

AFRICAN DEVELOPMENT REPORT 2006

AID, DEBT RELIEF AND DEVELOPMENT IN AFRICA

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FOREWORD

The African Development Report this year focuses on the theme of Aid, Debt and Development in Africa. The Report takes an in depth view of issues and looks at the implications for economic growth, poverty reduction, macroeconomic management and governance in Africa. These are not new issues, but they are made topical by the prospects of aid “scaling up” following commitments made during the “Year of Africa 2005”.

By augmenting resources for public investment and priority expenditures, aid and debt relief bridges temporarily for the savings; and, provided conditions are in place, it not only contributes directly to poverty reduction and the achievement of the Millennium Development Goals (MDGs), but also, if well-targeted, private investment is also stimulated thereby laying a basis of reduced aid dependence in the longer term.

We are learning more everyday about how large aid inflows can be absorbed without compromising macroeconomic stability. We know that long term predictability and presence of a strong macroeconomic environment to some degree addresses this issue.

Concern has been expressed that despite the renewed commitments, debt relief may not be followed by additional aid flows. Political and fiscal constraints in donor countries, make it increasingly difficult to raise official development assistance (ODA) at least to the critical

mass required for the MDGs. I am convinced the international community can mobilize energies to overcome these constraints. I welcome nonetheless the Report’s attempt to review alternative development financing instruments such as remittances, carbon taxes, the international finance facility, air-ticket levies, global lottery, etc. and assess their potential, taking into account the global trends. Already, in a number of our countries, remittances are beginning to bypass foreign aid and export earnings.

While volume of aid is important, so is its quality. I very much welcome the emphasis in the Report on the importance of implementing the Paris Declaration on Aid Effectiveness underpinned by the principles of ownership, predictability, long term commitments and strengthening the capacity of recipients thereby reducing the transaction costs and boosting capacity of absorption.

In some African countries, external aid now accounts for more than a third of the development budgets, hence the concern about the issue of aid over dependency. While for many countries this level of dependence on external aid may be a fact for the foreseeable future, efforts must be made to step up mobilization of domestic resources as well as accelerating and diversifying exports to provide greater access to foreign exchange earnings, thereby providing increased autonomy and less

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reliance on the outside world. It is evident of course that countries, recipients of aid, are diverse in terms of challenges they face. For instance external aid is definitely vital to kick-start and stabilize economies of countries emerging from conflicts.

Over the past decades, the African Development Bank Group has stepped up its role aiming at becoming the premier development financing institution in Africa. By the end of 2005, the Bank Group cumulatively approved over 3,000 loans and grants worth over \$55 billion, forty percent of which commitments were financed on concessional terms.

The Bank Group has participated in the enhanced HIPC Initiative and the Multilateral Debt Relief Initiative (MDRI). At end 2005, 24 of the 33 African countries classified as HIPCs were benefiting from such debt relief. Out of a total of US\$ 2.3 billion mobilized to finance interim and completion point under enhanced HIPC, a total of US\$ 1.7 billion had been delivered. In 2006, the Bank Group approved its participation in the MDRI, of which the total cost is estimated at about US\$ 8.5 billion in nominal terms.

But, as we all know, aid and debt relief should only be temporary palliatives. Trade and investment are the keys. I sincerely hope, the impasse in the Doha round can be broken. Doha was, and remains, an historic opportunity to generate prosperity for all and deliver where past multilateral agreements have not done so. Trade is the long term key to Africa's graduation from aid. We are aware that Africa's plight is in part, the result of low trading capacity, high internal barriers and a poor business

climate. We, and other partners, are working with our member countries to address the issue of better infrastructure, promoting good governance and sound institutions. But, it remains that, lowering international barriers and subsidies is critical for Africa. We are convinced that a win-win outcome is feasible and can only come from a multilateral agreement, not the asymmetric bilateral arrangements.

The Bank is taking steps to increase the quality of its operations and enhance its effectiveness. This is underpinned by four basic principles; country focus and ownership; greater selectivity; strategic partnership with other development partners and scaling up the knowledge area to provide its members with alternative perspectives in terms of how best to overcome the challenges they face. In this regard, the Bank aims to provide leadership in support of NEPAD, the African Water Initiatives, the Infrastructure Consortium for Africa as well as promotion of good governance and investment climate.

The momentum generated by past reforms in our countries, combined with increased international focus on the development challenges facing Africa, has created new opportunities for the Bank to play an expanded role. It is a role we are repositioning to play. I commend this Report.



Donald Kaberuka
President
African Development Bank

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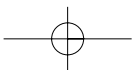
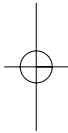
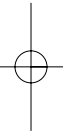
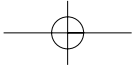
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ABBREVIATIONS

AAPAM	African Association for Public Administration and Management
ADB	African Development Bank
ADF	African Development Fund
AERC	African Economic Research Consortium
APRM	African Peer Review Mechanism
ATM	Automatic Teller Machine
CDF	Comprehensive Development Framework
CMI	Crisis Management Initiative
CPA	Country Performance Assessment
CPIA	Country Policy and Institutional Assessment
CSP	Country Strategy Paper
CTT	Currency Transaction Tax
DAC	Development Assistance Committee
DBSLs	Development Budget Support Loans
DFID	Department For International Development
DSAs	Debt Sustainability Analyses
DSF	Debt Sustainability Framework
EDA	Effective Development Assistance
ESW	Economic and Sector Work
EU	European Union
FDI	Foreign Direct Investment
FX	Foreign Exchange
G8	Group of 8 countries
GDP	Gross Domestic Product
GMM	Generalized Method of Moments
HAMfR	Harmonization, Alignment and Managing for Results
HIPC	Heavily Indebted Poor Countries
HPI	Human Poverty Index
ICOR	Incremental Capital-Output Ratio
ICT	Information & Communications Technologies
IDA	International Development Association
IDS	International Development Statistics
IEO	International Evaluation Office
IFF	International Finance Facility
IFIs	International Financial Institutions
IMF	International Monetary Fund
MCA	Millennium Challenge Account

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MDB	Multilateral Development Bank
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MENA	Middle East and North Africa
MTEF	Medium Term Expenditure Framework
MTOs	Money Transfer Organisations
NEPAD	New Economic Partnership for Africa's Development
NGOs	Non Governmental Organisations
NTF	Nigeria Trust Fund
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAF	Poverty Action Fund
PCCF	Post-Conflict Country Facility
PIUs	Project Implementations Units
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
RAS	Regional Assistance Strategies
RBCSPs	Result-Based Country Strategy Papers
RBM	Results-Based Management
RMCs	Regional Member Countries of the ADB
SAP	Structural Adjustment Plan
SDR	Special Drawing Rights
SIDA	Swedish International Development Agency
SIPs	Sector investment programs
SSA	Sub-Saharan African
SWAPs	Sector-Wide Approaches
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Program
US	United States of America
USAID	United States Agency for International Development
VAT	Value Added Tax
WIDER	World Institute for Development Economics
WTO	World Trade Organisation

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