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**Report of the Regional Consultative Meeting on Financing  
for Development in the African Region, and Preparatory  
Meeting for the Third United Nations Conference on Least  
Developed Countries**  
**Addis Ababa, 15-17 November 2000**

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## Introduction

1. The Regional Consultative Meeting on Financing for Development in the African Region and Preparatory Meeting for the Third United Nations Conference on the Least Developed Countries was held in Addis Ababa from 15 to 17 November 2000. The meeting was formally opened by Sufian Ahmed, Minister for Finance of Ethiopia. K.Y. Amoako, Executive Secretary of the Economic Commission for Africa (ECA), also made an opening statement.

2. In his opening statement, the Minister highlighted the importance of Africa being adequately prepared for the two important United Nations events scheduled for 2001 and early 2002. This was particularly important in view of the continuing economic and social problems persisting in many parts of Africa and its marginalization from the global economy. The Minister noted that Africa faced serious difficulties in mobilizing development finance, especially in the face of declining official development assistance (ODA) and the persisting debt problem. The situation had been worsened by the human immunodeficiency virus/acquired immunodeficiency syndrome (HIV/AIDS) pandemic, and there was a need for concerted efforts by Africa and its development partners to address the problem by adopting comprehensive and concrete measures.

3. In his opening remarks, the Executive Secretary of ECA reiterated the importance of the meeting, and urged the participants to undertake a comprehensive analysis of the issues and make concrete recommendations to shape Africa's position in the two major United Nations events. He then outlined the challenges facing Africa and the importance of development finance in addressing them.

4. Mr. Amoako noted that while poverty was declining in other parts of the world, it was growing in Africa. He added that in order to achieve the internationally accepted target of halving poverty by 2015, Africa needed to grow by about 8 per cent per year, double the rate attained in the last five years. In order to achieve this, the ratio of investment to gross domestic product (GDP) would have to rise from the current level of 19 per cent to a minimum of 25 per cent, and given the state of African economies it was unlikely that they could find the resources to meet this target from domestic sources.

5. Despite these problems, Africa was not doomed to failure. A few African countries had shown that it was possible to undertake sustainable economic reforms and attain structural diversification and thereby reduce poverty significantly. Their experiences were an important lesson for the rest of Africa. His remaining remarks outlined some of the key issues and questions to be addressed in the meeting.

6. Following the opening session, the meeting was conducted in plenary sessions organized around specific themes. The key issues, conclusions and recommendations of each of the plenary sessions are set out below. The recommendations emanating from the meeting were subsequently presented to the ECA Conference of Ministers of Finance at its eighth session, on 21 and 22 November 2000. Thereafter, the Conference of African Ministers of Finance adopted a ministerial statement, which is contained in the annex.

## I. Mobilizing domestic resources for development in Africa

7. The discussions on mobilizing domestic resources for development were led by a panel, comprising Mubarak Hussein Rahmtalla, a representative of the Bureau of the Preparatory Committee for the High-level International Intergovernmental Event on Financing for Development, and the lead discussant, Temitope Oshikoya of the African Development Bank. Ernest Aryeetey of the University of Ghana moderated the session.

8. A brief background to the High-level Event was presented to the panel, and delegates were updated on the preparatory process. Discussions then focused on the importance of domestic resource mobilization for the economic and social development of Africa, the reasons why domestic resources, especially savings, are low, and the policy measures that are needed to increase them. It was noted that while the recent growth performance of most African countries is encouraging, it is important to intensify efforts for further improvement if the goal of reducing poverty by half by 2015 is to be achieved. In this regard, in order to attain the required GDP growth rate for poverty reduction of at least 7 per cent, an investment rate equivalent to 33 per cent of GDP is required. Mobilization of both domestic and external financial resources is critical in meeting this requirement.

9. Moreover, it was observed that for countries having experienced economic growth and development, domestic savings constitute an important share of investment, and for this reason African countries themselves have the primary responsibility for mobilizing private and public resources for their development. Panellists pointed out that Africa is not only highly undercapitalized, with among the lowest savings and investment ratios in the world, but more importantly, investment is on a declining trend. For example, gross domestic investment (GDI) has declined from 25 per cent of GDP in the 1970s to less than 20 per cent in the 1990s, while private investment has fallen to about 11 per cent.

10. The problem of decapitalization is most severe in low-income countries, where private investment is as low as 3 per cent of GDP. The savings rate has also declined substantially, from an average of 24 per cent of GDP in the 1980s to about 15 per cent in the 1990s, reflecting the problems of low incomes, the persistence of macroeconomic and political risks, and weak financial sectors, as well as demographic factors, including high dependency rates. As a result, the savings/investment gap widened from an equivalent of 1 per cent of GDP in the 1980s to 4 per cent in the 1990s.

### **Conclusions and recommendations**

11. The discussions focused on the factors that explain the low level of savings in Africa and the measures that need to be put in place to address the problem. The delegates noted that mobilizing domestic savings is only one part of the equation, since it is important to ensure that mobilized resources are efficiently channelled to the most productive sectors. In addition to the weak financial sector and poor incentives, it was noted that low domestic savings are largely due to the low levels of income and poverty in many countries. It was suggested that countries focus on broad-based growth and promote economic diversification in order to break out of this vicious circle of low incomes and savings.

12. African Governments were accordingly urged to undertake measures for attaining broad-based growth, including the creation of an enabling environment for private sector development through good governance and sound macroeconomic policies; deepening financial sector reforms and strengthening bank supervision and regulation; promoting innovative

financial instruments and providing access to credit; enhancing the allocation of public expenditure for infrastructure, human development and capacity-building; strengthening public finances by designing and enforcing effective and equitable tax systems; and strengthening the capacity of the State in economic management.

13. The meeting underscored the importance of modernizing agriculture in order to raise rural household incomes. With a large majority of the African population in the agricultural sector, one of the most direct ways to increase savings was to increase household incomes. This could be achieved through transforming current subsistence agriculture to a market-based commercial activity, by adopting appropriate technologies, high-yield varieties and efficient irrigation schemes.

14. The need for African countries to improve the available range of financial instruments for attracting and retaining domestic savings was also emphasized since many of the current instruments tend to exclude savings options for long-term development finance. It was therefore suggested that the necessary institutional and legal infrastructure be established in order to tap savings from insurance and pension funds and channel them into the financing of long-term development projects. It was emphasized that due consideration should be given to the role of capital markets in mobilizing both domestic and external finance. Capital markets in Africa tend to be small and largely undercapitalized. In addition to establishing the requisite legal and institutional environment for the development of capital markets, it was suggested that African countries enhance their efforts to establish regional stock exchanges.

15. The role and importance of microfinance institutions in mobilizing savings and transforming rural agriculture was strongly emphasized. It was noted that financial intermediation in the rural areas is plagued by problems of economies of scale (size of loans) and information problems associated with adverse selection and moral hazard, which lead to high transactions costs. The meeting suggested the use of innovative mechanisms for the mobilization of domestic savings, such as the use of rotating savings and credit associations. It was also suggested that mechanisms be established to link informal microfinance institutions with the formal financial sector in order to enhance financial intermediation.

16. The importance of ill health and injury, particularly at the workplace, as key factors contributing to low levels of income and poverty was strongly emphasized by the meeting. These factors have been compounded by the HIV/AIDS epidemic and the resurgence of tropical diseases, such as malaria and other communicable diseases, including tuberculosis. It was suggested that measures to combat these problems be made a key component of policies for human capital development.

17. As regards good governance, the importance of strong political leadership in economic management as well as effective state institutions were also underscored as key to mobilizing both domestic and external finance. The participants strongly called for enhanced commitment and measures to eliminate corruption and reversing capital flight.

## **II. Mobilizing international resources for development**

18. The discussions on mobilizing international resources for development were led by a panel comprising Hazem Fahmy, First Secretary of the Permanent Mission of Egypt to the United Nations; Cornelius Mwalwanda, Officer-in-Charge of the ECA Economic and Social Policy Division; and K. Kousari, Special Coordinator for Africa at the United Nations Conference on Trade and Development (UNCTAD). The panel was moderated by Diery Seck, Executive Director of the Secretariat for the Institutional Support for Economic Research in Africa, based in Dakar.

19. The panel discussions began by reviewing the background of the two forthcoming conferences, underlining their critical importance to the economic and social development of Africa in particular the least developed countries. It was noted that the idea for a high-level event on financing for development came to the fore in the early 1990s, when ODA started to decline. Although some of the developed countries were at first reluctant about the conferences, they are now part of the process. A detailed account of the key issues to be discussed at the meeting was presented, including mobilizing domestic and external resources for development; attracting international financial flows; external debt; the need to increase concessional flows, particularly ODA, to developing countries; issues of international trade; the need to foster

international cooperation for development; and the issues of governance of international monetary and financial institutions.

20. Panellists underscored the critical importance of mobilizing international resources for Africa's development, and pointed out that ECA devoted the last two ministerial conferences, in 1998 and 1999, to this issue. Given the low levels of domestic savings, the lack of competitiveness of African products and their limited capacity to generate sufficient foreign exchange, the debt burden and declining ODA flows, it will be difficult if not impossible for the region to meet the international target of reducing poverty by half by 2015 without a substantial increase in external assistance. This is compounded by the region's heavy dependence on imported development factors, such as technology, capital goods, raw materials and spare parts.

21. Due to the low levels of income, domestic savings are insufficient to finance investment to kick-start and sustain growth, as a result of which Africa and to a greater extent sub-Saharan Africa needed large external resource inflows. It was further pointed out that the intensive reforms that African countries have implemented have not been matched by commensurate external assistance. On the contrary, ODA has declined, foreign direct investment (FDI) has remained low and the debt burden has grown more onerous. Contrasting this with actual flows, there is a large and growing gap between what is required and what is available. Panellists therefore underlined the need for large inflow of resources to provide a big push to break out of the vicious cycle of poverty. Initially these resources could come only from official sources, and ODA would thus need to be doubled from its current level of US\$ 10 billion to US\$ 20 billion per annum and maintained at that higher level at least for a period of 10 years. Although additional resources are necessary, the need to put in place appropriate policies and strategies for their effective utilization is important.

22. Although Africa needs to reduce dependency on aid in the long term, increased aid at the initial stages was necessary to achieve this objective. ODA is necessary to initiate the transition from aid dependency by providing resources to finance investment that would attract private capital and enable these countries to borrow from the private financial markets. But although increased aid is necessary, it must also be

used effectively. To this end, donor programmes need to be coherent and focus on poverty eradication, while recipient countries need to coordinate and manage public expenditure more effectively. It was further suggested that some of Africa's development partners could take the lead in financing strategic activities, where they were more effective. For example, the World Bank, the African Development Bank and the European Union could finance regional infrastructural projects, such as roads, that could ease supply constraints and assist in the integration of African economies.

23. Regarding other sources of finance, panellists noted that African countries are unable to attract private capital flows despite high rates of return. Although external resource inflows are declining, it was noted that even the actual inflows have not been used optimally. Rather than financing additional imports, inflows have been used to offset financial transactions and for accumulation of reserves as a safeguard against speculative attacks on their currencies. Deteriorating terms of trade and natural shocks have further aggravated the resource gap. As a result, economic performance has remained erratic and failed to improve the standard of living of the people and increase domestic savings. It was pointed out that Africa needs to tap into this critical source of development finance by reforming its legal, financial and banking systems, as well as by investing in infrastructure, developing capital markets and adopting measures to improve the policy environment for private sector development.

24. The panellists also reviewed the negative impact of external debt and the various debt initiatives designed to reduce the burden. Panellists underlined the fact that the debt burden is unsustainable and that its servicing poses a constraint to development efforts. While acknowledging the concern and initiatives taken by the global community to reduce the burden, the need to deepen the debt initiative and deliver faster debt relief was underscored. It is critical for donors to provide more resources and not substitute debt relief for additional ODA if the target of reducing poverty is to be attained.

25. Participants were informed of two proposals put forward by UNCTAD. The first was the setting up of an independent panel of experts of eminent persons to look into debt problems and recommend appropriate measures. The second proposal was for the freezing of

debt service by the highly indebted poor countries, with no interest obligation until mutually acceptable arrangements are arrived at.

26. Regarding the impact of the Asian financial crisis, it was noted that the direct impact has been minimized, owing to Africa not being fully integrated into the global economy. Nevertheless, Africa has suffered indirectly through the decline in demand and prices for their commodities. Africa thus needs to be effectively engaged in the international financial system in order to minimize these adverse effects. On the issue of international financial governance, the exclusion of a large number of developing countries from the decision-making process was noted. The international financial system needs to be reformed and the United Nations needs to assume the responsibility of developing an appropriate reform package.

### **Conclusions and recommendations**

27. During the discussions, particular attention was given to a number of key conceptual issues, including strategies to enhance a sense of "ownership" of development assistance programmes by African countries and the consistency and complementarity of such instruments as the poverty reduction strategy papers, the Poverty Reduction and Growth Facility and the heavily indebted poor countries (HIPC) debt relief initiative with Africa's development partners. Stress was also placed on the need to examine ways of mitigating the risks inherent in foreign capital flows; the role of regional institutions, such as the African Development Bank, in financing development in Africa; and the larger issues of whether economic growth in Africa should be financed domestically and externally.

28. Regarding the African debt problem, there was broad agreement that Africa's current levels of debt stocks and debt service payments are not sustainable and that there is a need for a radical and decisive solution. It was agreed that debt remains a serious impediment to growth in many African countries, especially low-income countries.

29. There was broad agreement that African countries and their development partners should continue to search for a durable and lasting solution to the African debt problem, while at the same time ensuring that the resources made available by debt relief are channelled to poverty reduction. Most participants, however,

favoured outright cancellation of all debt under the enhanced HIPC initiative. It was also suggested that capacity-building in debt management be provided to countries in need in order to avoid countries falling into the debt trap in the future.

30. The meeting endorsed the need for a dialogue on two proposals put forward by UNCTAD on the debt issue. The first was the establishment of an independent panel of experts of eminent persons to look into the debt problem and recommend appropriate measures. The second proposal was for the freezing of debt service by the heavily indebted poor countries with no interest obligation, until acceptable arrangements are reached.

31. Concerning ODA, a number of proposals were advanced, such as the need for African countries to engage donors and other development partners in a new partnership that emphasizes an African-driven development agenda; setting of realistic goals; and untying aid. Proposals also included targeting ODA to fund poverty reduction programmes; coordination and specialization among donors and multilateral sources of funds; and participation of target groups as modalities for improving the quality and effectiveness of aid.

32. While some participants advocated the establishment of a “Marshall Plan for Africa”, particularly for countries emerging from conflict, others took the view that the prospects for this are low, especially since the cold war was over. Rather, it was suggested that Africa must lead its own development, using its own resources. Participants strongly noted the importance of reversing capital flight from Africa and stemming corruption. Proposals were also made for a form of taxation on some global currency transactions (the Tobin tax) to fund development in poor developing countries. In addition, the issues of improving aid effectiveness and redesigning the aid relationship also featured prominently.

33. Another central issue discussed was the importance of Africa deepening economic reforms in order to enhance the policy environment for aid effectiveness and attract foreign direct investment. African countries were urged to continue their reforms in order to create a conducive environment for investment. The meeting noted that Africa needs to ensure effective and efficient use of resources through the creation of not only an appropriate policy

environment but also well designed incentive systems that include improved private sector participation and increased investment in the productive sectors of the economy. It was recalled that while military expenditures in other regions are falling, they are rising in many African countries, partly owing to civil conflicts and internal strife. African countries were urged to work with both continental institutions, such as the Organization of African Unity (OAU) and regional organizations, to resolve and prevent conflicts.

34. On international financial architecture, the meeting recognized that efforts to integrate the region into the global financial system and attract private flows through rapid liberalization of the capital accounts have resulted not in increased inflows of such capital but in greater volatility, with attendant consequences for exchange rate instability. While the proposed measures to reform the international architecture were acknowledged, such as early provision of information, the need to strengthen accountability and transparency, and the need to improve regulation and supervision, it was noted that reform should be undertaken with a view to developing a level playing field in the implementation of a rule-based system in the management of international capital flows. African countries should have a greater say in the functioning of a more transparent international financial system. The main priority for African countries is to ensure that the new international financial system facilitates efficient capital flows from developed countries to Africa. It was also suggested that multilateral organizations and institutions, such as the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), be called upon to increase coverage for “political risks” for investments in Africa.

### **III. Africa in the global economy**

35. The discussions on Africa in the global economy were led by a panel composed of Marcel Namfua of UNCTAD and Jean Marc Fortin of the World Trade Organization (WTO). Ernest Aryeetey of the University of Ghana moderated the session.

36. The panellists, in their presentations, addressed a number of important issues, including the dependence of African countries on exports of primary commodities, the lack of diversification in these economies, supply constraints, the problems of

accessing developed country markets and measures to enhance increased participation of these economies in the global economy.

37. It was observed that globalization is driven by forces additional to trade liberalization, including capital flows, rapid technological developments, including communication and information technology, and even international migration. The globalization process has generated opportunities as well as risks, and its benefits are unevenly distributed. African countries have the least capacity to tap the opportunities resulting from globalization, and thus run the risk of being bypassed and further marginalized.

38. It was agreed that the challenge is how to maximize the opportunities and minimize risks. Increased participation in trade and investment offer opportunities for countries to draw benefits from the process of globalization. But in order to benefit African countries need to overcome a number of constraints, including their dependence on primary commodities, the prospects of which are bleak given the persistent decline of world prices, market access problems, and weak productive and supply capacities that limit their ability to take advantage of trading opportunities.

39. The need was underscored for action on the part of least developed countries and their development partners to overcome the various structural and other supply-side constraints, especially weak intersectoral linkages, low technological capacity and capability, poor economic infrastructure, poorly developed human resources, weak institutional structures, low diversification of production and exports, a narrow industrial base, vulnerability to natural disasters and other environmental constraints, especially in agriculture. Improved productive capacities would also be dependent on levels of FDI and other flows, including development financing and a sound macroeconomic policy framework. These problems cut across sectors. The following sectors were identified as potential areas for improving productive capacities and for overcoming supply-side constraints: agriculture, manufacturing and industry, mining, services, energy and water supplies.

### **Conclusions and recommendations**

40. In agriculture, highlighted measures included strengthening the commodity sector through increased productivity and diversification to the production and

processing of high-value added products, including non-traditional commodities, by investing in human resource development, infrastructure and technological development. The focus should be on taking measures to improve rural education (including farmer education) and infrastructure for health provision, transport, storage and marketing. Moreover, productivity would be enhanced by providing support to adaptive research and the dissemination of research results through extension services that target farmers, adopting appropriate irrigation technologies to compliment mainly rain-fed agriculture, as well as taking appropriate measures to conserve soil fertility and rehabilitate marginal land in order to encourage farmers' adoption of high-yield varieties.

41. Other important measures proposed included the promotion of rural industries as a means to improve agricultural technology and raise rural incomes; the development of commodity risk management instruments; providing facilities for rural credit for farmers to enable them to exploit new technologies and market opportunities; and addressing the gender bias in the distribution of productive resources in agriculture, such as land, credit and information/education.

42. Industrialization based on comparative advantage was seen as the key instrument for increased participation in global trade and poverty reduction. The sector is critical to sustainable development of least developed countries owing to its potential in enhancing technological capacity, promoting the diversification of production and exports, and fostering intersectoral and inter-industry linkages. However, the sector faces critical constraints, including weak technological capacity and total dependence on imported capital and intermediate goods because of lack of intra-firm specialization and limited foreign exchange or foreign capital.

43. To address these constraints, it was suggested that Governments define an appropriate and strategic industrial policy, with the requisite incentive structures to support industrialization, paying particular attention to a clearly defined and deliberate policy to support information and communications technology. The focus should be on the promotion of competitive agro-based industries in order to foster strong backward and forward linkages between industry and agriculture. Another important suggestion was to create a framework to foster horizontal and vertical ties among small and medium-sized enterprises in order to

improve collective efficiency, stimulate learning, and facilitate their access to public goods, such as infrastructure, training, information, research and development resources and financial intermediation.

44. It was also noted that industrialization efforts by African countries should be complimented and facilitated by structural adjustment in industrialized countries, involving a move away from sectors and industries where they are not competitive. Such adjustments would open up new opportunities for African products.

45. With respect to market access, the initiatives by some major trading partners for least developed countries through the granting of duty- and quota-free exports to their markets are appreciated, and the following additional actions were proposed in order to broaden and deepen the market access initiative: binding market access conditions and ensuring that they are not overburdened with non-trade related conditionalities in order to make them more predictable so that they can facilitate long-term investment decisions; and making the rules of origin less stringent and harmonized to take into account the manufacturing capacity and industrial development of least developed countries.

46. Another critical suggestion was effective participation by African countries, particularly least developed countries, in global trade negotiations, including the international standard-setting organizations. To this effect, the provision of capacity-building support by developed countries is critical in the following areas: building capacities for market information to enhance knowledge of trading conditions and barriers to the markets of major trading partners; assistance to African countries in developing infrastructure for ensuring quality and conformity to international standards; and building capacity in trade negotiations in order to defend and advance African trade interests. The Integrated Framework for trade-related technical assistance for least developed countries is critical in assisting least developed countries in meeting the challenge of integration into the global economy. Its effective implementation, however, requires substantial funding, and the Third United Nations Conference on the Least Developed Countries provides an opportunity that should be seized by the international community for renewing commitment and support to the Integrated Framework.

47. Taxing exports through high tariffs of industrial and agricultural inputs could further undermine product competitiveness, both locally and in foreign markets. Thus, a balance should be struck between short-term fiscal imperatives and long-term competitiveness of exports. Transitional support, including in the form of balance of payments support, needs to be provided to African countries to cope with the loss of government revenues, particularly where possibilities for expansion of the tax base are limited. Reconciling national, regional and multilateral trade objectives calls for the sequencing and timing of liberalization measures in order to maximize benefits at different levels of negotiations. This requires providing support to capacity-building at the national level, through the strengthening of the capacity of regional economic community secretariats in order to achieve coherence between regional and multilateral trade objectives.

48. Regional and subregional integration was considered as one of the strategies for the integration of African countries in the global economy. Regional cooperation and integration, when combined with appropriate policy environment, can stimulate trade and investment. This also provides opportunities for improved bargaining power in multilateral trade negotiations and for learning to compete in a more challenging global market. Least developed countries belonging to regional or subregional integration arrangements will need special support mechanisms and policies aimed at enhancing their effective participation and sharing of the benefits from these arrangements. International support should therefore be extended to these efforts to make them more beneficial as instruments for capacity-building in trade and investment in the least developed countries.

49. An important measure in this regard is for African Governments to expand intra-African trade through the strengthening of the subregional and regional economic communities, and South-South cooperation through trade agreements among existing regional trade agreements so that they could gain experience for competing in the global market. This requires ensuring that least developed countries that are members of regional trade agreements be provided with longer transition periods for trade liberalization and a more flexible set of rules, particularly those relating to the rules of origin, in order to support the building of productive capacity to participate in meaningful and beneficial trade.

50. In addition, the extension of financial support to concrete subregional projects involving least developed countries and non-least developed countries participating in a subregional trade arrangement and intended to enhance the benefits of integration for least developed countries is important. Such projects could include infrastructure, water and energy supplies, and transport and communications.

51. At the multilateral level, African countries should seek to advance their trade and development interests through adequate coordination at the regional level, and when possible by adopting common negotiating strategies in order to enhance coherence between national, regional and multilateral trade objectives.

52. Facilitating the accession process of least developed countries seeking accession to WTO should be seen as a logical first step in integrating these countries into the global economy. Since least developed countries are obliged to undergo the full rigours of the lengthy and complicated process of accession negotiations, this imposes a heavy burden on their limited human and institutional capacities. Urgent measures should therefore be taken for achieving rapid and simplified procedures for least developed countries seeking accession to WTO. At a minimum, they should not be required to assume higher obligations than those applicable to WTO members, and there should be automatic eligibility of all acceding least developed countries to all provisions on special and differential treatment in existing WTO arrangements.

## Annex

### Ministerial statement

#### Preamble

We, the African Ministers of Finance, having met in Addis Ababa for the eighth session of the ECA Conference of Ministers of Finance, on 21 and 22 November 2000, resolve as follows:

1. We are convinced that the United Nations remains the most universal forum for dialogue on international cooperation for development, and in this regard we applaud the special consideration accorded to Africa in the Millennium Declaration (General Assembly resolution 55/2). We believe that given the importance of financial issues in the development of our region, the High-level International Intergovernmental Event on Financing for Development should be accorded the status of an international conference on financing for development.

#### Purpose

2. The eighth session of the ECA Conference of Ministers of Finance was held against the backdrop of the regional preparations for the High-level Event. In this context and in order to make use of the Regional Consultative Meeting on Financing for Development in the African Region, the Preparatory Meeting for the Third United Nations Conference on the Least Developed Countries has also been held, which brought together experts from our Governments, the African private sector and civil society organizations to discuss the issues on the agenda of the High-level Event. We have taken into account the outcome of the Regional Consultative Meeting.

#### Agenda of the Preparatory Committee for the High-level Event

3. We have also taken note of the fact that the Preparatory Committee for the High-level Event has agreed on a preliminary agenda, which includes mobilizing domestic financial resources for development; mobilizing international resources for development (foreign direct investment and other private flows); trade; increasing international financial cooperation through, inter alia, ODA and debt relief; and addressing systemic issues (enhancing the coherence and consistency of the international

monetary, financial and trading systems in support of development). The agreed agenda of the High-level Event includes issues that are central to the development of Africa — issues on which we have expressed our views in our ministerial statement of 8 May 1999, issued at the conclusion of the Joint Conference of Ministers of Economic and Social Development and Planning and Ministers of Finance, held in Addis Ababa. The present statement builds on and updates our views as expressed in the 1999 Ministerial statement.

#### Participation of the multilateral trade and development institutions

4. We note with interest the enhanced cooperation between the United Nations and the Bretton Woods institutions. The engagement of the World Bank at the technical and intergovernmental levels is particularly appreciated, and the contributions of WTO are very encouraging. The High-level Event offers an important opportunity for the development of coherent approaches for financing development that is supportive of the efforts of Africa and other regions to meet their development challenges. We urge the Bretton Woods institutions and WTO to remain engaged in the next stage of this process and we also urge the Executive Board of the International Monetary Fund (IMF) to respond to the invitation of the Bureau of the Preparatory Committee for the High-level Event to participate in the preparatory intergovernmental discussions. We look forward to the convening of the High-level Event in a developing country, and express the desire that the High-level Event will mark the beginning of a process of deepening ongoing dialogue among multilateral trade and development institutions, under the auspices of the United Nations at both intergovernmental and Secretariat levels.

#### Growth and development for poverty reduction

5. We reaffirm that long-term economic growth and sustainable development, with poverty reduction as an important objective, remains the overarching goal of development in Africa. These objectives require sustained high rates of savings, investment and growth, notably in the key development sectors in Africa. We

call upon the international community to speed up the creation of a global solidarity and poverty alleviation fund, as adopted by the OAU Summit of Heads of State and Government at its thirty-sixth session, in June 2000, with a view to achieving the set objective of reducing poverty by half by the year 2015. To achieve this target, African economies would need to grow by about 7 to 8 per cent annually and increase their estimated investment/GDP ratio to 25 per cent from the current 19 per cent per annum. We welcome the new development focus of the multilateral financial institutions, particularly on poverty alleviation.

#### **Domestic resources mobilization**

6. Domestic savings should be the main source of domestic investment. Ways and means must be found to retain domestic savings. We reaffirm our commitment in our 1999 ministerial statement to strengthen thrift institutions and incentives, reinforce macroeconomic stability and financial market reforms, and carry out financial deepening through institutional reforms, innovative and flexible financial savings, and prudent interest and exchange rate policy management. However, despite significant policy reforms encompassing these areas in our countries, current levels of savings and investment are too low to ensure broad-based sustained and equitable growth in the region. Significant external support will be needed to accomplish this goal.

#### **Mobilizing international resources**

7. We underscore the important contribution of official development assistance for Africa in terms of strengthening Governments' ability to make long-term investments that are vital for private sector-led growth. In view of the specificities of the African economies, effective aid enables key public investment programmes in infrastructure and human resource development to be carried out in a non-inflationary manner.

#### **Official development assistance**

8. We note with serious concern the much-reduced level of official development assistance, at a time many of our countries have embarked on concerted economic and financial reforms. In order to ensure that the momentum is maintained with regard to the reform measures initiated by many African countries, it is imperative for Organisation for Economic Cooperation

and Development countries to honour the agreed ODA target level of 0.7 per cent of GDP.

9. We recognize that aid is more effective when a conducive enabling environment has been created. Such an environment includes, among others, right policy conditions, effective coordination of ODA, proper targeting and ownership of the processes. Only then can aid be more effective in promoting growth and alleviating poverty.

10. We recognize the importance of fostering a new donor-beneficiary relationship in which multi-donor programmes will focus on an African-driven agenda.

#### **Africa's debt burden**

11. We welcome further improvements that have been made to the heavily indebted poor countries (HIPC) debt relief initiative. However, as evidence has shown, the majority of heavily indebted poor countries in Africa have as yet to see tangible debt relief from the HIPC initiative. We therefore call on our development partners for further restructuring of the HIPC initiative to provide deeper, broader and faster relief, with greatly relaxed eligibility criteria, greatly shortened periods to qualify for benefit under the initiative and substantially greater resources. We note the commitments that have been made to extend the HIPC initiative to 20 countries, and urge the inclusion of more African countries. We urge urgent action to realize these commitments as soon as possible. We call on the Bretton Woods institutions and the donor community to take into account unforeseen problems, such as terms-of-trade deterioration, as part of the HIPC eligibility criteria.

12. We also call on our development partners to provide a debt-servicing moratorium, including accrued interest, in order to allow African countries to find durable solutions to their debt problems. We further call on the donor community to seriously consider the idea of referring the issue of the sustainability of Africa's debt to an independent body composed of eminent persons conversant with financial, social and development problems. Such persons would be selected by mutual agreement between creditors and debtors, with creditors committing themselves to considering the cancellation of such debt as is deemed unplayable.

13. We call on the Group of Seven donors to take the lead, within the bilateral donor family, by agreeing to complete the cancellation of the debts arising from

bilateral aid for the poorest countries. We wish to reiterate that debt relief for the poorest countries should not be provided at the expense of ODA funding for development programmes and projects in these and other developing countries.

14. We are of the view that exceptional debt relief should be provided for post-conflict countries, particularly those with protracted arrears. We believe that the concept of such countries in crisis may well need to be expanded to include countries in post-conflict situations, countries experiencing ongoing conflicts and countries adversely affected by conflict situations and/or by serious natural and other disasters.

15. While we recognize that the highly indebted poorest countries are the priority for the international community's debt relief efforts, we are also cognizant of the debt problems of middle-income countries and non-HIPC countries that need to be addressed. We recommend that middle-income and other countries not benefiting from the HIPC initiative be taken into consideration in the thinking on African country indebtedness and be integrated in international initiatives favouring heavily indebted countries. Such countries should also be accorded expanded access to debt swap and conversion facilities on more generous terms.

16. While recalling the objective set by African countries at the extraordinary session of the OAU Summit held in Sirte, Libyan Arab Jamahiriya, in 2000 concerning the cancellation of the African debt, we reaffirm the need to plan, for the immediate future, ways of expanding the application of the Cologne initiative to all African countries grappling with excessive foreign debt. Similar treatment should be extended to those African middle-income countries whose economies are stagnating because of the debt overhang, and the issues of external debt should be addressed within the framework of an equitable international financial system organized on the basis of active partnership.

17. We are concerned that a number of low-income and middle-income countries in Africa that will not benefit from the HIPC initiative are nonetheless saddled with both significant external and domestic debt, with negative consequences for development. We call for serious consideration of this problem in the context of debt relief programmes.

### **Private capital flows**

18. An important development that has accompanied globalization and liberalization has been the significant expansion of international capital flows. Globalization has resulted not only in the international liberalization of markets for goods and services but also in the significant liberalization of financial markets. We note, however, that Africa has not been a major beneficiary from the dramatic increase in global foreign financial flows that have taken place during the last two decades, even though many African countries have embarked on serious trade and financial sector reforms in order to attract foreign direct investment.

19. We reiterate our commitment to work with our development partners to eliminate those factors that inhibit FDI flows, including the maintenance of supportive macroeconomic environment, increased liberalization of markets and trade regimes, improvements in regulatory framework and the facilitation of business activities. Many countries are making concerted efforts to improve their economic fundamentals, and a number of investment funds have emerged to promote investment in Africa. We stress the importance of publicly supported instruments for leveraging private investment flows to Africa, especially in productive sectors.

20. We note that at the international level, various proposals have been made on how to strengthen or reform the current international financial architecture to prevent a reoccurrence of further crises, to respond and resolve them quickly, and to strengthen institutional mechanisms to best support stable global financial markets. We urge developed countries to coordinate economic and financial policies in order to maintain the stability of the exchange rates of major currencies and ameliorate the negative impact of exchange rate volatility on export earnings and the overall economic performance, of African economies.

21. Also central to the debate are issues relating to the international coordination of economic and financial policies, in an environment of increased interdependency of economies. A key element in the crisis response and resolution debate is the contentious issue of how to strengthen the international lender of last resort function, while addressing the moral hazard issue and ensuring that the private sector shares appropriately in the risks.

22. A specific concern for African countries is how to accommodate the legitimate needs of the developing countries for development finance in the new financial architecture and in an environment of volatility in trade, finance and capital markets.

23. We reaffirm the proposal for the creation of a special international fund designed to facilitate the establishment and restructuring of African enterprises with a view to enabling them to improve their competitiveness and withstand globalization. Such a fund should be used to mitigate the social cost of structural adjustment as it affects businesses in our countries.

24. We recognize the need for both the liberalization and the institutional strengthening of capital markets, but the pace and content of liberalization should be aligned with the ongoing process of strengthening the prudential supervisory regulations as they apply to financial institutions and their corporate customers, especially the more highly leveraged ones. Capital account liberalization, for countries that select this approach, should be properly sequenced, taking into full account individual country circumstances. Furthermore, countries should be allowed to pursue exchange-rate policies that are consistent with their development goals. There is a need to provide instruments for capacity-building in Africa.

25. We are of the opinion that there is need for a serious dialogue on the issue of governance of the international financial system. The basic problem today is the exclusion of a large number of developing countries, especially from Africa, from the decision-making process of the international financial system. Such a dialogue invariably would need, inter alia, to include a review of the respective roles of the Bretton Woods institutions, such as reconsidering their governance structures, providing a greater voice to developing countries and customizing their programmes to the needs of developing countries.

#### **Africa in the global trading system**

26. The broad objectives of Africa's participation in multilateral trade negotiations and WTO have been to enhance trade benefits for Africa, including those arising from special schemes granted by developed countries; secure a fair and balanced system of rights and obligations within WTO; support efforts for the strengthening of supply capacities of African

economies; urge WTO to provide flexibility in the use of appropriate policy instruments to enhance the process of structural transformation of African economies and assist in the effective integration of African countries into the multilateral trading system; and facilitate the accession of non-member African countries into WTO.

27. Furthermore, in the framework of multilateral trade negotiations, Africa's objectives have been to improve market access for products and services of export interest to African countries; the need to prioritize implementation issues; the removal of imbalances and inequities in the Uruguay Round agreements and WTO; the need for transparency in the decision-making process of WTO; and the need for an international trade environment that will advance our regional integration objectives. We are convinced that many of the issues we raised at the Seattle WTO ministerial conference remain valid. We recommend in this regard early consideration of the need to extend duty-free and quota-free privileges to products of critical interest to African countries. We are convinced that Africa's integration into the global trading system will be greatly facilitated by donor support for Africa's ongoing regional cooperation and integration efforts aimed at creating a larger regional market. We urge the international community to provide the necessary assistance to revamp and strengthen regional economic groupings in Africa. African countries are also convinced that better management of the negative effects of drought conditions could enhance their capacities for effective participation in the global markets for primary products.

28. The utilization of many preferential schemes introduced in past decades by developed countries that were intended to help African countries to integrate into the global trading system has been less than satisfactory due to a number of factors. Furthermore, the implementation of the special and differential measures in favour of African and least developed countries contained in the Final Act of the Uruguay Round, especially in the Marrakesh Declaration and Ministerial Decisions, has fallen short of expectations. We call on our development partners to make good on these commitments.

#### **Commodities and Africa's development**

29. The heavy reliance of African economies on primary products, combined with the decline in

Africa's share of world markets for its main exports and the declining relative importance of these products in world trade, have largely contributed to the decrease in the continent's share of world trade. Commodity dependence has also resulted in Africa's export earnings being more volatile due to volatility in commodity prices.

30. The decline in the terms of trade of Africa is also related to the shifting nature of global production. We call on our development partners to support our efforts to strengthen our productive capacities in order to improve overall factor productivity and competitiveness of our economies, diversify our production and export base, and deal with the negative impacts of declining terms of trade.

#### **Improved policy coherence**

31. We underscore the importance of taking measures for improved policy coherence in the areas of trade, finance and development, including through dialogue among policy makers and the key multilateral institutions, facilitated by the United Nations.

#### **Special measures for least developed countries**

32. We recognize that the least developed countries have the primary responsibility for finding solutions to their development problems; nonetheless, the international community, particularly the developed countries, must complement the efforts of these countries through, inter alia:

(a) Redesigning aid programmes, especially the full implementation of earlier commitments regarding concessional ODA flows in favour of least developed countries, such as allocating 0.15 to 0.20 per cent of GNP to ODA;

(b) Complete debt cancellation for least developed countries with a heavy external debt burden to release resources for their human and social development; we are of the view that every effort should be made to amply fund the HIPC initiative and make it accessible to the least developed countries on a more timely and preferential basis and free from other conditionalities;

(c) Providing quota-free and duty-free market access for all products exported by the least developed countries;

(d) Providing assistance to and strengthening the capacity-building of the least developed countries to address supply-side constraints, including infrastructure and institutions;

(e) Increased FDI flows to least developed countries in strategic sectors of their economies, within the framework of cooperative arrangements that involve Governments and the private sector.

33. We have proposed further measures to improve the situation of the African least developed countries in a separate statement for the Third United Nations Conference on the Least Developed Countries.

#### **Measures in favour of African countries that are not least developed countries**

34. We also recognize that all African countries should benefit from further measures to enhance ODA flows, strengthen capacity-building to address constraints, encourage higher FDI flows, and ultimately provide duty-free and quota-free access to the markets of developed countries.

#### **A call for strengthened partnership**

35. We pledge the commitment of our Governments for serious dialogue at the High-level Event. We also stress our commitment to be actively engaged in the preparatory process for the High-level Event by means of the participation of the appropriate departments of our Governments in a coherent manner. We also call on our development partners to rededicate themselves to support Africa's development in the interests of the common advancement of humanity.