.4	-3.2	1.1	1.9	-1.2
2.	Non-debt creating flows	17.3	15.3	20.1	22.7	19.6
	a. Official grants	14.2	11.7	13.7	12.8	12.8
	b. Private	3.1	3.6	6.4	9.9	6.8
	(FDI)	(3.0)	(3.4)	(5.5)	(4.9)	(4.5)
	(Portfolio equity)	(0.1)	(0.2)	(0.9)	(5.0)	(2.3)
3.	Interest and profit remittances	-15.7	-13.0	-13.6	-13.7	-13.4
4.	Aggregate net resource flows (1+2)	22.2	17.6	25.9	28.2	20.8
5.	Aggregate net transfers (1+2) - (3)	6.5	4.6	12.3	14.5	7.6
6.	Official development finance (OF) (1a+2a)	20.5	17.2	18.4	16.3	15.4
7.	OF as percentage of net resource flows	92.3	97.7	71.0	57.8	74.0

Sources: World Bank, *Global Development Finance, 1997*; ..., *1998* (Washington, D.C.), country tables; *World Debt Tables, 1994–1995* (Washington, D.C., 1996).

[a] Including sub-Saharan Africa, Algeria, Egypt, Morocco and Tunisia.

Table 3
Africa: official development assistance
(Billions of US$)

	1992		1993		1994		1995		1996	
	Total	*DAC*	*Total*	*DAC*	*Total*	*DAC*	*Total*	*DAC*	*Total*	*DAC*
Net ODA (Africa)	25.0	20.7	21.5	16.2	23.5	17.6	22.0	15.6	20.7	15.4
North Africa	5.4	4.4	3.7	2.6	3.9	3.1	2.9	2.4	3.4	2.6
Algeria	0.4	0.4	0.3	0.3	0.4	0.4	0.3	0.3	0.3	0.3
Egypt	3.6	3.0	2.4	1.8	2.7	2.3	2.0	1.7	2.2	1.9
Morocco	0.9	0.7	0.7	0.4	0.6	0.3	0.5	0.3	0.7	0.4
Tunisia	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Sub-Saharan Africa[a]	19.1	16.3	17.3	13.6	l8.9	19.5	18.5	13.2	16.7	12.8
Cameroon	0.7	0.6	0.5	0.5	0.7	0.4	0.4	0.3	0.4	0.3
Côte d’Ivoire	0.8	0.5	0.8	0.7	1.6	0.8	1.2	0.7	1.0	0.4
Ethiopia	1.2	0.5	1.1	0.4	1.1	0.6	0.9	0.5	0.8	0.4
Ghana	0.6	0.3	0.6	0.3	0.5	0.3	0.7	0.4	0.7	0.3
Kenya	0.9	0.5	0.9	0.4	0.7	0.4	0.7	0.5	0.6	0.3
Mozambique	1.5	1.0	1.2	0.8	1.2	0.7	1.1	0.7	0.9	0.6
Nigeria	0.3	0.1	0.3	0.1	0.2	0.05	0.1	0.2		
Senegal	0.7	0.5	0.5	0.4	0.6	0.5	0.7	0.4	0.6	0.4
South Africa	0.2	0.2	0.3	0.2	0.4	0.3	0.4	0.3		
Uganda	0.7	0.3	0.6	0.3	0.8	0.3	0.8	0.4	0.7	0.4
United Republic of Tanzania	1.3	0.8	1.0	0.7	1.0	0.6	0.9	0.6	0.9	0.6
Zambia	1.0	0.7	0.9	0.5	0.7	0.4	2.0	0.4	0.6	0.4
Zimbabwe	0.8	0.5	0.5	0.3	0.6	0.3	0.5	0.3	0.4	0.3
Africa unspecified	0.5	0.4	0.4	0.3	0.7	0.6	0.6	0.4	0.6	0.5

Source: OECD/DAC, *Development Cooperation, 1997* (Brussels), p. 38 and table 33.

[a] Selected countries.

Table 4
Major sectoral distribution of DAC aid
(Percentage of total commitments)

	1975–1976	*1994–1995*
Social and administrative infrastructure	20.2	29.0
Economic infrastructure	10.5	22.7
Agriculture	8.1	7.4
Industry and other production	13.6	3.1
Commodity aid/programme assistance	18.9	7.0
Emergency aid	1.0	5.0
Other	27.7	25.7
Total	**100**	**100**

Source: OECD/DAC, *Development Cooperation, 1997* (Brussels), table 26.

Offset table 5 here.

Notes

[1] IMF, *World Economic Outlook* (Washington, D.C., 1998).

[2] ECA, *Economic Report on Africa, 1998* (Addis Ababa), para. 32-34.

[3] Ibid., para. 34.

[4] Michael T. Hodjimichael and others, “Sub-Saharan Africa: growth, savings and development, 1986–1993”. IMF, Occasional Paper 118, January 1995.

[5] Defined as the sum of net resource flows on external long-term debt (disbursements minus reimbursements), excluding net IMF credits, foreign direct investments, and public grants (excluding technical assistance) received by the recipient country.

[6] Defined as net resource flows minus the interest payments on long-term debt and profit remittances on account of FDI.

[7] Defined as the sum of total official flows (loans and grants), excluding officially supported export credits.

[8] Based on World Bank data.

[9] IMF, “Official financing of developing countries”, February 1998.

[10] World Bank, *Global Development Finance, 1998* (Washington, D.C.), analysis and summary tables.

[11] Ibid.