

Recent Developments in International Economic Support for Africa: A Brief Note

Introduction

2005 was marked by expressions of strong support and commitment by the international community for Africa's development. Several pivotal events or actions provided impetus for and highlighted the commitments made to Africa last year. These include the reports of the UN Millennium Project: *Investing in development—a practical plan to achieve the Millennium Development Goals*; the UK -led Commission for Africa: *Our Common Interest*; and the Secretary General's Panel on international support for NEPAD: *From Rhetoric to action—mobilizing international support to unleash Africa's Potential* as well as the decisions by the European Union in May 2005 to almost double official development assistance (ODA) between 2006 and 2010, with about half going to African countries, the Gleneagles Summit in July and the UN World Summit in September 2005.

This note provides a brief overview of the commitments made in the areas of ODA, debt relief and trade and draws a few conclusions. It should be noted that while Africa stands to benefit from the commitments in the area of trade, those commitments were not meant exclusively for Africa.

A. Official Development Aid (ODA)

1. Aid volume

The trend of significant increases in ODA, which started at the beginning of the decade, has continued in 2004-5 with larger disbursements and new commitments. This development has been favorable to Africa, as its share in total ODA has become larger.

Recently, more attention has also been given to improving the quality and effectiveness of aid, especially through better delivery.

The UN 2005 World Summit on September 14-16, 2005, with its special meeting on Financing for Development, confirmed the strong commitment of the world community to achieve the development goals and objectives contained in the 2000 Millennium Declaration (Millennium Development Goals, MDGs) by 2015.¹ It called for the adoption by 2006 and implementation of comprehensive national development strategies, supported by wider and deeper debt relief, and a substantial increase in aid of enhanced quality and increased timelines. It recognized the contribution of innovative sources of financing and noted the commitment by some countries to implement the International Finance Facility (IFF), the launching by other countries of the IFF for immunization, and the introduction by some others of a contribution on airline tickets for the financing of development projects, in particular in the health sector.²

In the context of the *Africa Action Plan* (AAP), adopted at Kananaskis in June 2002 to support NEPAD, the G8 undertook that at least half of the additional ODA committed in the implementation of pledges made at Monterrey in March 2002 and estimated to reach \$12 billion per annum by 2006, would be allocated to African countries.³ The implementation report of the AAP prepared for the Evian G8 summit in 2003 stated that the increase in G8 ODA to African countries would reach the target of \$6 billion per year by 2006.⁴ Available information indicates that the target will be largely exceeded.⁵ Since the Evian Summit G8 member countries have increased overall aid volumes, while several countries have moved closer to allocate half of the increase to Africa, and pledges have been made for further increases. Collectively, G8 member countries have more than doubled their assistance to Africa between 2001 and 2004.⁶ Several of the new pledges, including timetables for increases announced earlier, were made in the run-up to or at the

¹ United Nations, General Assembly, 2005 World Summit Outcome, A/60/1.

² Algeria, Brazil, Chile, France, Germany, and Spain are considering implementing this approach.

³ G8 Africa Action Plan, Government of Canada, 2002 Kananaskis Summit, 2002

⁴ Implementation Report by Africa Personal Representatives to Leaders on the G8 Africa Action Plan, Evian 2003 Summit, May 2003.

⁵ The increase in G8 bilateral ODA alone to Africa rose by more than \$6 billion during 2001-03 at 2001 prices.

⁶ Progress Report by the G8 Africa Personal Representatives on implementation of the Africa Action Plan, G8 Gleneagles 2005 Summit, July 2005.

Gleneagles Summit in July 2005, or shortly thereafter, or in preparation for the UN World Summit in September.

An important factor in commitments for further increases in ODA made in the last two years was the growing realization that the pledges made following Monterrey would fall short of the volumes required to achieve the MDGs. This is in particular the case for African countries, as highlighted in the Millennium Project report and the report of the Commission for Africa. On the basis of preliminary data for disbursements in 2004 and commitments made by G8 members and other DAC donors, total ODA can be expected to increase by some \$50 billion per annum in real terms between 2004 and 2010, with the increase to Africa amounting to \$25 billion per annum over the same period.⁷ Achieving this target will be consistent with the annual amount of ODA advocated in the Commission for Africa report. Developments in commitments and their implementation by G8 members and the EU are summarized as follows.⁸

G8 members

Canada continues to increase its overall ODA by 8 percent per annum so as to double its overall assistance between 2001 and 2010, with half of the increase allocated to African countries, which would result in a doubling of its aid to Africa between 2003/4 and 2008/9. In addition the Can\$500 million Canadian Fund for Africa set up in 2002 has been fully allocated.⁹

While its ODA/GNI ratio rose from 0.41 percent in 2003 to an estimated 0.44 percent in 2005, **France** established a timetable for it to reach 0.5 percent in 2007 and 0.7 percent in 2012, targets first set at Monterrey. By 2007, two thirds of ODA would be allocated to

⁷ The Gleneagles Communiqué: Africa, G8 Gleneagles 2005 Summit; Chair's Summary, Gleneagles Summit, 8 July 2005; and OECD-DAC Statement of September 25, 2005 to the Development Committee of the World Bank and the IMF.

⁸ Progress Report by the G8 Africa Personal Representatives on implementation of the Africa Action Plan, and The Gleneagles Communiqué: Africa, G8 Gleneagles 2005 Summit.

⁹ Government of Canada, Canada's Contribution to the G8 Africa Action Plan, June 2005.

Africa, resulting in a doubling between 2000 and 2007.¹⁰ The 2006 budget will introduce an international solidarity levy on airline tickets to help finance development projects in the area of combating HIV/AIDS, tuberculosis, and malaria, in particular in Africa.

Germany, which stated that it is on track to reach an ODA/GNI ratio of 0.33 percent in 2006 as agreed in Monterrey, committed itself to a target of 0.51 percent in 2010 and 0.7 percent in 2015.¹¹

Similarly, **Italy** pledged to raise its ODA/GNI ratio from a targeted 0.33 percent in 2006 to 0.51 percent in 2010 and 0.7 percent in 2015. It would also raise Africa's share in its overall ODA increase from 40 percent to 50 percent.

Japan undertook to increase its ODA volume over the period 2005-09 by \$10 billion in the aggregate, while doubling its assistance to Africa between 2005 and 2008. Under its "Health and Development Initiative" launched in June 2005, Japan would provide \$5 billion over the period 2005-09. In addition, in partnership with the African Development Bank (ADB), Japan proposed an Enhanced Private Sector Assistance (EPSA) facility of \$1.2 billion, to be disbursed over five years.

The **Russian Federation** is canceling up to \$11.3 billion in ODA debt of African countries, of which \$2.2 billion under the HIPC Initiative. In addition, Russia is considering forgiving all of the non-ODA debt of African HIPCs, estimated at \$750 million.

Confirming a target of 0.7 percent for its ODA/GNI ratio set previously, the **UK** has established a timetable for reaching it by 2013. Bilateral assistance to Africa is programmed to double by 2007/8 from its level in 2003/04.¹²

¹⁰ La France, partenaire du NEPAD, G8 Gleneagles 2005 Summit.

¹¹ Implementation of the G8 Africa Action Plan. The German government's contribution, G8 Gleneagles 2005 Summit.

¹² G8 Africa Action Plan. UK Progress Report 2005, G8 Gleneagles 2005 Summit.

Following a tripling of net disbursements to Africa in 2000-04, the **US** intends to double its assistance to Sub-Saharan Africa between 2004 and 2010. Appropriations under the \$5 billion Millennium Challenge Account have reached \$2.5 billion, while under the \$15 billion President's Emergency Plan for AIDS Relief (PEPFAR) \$1.9 billion was to be provided to Africa in 2004-05, and the US contribution to the Global Fund to fight AIDS, Tuberculosis and Malaria (GFATM) amounted to \$1.1 billion.

European Union (EU)

After reaching a global ODA/GNI ratio of an estimated 0.35 percent in 2005, the **EU** is on track to achieve the 0.39 percent target in 2006 as committed in Monterrey.¹³ While confirming its commitment to reach a collective target of 0.7 percent of the ODA/GNI ratio by 2015, in May 2005, the EU agreed to a new collective target of 0.56 percent by 2010, which would result in an increase in ODA by €20 billion between 2006 and 2010. Regarding commitments at the national level, for 2010 a target of 0.51 percent was set for the 15 pre-expansion member states, and of 0.17 percent for the 10 new members, and for 2015 the target was set at 0.7 percent for the original members and at 0.33 percent for new members. Members that have exceeded or would exceed the target prior to 2010 and/or 2015 were committed to sustain that level. Collectively at least half of the increase in EU ODA would be allocated to Sub-Saharan Africa.

2. Effectiveness of aid

The adoption of the *Paris Declaration on Aid Effectiveness* by the Second High Level Forum in March 2005 established an important framework for improving the quality of aid and the effectiveness of its delivery, a necessary complement to the increase in the volume of aid.¹⁴ The Paris declaration provides for increased efforts, with specific commitments, at aligning donor support to partner countries' development strategies, harmonizing donor operational procedures, managing aid with a focus on development

¹³ Council of the European Union, 2660th Council meeting, Development Cooperation, Council conclusions on Millennium Goals, May 23-24, 2005, Press Release 8817/05.

¹⁴ OECD-DAC, High Level Forum, Paris Declaration on Aid Effectiveness.

results, and improving mutual accountability for implementing commitments on aid effectiveness. With a view to make the declaration operational, in August 2005 donors and partner countries participating in the Forum agreed on targets for the 12 indicators adopted to measure progress in aid effectiveness. Progress is also being made in setting up the arrangements for medium-term monitoring. A first round of monitoring is expected to be held in 2006.¹⁵

Recently, progress was made in improving aid coordination among donors and supporting national systems in partner countries. Arrangements for multi-donor budget support have been signed in seven African countries (Benin, Burkina Faso, Ghana, Mozambique, Rwanda, Tanzania and Zambia) and informal budget support groups have been put in place, many involving several G8 members. Also, in April 2005 representatives of OECD-DAC and ECA conducted the first *Mutual Review of Development Effectiveness* with accompanying report, applying mutual accountability of implementing commitments by both African countries and development partners.¹⁶ At the Gleneagles Summit the G8 called for a leading role for the World Bank in ensuring the effective coordination of additional assistance.¹⁷

B. Debt relief

1. Multilateral debt cancellation

With a view to complete the process of debt relief for HIPCs and free additional resources to help countries reach their MDGs, in June 2005 the G8 Ministers of Finance cancellation of outstanding obligations of HIPCs to the IMF, IDA, and ADF.¹⁸ The multilateral debt cancellation proposal was reaffirmed at the Gleneagles Summit. At the same time the G8 committed to ensure that the financial capacity of the international financial institutions is not impaired as a result of debt relief. HIPCs would receive debt

¹⁵ OECD-DAC, Paris Declaration on Aid Effectiveness: Suggested Targets for the 12 Indicators of Progress, August 2005

¹⁶ Progress Report by the G8 Africa Personal Representatives on implementation of the Africa Action Plan, G8 Gleneagles 2005 Summit; Draft Report of the 4th Meeting of the Africa Partnership Forum Held on 9-10 April 2005, in Abuja, Nigeria; and Development Effectiveness in Africa, a joint report by the ECA and OECD at the request of the NEPAD Heads of State and Government Implementation Committee.

¹⁷ Chair's Summary, Gleneagles Summit, 8 July 2005.

¹⁸ G8 Finance Ministers' Conclusions on Development. London, 10-11 June 2005.

stock cancellation upon reaching their completion point. Donors, based on an agreed burden sharing, would compensate IDA and ADF dollar for dollar for the forgone debt service payments on the cancelled debt, which would be used for additional allocations to all IDA and ADF recipients based on country performance. These donor contributions would be in addition to regular replenishments of IDA and ADF. For the IMF, the cost of debt stock relief would be met by the use of existing IMF resources and recourse to bilateral contributions to cover additional needs. The G8 multilateral debt cancellation proposal was subsequently endorsed at the September 2005 Annual Meetings of the IMF and the World Bank by the IMFC and the Development Committee.¹⁹

IMF

On November 23, 2005 the Executive Board of the IMF adopted the required modalities to implement the G8 proposal.²⁰ With a view to satisfy the prevailing principle of uniformity of treatment of all members in the use of its own reserves, the IMF widened slightly the coverage of debt cancellation by including in addition to the countries eligible for debt relief under the HIPC initiative two low-income non-HIPCs. Debt relief covers debt stock owed at end-2004 that remains outstanding at the time debt cancellation becomes effective for the country. For HIPCs, qualification requirements include, in addition to completion point status, satisfactory macroeconomic performance, implementation of a PRS program, and adherence to a satisfactory public expenditure management system. Funding will be provided by the Fund's own resources for countries with a per capita income of up to \$380 and by bilateral contributions administered by the Fund, and made earlier for subsidizing interest on concessional Fund assistance to low income countries, for other HIPCs. Consent by bilateral contributors is required before these funds can be used for funding of debt relief and is expected to be obtained by the end of 2005.

¹⁹ Communiqué of the International Monetary and Financial Committee of the Board of Governors of the IMF, September 24, 2005; and Development Committee Communiqué, September 25, 2005.

²⁰ IMF Executive Board Agrees on Implementation Modalities for the Multilateral Debt Relief Initiative, Press Information Notice No. 05/164, December 8, 2005; IMF, The G-8 Debt Cancellation Proposal and its Implications for the Fund—Further Considerations, September 19, 2005.

On this basis, it is expected that debt cancellation will become effective for 20 countries, including 14 African HIPCs, at the beginning of 2006. While 10 African interim HIPCs would become eligible upon reaching their completion point, and funding for cancellation of their debt is in place, for ten other potential HIPCs, of which eight African, which include protracted arrears cases and countries with HIPC eligibility under the sunset clause, additional funding from donors would be required, which could be met on the basis of a G8 commitment.

On 21 December, 2005 the IMF Board approved 100 per cent debt relief on US\$3.3 billion owed the fund by 19 HIPC countries, thus fulfilling the commitment made by the G8 countries in Gleneagles. The beneficiary African countries are Benin, Burkina Faso, Ethiopia, Ghana, Madagascar, Mali, Mozambique, Niger, Rwanda, Senegal, Tanzania, Uganda and Zambia. Mauritania was excluded from the debt relief package because of problems related to public expenditure management.

IDA

The process of adoption of the debt cancellation proposal by the IDA is underway, requiring the approvals by the Executive Board and Board of Governors, and pledges of contributions by IDA members to cover IDA's costs.²¹ Implementation modalities considered by Executive Directors provide for a debt cutoff date of end - 2003, a coverage of debt outstanding and disbursed at the time of debt cancellation delivery, and eligibility requirements of completion point status and an assessment of continued satisfactory macroeconomic performance, satisfactory progress in the implementation of a PRS, and the existence of satisfactory public expenditure management system, similar to the conditions set for debt cancellation by the IMF. Effectiveness of debt cancellation would also require that the new resources compensating for the debt relief costs are committed for at least 60 percent of total required donor contributions. To assess the additionality of debt relief and compensatory donor contributions, the aggregate baseline

²¹ IDA, The Multilateral Debt Relief Initiative: Implementation Modalities for IDA, November 18, 2005 issue to the Executive Board for consideration in its informal meeting December 1, 2005. (Official Use Only Document).

for regular contributions in future IDA replenishments would be set at the level of IDA14 contributions in real terms.

The World Bank is expected to provide its debt relief around May 2006, with the target date for effective delivery of debt relief scheduled for July 1, 2006. Total debt relief for 38 countries, including potential HIPCs, is estimated at \$34.9 billion, of which \$2.7 billion for the period through June 2011, \$7.5 billion for the period through June 2016, and \$27.5 billion for FYs 2017-2044.

ADF

Regarding cancellation of debt stocks owed to the ADF, the approval by ADB of specific modalities for implementation is awaiting clarification of several issues, including the cutoff and implementation dates, the debt coverage, eligibility conditions, the financing option to match foregone debt repayments, and assurances of the additionality of resources.²² In a consultative meeting on November 22-23, 2005, hosted by the ADB, African Ministers of Finance indicated their preference for a cutoff date of end-2004 and an implementation date of January 1, 2006. They also called for inclusion of non-concessional debt owed to the ADB. A meeting of the IDA/ADF deputies in early December was expected to resolve outstanding issues, paving the way for a formal adoption of the ADF debt cancellation. With a cutoff date of end-2004 and an implementation date of beginning 2006, total ADF debt relief for all African HIPCs is estimated at \$9.0 billion, of which \$0.4 billion through 2010, \$1.5 through 2015, and \$7.1 billion for the period 2016-2055.²³

In view of the lowering of debt ratios as a result of the multilateral debt cancellation, it would be necessary to prevent a re-accumulation of unsustainable debt positions by debt relief beneficiaries. To that effect, it was agreed to address the implication of debt

²² Communiqué Meeting of African Ministers of Finance, Tunis, 22 - 23 November 2005; Statement by Donald Kaberuka, President of the African Development Bank, at the African Finance Ministers' Consultative Meeting.

²³ The Debt Cancellation Initiative and the Challenges in Financing the MDGs, Paper presented for the Ad-hoc Meeting of African Ministers of Finance Tunis, 22 - 23 November 2005.

cancellation for the *Bank-Fund Debt Sustainability Framework* (DSF) and implement possible improvements in the latter on the occasion of the review of the DSF, scheduled for April 2006.²⁴

2. **Bilateral debt restructuring**

Among other debt restructuring initiatives of interest to Africa undertaken recently, the most important agreement concerns the debt relief **Nigeria** obtained from the Paris Club in July 2005, including a debt write-off amounting to \$18 billion, representing 60 percent of Nigeria's eligible bilateral debt to Paris Club creditors, and a settlement of arrears in the amount of \$6 billion and additional \$6bn for debt buyback.²⁵ Also, some G8 creditors, including Canada, France, the Russian Federation, and the UK, have continued their policy of selectively granting debt cancellation of 100 percent to some African HIPC's, going beyond the terms under the HIPC Initiative.

C. **Trade: aid for trade commitments**

The US Trade Representative Robert Portman announced on 14 December 2005 in Hong Kong that the United States would double its aid-for-trade budget to developing countries to \$2.7 billion a year by 2010. The announcement followed similar recent promises from Japan and the EU. The EU announced on 13 December 2005 the plan by its 25 member countries to increase their trade-related aid to developing countries to an annual €1 billion starting from 2010, more than a double increase on their current €400 million. This matches the €1 billion trade-related assistance per year starting from 2007 pledged by the European Commission at the Gleneagles Summit in July 2005. These packages are in addition to the funding provided for African infrastructure (currently the European Commission provides about €800 million a year). On 9 December 2005 Japan

²⁴ Communiqué of the IMFC of the Board of Governors of the IMF, September 24, 2005; and The Debt Cancellation Initiative and the Challenges in Financing the MDGs, Paper presented for the Ad-hoc Meeting of African Ministers of Finance Tunis, 22-23 November 2005.

²⁵ United Nations, General Assembly, New Partnership for Africa's Development: third consolidated report on progress in implementation and international support, A/60/178; and Chair's Summary, Gleneagles Summit, 8 July 2005.

announced a trade-related aid package of \$10 billion which would be used to help developing countries expand their capacity to export, including infrastructure development. An agreement was reached in Hong Kong to eliminate exports subsidies on farm goods by the end of 2013. The world's least developed countries were promised free access to the developed country markets for at least 97% of their goods. Unfortunately there is no agreement on a date for reducing domestic subsidies for US cotton farmers – an issue of major importance to the African Cotton exporting countries, in particular Benin, Burkina Faso, Chad and Mali which have launched the “Cotton Initiative” at the WTO.

**D. Strengthening of partnership between Africa and development partners:
role of APF**

Agreement reached by members at their meeting in April 2005 to strengthen the *African Partnership Forum* (APF), which was established to widen the partnership between Africa and the developed world in support of NEPAD by including, in addition to the G8 members, other development partners, was endorsed by the G8 and African countries at the Gleneagles Summit.²⁶ The focus of APF would be on identifying strategic issues to advance development in Africa through implementation of commitments and reviewing progress by all partners involved. To this end, a mutual monitoring process with clearly developed benchmarks to measure progress would be developed. With revised terms of references adopted at its meeting of October 2005, APF agreed to establish a Joint Action Plan, bringing together commitments made by African countries and development partners, as laid down in the NEPAD and AU programs, the G8 Africa Action Plan, and commitments made at Gleneagles and the UN Millennium Review Summit. The draft of the APF Joint Action Plan was issued in January and is expected to be formally approved in April 2006. The Joint Action Plan, containing clear benchmarks, will assist in monitoring progress and reporting on delivery of commitments. An annual report on progress under the Plan will be issued beginning in October 2006.²⁷

²⁶ APF, Revised Terms of Reference for African Partnership Forum, 5 October 2005; and The Gleneagles Communiqué: Africa, G8 Gleneagles 2005 Summit.

²⁷ Communiqué Issued at the end of the 5th Meeting of the Africa Partnership Forum, London, 4–5 October 2005.

E. Outlook and conclusion

During the past year, considerable progress has been made in enhancing support of African development. ODA volumes have increased and more commitments have been made for stepped up assistance, which could result in an increase in ODA to Africa by \$25 billion per annum by 2010 compared with 2004 (in constant 2004 prices). At the same time efforts have been undertaken to make aid better and render its delivery more efficient and less costly. The cancellation of debt to the three international financial institutions most relevant for the African countries represents a major step in alleviating Africa's debt burden. Most importantly, the conditions have been created to deepen the partnership between Africa and its development partners by broadening the membership and widening the mandate of the APF, by entrusting it with elaborating a joint action program integrating the views and capabilities of both African countries and development partners, and ensuring that commitments are met in a timely fashion.

To ensure a favorable outcome some further actions could be useful. Reaching the targeted ODA/GNI ratios will be a major challenge for some countries, in particular Germany and Italy, as it implies a sharp increase from the present levels. In this respect, progress in setting up innovative financing mechanisms would be helpful, as recourse to them may be necessary to reach ODA targets, as acknowledged by Germany. Although the committed increases in ODA exceed largely the amount of cancelled debt, it would be important to ensure that the replenishment contributions to IDA and ADF are not affected by the compensations they receive for debt cancellation so as not to have an adverse impact on their financial support for development in Africa. Also, as urged by the 2005 World Summit, the issues of cancellation of official bilateral debt and debt of medium-income countries need to receive active consideration. Regarding effectiveness of aid, it would be important to ensure appropriate collaboration and coordination between the monitoring conducted at the level of the OECD-DAC High Level Forum and that by the African Partnership Forum.