Africa Partnership Forum

13th Meeting of the Africa Partnership Forum
Addis Ababa, Ethiopia
25 January, 2010

Development Finance in Africa
Update of the 2008 Report

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This document has been prepared by the Support Unit for discussion during Session 3 on the Impact of and Response to the Crisis at the 13th Meeting of the Africa Partnership Forum in Addis Ababa on 25 January 2010. It is available at www.africapartnershipforum.org

APF/ADDIS-2010/05

EXECUTIVE SUMMARY

At its 11th Meeting in Addis Ababa in November 2008, the Africa Partnership Forum requested the preparation of an update of the 2008 Development Finance in Africa report for its autumn meeting. This update should be read alongside both the more detailed report of November 2008 on development finance, and the updated monitoring report on the policy response to the crisis (APF/ADDIS-2010/04). Covering the 4 main areas of development finance, the report will provide:

(i) Background from the Doha Follow-up Conference on Financing for Development (para 2);
(ii) An overview of key results from 2008 (paras. 3-13);
(iii) A preliminary assessment of the impact of the crisis (paras 14-18); and
(iv) Top policy priorities (paras 19-20).

(i) Background

2. In December 2008, the United Nations organised the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus in Doha. The Doha Declaration underscores the need to make further progress in all four components of financing covered by this update:

- On domestic resource mobilization, in addition to the focus on tax reforms, the Declaration highlights the importance of addressing the problem of capital flight and illicit financial flows;
- On private international capital flows, the Declaration calls for more support to help many developing countries that have benefited less from private flows to attract more of them. On remittances, further efforts are needed to lower the transaction costs of remittances and to create opportunities for development-oriented investments;
- On official development assistance, the Declaration stresses the need for donors to fulfil the commitments to achieve the target of 0.7% of GNP by 2015 and an interim target of 0.5% of GNP by 2010. Further, it stresses the role of aid to leverage private resource flows.
- Finally, on debt, while key debt sustainability indicators have improved significantly since Monterrey, care needs to be taken to avoid a recurrence of unsustainable levels of debt.

(ii) Overview of Key Results from 2008

2008 was another good year overall, driven by the increase in domestic revenue, but with the dampening impact of the financial crisis on private flows already evident…

3. Recent years have witnessed a substantial increase in the availability of development finance in Africa, combined with a reduction in external debt. The combined total of domestic public revenue, private external flows and ODA continued to increase in 2008, as it has done every year since 2002, reaching a new peak of over US$513 billion (Table 1). This was more than 3 times the level of US$160 billion in 2002.

4. As in previous years the increase was driven by domestic revenue, which rose by almost US$90 billion. Other developments were less favourable - private international capital flows fell for the first time since 2002 by a total of US$23.7 billion (though within this overall figure, foreign direct investment flows continued to rise). ODA increased by around US$5 billion despite a small reduction in debt relief – the increase in ODA net of debt relief was nearly US$7 billion, and the overall total was slightly higher in nominal terms than the previous record high of 2006. The effect of all these changes was an overall increase of US$70 billion, in the combined total from all 3 sources.

Domestic revenue continued to be much the most significant source of finance…

5. The bulk of development finance came from **domestic revenue** which, in spite of sharply declining commodity prices and exports, reached an all-time high of over US$430 billion, accounting for over 80% of the total for Africa as a whole - up from 75% in 2007. In North Africa, domestic revenue accounted for 89% (up from 85% in 2007); in sub-Saharan Africa it accounted for 76% (compared to 70% in 2007) – though this average does conceal large variations between oil exporters, middle income economies, low-income countries, and fragile states. However the increase between 2007 and 2008 was uniform across all groups of countries with the exception of oil-importing countries. While the boom in oil and commodity exports contributed to the strong revenue mobilisation performance of resource-intensive countries, even the group of fragile countries also managed to mobilise substantially larger public domestic resources. However overall savings rates remain very low, with the exception of resource rich countries and a few others.

Total private capital flows fell significantly, though within this overall picture foreign direct investment (FDI) rose slightly...

6. Following six consecutive years of increase that brought net private capital flows to Africa to a record high of $60.3 billion, total flows declined sharply in 2008 to US$36.6 billion. This represented a fall of about 40% relative to 2007, but the decline was much less dramatic compared to the rest of the world which experienced a fall of some 70% from US$1.2 trillion in 2007. This overall figure conceals significant variations; foreign direct investment (FDI) flows increased, though at a much slower rate than previous years, from US$42.7 billion to US$47.9 billion. In spite of this encouraging performance, Africa's share of global FDI remained practically unchanged at around 3% and were heavily concentrated in roughly 10 countries which together accounted for 80% of total FDI inflows to Africa in 2008. For the first time since 2002, Africa experienced a reversal in the flow of portfolio equity with US$10 billion leaving the continent's stock markets. ***Nearly half of this fall was accounted for by South Africa.*** Given the relatively small sizes of Africa's stock markets, the outflows had a negative impact in the larger African markets; the Lagos stock exchange, for instance, lost over 60% of its market value by the end of 2008 . Commercial debt flows -- owed to commercial banks, suppliers and through export credits -- and bond flows, which together with registered inflows of US$10.7 billion in 2007, also experienced a reversal in 2008.

ODA rose to a new record high – but continues to lag behind commitments with the prospect of the shortfall worsening over 2009-2010 …

7. ODA including debt relief rose from US$39 billion in 2007 to US$44 billion in 2008, an increase in nominal terms of over 12%, or in real terms of 7%. ODA excluding debt relief increased from US$35.4 billion to US$42 billion, a cumulative increase of almost 50% in nominal terms or 30% in real terms between 2006 and 2008.

8. But despite this, ODA to Africa continues to lag behind target, with the prospect of this worsening over 2009-2010. There are two problems:

(i) One is the historic distribution of increases in global ODA since 2004. The estimates at Gleneagles assumed that Africa would receive half of the increases in ODA committed for 2010. In practice, it has received only around 34% of this global increase. Had Africa received 50% of the increase, ODA levels in 2008 would have been around US$6.5 billion higher;

(ii) The second is the marked slowdown in the increase in global ODA shown in the latest OECD projections for 2009 and 2010. While several countries have maintained their commitments for 2010, others, notably some large donors, have postponed pledges they made for 2010. It is now estimated that this will lead to an overall aid shortfall of around US$21 billion (in 2008 prices) against global targets. Using the 2005 assumption of a 50% share for Africa, this implies a further shortfall of US$10.5 billion in ODA to Africa. Even if Africa secures half of the projected increase in global ODA over 2009-2010, ODA levels would thus be around US$17 billion (in 2008 prices) below the levels implied by the commitments made in 2005 – a shortfall of around 25%. In practice, Africa is bearing the brunt of the projected shortfall against global ODA commitments in 2010, despite being the region which faces the largest challenges in achieving the MDGs.

The external debt position has stabilised…

9. Substantial progress has been made since 2002 in the implementation of the HIPC Initiative. The number of countries which have passed the HIPC decision point rose from 27 in 2007 to 29 in 2008 (out of a total eligible of 33). Within this group, the number of countries which have reached the completion point (qualifying them for irrevocable debt relief) rose from 19 to 21. The stock of external debt, and the debt service burden, which have already declined significantly prior to 2007, remained substantially unchanged between 2007 and 2008. Strong economic growth leading to higher GDP also meant that debt service fell as a proportion of GDP.

There is a growing diversity of other sources of finance, including remittances, innovative financing mechanisms, non-DAC donors and philanthropic foundations…

10. Remittance flows have become an increasingly important source of finance in Africa. The rapid rate of increase in flows since 2007 slowed significantly in 2008; but even so, remittances rose by 10% from US$30 billion to US$33 billion (more than 3 times the level of US$10 billion in 2000). These figures could be even higher if unrecorded flows were included. Levels are however expected to have declined in 2009 due to the impact of the crisis.

11. The innovative financing mechanisms launched in 2006 are starting to generate significant additional resources; additional resources are also being generated through Clean Development Mechanism projects, and other emission trading schemes designed to support adaptation efforts although at very moderate levels. These have the potential to become more significant over the medium term.

12. Figures for non-DAC donors are not readily available but the totals are estimated to be growing (this includes emerging economies, Arab funds, and ODA from EU non-DAC members who are nonetheless committed to the common EU ODA targets).

13. Private international giving as reported to OECD rose to nearly US$19 billion in 2007 – though the true figure is estimated to be considerably higher.

(iii) Impact of the economic crisis

The crisis is bound to have an important impact on all sources of development finance…

14. The last year has been marked by a global economic crisis which has affected all regions including Africa. Prudent macroeconomic policies in recent years have helped the region avoid the major macroeconomic instabilities that followed previous crises, and have created the policy space –larger revenue base and better fiscal positions — for countries to implement counter-cyclical fiscal measures to alleviate the impact of the crisis. But there has nonetheless been a major impact on growth. In Sub-Saharan Africa GDP growth is expected to fall to 1.6% in 2009 — mostly as the result of a modest recession in South Africa -- from an average of 6.5% over the previous 5 years. North Africa is faring slightly better but is still expected to be badly hit.

Domestic revenue

15. Domestic revenues which have been rising steadily since the late 1990s, gaining more than 4 percentage points of GDP between 2000 and 2008, are projected in the latest IMF Regional Economic Outlook to fall back by 4 percentage points in 2009 (thus returning to the level of the late 1990s-early 2000s). This is due mainly to lower commodity prices but also to the adoption of a more expansionary countercyclical fiscal policy. While the impact is most severe in oil-exporting countries – a decline of almost 9 percentage points – all groupings of countries will be negatively affected. For sub-Saharan Africa, the ratio of domestic revenue to GDP is projected to decline from 24.9 to 20.7%; for North Africa, the corresponding numbers are 41% and 36.7%. For sub-Saharan Africa, which had an aggregate GDP of about US$1.0 trillion in 2008, domestic revenue in 2009 is estimated to be about US$45 billion less than in 2008. The decline for North Africa is about US$19 billion. To put this in starker terms, the revenue losses projected in 2009 for sub-Saharan Africa, converted in dollar terms would be of the same order of magnitude as net ODA received by the continent in 2008 (US$44 billion).

Private external flows

16. In spite of bullish FDI inflows throughout most of 2008 (+12% in nominal terms) thanks to large new projects in western and southern Africa, private capital flows, the second most significant source of development finance, declined by 40% in 2008. According to preliminary numbers, this trend has been worsening in 2009.

Official Development Assistance

17. While ODA reached a record high level of US$44 billion in 2008 for the whole of Africa, slower growth together with tightening fiscal pressures in OECD countries will add to the challenge of maintaining this rate of increase. Lower growth, which will depress nominal GDP, will also have the impact of reducing the volume of ODA where commitments to development assistance are denominated as a share of GNI. The latest OECD projections show a small rise in net ODA between 2008 and 2010 leaving the overall total lagging significantly behind commitments. Even if Africa were to secure half of this increase (compared to the 34% over recent years), ODA to Africa would thus rise much more slowly than over 2006-2008.

Remittances

18. Remittances, which have become an increasingly important source of inflows, will also come under pressure due to tighter labour market conditions in OECD economies. According to the World Bank, remittance flows appear to be more resilient relative to other types of flows. In 2009, remittance flows to North Africa are expected to decline by 6% and to sub-Saharan Africa by 8% according to the World Bank.

Private Philanthropic Foundations

19. The decline in US foundations assets caused by the financial crisis will, at least for 2009 and 2010 change the trend of the past few years. A survey of leading grant makers suggests a steeper than anticipated reduction in 2009 foundation giving and a continued reduction in foundation giving in 2010.

(iv) <u>Top policy priorities</u>

For Africa, action on 4 fronts:

(i) <u>Domestic revenue</u>: Continue efforts to increase domestic revenue mobilization in particular in countries where the ratio of revenue to GDP remains below 15%, to improve tax administration and combat tax evasion, and to improve management of natural resources as well as revenue from these resources.

(ii) <u>Private flows</u>: Continue efforts to attract more domestic and foreign investment, bond flows and other private flows including remittances and to improve capacity to monitor and manage private capital flows.

(iii) <u>ODA</u>: Continue efforts to make ODA more effective by developing in-country capacity in coordinating and harmonizing donor activities and to strengthen national ownership of aid policies and programmes.

(iv) <u>Debt</u>: Ensure that new borrowings from emerging official and private creditors and from domestic sources do not lead to renewed debt built-up.

For development partners, action on 4 fronts:

(i) <u>Domestic revenue</u>: Give more importance for supporting reforms of Africa's tax systems and for capacity building and knowledge sharing, preferably in close collaboration with ATAF, to help Africa secure the benefits of the more cooperative tax environment following the very significant changes in international standards and acceptance of the OECD-led work on tax evasion.

(ii) <u>Private flows</u>: Support Africa's effort to reduce the transactions costs of remittances and increase their developmental impact.

(iii) <u>ODA</u>: Take concrete actions to increase ODA to Africa to meet the 2005 commitment on doubling aid to Africa by 2010 but also to partly compensate for large declines in domestic resources and private flows.

Firm up the volume and delivery mechanisms of additional aid resources to help Africa meet the costs of climate challenges.

(iv) Innovative financing mechanisms: Intensify efforts to facilitate and promote innovative financing in order to generate additional market-based resources such as the carbon market.

Table 1: Overview of Development Finance

(US$ billion, nominal)

	2002	2003	2004	2005	2006	2007	2008
Domestic revenue, Africa	129.1	154.5	197.2	252.6	304.6	343.8	432.7
North Africa	*58.7*	*63.6*	*75.7*	*98.3*	*121.6*	*138.4*	*185.7*
Sub-Saharan Africa	*70.4*	*90.9*	*121.5*	*154.3*	*183.0*	*205.4*	*247.0*
Private flows, Africa	9.8	18.0	23.9	36.5	47.5	60.3	36.6
North Africa	*2.9*	*4.5*	*2.9*	*7.5*	*14.1*	*12.7*	*13.4*
Sub-Saharan Africa	*6.9*	*13.5*	*21.0*	*29.0*	*33.4*	*47.6*	*23.2*
ODA, Africa	21.8	27.3	29.7	35.5	43.5	39.1	44.0
North Africa	*2.6*	*2.3*	*3.3*	*2.8*	*2.9*	*3.6*	*4.0*
Sub-Saharan Africa	*19.2*	*25.0*	*26.4*	*32.7*	*40.6*	*35.5*	*40.0*
Total, Africa	160.7	199.8	250.8	324.6	395.6	443.2	513.3
North Africa	*64.2*	*70.4*	*81.9*	*108.6*	*138.6*	*154.7*	*203.1*
Sub-Saharan Africa	*96.5*	*129.4*	*168.9*	*216*	*257*	*288.5*	*310.2*

Notes:

- While the sources on domestic revenue are from the IMF, minor adjustments were required due to differences in country classification – for example, Mauritania and Sudan are classified as part of Middle East and Central Asia --, which explains the minor discrepancies with the original IMF regional data.

- Private flows consist of: FDI, portfolio equity, bank debt, suppliers/export credits and bonds flows.

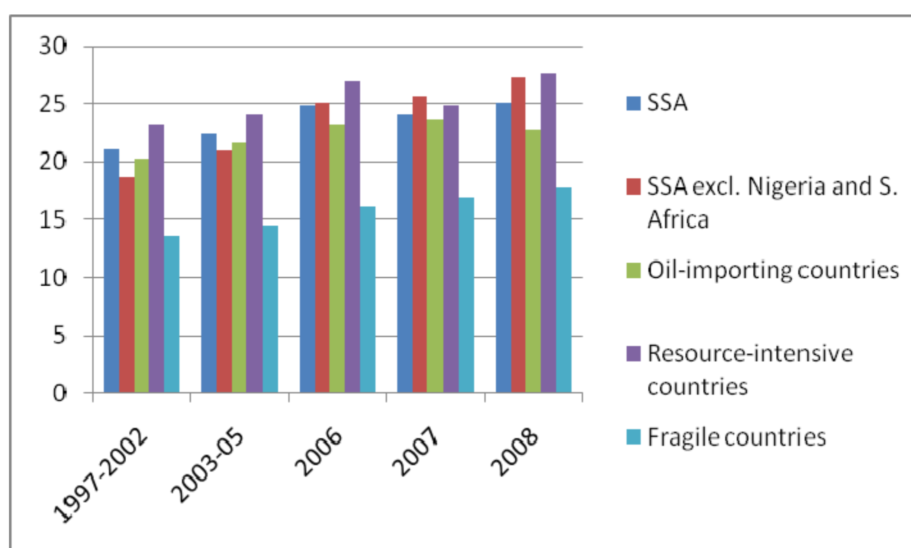
Sources: IMF Regional Economic Outlook Series; Middle East and Central Asia (October 2009), Sub-Saharan Africa (October 2009); World Bank Global Development Finance (2009); UNCTAD World Investment Review (2009) and OECD/DAC database and staff estimates.

II. Domestic Public Resources for Development

Key results for 2008

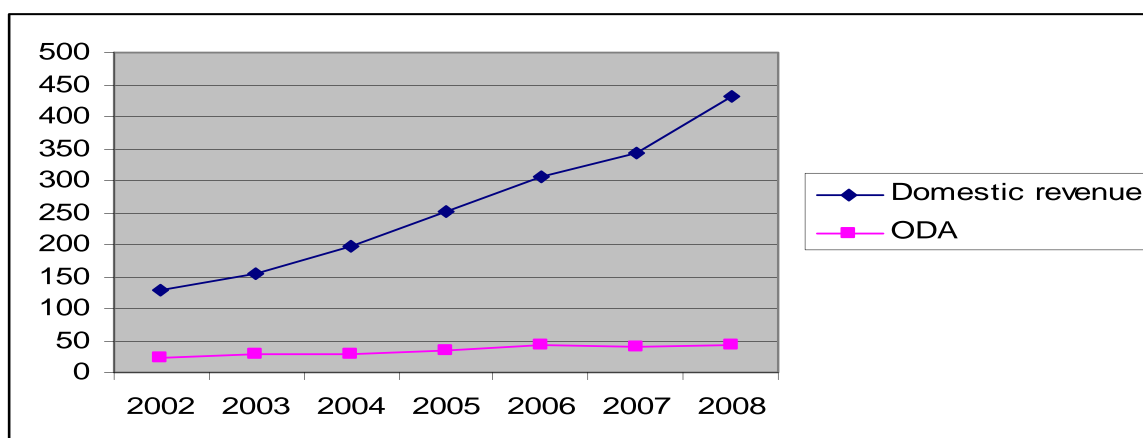
20. After remaining basically unchanged through the 1990s, total government revenue as a share of GDP has been steadily improving in most African countries. As shown in Figure 2, domestic revenue — defined as tax and non-tax revenues excluding grants — increased by almost 4 percentage points of GDP between the pre-Monterrey period and 2008, reaching an average of over 25% for sub-Saharan Africa as a whole. Excluding Nigeria and South Africa, government revenue rose even more sharply from an average of 18.7% in 1997-2002 to 27.3% in 2008, equivalent to 8.5 percentage points of GDP. While the boom in oil and commodity exports have contributed to the strong revenue mobilisation performance of resource-intensive countries, it is worth noting that even the group of *fragile countries* also managed to increase government revenue as a percentage of GDP. Africa's improved performance in this area has enabled it to triple its revenue collection since 2002 to reach over US$430 billion in 2008 (Figure 1). For sub-Saharan Africa, domestic revenue is over six times the volume of ODA (Figure 2), making it by far the most important and reliable source of development financing.

Figure 1: Government Revenue excluding Grants (% of GDP)



Source: IMF Regional Economic Outlook: Sub-Saharan Africa (October 2009)

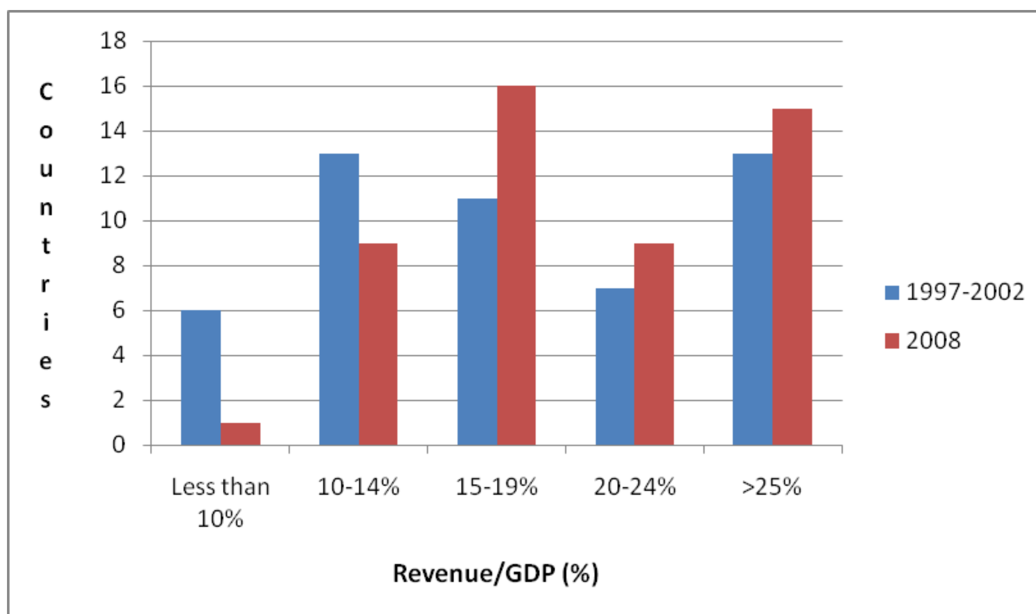
Figure 2: Trends in Government Revenue and ODA (US$ billions)



Source: IMF, Regional Economic Outlook: Sub-Saharan Africa, October 2009 and OECD-DAC database

21. In spite of the sharp improvement in revenue collection, 11 governments in sub-Saharan Africa still collect less than 15% of GDP in the form of public revenue, a level considered as a minimum needed to cover the state's basic functions. As shown in Figures 3 and 4, compared to the pre-Monterrey period, almost one third of African governments are collecting more than 25% of GDP as public revenue; North African countries all average more than 30% of GDP.

Figure 3: Country Distribution of Revenue/GDP Ratios



Source: IMF Regional Economic Outlook: Sub-Saharan Africa, various issues.

Figure 4: Government Revenue as a Share of GDP
(Average 2007-08, percent)

9 countries	16 countries	9 countries	15 countries
- Burkina Faso - Central Africa Rep. - Comoros - Ethiopia - Guinea - Madagascar - Rwanda - Sierra Leone - Uganda ____________ - Zimbabwe **Less than 10%**	- Benin - Burundi - Cameroon - Congo, Dem. Rep. - Cote d'Ivoire - Gambia, The - Guinea Bissau - Mali - Malawi - Mozambique - Níger - Nigeria - Senegal - Tanzania - Togo - Zambia	- Cape Verde - Chad - Eritrea - Ghana - Kenya - Liberia - Mauritius - Seychelles - Sudan	- Algeria - Angola - Botswana - Congo, Rep. Of - Egypt - Equatorial Guinea - Gabon - Lesotho - Libya - Mauritania - Namibia - Sao Tomé & Príncipe - South Africa - Swaziland - Tunisia
10 to 14% of GDP	**15 to 19% of GDP**	**20 to 24% of GDP**	**More than 25% of GDP**

Note: Zimbabwe, which traditionally mobilised over 25% of GDP, experienced a sharp drop in 2007 because of the political crisis.

Source: IMF World Economic Outlooks: Sub-Saharan Africa and Central and Middle East (October 2009).

Reforms and Policy Initiatives

22. The tax base in most sub-Saharan African countries has been shifting away from trade taxes toward a higher reliance on personal and corporate income taxes and domestic indirect taxes. Presently, 34 SSA countries and all North African countries except Libya have adopted value added tax (VAT); the unweighted average VAT rate is about 16%. African governments have also adopted measures aimed at improving revenue mobilisation efficiency. Where revenues relative to GDP are low combined with weak tax administration, governments have established autonomous revenue agencies to improve tax administration. Twenty African countries have been accepted as candidate[1] countries the Extractive Industries Transparency Initiative (EITI), which was launched in 2003 to support improved governance in resource rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. Liberia is one of two countries that have been declared as EITI compliant; the other country is Azerbaijan.

23. Following two years of preparatory work, the African Tax Administration Forum (ATAF) was launched in November. The Forum is designed to help African countries strengthen tax administration and to link back to officials through knowledge sharing. It also aims at improving governance through taxation and government accountability. Several proposals are under consideration such as the establishment of an African Tax Institute.

Box 1: Initiatives on Tax Havens

The issue of tax havens, which was given a strong emphasis by African countries in the run-up to the G20 London Summit, has experienced significant progress since April. Over 100 tax information exchange agreements have been signed and over 60 tax treaties have been negotiated/renegotiated to incorporate the OECD standards of transparency and exchange of information on tax matters. Implementation of these agreements through peer reviews and strict monitoring is the current focus. Efforts to build up tax administration in developing countries have increased; OECD-sponsored technical events have been organised in Africa covering topics including transfer pricing and the taxation of minerals, oil and gas.

Domestic Savings

24. With the exception of resource-rich countries and a few others, overall savings remain very low. As shown in Table 2, most of the increase in the domestic savings rates in recent years reflects the performance of resource-rich countries. For non resource-intensive countries, the overall domestic savings rate has hardly moved in spite of important progress in public revenue mobilisation. As a group, savings rates in fragile states have declined sharply in recent years compared to the pre-Monterrey period. Eight countries, seven of which are classified as fragile countries, have negative savings ratios. Sub-Saharan Africa's low savings rates contrast sharply with the significantly higher savings rates of other developing regions including North Africa.

[1] Candidate country governments must issue an unequivocal public statement of its intention to implement EITI and to work with civil society and companies on EITI implementation, has appointed a senior individual to lead on EITI implementation and published a fully costed work plan containing measurable targets, a timetable for implementation and an assessment of capacity constraints (government, private sector and civil society).

Table 2: Gross Domestic Savings (% of GDP)

	1997-2002	2006-08
Sub-Saharan Africa	18.3	25.0
- Resource intensive countries	26.8	39.0
- Non-resource intensive countries	14.4	14.1
Middle-income countries	*(19.0)*	*(19.3)*
Low-income countries	*(7.5)*	*(9.1)*
Fragile countries	*(15.4)*	*(11.1)*

Source: IMF, Regional Economic Outlook – Sub-Saharan Africa (October 2009)

What are the key priorities?

Actions by **Africa**:

- Boost public revenue by addressing tax evasion and avoidance, broadening the tax base and improving the efficiency of tax administration. Continue efforts to increase domestic resource mobilisation, in particular in countries where the ratio of revenue to GDP remains below 15%.
- Strengthen efforts to improve management of natural resources as well as revenue from these resources.

Actions by **development partners**:

- Give more importance for supporting reforms of Africa's tax systems and the efficiency of tax administration, which from the most recent information, account for less than 1% of total development assistance.
- Revving up support for capacity building and knowledge sharing, preferably in close collaboration of ATAF, to help Africa secure the benefits of the more cooperative tax environment following the very significant changes in international standards and acceptance of the OECD-led work on tax evasion (see Box 1).

III. Private International Financial Flows

25. Net private capital flows to Africa were up sharply in 2007 by US$13 billion to reach US$60 billion, the highest level on record. The rise was mostly due to a surge in FDI (+US$7 billion) and sovereign bond flows[2] (+US$9.4 billion) as shown in Table 3. After several years of net reflows that began in the late 1990s, Africa began to enjoy renewed access to commercial lending from banks and suppliers. Private bond flows to Africa kept pace with the upswing in overall flows to developing countries, exceeding US$9 billion in 2007, driven by abundant global liquidity and steady improvements in credit quality of several African countries. But developing countries' easy access to global capital markets deteriorated in late 2007 and in 2008 in the wake of the U.S. subprime mortgage crisis. Besides reducing capital flows to developing countries, the turmoil has increased borrowing costs, although less so than in previous episodes.

[2] Ghana became the first heavily indebted poor country (HIPC) to issue an external bond, with a US$750 million Eurobond issue in September 2007. The bond issue was oversubscribed several times, despite being launched as international financial markets became more unsettled[2]. Gabon issued its inaugural sovereign bond in December 2007 when it launched a US$1 billion 10-year Eurobond with a yield of 8.25% that was used to prepay its Paris Club creditors.

Table 3: Net Private Capital Flows to Africa *(US$ billions)*

	2002	2003	2004	2005	2006	2007	2008
FDI flows*	**12.8**	**16.5**	**12.8**	**25.8**	**35.8**	**42.7**	**47.9**
North Africa	*2.6*	*3.6*	*2.8*	*7.2*	*15.1*	*14.8*	*14.8*
Sub-Saharan Africa excl. S. Africa	*9.5*	*12.1*	*9.3*	*12.1*	*20.9*	*22.2*	*23.5*
South Africa	*0.7*	*0.8*	*0.7*	*6.5*	*-0.2*	*5.7*	*9.6*
Portfolio equity flows	**-0.1**	**0.9**	**6.8**	**8.8**	**17.4**	**6.9**	**-10.1**
North Africa	*0.3*	*0.2*	*0.1*	*0.7*	*0.6*	*-3.2*	*-0.7*
Sub-Saharan Africa excl. S. Africa	*0.0*	*0.0*	*0.0*	*0.9*	*1.8*	*1.5*	*-4.7*
South Africa	*-0.4*	*0.7*	*6.7*	*7.2*	*15.0*	*8.6*	*-4.7*
Commercial debt flows	**-5.1**	**-0.4**	**3.4**	**-0.5**	**-4.0**	**1.3**	**-0.2**
North Africa	*-0.7*	*0.1*	*-0.3*	*-1.7*	*-1.3*	*-0.3*	*-0.6*
Sub-Saharan Africa excl. S. Africa	*-3.8*	*0.2*	*3.3*	*0.2*	*-1.7*	*0.8*	*2.6*
South Africa	*-0.6*	*-0.7*	*0.4*	*1.0*	*-1.0*	*0.8*	*-2.2*
Bonds flows	**2.2**	**1.0**	**0.9**	**2.4**	**-1.7**	**9.4**	**-1.0**
North Africa	*0.7*	*0.6*	*0.3*	*1.3*	*-0.3*	*1.4*	*-0.1*
Sub-Saharan Africa excl. S. Africa	*-0.5*	*-0.2*	*0.0*	*0.0*	*-1.2*	*2.0*	*0.0*
South Africa	*2.0*	*0.6*	*0.6*	*1.1*	*-0.2*	*6.0*	*-0.9*
Total private capital flows	**9.8**	**18.0**	**23.9**	**36.5**	**47.5**	**60.3**	**36.6**
North Africa	*2.9*	*4.5*	*2.9*	*7.5*	*14.1*	*12.7*	*13.4*
Sub-Saharan Africa excl. S. Africa	*5.2*	*12.1*	*12.6*	*13.2*	*19.8*	*26.5*	*21.4*
South Africa	*1.7*	*1.4*	*8.4*	*15.8*	*13.6*	*21.1*	*1.8*

Sources: World Bank, Global Development Finance (2010) and staff estimates; UNCTAD, World Investment Report (2009).

26. FDI inflows continued to rise in 2008 to almost US$48 billion and reaching a new record. But despite the larger inflows, Africa's share in global FDI remained at about 3-5% in recent years. The inflows were supported by a continuing boom in global commodity markets and by improved policy environments. A large proportion of the FDI projects launched in the region were linked to the extraction of natural resources. The US and Europe were the main investors in the region, followed by African investors, particularly from South Africa. Asian investors concentrated mainly on oil and gas extraction and infrastructure.

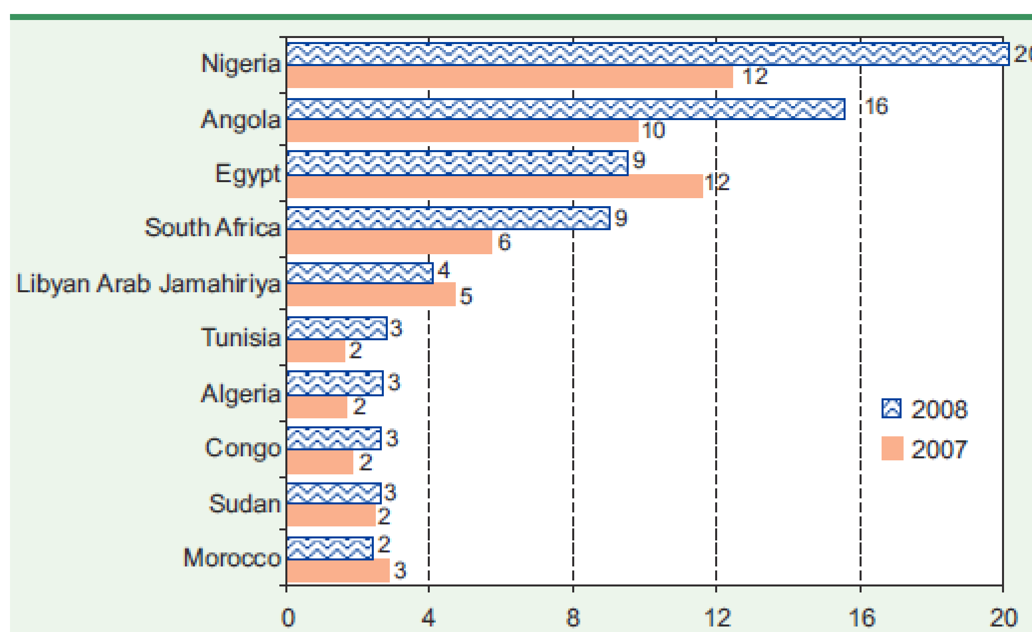
27. FDI inflows were spread across most of Africa (Table 4), benefiting many natural resource producers as well as new host countries. As a result, for almost half of Africa, the ratio of FDI to gross fixed capital formation remains high, reflecting the relative importance of FDI flows in these economies (Figure 5). While most countries of North Africa together with Nigeria and South Africa continued to attract large FDI inflows, Congo DRC, Equatorial Guinea, Madagascar and Zambia received over US$1 billion of inflows in 2008.

Table 4: Distribution of FDI Flows by Range, 2008

Range	Inflows
Over US$3.0 billion	**Angola, Egypt, Libyan Arab Jamahiriya, Nigeria, South Africa**
US$2.0 to US$2.9 billion	**Algeria, Congo Republic, Ghana, Sudan, Tunisia**
US$1.0 to US$1.9 billion	**Congo DRC, Equatorial Guinea, Guinea, Madagascar**
US$0.5 to US$0.9 billion	**Chad, Mozambique, Namibia, Senegal, Tanzania, Uganda, Zambia**
US$0.2 to US$0.4 billion	**Cameroun, Cape Verde, Cote d'Ivoire, Mauritius, Seychelles**
Less than US$0.2 billion	**Benin, Botswana, Burkina Faso, Central African Republic, Ethiopia, Gabon, Gambia, Guinea-Bissau, Kenya, Lesotho, Malawi, Mali, Mauritania, Niger, Rwanda, Sao Tome and Principe, Sierra Leone, Somalia, Swaziland, Zimbabwe**

Source: UNCTAD World Investment Report 2009.

Figure 5: Top 10 Recipients of FDI Inflows, 2007–2008
(US$ billions)



Source: UNCTAD, FDI/TNC database (www.unctad.org/fdistatistics) and annex table B.1.

[a] Ranked by the magnitude of 2008 FDI inflows.

28. In 2008, many African countries have put in place policy incentives to attract more FDI and strengthen institutional support for their regulatory changes, although the region's investment climate still presents a mixed picture. Several African countries adopted policy measures that seek to promote private investment. Burundi adopted a new investment code which aims to attract foreign investors. Egypt decided to establish various free industrial zones; Kenya privatized a number of utilities. Mauritius enacted competition legislation, introducing restrictions on monopolies and collusion. Policy developments were not limited to unilateral measures. African countries signed new bilateral investment treaties (BITs) in 2008, bringing the total number of BITs involving African countries to 715 by end 2008. The Libyan Arab Jamahiriya was the most active, with two new BITs signed with Albania and the Russian Federation.

Table 5: FDI inflows as Share of Investment in Selected Non-Oil/Commodity Producing Countries, 2006-08

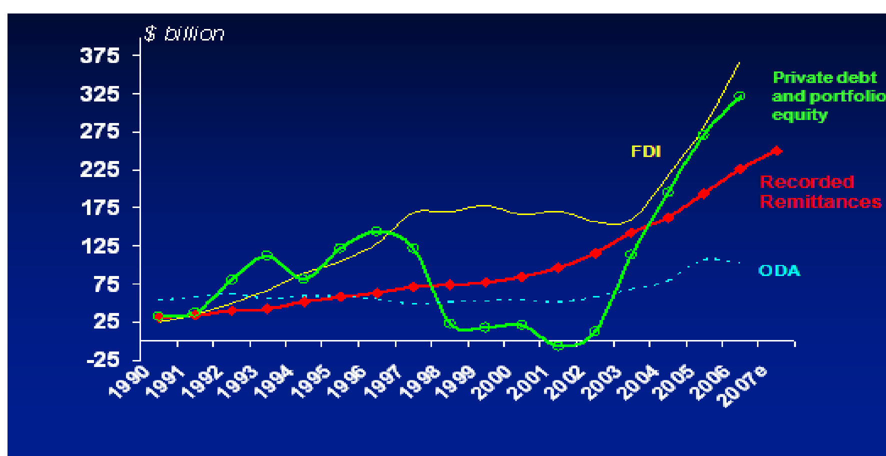
Country	Average FDI Inflows 2006-08 (US$ million)	FDI/Investment Ratio (%)		
		2006	**2007**	**2008**
Cape Verde	177	29	31	29
Central African Republic	71	26	34	62
Egypt	10,372	48	44	29
The Gambia	70	50	50	32
Guinea-Bissau	17	34	34	23
Lesotho	132	18	25	49
Liberia	128	142	133	128
Madagascar	849	21	38	57
Mozambique	427	11	23	27
Namibia	622	22	35	36
Seychelles	249	58	76	127
Sierra Leone	61	70	111	30
Tunisia	2,564	46	19	27
Uganda	721	26	23	20

Source: UNCTAD (2009)

Workers' Remittances

29. Over the past decade, remittances have become increasingly prominent. Remittance flows to developing countries are estimated to have reached US$327 billion in 2008 or almost 3 times the level of ODA. This amount, however, reflects only transfers through official channels. The true size of remittances received by developing countries is believed to be significantly larger. Compared to ODA and other financial flows, remittances are the largest source of external financing in many developing countries (Figure 6).

Figure 6: Remittance Flows in Developing Countries (US$ billions)



Source: Adapted from Dilip Ratha's presentation (World Bank)

30. Remittances are becoming important sources of development finance in both sub-Saharan and North Africa. Table 6 shows that between 2000 and 2008, recorded remittances from sub-Saharan Africa more than quadrupled to reach US$20 billion. The increase is similarly rapid in North Africa, reaching also US$14 billion. Three of the largest ten remittance recipient countries in Africa are in North Africa. It should be noted that a large proportion of flows to SSA is unrecorded. Recent estimates suggest that 73% of

remittances flow to SSA were through unofficial channels. One of the factors militating against enhanced remittance flows to SSA is the high cost of transfers. Partly for a lack of competition, the cost of money transfer to Africa averages about 10% compared to 5.6% for other developing regions. A series of initiatives are underway to help reduce costs. They include making available information about the cost of transfer in originating countries, promoting the use of postal services in recipient countries for the withdrawal of funds and using mobile phones for fund transfers.

Table 6: Remittances in Africa – Ten Largest Recipients and Sub-totals (US$ billions)

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Nigeria	1.4	1.2	1.2	1.1	2.3	3.3	5.4	9.2	10.0
Egypt	2.9	2.9	2.9	3.0	3.3	5.0	5.3	7.7	9.5
Algeria	0.8	0.7	1.1	1.8	2.5	2.0	1.6	2.1	2.2
Sudan	0.6	0.7	1.0	1.2	1.4	1.0	1.2	1.8	1.9
Tunisia	0.8	0.9	1.1	1.3	1.4	1.4	1.5	1.7	1.8
Kenya	0.5	0.6	0.4	0.5	0.6	0.8	1.1	1.6	1.8
Senegal	0.2	0.3	0.3	0.5	0.6	0.8	0.9	1.1	1.3
South Africa	0.3	0.3	0.3	0.4	0.5	0.7	0.7	0.8	0.8
Uganda	0.3	0.3	0.4	0.3	0.3	0.4	0.4	0.4	0.5
Lesotho	0.3	0.2	0.2	0.3	0.4	0.3	0.4	0.4	0.4
Sub-Saharan Africa, Total	4.6	4.7	5.0	6.0	8.0	9.4	12.6	18.6	19.8
North Africa, Total	4.4	4.5	5.0	6.0	7.3	8.5	8.5	11.6	13.6
Africa	9.0	9.2	10.0	12.0	15.3	17.9	21.1	30.2	33.4

Source: World Bank, Migration and Remittances Fact Book, 2008 plus updates.

31. To increase the developmental impact of remittances, there is the need to create domestic conditions that would allow workers to transfer funds, and recipients to deposit funds, through the formal banking system. In this regard, there is the need for Africa and development partners to take more measures to reduce the transactions costs of remittances. Strengthening competition in the remittance industry as well as adopting new technologies such as internet and mobile telephony will contribute significantly to achieving this objective. The large and steady flows of remittances can potentially be used to raise significant bond financing by using securitisation of future remittance flows. Diaspora bonds, which work on the same principle, have been issued in a number of large remittance recipients (Philippines, Armenia, Sri Lanka, Pakistan and Bangladesh) and are being considered by Kenya and Ghana. Tapping this source of finance, however, requires building legal infrastructure, enforcing creditor rights, developing partnerships with banks abroad, and financial market development.

What are the key priorities?

Actions by **Africa:**

- Improve capacity to monitor and manage private capital flows.
- Create the conditions (including human capital development) that would foster more diversified FDI to higher value-added activities.

Actions by **development partners:**

- Support Africa's effort to promote private capital flows and build an enabling domestic business environment.
- Help to reduce the transactions costs of remittances and increase their developmental impact.

IV. Development Assistance

ODA volumes

What are the 2005 commitments?

32. A number of commitments were made by different donors in 2005, in relation both to total aid volume, and aid to sub-Saharan Africa. OECD estimates at the time were that these commitments would lead to a rise in total ODA of US$ 50 billion - from US$80 billion in 2004 to US$130 billion in 2010 - in constant 2004 prices. Some of the commitments were defined as a proportion of GNI. The latest available estimates, based on lower GNI outturn and forecasts are that the commitments imply a somewhat smaller rise in total ODA to around US$124 billion in 2010 - in constant 2004 prices (or to US$149 billion in 2010, in 2008 prices).

33. A number of donors had previously stated that 50% of the increase in their ODA should go to sub-Saharan Africa. On this basis, it was estimated at Gleneagles that the commitments of the G8 and other donors would lead to an increase in development assistance to Africa of US$ 25 billion a year by 2010 (i.e. half of the estimated US$50 billion global increase, and thus implicitly in 2004 prices), more than doubling aid to Africa compared to 2004. In practice, ODA to Africa in 2004 - which was not known at the time of Gleneagles - was subsequently tabulated at US$29.7 billion, within which ODA to sub-Saharan Africa was US$26.5 billion.

What has happened?

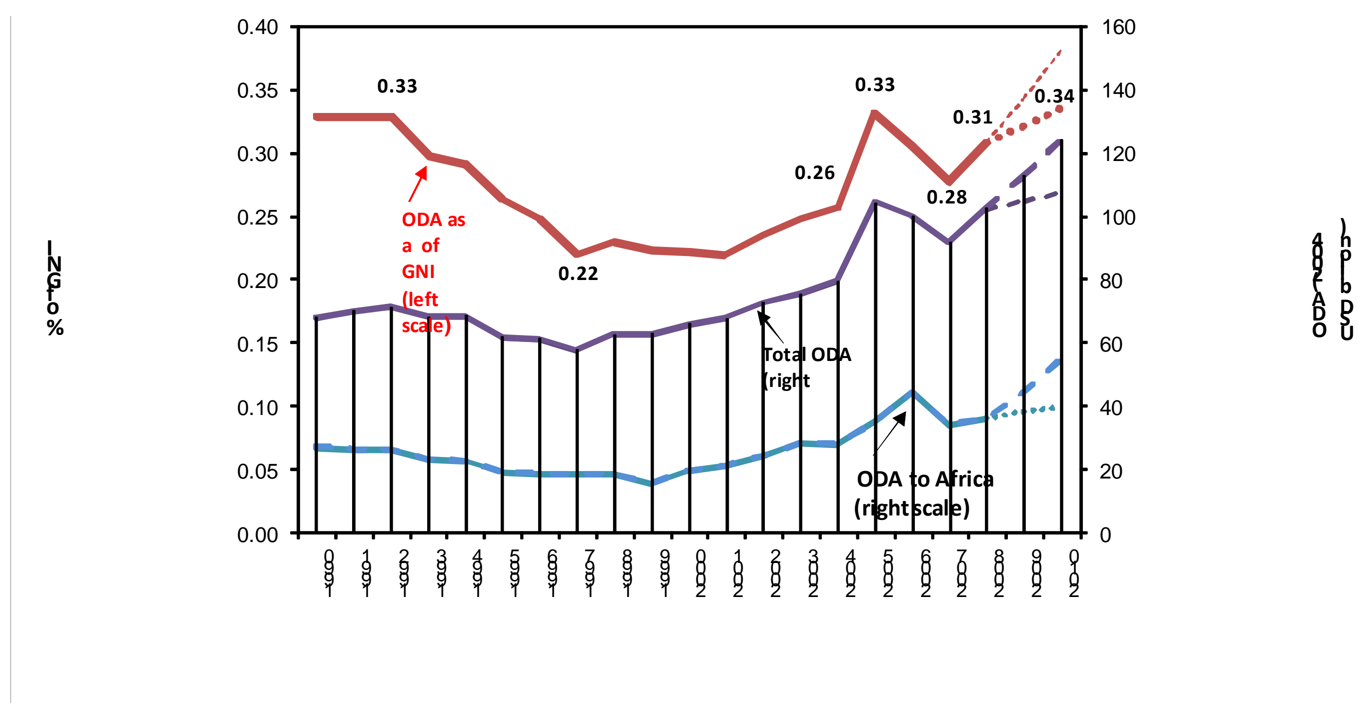
34. Total ODA rose in nominal terms from US$80 billion in 2004 to a record high of US$121.5 billion in 2008. However the latest OECD projections (Figure 7 below and Annex Table 2) show a marked slowdown in 2009 and 2010. While several countries have maintained their commitments for 2010, others, notably some large donors, have postponed pledges they made for 2010. On the basis of reported intentions or current 2010 budget plans the overall expected ODA level for 2010 is estimated to rise by only US$6.5 billion (or 5%) to US$128 billion in 2008 prices, some US$21 billion short of the revised total of US$ 149 billion in para 31 above.

35. ODA to Africa rose by 12% in nominal terms, or 7% in real terms, from US$39.1 billion in 2007 to US$44.0 billion in 2008. ODA net of debt relief rose from US$35.4 billion in 2007 to US$42.0 billion in 2008, a cumulative increase of nearly 50% in nominal terms or 30% in real terms between 2006 and 2008 (Table 7 below refers). But despite this, ODA to Africa continues to lag behind target, with the prospect of this worsening over 2009-2010. There are two problems: the distribution of increases in global ODA since 2004, and the projected overall shortfall in global ODA in 2010.

(i) Using the nominal figures in Table 7 Africa has received only about 34% (US$14.3 billion) of the total (US$42 billion) nominal increase in ODA since 2004 – significantly below the 50% assumption underlying the Gleneagles estimate of US$25 billion. This overall average does of course conceal large variations between individual donors, as shown at Annex Table 3. If Africa had received 50% of the total increase since 2004, aid to Africa would have been around US$6.5 billion higher in nominal terms in 2008. Using a different method of calculation in constant 2004 prices and exchange rates, the shortfall is US$5.2 billion (2004 prices and exchange rates), equivalent to US$6 billion (2008 prices and exchange rates). So the basic picture is the same using both methods;

(ii) Using the same 50% estimate assumed in 2005, the shortfall of US$21 billion in global ODA shown above against overall 2010 targets, implies a shortfall of US$10.5 billion in ODA to Africa Therefore even if Africa secures 50% of the projected US$6.5 billion increase in ODA to 2010, implying a rise to around US$47 billion (in 2008 prices), it would be somewhere in the region of US$17 billion (in 2008 prices) – or around 25% - below the levels implied by the commitments made in 2005, even taking account of lower GNI. In practice, Africa is bearing the brunt of the projected shortfall against global ODA commitments in 2010, despite being the region which faces the largest challenges in achieving the MDGs.

Figure 7: DAC Members' Net ODA, 1990-2008 and DAC Secretariat simulations of net ODA to 2009 and 2010



Note: ------ dashed line indicates the growth-adjusted trajectory envisaged at Gleneagles.
........dotted line indicates estimates based on reported intentions or current 2010 budget plans made by DAC members.
........dotted line for Africa indicates a Secretariat estimate.

Source: OECD/DAC (2009)

Table 7: ODA to Africa *(US$ billions in nominal terms or percent)*

	2000	2001	2002	2003	2004	2005	2006	2007	2008
US$ billions									
South of Sahara	12.7	14.0	19.0	24.6[b/]	26.0	32.2[c/]	39.9[c/]	34.5	39.0
North of Sahara	2.2	2.4	2.4	2.2	3.1	2.6	2.7	3.2	3.7
Africa, unallocated[a/]	0.7	0.4	0.5	0.5	0.6	0.7	0.8	1.5	1.3
Total Africa	15.6	16.8	21.8	27.3	29.7	35.5	43.5	39.1	44.0
Debt relief	1.1	1.5	3.1	6.7	4.4	8.9	15.2	3.7	2.0
Total ODA minus debt relief	14.5	15.2	18.5	20.5	25.4	26.6	28.3	35.4	42.0
Percentage									
Share of Africa (%)	31.3	32.1	35.8	38.3	37.4	32.9	41.0	36.5	34.2
For reference: US$ billions									
Total ODA (US$ billions)	53.8	52.3	58.3	69.1	79.4	107.1	104.4	103.5	121.5
ODA/GNI[3] ratio (%)	0.22	0.22	0.23	0.25	0.26	0.33	0.31	0.28	0.31

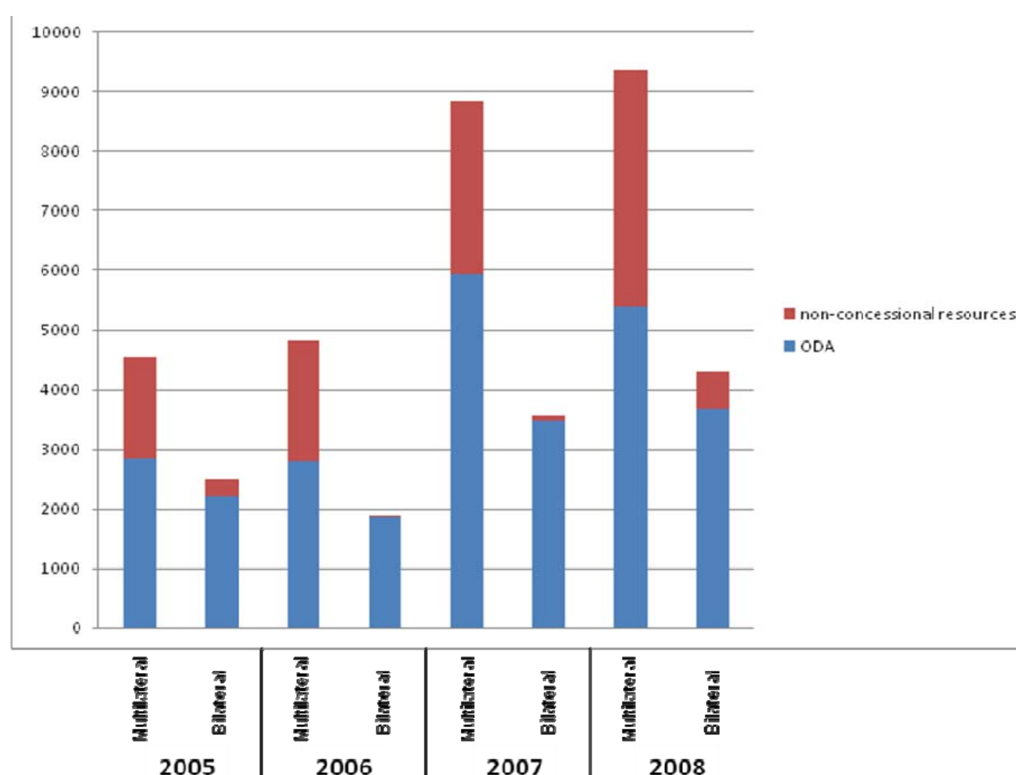
Notes: a/ These figures include amounts that were unspecified in the OECD-DAC database. b/ The outturn in 2003 was heavily determined by the US$4.5 billion of debt relief to the Democratic Republic of Congo under the HIPC initiative. c/ Of which US$14.9 billion for Nigeria's debt relief for the two years (US$5.5 billion in 2005 and US$9.4 billion in 2006).
Source: "Geographical Distribution of Financial Flows by Aid Recipients, 2001-2005", OECD DAC Statistics.

[3] Gross national income.

Sectoral allocations

36. In terms of sectoral allocations, there has been a continuous shift over the years in total ODA allocation toward the social sectors and away from productive activities. This situation is however, likely to change in the near future in light of the strong commitments made by a group of key donors assembled under the aegis of the Infrastructure Consortium for Africa (ICA): the ICA indicates that ODA commitments[4] by bilateral and multilateral donors for the infrastructure sector have almost doubled in the last two years, from US$5 billion in 2005 to US$9.5 billion in 2007 (see Figure 8). Preliminary figures for 2008 show a slight decline in multilateral contributions, bringing total commitments to US$ 9.0 billion. But ICA member commitments for infrastructure financing, including non-concessional resources have increased by 10% from US$12.4 billion in 2007 to US$13.7 billion in 2008[5]. Private sector support to infrastructure which has been significant using the leverage of ICA members' commitments has, however, declined by about 15% in 2008 to about US$15 billion reflecting funding constraints arising from the global crisis in 2008.

Figure 8: ICA commitments to infrastructure projects in Africa 2005 – 2007 (US$ millions)



Source: ICA, Financial Commitments for Infrastructure in Africa for 2009

Non-DAC donors

37. New actors such as non-DAC bilateral donors, private entities and vertical funds have also increased the resources for development in Africa and developing countries in general. Non-OECD members have long played an important role in Africa, but only limited information is available in this regard. Arab states and funds have traditionally been important actors in Africa. Arab donors provided over US$2.5 billion in 2007, led by Saudi Arabia. The Republic of Korea and Turkey are providing roughly about US$800 million each in aid in 2008. European Union members who are not members of the OECD are increasing their development aid budgets substantially. They have committed to reach ODA targets of 0.17% of GNI by 2010 and 0.33% by 2015. Together, non-DAC donors, excluding China, India

[4] Note that the figures in Figure 8 represent commitments that will be disbursed over time.
[5] Total commitments for infrastructure in Africa into 2008 were US$42.5 billion upfront US$37.3 billion in 2007. This overall increase is largely to two or more than doubling in Chinese commitments to around US$11 billion.

and Brazil who provide large amounts of aid but do not report official numbers, totalled US$4.7 billion in 2007. China and India are playing an important role in financing development in the region, particularly in the energy and infrastructure sectors. China provides development co-operation on a global scale, and the co-operation programme in Africa has attracted particular attention. The "Beijing Action Plan", agreed in November 2006, includes a broad range of commitments, including a doubling of aid from China to Africa from 2006 to 2009. China has also forgiven debt to HIPC and LDC countries. Russia is an additional major player on the development aid scene in Africa. Lastly, the growth of **sovereign funds** holds the promise of further large development finance.

Aid effectiveness

38. On **aid effectiveness**, the Paris Declaration on Aid Effectiveness, endorsed in March 2005, is now recognised as a landmark international agreement aimed at improving the quality of aid and its impact on development. It lays out a road-map of practical commitments, organised around five key principles of effective aid, namely: a) ownership by countries; b) alignment with countries' strategies, systems and procedures; c) harmonisation of donors' actions; d) managing for results; and e) mutual accountability. In early September 2008 – midway through the PD timeframe – the third High Level Meeting (HLF) in Accra culminated in an agreement on the **Accra Agenda for Action** (**AAA**).

39. The AAA is a wide ranging programme of operational reforms in all the key areas of the Paris declaration. On *country ownership*, the AAA involves stronger engagement with parliamentarians, civil society organizations and citizens in shipping development policies. On *building more effective and inclusive partnerships*, all development actors have committed to improving the complementarity of donors' efforts and the division of labour among donors. On *achieving development results*, countries and donors agreed to improve information systems and to develop cost-effective instruments to assess the impact of development policies. More specifically, donors have agreed to align their monitoring systems with those of the recipient countries. On *mutual assessment, to strengthen country ownership and improve the predictability of aid flows*, donors will work with developing countries to agree on the limited set of mutually agreed conditions based on national development strategies.

40. A survey undertaken in 2008 showed progress globally on the untying of aid, the number of parallel project implementation units (PIUs) established to run donor-financed projects, use of country systems and the design of technical cooperation. The results were included in the first (November 2008) report on Development Finance in Africa – and are restated below, in the absence of any further survey material.

Box 2: Findings from 2008 survey: "Comparing overall results with figures for Africa"

Significant improvements in the design of technical co-operation, both globally and in Africa – Figures for Africa show that there has also been an improvement from 43% in 2005 to 60% in 2007.

Global improvements in use of country systems, but a declining trend in Africa - For indicator 5, global progress has increased by 4 to 5 percentage points from 2005-2008, but this is still very modest compared with the targeted levels that require as much as 80% of aid to use country systems. The figures for Africa show that the use of PFM systems has declined 2% from 2005 to 2008 and use of country procurement systems has also declined for the same period at 1%.

The number of Project Implementation Units (PIUs) is declining at a faster rate globally than in Africa – For indicator 6, the overall total stock of parallel PIUs recorded in the 33 countries declined significantly: from 1817 in 2005 to 1601 in 2007. The figures for Africa, however, show that there has been a smaller reduction from 960 in 2005 to 902 in 2007.

Aid predictability has improved both globally and in Africa – For indicator 7, there has been an improvement from 41% in 2005 to 46% in 2007; however this is still far from the target of 71% which is to be reached by 2010. The average figures for Africa show that predictability has also improved slightly from 44% in 2005 to 48% in 2007.

Substantial improvements in the untying of aid globally and in Africa – For indicator 8, overall figures show an increase from 75% in 2005 to 88% in 2007. The share of untied aid in Africa has increased from 79% in 2005 to 91% in 2007.

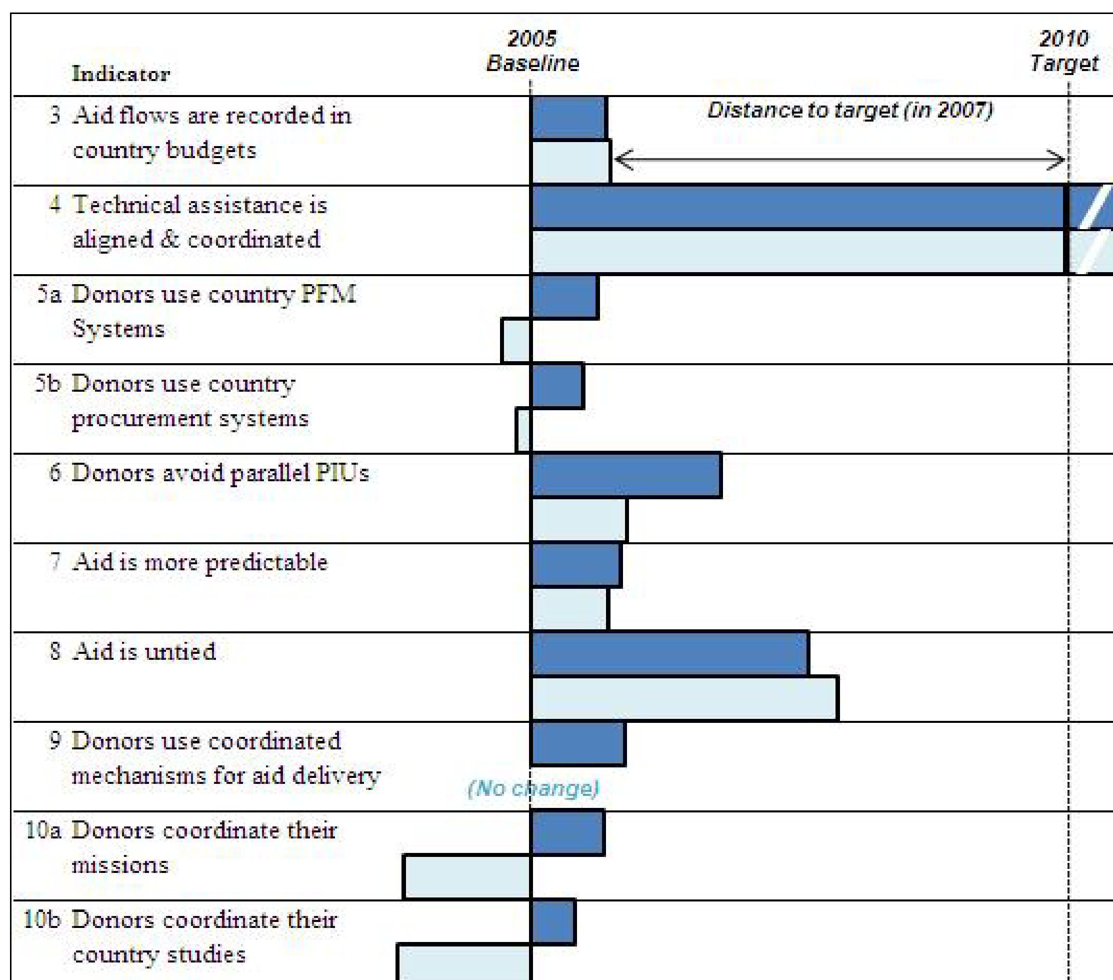
Very little progress in the co-ordination of donor missions, both globally and in Africa – For indicator 10a, global figures between 2005 and 2008 have increased from 43% to 46%. Figures for Africa show a reduction in the number of co-ordinated donor missions. In absolute terms, in 2007, out of a total of 5118 donor missions in Africa, only 726 were co-ordinated compared to 987 out of 5241 for 2005.

Note: The baseline survey was carried out in 33 developing countries in 2005, followed by a monitoring survey covering 54 countries in 2008.

Source: OECD-DAC, 2008 Survey of Monitoring the Paris Declaration

41. As detailed in Box 2 and in Figure 9, progress in Africa on several of these indicators has been slower than elsewhere in the developing world.

Figure 9: Progress over the period 2005-2007 in meeting the Paris Declaration targets: comparing Africa to the rest of the world



Source: OECD-DAC, 2008 Survey of Monitoring the Paris Declaration

Innovative financing mechanisms

42. The **innovative financing mechanisms** launched in 2006 are starting to generate additional resources for development. For instance, US$1.5 billion have been committed by a group of bilateral donors and the Bill and Melinda Gates Foundation under the Advanced Market Commitments (AMCs) to support the development of vaccines. Another US$1.6 billion have been raised through the issuance of bonds in the capital markets under the International Finance Facility for Immunisation (IFFIm) which converts long-term government pledges -- in servicing and redeeming the bonds – into immediately available cash resources for immunisation programmes. The Solidarity Air Ticket Levy is expected to generate more than US$500 million in 2009 for the purchase of drugs. Additional resources are also being generated through clean development mechanism projects and other emissions trading schemes to support African countries in addressing climate risks.

Private philanthropic foundations

43. There is a dynamic and growing array of **private philanthropic foundations** increasingly active both globally and in Africa. Private international giving as reported to the OECD shows a strong upward trend in grant making, rising to US$18.6 billion in 2007. Although large, this number does not capture the full extent of private giving. US private foundations, which account for two-thirds of the total, are estimated to have provided three times the figure reported to the OECD. Most of the private giving funds are concentrated in their home countries. Estimated U.S. foundation giving for international purposes reached a record $5.4 billion in 2007, and preliminary estimates of 2008 giving are likely to top that record. But the decline in US foundations assets caused by the financial crisis will, at least for 2009 and 2010 change the trend of the past few years. A survey by the Foundation Centre of leading grant makers suggests a steeper than anticipated reduction in 2009 foundation giving and a continued reduction in foundation giving in 2010.

What are the key priorities?

Actions by **Africa:**

- Exercise effective leadership and develop the capacity in coordinating and harmonizing donor activities at the country level.
- Make efforts to be more accountable to domestic constituents to strengthen national ownership of aid policies and programmes.
- Strengthen public financial management and procurement systems.

Actions by **development partners:**

- Take concrete actions to meet commitments made on doubling aid to Africa by 2010 and to ensure that Africa receive at least 50% of the increase in total ODA.
- Take concrete actions to reduce aid volatility by increasing transparency and providing more information on future aid flows.
- Give recipient countries more space to take effective leadership of their development strategies through reduction in policy-based conditionality and more focus on harmonized results-based conditionality.
- Support efforts to increase the capacity of all local stakeholders to take an active role on national development.

V. External Debt Relief

44. Addressing Africa's debt problem has been a major challenge for policymakers in the region as well as development partners. The Heavily Indebted Poor Countries (HIPC) initiative of 1996, the enhanced HIPC initiative of 1999 and the Multilateral Debt Relief Initiative (MDRI) of 2005 are key attempts by development partners to deal with this problem stifling growth in African economies. Further debt relief has been provided through the MDRI to accelerate progress towards the MDGs. The MDRI was proposed in June 2005 by the G-8 and was implemented in 2006 by the IMF, IDA, and the African Development Fund (AfDF). Under the MDRI, 100% of these institutions' eligible debt claims on countries that reach the completion point under the HIPC Initiative are cancelled.[6] The objective was to provide substantial additional debt relief to free up resources to help HIPCs reach the MDGs.

45. Substantial progress has been made in the implementation of the HIPC Initiative. More than 87% of eligible countries (29 out of 33)[7] have passed the decision point and qualified for HIPC Initiative assistance

[6]MDRI debt relief covers debt disbursed before end-2004 (for the IMF, and AfDF) or end-2003 (for IDA) and still outstanding at the time of qualification after HIPC Initiative debt relief.
[7]Globally, the percentage is slightly lower: 33 out of the 41 HIPC eligible countries have reached the completion point.

and qualified for irrevocable debt relief under the HIPC Initiative and MDRI. In the past year, Cote d'Ivoire and Togo have reached the decision point and Burundi and the Central African Republic the completion point. Of the 29 African countries that were eligible for either debt relief or reduction under the HIPC programme in July 2009, 21 have reached the completion point and 8 are between decision and completion points. The other four pre-decision point countries—Comoros, Eritrea, Somalia and Sudan —are either in a conflict or post-conflict situation or lack a clear development strategy. Table 7 presents the status of the 33 African countries that are part of the HIPC programme.

46. Under the Evian approach, development partners have also taken some actions to deal with debt problems of non-HIPC African countries. For example, Nigeria is one of the countries that have benefited from debt relief under this programme. Several OECD countries and the Bretton Woods institutions have provided technical assistance to African countries for government debt issuance and management. To help countries avoid law suits by creditors who do not participate in the HIPC process, the World Bank and other donors have proceeded with buying back commercial debt at a discount, thus clearing the part of the debt which is not covered by the HIPC Initiative. Liberia was the last country to have benefited from commercial debt buyback[8].

47. The problem of litigating creditors filed by commercial creditors and vulture funds against 12 HIPCs, including Liberia, the Republic of Congo, Uganda, and Sierra Leone, has gradually been resolved through efforts on several fronts ranging from moral suasion, debt buybacks and Paris Club creditors not reselling claims in secondary markets. Technical assistance to HIPCs in capacity building in debt management and sound legal expertise to respond to litigators is important as well.

Table 8. List of Heavily Indebted Poor Countries (as of end-September 2009)

21 Post-Completion-Point Countries [1/]		
Benin	Ghana	Rwanda
Burkina Faso	Madagascar	São Tomé and Príncipe
Burundi	Malawi	Senegal
Cameroon	Mali	Sierra Leone
Central African Rep.	Mauritania	Tanzania
Ethiopia	Mozambique	Uganda
Gambia, The	Niger	Zambia
8 Interim Countries [2/]		
Chad	Cote d'Ivoire	Liberia
Congo, Dem. Rep. of the	Guinea	Togo
Congo, Rep. of	Guinea-Bissau	
4 Pre-Decision-Point Countries [3/]		
Comoros	Somalia	
Eritrea	Sudan	

Notes: [1/] Countries that have reached completion points and therefore qualify for irrevocable debt relief under the enhanced HIPC Initiative and have received MDRI relief. [2/] Countries that have qualified for assistance under the enhanced HIPC Initiative (i.e. reached decision point), but have not yet reached completion point. [3/] Countries that are potentially eligible and may wish to avail themselves of the enhanced HIPC Initiative.

[8]Through the IDA Debt Reduction Facility and contributions from bilateral donors of US$38 million, Liberia was able to extinguish 25 commercial debts worth US$1.2 billion owed to foreign commercial creditors. The discount factor was nearly 97% of the original debt face value, the steepest discount ever negotiated on developing country commercial debt.

48. Significant progress has been made in reducing the burden of external debt (Table 9). The ratio of external debt to gross national income (GNI) in Africa decreased from 66% in 2000 to 20.1% in 2008. Total debt service paid rose slightly over the same period from US$11.9 billion in 2000 to US$15.3 billion in 2008 but expressed as a share of export earnings from goods and services, the debt service ratio of sub-Saharan Africa has been sharply reduced from an average of about 17% in 1998–99 to less than 4% in 2008.

Table 9: External Debt Data for Sub-Saharan Africa

	2000	2004	2005	2006	2007	2008
External debt stock (US$ billions)	211.2	237.4	216.4	172.5	195.1	199.7
Debt service (US$ billions)	11.9	10.0	18.8	20.5	15.6	15.3
External debt/GNP (%)	66.0	46.3	36.1	24.7	24.9	20.1
Debt service/exports of goods and services (%)	11.5	5.9	8.5	7.6	5.0	3.9

Source: World Bank Global Development Finance (2010)

49. In spite of the improvement in the debt burden of most African countries, debt sustainability remains an issue in conflict and post-conflict countries -- and in particular, countries which are in HIPC pre-decision point (Comoros, Eritrea, Somalia and Sudan). Long-term debt sustainability remains a challenge in many post-completion-point countries. Despite the significant decline of debt burdens, several post-completion-point HIPCs have a moderate to high risk of debt distress according to the most recent debt sustainability analysis (DSA). In addition to a more systematic use of debt sustainability analysis[9], reducing the vulnerability of debtor countries requires also shared responsibility between debtors and creditors for preventing and resolving unsustainable debt situations and the strengthening of technical assistance for debt management and debt tracking. Larger access to sovereign bond flows and commercial debt have increased the vulnerabilities of several HIPCs. South-South syndicated bank loans have acquired an increasing importance accounting for a rising share of total syndicated bank loans.

What are the key priorities?

Actions by **Africa:**

- To ensure that new borrowings from emerging official and private creditors and from domestic sources do not lead to renewed debt built-up.
- Enhance debt management and sustainability.

Actions by **development partners:**

- Provide more technical assistance to strengthen public debt management capacities in African countries.
- Minimise non-concessional lending.

[9] With the need to provide large additional concessional funding by the international financial institutions in the wake of the global crisis, the debt sustainability framework has been made more flexible, allowing countries two double access to IMF resources on a transitory basis.

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Annexes

Table 1: Government Revenue, Excluding Grants (% of GDP)

	Pre-Monterrey 1997-2002	Average 2003-05	2006	2007	2008	2009 (Projections)
SUB-SAHARAN AFRICA						
Oil-exporting countries	23.3	24.2	27.6	25.0	28.5	19.5
Oil-exporting countries, excluding Nigeria	26.6	28.1	37.2	37.7	41.5	31.3
Angola	42.4	38.4	46.4	46.7	50.5	38.0
Cameroon	14.6	16.3	19.3	19.1	20.0	17.6
Chad	7.8	8.6	16.9	22.8	26.3	10.9
Congo. Rep of	26.9	32.8	44.3	42.7	51.3	36.8
Equatorial Guinea	22.6	30.7	40.8	38.3	36.8	29.1
Gabon	32.5	30.5	31.7	29.5	31.9	27.0
Nigeria	20.9	21.6	21.2	16.0	18.5	10.3
Sudan	9.5	19.3	20.5	20.0	21.3	14.7
Middle-income countries	24.3	25.1	27.2	27.6	26.9	25.7
MICs, excluding South Africa	30.7	30.9	33.4	32.9	30.4	29.9
Botswana	39.2	38.2	39.2	36.7	32.0	33.8
Cape Verde	20.9	22.7	23.8	24.0	25.0	23.8
Lesotho	46.7	47.5	57.6	63.5	62.0	61.2
Mauritius	19.4	19.9	19.9	19.1	21.0	21.5
Namibia	30.5	26.7	29.4	31.5	29.0	27.1
Seychelles	35.1	40.9	42.0	35.9	36.1	38.5
South Africa	23.5	24.3	26.4	26.9	26.4	25.1
Swaziland	25.6	30.1	40.1	39.8	39.5	35.3
Low-income countries	14.6	16.0	16.8	17.6	17.3	16.6
Benin	15.2	16.6	16.8	20.6	19.3	19.5
Burkina Faso	12.1	12.6	13.0	13.6	13.4	13.0
Ethiopia	15.1	15.6	14.8	12.7	12.1	11.7
Ghana	15.4	21.5	21.9	22.7	22.8	23.9
Kenya	20.2	20.8	21.1	22.1	22.7	22.3
Madagascar	10.2	11.1	11.2	11.7	11.7	11.1
Malawi	16.3	17.3	17.5	18.7	20.0	20.3
Mali	13.9	17.1	17.3	16.6	15.5	16.8
Mauritania	22.3	28.3	29.5	25.6	25.3	25.3
Mozambique	11.1	13.5	15.0	15.9	16.0	15.7
Niger	9.7	10.8	13.0	15.2	18.4	13.0
Rwanda	11.1	13.1	13.1	13.6	15.6	13.1
Senegal	16.3	17.5	18.8	20.7	19.1	18.4
Tanzania	11.3	12.7	15.3	17.4	17.1	17.8
Uganda	11.2	11.5	12.5	12.6	13.0	12.6
Zambia	18.8	18.0	16.9	18.7	18.6	15.6
Fragile countries	13.6	14.5	16.1	16.9	17.7	17.7
Including Zimbabwe	..	..	15.9	16.0	16.9	18.3
Burundi	17.7	20.4	18.9	18.6	18.6	18.0
Central African Republic	9.4	8.2	9.5	10.3	10.4	10.8
Comoros	14.3	15.7	13.6	12.7	13.1	13.8
Congo, Dem. Rep of	5.8	9.5	12.8	14.7	18.4	17.8
Côte d'Ivoire	17.7	17.1	18.4	19.6	18.4	19.0
Eritrea	28.9	27.3	23.0	21.8	20.4	20.7
Gambia, The	17.9	18.7	21.2	21.4	19.4	19.4
Guinea	11.3	12.3	14.4	14.3	15.6	14.8
Guinea-Bissau	14.1	16.1	19.0	14.6	16.8	14.1
Liberia	13.8	13.6	18.6	23.4	24.1	26.5
Sao Tome and Principe	16.7	32.2	20.9	40.1	17.7	17.9

Sierra Leone	9.4	12.2	11.8	10.8	11.4	11.1
Togo	13.7	16.5	16.9	17.0	17.1	19.4
Zimbabwe	..	..	13.9	5.6	4.2	27.3
Sub-Saharan Africa	20.5	22.2	24.5	23.9	24.9	20.7
Excluding Nigeria and South Africa	17.7	20.7	24.5	25.0	26.6	21.6
Oil-importing Countries	20.3	21.6	23.3	23.7	22.8	21.8
Excluding South Africa	16.7	18.2	19.3	19.7	19.2	18.5
Resource-intensive countries	23.0	23.5	26.4	24.6	27.3	19.7
Oil	21.8	23.7	26.8	24.5	27.7	19.0
Non-oil	22.7	23.1	23.9	24.1	22.38	21.5
NORTH AFRICA	31.4	36.7	39.1	37.2	41.0	36.7
Algeria	33.1	38.0	43.0	39.6	47.0	36.7
Egypt	27.4	24.8	28.2	27.2	27.6	26.6
Libya	40.9	62.4	62.4	60.8	64.0	65.8
Tunisia	24.1	29.7	23.4	23.8	26.2	23.8

Note: The figures for Sub-Saharan Africa have been adjusted to take into account Mauritania and Sudan which are classified as non-SSA countries in IMF reports.

Source: IMF Regional Economic Outlook Series: Sub-Saharan Africa, (October 2009) and Middle East and Central Asia (May 2009).

Table 2: OECD-DAC Secretariat Simulation of DAC members' net ODA volumes in 2008 and 2010– In Constant 2008 US$ Million

The data below are not forecasts, but Secretariat projections based on reported intentions or current 2010 budget plans made by member countries of the OECD's Development Assistance Committee (DAC). These have been confirmed by the 2009 DAC Survey on donors' forward spending plans. The key figures from such announcements are shown as "Assumptions". To calculate net ODA and ODA/GNI ratios requires projections for GNI for 2010. For 2009 and 2010, the projections of real growth are taken from the *OECD Economic Outlook No. 85* (June 2009) Annex Table 1 or reflect more recent GNI estimates provided by members themselves. While calculations have been discussed at technical level with national authorities, the DAC Secretariat is responsible for the methodology and the final published results.

	2008		Assumptions (ODA/GNI ratios)	2010			
						Real change in ODA compared with 2008	
Country	Net ODA (2008 USDm)	ODA/GNI		Net ODA (2008 USDm)	ODA/GNI	(2008 USDm)	Per cent
Austria [1]	1 714	0.43%	0.37% in 2010	1 487	0.37%	- 226	-13%
Belgium	2 386	0.48%	0.7% in 2010	3 331	0.70%	946	40%
Denmark [2]	2 803	0.82%	0.83% in 2010	2 945	0.83%	142	5%
Finland	1 166	0.44%	0.55% in 2010	1 393	0.55%	227	19%
France [3]	10 908	0.39%	0.46% in 2010	12 667	0.46%	1 759	16%
Germany [4]	13 981	0.38%	0.4% in 2010	13 741	0.40%	- 240	-2%
Greece [5]	703	0.21%	0.21% in 2010	693	0.21%	- 10	-1%
Ireland	1 328	0.59%	0.51% in 2010 and 0.7% in 2012	1 020	0.51%	- 308	-23%
Italy [6]	4 861	0.22%	0.19% in 2010	4 029	0.19%	- 832	-17%
Luxembourg	415	0.97%	1% in 2009 and following years	410	1.00%	- 5	-1%
Netherlands	6 993	0.80%	Minimum 0.8%	6 652	0.80%	- 341	-5%
Portugal	620	0.27%	0.34% in 2010	742	0.34%	121	20%
Spain	6 867	0.45%	0.51% in 2010 and 0.7% in 2012	7 439	0.51%	572	8%
Sweden [7]	4 732	0.98%	1%	4 706	1.03%	- 26	-1%
United Kingdom [8]	11 500	0.43%	0.56% in 2010-11 and 0.7% in 2013	14 280	0.56%	2 780	24%
DAC EU members, total	**70 974**	**0.43%**		**75 533**	**0.48%**	**4 559**	**6%**
Australia [9]	2 954	0.32%	See footnote 9	3 374	0.36%	420	14%
Canada [10]	4 785	0.32%	See footnote 10	4 835	0.33%	50	1%
Japan [11]	9 579	0.19%	See footnote 11	9 579	0.20%	0	0%
New Zealand [12]	348	0.30%	See footnote 12	380	0.34%	33	9%
Norway	3 963	0.88%	1% over 2006-09	4 494	1.00%	531	13%
Switzerland [13]	2 038	0.42%	See footnote 13	2 195	0.47%	157	8%
United States [14]	26 842	0.19%	See footnote 14	27 647	0.20%	805	3%
DAC members, total	**121 483**	**0.31%**		**128 038**	**0.34%**	**6 554**	**5%**

[1] In its programme of December 2008, the Austrian Government reiterates the commitment to meet the 0.51% target at a later stage. The figures shown are taken from the current Three-Year-Programme on Austrian Development Policy.

[2] Over the coming years, the Danish government will strive to increase ODA as a percent of GNI from the current level of 0.8%.

[3] According to the assumptions in the draft finance bill for 2010, France expects the ODA/GNI ratio in 2010 will be between 0.44%-0.48% (based on an estimated 2010 GNI of 1 958 billion Euros). The actual amount will depend on the timetable of debt forgiveness for countries reaching the decision point under the HIPC Initiative. Based on France's official forecast, the Secretariat estimates an ODA/GNI ratio of 0.46% in 2010.

[4] The ODA/GNI ratio of 0.4% in 2010 is purely a Secretariat estimate. Final 2010 aid allocations are yet to be determined.

[5] The ODA/GNI ratio of 0.21% shown for 2010 is purely a Secretariat estimate. Accurate figures regarding the ODA budget for 2010 are not yet available since the Government Budget is annually discussed and approved in Parliament in late December.

[6] The figures are estimated on the basis of the current legislation. The Budget Law for 2010-2012 could be amended until its final approval. Other measures to increase ODA could be taken also in the context of the study on Italian gradual realignment, currently under way. Italy's current draft budget plans estimate an ODA volume of 2.79 billion Euros in 2010, representing an ODA/GNI ratio of 0.19% according to the Secretariat's GNI projections.

[7] Sweden's expected net ODA for 2010, based on current budget plans, is USD 4706 million. This represented an ODA/GNI ratio of 1% based on the GNI prognosis available at the time decided upon. The Secretariat estimates an ODA/GNI ratio of 1.03% in 2010 based on current GNI projections.

[8] This Secretariat simulation of 2010 ODA applies its previous estimate of the ODA/GNI ratio in 2010 (0.56%) to its current projections of UK GNI in 2010, expressed at 2008 prices and exchange rates.

[9] Australia expects to continue increasing its ODA. Australia has announced it intends to reach an ODA/GNI target of 0.5% by 2015-16 and in 2009 the Australian Government announced interim targets of 0.34% in 2009-10, 0.35% in 2010-11, 0.37% in 2011-12 and 0.40% in 2012-13. The figure here is discounted for inflation and represents an ODA/GNI ratio of 0.36% according to the Secretariat's GNI projections.

[10] Canada intends to double its 2001 International Assistance Envelope (IAE) level by 2010 in nominal terms. The Canadian authorities estimate ODA (composed in large part from the IAE) will be 5.1 billion Canadian dollars in 2010. The ODA figure shown here is adjusted for inflation and converted to USD at the 2008 exchange rate.

[11] Japan intends to increase its ODA by USD 10 billion in aggregate over the five years 2005-2009 compared to 2004. However, Japan is not currently in a position to estimate its 2009 or 2010 ODA. The Secretariat has estimated the 2010 figure as the same as the 2008 level. No adjustment is made for inflation.

[12] New Zealand has announced an intermediate target of NZD 600 million for 2012-13. The Secretariat estimates an ODA/GNI ratio of 0.34% in 2010.

[13] The Swiss Parliament proposed to the Government in December 2008 to increase ODA to 0.5% of GNI by 2015. The provision of additional resources to meet this objective still has to be examined. Based on the actual financial plan and the most recent economic prospective data, the ODA/GNI ratio of 0.47% will be reached in 2010.

[14] The United States does not issue or approve forecasts on projected ODA. The amount shown here is purely a Secretariat estimate. It is based on 2004 ODA plus USD 5 billion nominal per annum to cover the Gleneagles G8 commitments on increased aid to sub-Saharan Africa, Millennium Challenge Account, and initiatives on HIV/AIDS, malaria and humanitarian aid.

Table 3: DAC Countries' total net ODA to Africa: 2004 and 2008

	Total net ODA			Net ODA to Africa [1]							
				Total			Excluding net bilateral debt relief			Total net ODA to Africa	
	Current USD million		Percentage change in real terms [2]	Current USD million		Percentage change in real terms [2]	Current USD million		Percentage change in real terms [2]	Percent of total ODA	
	2004	**2008**		**2004**	**2008**		**2004**	**2008**		**2004**	**2008**
Austria	678	1 714	100.3	282	366	2.7	196	318	29.0	41.7	21.4
Belgium	1 463	2 386	28.2	781	1 099	10.7	574	1099	50.5	53.4	46.1
Denmark	2 037	2 803	7.4	794	1 328	30.4	775	1241	25.0	39.0	47.4
Finland	680	1 166	36.9	206	475	84.4	206	472	83.5	30.2	40.7
France	8 473	10 908	1.2	4 867	5 498	- 11.2	3151	4790	19.5	57.4	50.4
Germany	7 534	13 981	52.6	2 987	4 997	37.6	2710	4247	28.9	39.6	35.7
Greece	321	703	66.1	88	191	64.1	88	191	64.1	27.5	27.1
Ireland	607	1 328	77.1	349	778	80.5	349	778	80.5	57.5	58.6
Italy	2 462	4 861	54.1	1 015	1 712	31.6	898	1652	43.6	41.3	35.2
Luxembourg	236	415	34.4	101	190	44.2	101	190	44.2	42.7	45.8
Netherlands	4 204	6 993	33.1	1 768	2 291	3.7	1669	2258	8.3	42.0	32.8
Portugal	1 031	620	- 53.3	873	359	- 68.1	170	359	63.8	84.7	57.9
Spain	2 437	6 867	109.7	607	2 083	155.5	646	2060	137.2	24.9	30.3
Sweden	2 722	4 732	44.6	856	1 767	71.7	836	1767	75.9	31.5	37.3
United Kingdom	7 905	11 500	32.2	3 447	4 550	19.9	2721	4533	51.4	43.6	39.6
EU-countries	42 789	70 974	34.9	19 022	27 682	18.4	15089	25954	40.3	44.5	39.0
Australia	1 460	2 954	50.9	109	193	32.5	102	186	35.9	7.4	6.5
Canada	2 599	4 785	34.9	781	2 003	87.9	708	2003	107.1	30.0	41.9
Japan	8 922	9 579	7.0	1 648	2 624	58.7	1443	2624	81.2	18.5	27.4
New Zealand	212	348	39.5	23	34	27.3	23	34	27.3	10.8	9.9
Norway	2 199	3 963	20.1	841	1 489	18.0	841	1472	16.7	38.2	37.6
Switzerland	1 545	2 038	9.3	398	511	6.5	390	500	6.2	25.7	25.1
United States	19 705	26 842	21.7	5 168	8 580	48.4	5063	8381	47.9	26.2	32.0
Total DAC	79 432	121 483	28.6	27 988	43 117	27.6	23659	41155	44.5	35.2	35.5

1. Including imputed multilateral flow s, ie. making allow ance for contributions through multilateral organisations,
calculated using the geographical distribution of multilateral disbursements for the year of reference.

2. Real terms comparisons have been made on the basis of constant prices and exchange rates, w hich take into account both inflation and exchange rate movements.
See http://w w w .oecd.org/document/6/0,3343,en_2649_34447_41007110_1_1_1_1,00.html for further details on the calculation of flow s in real terms.

Note: Total net ODA to Africa for all donors combined w as USD 29.7 billion in 2004 and USD 44 billion in 2008.