WP/03/69

IMF Working Paper

The New Partnership for Africa's Development (NEPAD): Opportunities and Challenges

Norbert Funke and Saleh M. Nsouli

INTERNATIONAL MONETARY FUND

WP/03/69

IMF Working Paper

IMF Institute

The New Partnership for Africa's Development (NEPAD): Opportunities and Challenges

Prepared by Norbert Funke and Saleh M. Nsouli[1]

April 2003

Abstract

This paper reviews major issues involved in achieving the objectives of the New Partnership for Africa's Development (NEPAD). Using a simple framework for evaluation, the analysis highlights considerations relevant to policymakers in the areas of poverty reduction, macroeconomic policies, trade promotion, attracting capital flows, and governance and institutional reforms. The analysis also identifies risks involved in achieving NEPAD's objectives. To minimize these risks, it will be important to make some goals more operational, to further broaden and deepen stakeholder participation, to establish a sound basis for monitoring progress, to prepare contingency plans, and to harmonize the role of regional institutions with NEPAD initiatives.

JEL Classification Numbers: O10, O55

Keywords: NEPAD, Africa, Integration

Authors' E-Mail Addresses: nfunke@imf.org; snsouli@imf.org

[1] We thank Masood Ahmed, Abdoulaye Bio-Tchané, Evangelos A. Calamitsis, Roland Daumont, Andrew Feltenstein, Joshua Greene, Samir Jahjah, Naheed Kirmani, Françoise Le Gall, Damian Ondo Mañe, and Ismaila Usman for suggestions on an earlier draft. We are also grateful to the participants at the Joint Africa Institute's High-Level Seminar on the NEPAD, held in Dakar, Senegal on December 9-11, 2002 at which this paper was presented.

Contents Page

I. INTRODUCTION

The New Partnership for Africa's Development (NEPAD), which was adopted in 2001, is a pledge by African leaders to eliminate poverty and to achieve a sustainable path of growth and development on the continent (Box 1). Though previous continent-wide initiatives have not led to the desired results, there is hope that this time the outcome will be different. This expectation is based on NEPAD's new building blocks, which are critical for successful reform. New is the extent of African ownership and leadership of the development agenda, which is anchored on the recognition that African countries have the primary responsibility for improving economic and social conditions in the continent. Also new is the wide acceptance of the proposition that good governance plays a key role in fostering growth and reducing poverty. Another new element is the extent of international appreciation and support for this initiative.

To achieve its objectives, the NEPAD stresses four core elements:

- It acknowledges that peace, security, democracy, and good governance are preconditions for investment and growth, and the reduction of poverty;
- It aims at promoting private sector development and regional and global economic integration;
- It builds on action plans to develop the key pro-poor sectors of health care, education, infrastructure, and agriculture; and
- It underscores the importance of more productive partnerships between Africa and its bilateral, multilateral, and private sector development partners.

The objective of this paper is to review the major issues involved in achieving the objectives of the NEPAD, with a focus on those aspects that fall into the core mandate of the International Monetary Fund (IMF). Section II provides the backdrop on the NEPAD initiative by reviewing Africa's performance during the last decade. Section III provides an analysis of the NEPAD. It evaluates the overall plan, looks at crucial factors for accelerating growth and reducing poverty, and assesses key NEPAD initiatives to achieve these goals, notably the consolidation of macroeconomic stability, the promotion of trade, the attraction of capital flows, and the reform of institutions. Section IV discusses implementation issues and challenges, and assesses the opportunities and the risks confronting the NEPAD. Section V discusses the steps African countries need to take to achieve the objectives. Section VI reviews how the international community can support the NEPAD. The last section attempts to draw some broad policy conclusions.

Box 1. The NEPAD: Origins, Objectives, and Structure

The New Partnership for Africa's Development (NEPAD) is "a pledge by African leaders, based on a common vision and a firm shared conviction, that they have a pressing duty to eradicate poverty and to place their countries, both individually and collectively, on a path of sustainable growth and development, and at the same time to participate actively in the world economy and body politic" (NEPAD, 2001). According to this opening statement, the three main interrelated long-term objectives of the NEPAD are eradicating poverty, accelerating growth, and stopping the marginalization of Africa in the globalization process.

The NEPAD resulted ultimately from a merger of the Millennium Partnership for the African Recovery Programme (MAP) and the OMEGA Plan. The MAP was a far-reaching plan that embraced many aspects of development, including conflict resolution, governance, investment, aid, and debt. The plan was initiated by Presidents Abdelaziz Bouteflika, Thabo Mbeki, and Olusegun Obasanjo. The Omega Plan, put forward by President Abdoulaye Wade, focused on four priority sectors — agriculture, education, health, and infrastructure. The finalization of the merger between the MAP and the OMEGA Plan led to the New African Initiative (NAI), which was approved by the Organization of African Unity (OAU) Summit of Heads of State and Government and endorsed by the leaders of the Group of Eight (G-8) countries in July 2001. The Heads of State Implementation Committee (HSIC) finalized the policy framework in October 2001 and the NAI was renamed the NEPAD.

The NEPAD is based on a number of principles, most importantly on African ownership and leadership, broad participation by all sectors of society, domestic and international partnerships, and, more generally, on a commitment to the Millennium Development Goals (MDGs). These goals include the following: to reduce the proportion of people living in extreme poverty (or on less than US$1 a day) by half between 1990 and 2015; to enroll all children of school age in primary schools by 2015; to move toward gender equality and remove gender disparities in elementary and secondary enrollment by 2005; to reduce infant and child mortality ratios by two-thirds between 1990 and 2015; to reduce maternal mortality ratios by three-quarters between 1990 and 2015, to provide access for all who need reproductive health services by 2015; and to implement national strategies for sustainable development by 2005 compatible with the preservation – by 2015 – of the ecosystem and ecological resources. To help achieve these goals, the NEPAD calls for attaining and sustaining an average growth of real GDP of above 7 percent a year for the next 15 years.

To translate the goals of the NEPAD into action, Section V of the October 2001 NEPAD document, entitled "Program of action: The strategy for achieving sustainable development in the 21st century," is central. The program of action is divided into three parts: it (a) discusses the conditions for sustainable development; (b) identifies sectoral priorities; and (c) looks at the mobilization of resources. In each of these three parts, major initiatives are laid out. Major initiatives under (a) are on peace, security, democracy, and political governance, and economic and corporate governance; under (b) on bridging the infrastructure gap, human resource development, agriculture, and environment; and under (c) on capital flows and market access.

The highest authority of the NEPAD implementation process is the Heads of State and Government Summit of the recently launched African Union (AU), formerly known as the Organization of African Unity (OAU). Below this is the Heads of State and Government Implementation Committee (HSIC), which is composed of 20 members, with 4 members from each of the 5 African subregions. The HSIC reports to the AU Summit on an annual basis. The personal representatives of the NEPAD Heads of State and Government of the five initiating members—South Africa, Algeria, Nigeria, Egypt, and Senegal—form the Steering Committee. The coordinating and liaison arm of the NEPAD Steering Committee is the Secretariat of the NEPAD, which is based in South Africa. Following instructions of the Steering Committee, the Secretariat is in charge of coordinating projects and processes that have been identified by the HSIC as being of priority. The NEPAD Secretariat is an interim arrangement, pending the eventual full integration of the NEPAD into the African Union's structures and processes.

Sources: NEPAD (2001), NEPAD (2002a–e), AU (2002), and *www.nepad.org*.

II. The Setting: Africa's Performance During the Last Decade

A. Macroeconomic Performance

Although there have been positive signs of recent progress, Africa's overall economic performance has been disappointing. Since the early 1980s, real GDP growth has averaged only 2.5 percent a year, and real per capita GDP has remained virtually unchanged (Figure 1 and Table 1).[2] Thus, extreme poverty is still widespread, particularly in sub-Saharan Africa. Based on the World Bank Atlas method, which uses three-year averages of exchange rates, in 2000 GNP per capita amounted to only $470 in sub-Saharan Africa, compared with an average of almost $27,700 in high-income countries (World Bank, 2002a).

Weak domestic policies have contributed to this lackluster performance, though factors that are beyond the control of African countries, such as negative terms of trade shocks, have also affected performance (see also Easterly and Levine, 1998). During the 1980s and the first half of the 1990s, macroeconomic policies in Africa were often unsatisfactory, institutions deteriorated, and governance was weak. In addition, a number of countries faced periods of adverse external conditions or had to cope with internal conflicts. Improved macroeconomic management, market liberalization, and progress in private sector development improved growth appreciably in the mid 1990s. However, this short period of higher growth rates was soon followed by a moderating in economic performance.

The average performance hides important differences across countries. This becomes evident when the experience of the best-performing African countries is compared with that of weak performing countries. For illustrative purposes, we refer to the top five growth performers between 1990 and 2001 as "high-growth countries." This group comprises Botswana, Mauritius, Mozambique, Uganda, and Tunisia.[3] The bottom five growth performers, referred to as "low-growth countries," comprise the Democratic Republic of Congo, Djibouti, Sierra Leone, Zambia, and Zimbabwe.[4]

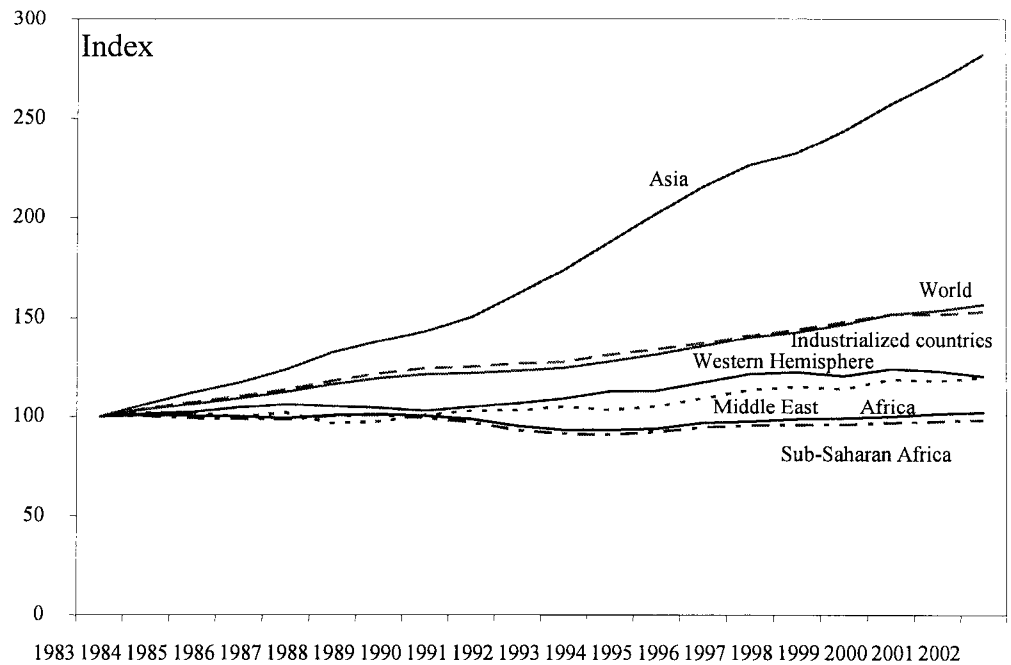
---

[2] See, for example, Berthélemy and Söderling, 2002.

[3] Equatorial Guinea is not included in the group of high-growth countries because temporary double-digit growth rates reflected mostly special factors, notably a spectacular oil-induced growth.

[4] Qualitatively similar results emerge when the groups of high-growth countries and low-growth countries are enlarged, for example to include the top quintile and the bottom quintile of the distribution (see, for example, IMF, 1999).

Figure 1. Real GDP Per Capita Across Regions
(1983=100)



Source: IMF, *World Economic Outlook.*

Table 1. Real GDP Growth Trends Across Regions

	Real GDP Growth (In percent)			Growth of Real GDP Per capita (In percent)		
	1980s[1/]	1990s	2000-2002[2/]	1980s[1/]	1990s	2000-2002[2/]
Africa	2.6	2.2	3.3	0.1	-0.2	0.6
Sub-Saharan Africa	2.5	2.1	3.2	0.1	-0.5	0.4
Sub-Sahara excl. Nigeria & South Africa	2.7	2.3	4.2	0.0	-0.4	1.3
Asia	6.9	7.4	5.8	5.5	5.8	4.8
Middle East	2.2	3.8	2.6	-0.4	1.6	0.3
Western Hemisphere	2.1	3.0	0.0	0.7	1.4	-1.5
World	3.4	3.1	2.5	3.0	2.1	1.6

Source: IMF, *World Economic Outlook.*

1/ 1983–89.

2/ 2002 projected growth.

Figure 2 shows the development of selected macroeconomic indicators for Africa, for high-growth countries, and for low-growth countries. For high-growth countries and low-growth countries the unweighted averages are used. Without drawing any direct causality, the following observations can be made:

- Low-growth countries had substantial domestic financial disequilibria (high inflation, high budget deficits) and external financial disequilibria (large current account deficits), as well as low savings and investment rates.
- By contrast, high-growth countries had lower average inflation, lower budget deficits, lower external current account deficits, and higher savings and investment rates. In high-growth countries, the investment ratios reached some 25–30 percent of GDP, while in low-growth countries the ratios were on the order of 10–15 percent of GDP.
- High-growth countries tended to be substantially more open than low-growth countries and the average African country.

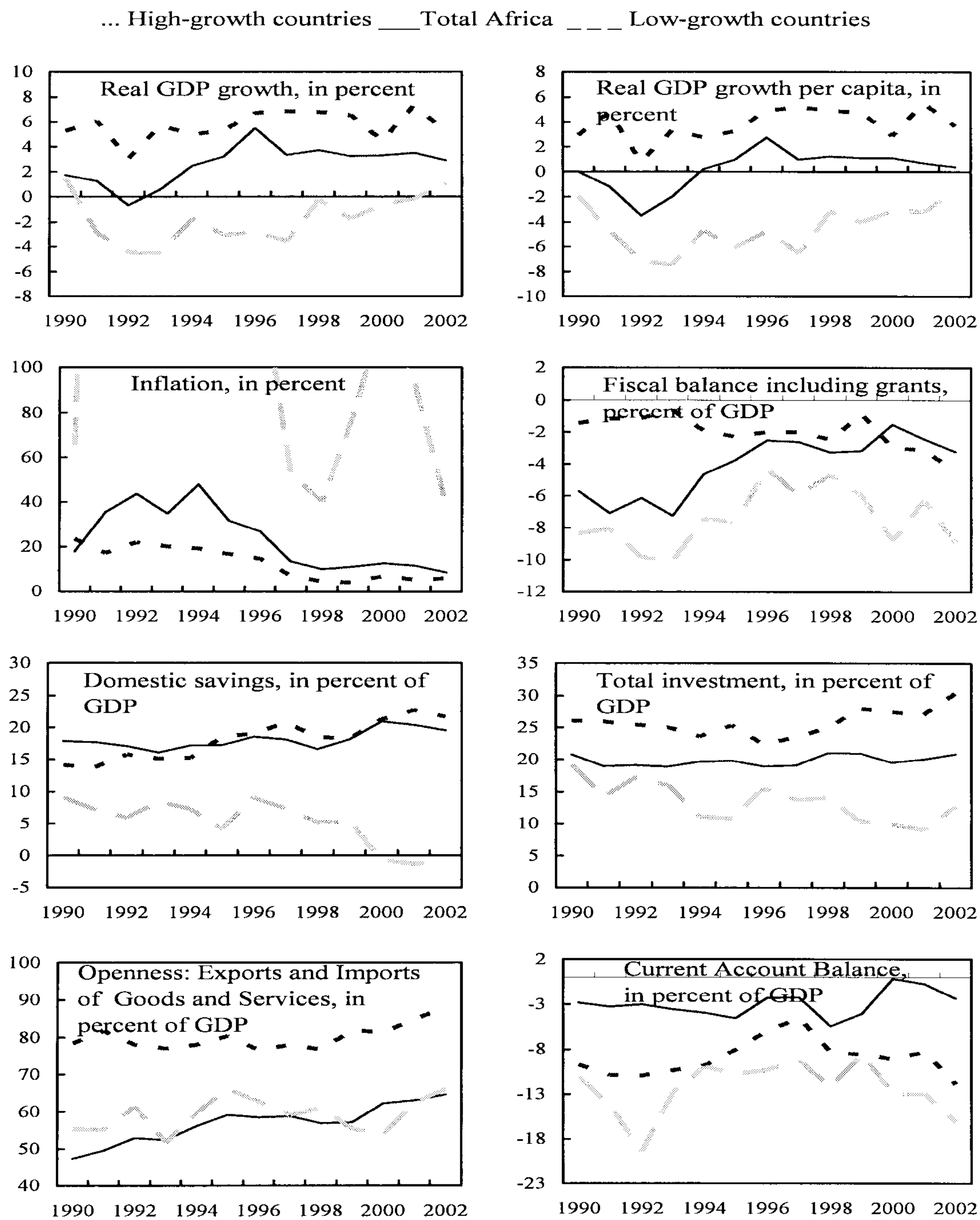
This analysis suggests that macroeconomic policy weaknesses are indeed an important contributor to weak growth performance in Africa.

Reflecting the inadequate growth performance, social conditions in Africa remain among the poorest in the world. In particular, in sub-Saharan Africa, almost half of the population still lives on less than US$1 a day. Moreover, although some progress has been made since the early 1970s, sub-Saharan Africa lags behind most other regions in terms of literacy rates, school enrollment, and health conditions (Table 2). Much more worrisome, HIV/AIDS has assumed alarming proportions in many African countries, posing a major threat to economic growth and development.

B. Structural Indicators

Africa made major strides in implementing structural reforms during the late 1980s and 1990s, with many countries moving from heavily controlled and state-dominated economies to market-oriented economies. In general, price controls have been removed; state control of marketing arrangements liberalized; quantitative trade restrictions nearly abolished; public enterprise reform and privatization pursued widely; exchange restrictions on external current account transactions virtually eliminated; and labor markets reformed. Yet, in spite of the broad progress made, a number of African countries need to continue and deepen their structural reforms.

Figure 2. Africa: Economic Developments, 1990–2002[1]



1/ 2002 forecasts. Openess for low growth-countries excludes Djibouti.
Source: IMF.

Table 2. Selected Social Indicators of Low- and Middle-Income Countries

	Population Living on less than $1 a Day (percent)		HIV Prevalence (percent of adults ages 1549)	Adult Illiteracy Rate (percent)		Life Expectancy at Birth (years)		Infant Mortality Rate (per 1,000)		Primary School Enrollment		Secondary School Enrollment	
	1990	1998 1/	1999	1970	2000	1970	2000	1970	2000	1970	1998	1970	1998
East Asia and Pacific	27.6	14.7	0.22	44	14	59	69	79	35	90	107	24	62
Eastern Europe and Central Asia	1.6	3.7	0.18	7	3	n.a.	69	n.a.	20	n.a.	n.a.	n.a.	n.a.
Latin America and Caribbean	16.8	12.1	0.58	26	12	61	70	84	29	107	130	28	75
Middle East and North Africa	2.4	2.1	0.03	70	35	52	68	134	43	70	97	24	60
South Asia	44.0	40.0	0.56	68	45	49	62	138	73	71	101	23	48
Sub-Saharan Africa	47.7	48.1	8.38	72	39	44	47	138	91	51	78	6	26 2/
All regions/world	29.0	23.4	1.19	n.a.	25	59	66	98	54	85	104	34	65

Source: World Bank.
1/ Estimates.
2/ 1996.

While a number of structural bottlenecks have been eased, the quality of governance, institutions, and public services has also emerged as a critical factor affecting growth. Table 3 provides several indicators of governance and institutions across regions. Government stability, democratic accountability, and ethnic tensions give some indication of a government's ability to carry out reform programs. Bureaucratic quality, law and order, and the degree of corruption are three indicators that capture the quality and strength of institutions. The investment profile includes factors such as risks to operations, taxation, and repatriation.

African countries have still not reached the levels of other regions in terms of governance and quality of institutions, although more countries in Africa espouse democracy and have fair elections than ever before, and many countries have improved governance. Table 3 shows that the fastest growing African countries are better governed and have a better institutional environment than the average for the region. Still, they have not yet achieved the same levels as the newly industrialized economies in Asia. Conversely, the low-growth African countries have lower indicators generally than the averages for Africa and substantially lower than the indicators for high-growth countries. These findings are consistent with a survey of 23 African countries conducted by the Harvard Institute for International Development (Sievers, 2001).

Table 3. Index of Quality of Governance, Institutions, and Public Services During the 1990s[1]

	Government Stability	Democratic Accountability	Ethnic Tensions	Quality of Bureau-cracy	Law and Order	Corruption	Investment Profile
Asian NIEs[2]	6.8	6.0	8.3	8.2	8.1	6.8	6.0
Asia	6.0	5.5	6.3	5.9	6.5	5.3	5.1
Western Hemisphere	5.7	6.1	7.4	4.1	5.3	4.9	5.3
Africa	5.5	4.4	5.3	3.8	4.8	4.5	4.6
Of which:							
High-growth countries	6.4	4.5	6.6	4.3	5.8	5.5	5.4
Low-growth countries	4.7	4.0	5.3	3.0	4.1	3.5	3.6
World	6.1	6.1	6.8	5.5	6.5	5.6	5.2

Source: *International Country Risk Guide*, published by Political Risk Services.

1/ Index from 0–10, with the higher score indicating a better quality. Average of 1990s. For all groupings, unweighted average of countries for which information is available. Indicators have been rescaled from 0 to 10. A higher number indicates a better quality.
2/ Hong Kong SAR, South Korea, Singapore, and Taiwan Province of China.

III. Analysis of the NEPAD

Reflecting their concerns about inadequate economic growth and widespread poverty in Africa, as well as the increasing marginalization of Africa in an interdependent world economy, African leaders resolved to undertake the NEPAD. In the following sections, we analyze the nature of the NEPAD and its key initiatives in the context of a simple analytic framework set out in Table 4.

A. Overall Plan

As originally intended and described by its architects, the NEPAD represents a common vision and strategic framework for Africa's renewal (Box 1). As such, it is not a Marshall Plan; it is not a regional institution; and it is not a blueprint. In the press, the NEPAD has at times been interpreted as some kind of a "Marshall Plan for Africa" (see Herbert, 2002). However, in contrast to the Marshall Plan, the NEPAD is not a foreign-led but an African-owned initiative. In addition, the NEPAD's main goal is not, as in the case of the Marshall Plan, to reconstruct what existed previously. Its goal is to reach a new and substantially higher level of development. Sometimes, the NEPAD has also been compared to a regional institution (for example, Kanbur, 2001). However, a regional institution typically focuses on more narrowly defined goals and initiatives, has dedicated resources, and has some mechanisms to enforce contracts. By contrast, the NEPAD is very broad-based, comprehensive, and as yet has little enforcement power. The NEPAD is also not a blueprint for African development, because implementation details are still being developed, and will ultimately be formulated largely in the context of the national development strategies of individual African countries.

The opening paragraph of the NEPAD framework document sets out three interrelated objectives for African countries: eradicating poverty, achieving sustainable growth and development, and participating actively in the world economy (NEPAD, 2001). But this clarity gets somewhat blurred in some other parts of the framework document. For example, given that poverty reduction is an overarching objective, it is surprising that poverty reduction is listed as one of several aspects under the human resource development initiative. Also, each NEPAD initiative has several objectives, which appear at times as final goals in themselves. For example, under the market access initiative, one of the stated objectives is "to develop Africa into a net exporter of agricultural products" (NEPAD, 2001, p. 40). Though this may help support Africa's development, it cannot be seen as a goal in itself.

The NEPAD addresses a fairly coherent range of issues. If poverty reduction were to be seen as the overall objective, a necessary but not sufficient condition for reducing poverty is increasing growth. The various NEPAD initiatives in the Program of Action focus on particular aspects of reforms that help to increase growth or to improve the social environment. Therefore, all NEPAD initiatives should be viewed and evaluated in light of their importance and contribution to achieving the main objective of reducing poverty along with enhancing growth.

The objectives of the NEPAD are very ambitious. In particular, it will require tremendous efforts for most African countries to achieve and sustain the targeted growth of real

Table 4. The NEPAD: A Simple Framework for Analysis

Area	Policy Questions
Overall plan	• What is the NEPAD from an economic perspective—a Marshall Plan, a framework, an institution, or a blueprint? • What are its basic objectives? Are they coherent? • How ambitious are the reform objectives in terms of quantity and quality? • Are reform priorities well specified? • In what way does the NEPAD differ from previous initiatives?
Analysis of selected initiatives	• What are the economic benefits of the initiative? • What should reform priorities be in light of recent developments in Africa ? • Are there any specific lessons from recent reform experiences?
Risks	• What are the opportunities and risks associated with the NEPAD? • What needs to be done to minimize risks?
What must African countries do to achieve results?	• How can public support be obtained and sustained? • How can authorities increase the credibility of the NEPAD? • How can reform progress be measured? • What are the contingency provisions needed to address reform slippages or unforeseen shocks?
How can the international community support the NEPAD?	• What should be the relation between the NEPAD and other ongoing international initiatives? • How can cooperation between donors be improved? • Under which conditions will international support likely increase?

GDP of some 7 percent a year that is needed to reduce by half the population living in extreme poverty by 2015. In this regard, it may also be noted that in recent years growth performance has been moderate, budgetary pressures have persisted, and the external environment has been unfavorable. In addition, the number and diversity of the NEPAD's initiatives suggest that the NEPAD will inevitably face implementation constraints. Though a better coordinated and more efficient use of resources may lessen these constraints, the situation calls for a clear prioritization of initiatives.

The NEPAD framework document implicitly and explicitly proposes some prioritization (see Kanbur, 2001). It acknowledges that the pre-conditions for sustainable development are conflict prevention, democracy, and good governance; thus high priority must be given to these areas. At the same time, the framework document identifies areas which should be fast-tracked, namely communicable diseases, especially HIV/AIDS, malaria, and tuberculosis; information and communication technology; debt reduction; and market access (NEPAD, 2001, p. 54). In addition, the recent progress report to the HSIC further identifies top priority actions, such as the implementation of the African Peer Review Mechanism (APRM) and the integration of the NEPAD's principles into national development goals (NEPAD, 2002d). Useful governing principles for further prioritization may be the likely impact of an initiative on the ultimate objective of poverty reduction, the time needed to achieve positive results, and, more generally, the lessons drawn from the timing and sequencing literature (see Feltenstein and Nsouli, 2001, and Nsouli, Rached, and Funke, 2002). Actions which have a fast and direct impact on poverty reduction should be implemented first. Also, sequencing considerations suggest that institutional reforms and, in particular, ensuring the rule of law need to be granted high priority.

In contrast with previous initiatives, the NEPAD places major emphasis on African ownership, leadership, and accountability; this is best expressed in the concluding section of the framework document, which notes that "Africa recognizes that it holds the key to its own development" (NEPAD, 2001, p. 57). The APRM, which is a voluntary monitoring instrument by member states of the African Union, is seen as an essential feature of this new sense of ownership and accountability. Its objective is to assess whether participating countries follow the political and economic governance values, codes, and standards contained in the Declaration on Democracy, Political, Economic and Corporate Governance (see NEPAD, 2002a, c; Cilliers, 2002). The review process envisaged under the APRM will lead to the preparation of a report by the evaluating team. This report will then be considered by the Heads of State and Government of the participating member countries and be made available to the wider public. Well implemented and enforced, the APRM should help promote the adoption of policies, standards, and practices that foster the goals of the NEPAD.

B. Major Initiatives for Poverty Reduction and Sustainable Development

As indicated above, the NEPAD gives high priority to conflict prevention, as well as democracy and good political governance, as essential ingredients for Africa's renewal. Indeed, given Africa's past and even current experience, there is no doubt that the achievement of substantial poverty reduction[5] and sustainable development will depend importantly on ensuring peace, security, human rights, and good governance throughout the continent. Although these issues are not discussed further in this paper, they are considered critical elements of Africa's development agenda. The following sections deal with other important issues and initiatives envisaged in the NEPAD document.

---

[5] For a comprehensive analysis of poverty reduction strategies, see World Bank, 2000.

Consolidating Macroeconomic Stability

In light of the conditions prevailing in most if not all African countries, the NEPAD recognizes the need for consolidating macroeconomic stability. Macroeconomic stability is not only a one-time policy concern. It requires constant efforts to preserve and reinforce the progress made in the past. Countries that have already achieved a stable macroeconomic environment with single digit rates of inflation must ensure that macroeconomic policies continue to be geared towards maintaining this record.

A low inflation environment is an important basis for future growth and for reducing poverty. For developing countries, Khan and Senhadji (2001) have shown that inflation rates above 7–11 percent are harmful for growth. High inflation tends to hurt in particular the poor, essentially because most of their transactions are made using financial assets that are not protected from inflation erosion (Dollar and Kraay, 2001a). This suggests that countries which have not yet realized low inflation and a stable inflationary environment need to give high priority to achieving macroeconomic stability. This clearly holds for countries with very high rates of inflation of around 100 percent, such as Angola and Zimbabwe, but also for countries with double digit rates of inflation, such as the Democratic Republic of Congo, Ghana, Madagascar, Nigeria, and Zambia.

Fiscal policy will also have a particularly important role to play in the consolidation of macroeconomic stability. While ensuring financial stability, sound fiscal policy could also help promote growth and poverty reduction. Using a sample of 39 low-income countries, Gupta et al. (2002) provide evidence that fiscal consolidation supports growth, both in the long term and in the short term. Results for the 1990–2000 period suggest that a one percentage point reduction in the ratio of the budget deficit to GDP may lead to an increase of per capita growth by ¼ to ½ of a percentage point per annum. This relates in particular to countries that have not yet achieved macroeconomic stability. The reduction of budget deficits also needs to be accompanied by a review and possibly a restructuring of public expenditure towards growth-promoting and pro-poor outlays. Baquir (2002) shows that social sector spending tends to increase with democratization.

A reallocation of public expenditure and improvements in public expenditure management are two important ingredients for a pro-poor strategy in the fiscal domain. Estimates from Baldacci, Guin-Siu, and de Mello (2002) suggest that an increase in education spending by one third may be sufficient to achieve the millennium goal of universal primary education. In an empirical study of 65 IMF-supported country programs, Gupta et al. (2000) show that increases in certain types of expenditure, such as spending on basic education and health services, are particularly beneficial for the poor and essential for poverty reduction. At the same time, public expenditure management needs to be strengthened in order to ensure that poverty-related spending is effectively delivered and monitored. A preliminary assessment of 25 highly indebted poor countries (HIPCs), of which 20 were from Africa, showed that most of these countries needed substantial upgrading in their capacity to track and report on pro-poor spending (IMF and WB, 2002). A comprehensive expenditure review may be an important first step to developing a coherent medium-term expenditure framework. Involvement of key stakeholders may increase the local analytical capacity. For example, a recent public expenditure review in Zambia with the involvement of key stakeholders and external technical support has provided a good basis for strengthening public expenditure management (IMF and WB, 2002). More generally, for the short term, experience has shown that priorities should include measures such as a broadening of the coverage of government expenditure, improvements in the classification systems, the introduction of functionally based in-year reporting across ministries, and piloting of integrated financial management systems. In the medium-term, the overall framework of budget formulation, execution, reporting, and auditing needs to be reviewed and changed where needed.

Promoting Trade and Regional Economic Integration

The NEPAD program of action places great weight on promoting trade and, in parallel, ensuring market access. As shown by numerous studies, open economies promote a more efficient use of resources and higher growth (for example, Dollar, 1992, and Sharer and others, 1998). In a selected survey of cross-country regressions, case studies, and firm- and industry-level analyses, Berg and Krueger (2002) review the evidence between openness and levels of income and between changes in openness and changes in per capita GDP. A fundamental finding is that an increase in trade volumes tends to lead to higher growth rates. Using firm-level panel data from three sub-Saharan African economies, Mengistae and Pattillo (2002) provide evidence that higher exports can lead to positive productivity effects through learning by exporting.

Cross-country studies and studies from country-specific liberalization periods suggest that the benefits of trade liberalization accruing to the poor are on average roughly equal to the benefits accruing to an average person (see also Dollar and Kraay, 2001a,b; and Srinivasan and Bhagwati, 2002). The benefits for the poor may even be more important, if trade liberalization is accompanied by an increase of the relative wage of low-skilled labor, and if liberalization of the agricultural sector results in higher rural incomes.[6]

Despite the important progress made in trade reform and trade integration in Africa since the early 1990s, the above considerations suggest that Africa's potential gains from increasing trade and diversifying exports are still very substantial (Ndukwe, 2002). Trade reform in the early 1990s eliminated most non-tariff barriers and lowered peak tariff rates to a 20–30 percent range. However, in many cases, reforms have not yet been sufficient to support higher growth in per capita incomes. Africa's world export market share has continued to decline (from 3.9 percent in 1970 to 1.9 percent in 2001). Rodrik (1999b) emphasizes that more openness may

[6] For a skeptical view of the existing empirical analyses, see Rodriguez and Rodrik (2000). On the political economy aspects of trade protection and reform, see Krueger (1996) and Lal and Snape (2001).

only be expected to lead to higher growth if it is complemented by well-functioning institutions and sound domestic policies.

Sequencing considerations suggest that high priority for the next round of reforms needs to be given to dismantling the remaining non-tariff barriers, further simplifying and reducing existing tariff rates and structures, limiting exemptions, and improving customs administration. As emphasized in the NEPAD, it is also important to foster export diversification in order to limit vulnerabilities to terms of trade shocks. At the same time, as noted above, it is essential that exchange rates be maintained at competitive levels.

Regional integration has been progressing only gradually.[7] An acceleration of economic integration would also help to promote trade. The authorities of the West African Economic and Monetary Union (WAEMU)[8] have made progress on the integration front with the entry into effect of the customs union in 2000. The Central African Economic and Monetary Community (CEMAC)[9] has initiated a number of projects aimed at establishing a single market in the region. To achieve this goal fully, further progress is needed in the areas of trade liberalization, harmonization of taxation, and the facilitation of movement of persons. Although the Southern African Development Community (SADC) started to phase in a free trade area, this will be only fully realized by 2008, according to existing plans. Long-term objectives also include the formulation of guidelines for the convergence of macroeconomic policies (IMF, 2002a).

Attracting Capital Flows

To achieve the targeted rate of economic growth of some 7 percent a year and the MDGs, the NEPAD framework document indicates that Africa will need to fill an annual resource gap of US$64 billion (12 percent of GDP). Although this will require increasing domestic savings, it is noted that the bulk of the needed resources will have to be obtained from abroad. Thus, the NEPAD emphasizes the importance of attracting capital flows.

Foreign capital flows can have positive effects on domestic investment, technology spillovers, domestic financial development, and the productivity of investment (Fuchs-Schündeln and Funke, 2001). However, one prerequisite for such effects to occur is that financial markets are efficient and foreign funds are used in a way that supports the development process. Trying to attract long-term capital flows, in particular foreign direct investment, is an essential first step in mobilizing private foreign financial resources. In contrast, there is more debate on the benefits and risks associated with portfolio flows, in

---

[7] For a wider analysis of trade reform and regional integration, see Iqbal and Khan (1998).

[8] Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

[9] Cameroon, Central African Republic, Chad, the Republic of Congo, Equatorial Guinea, and Gabon.

particular short-term capital flows. There is concern that the higher volatility of short-term capital flows may increase the countries' vulnerability to crises.[10]

Foreign direct investment (FDI) has the potential to play a pivotal role in Africa's development. However, although the stock of FDI increased from around $33 billion in 1980 to almost $150 billion in 2000, Africa's share of global FDI has continued to fall (Table 5).

Analyzing empirically the determinants of FDI to developing countries, Asiedu (2001) shows that openness to trade promotes FDI, but that higher returns on investments appear to have no significant positive impact on FDI in sub-Saharan Africa. This may be because Africa's small and vulnerable economies are considered as high-risk in the eyes of many international investors. In high-risk cases, small increases in returns are not sufficient to compensate for the major risk factors, such as poor judicial and financial infrastructure, as well as widespread corruption. Burdensome regulation may also make investments more costly. At the same time, the "neighboring effect" may affect FDI. While a country may be pursuing stable policies conducive to investment, its neighbor country may not. This may have a negative effect on the whole region.

Table 5. Foreign Direct Investment Inward Stock by Host Region as a Share of Global Stock, 1980–2000
(In percent)

	1980	1985	1990	1995	1999	2000
Developed countries 1/	58.2	60.1	73.5	69.3	63.5	65.8
Developing countries 2/	41.8	39.9	26.3	29.4	34.5	32.2
Africa	5.3	3.8	2.6	2.6	2.7	2.3
Latin America and the Caribbean	8.1	8.9	6.2	6.9	10.0	9.6
Developing Europe	–	–	0.1	0.1	0.2	0.2
Asia	28.1	27.0	17.4	19.8	21.5	20.0
The Pacific	0.2	0.1	0.1	0.1	0.1	0.1
Central and Eastern Europe	–	–	0.2	1.2	2.0	2.0

Source: World Investment Report (WIR), taken from *World Economic Outlook*, September 2002, p. 53.
1/ For expositional purposes, excludes South Africa; WIR includes South Africa in the list of developed countries.
2/ For expositional purposes, includes South Africa.

[10] Edwards (2001), Eichengreen and Mussa and others (1998, 1999), and Ishii and Habermeier (2002), among others, analyze policy issues related to capital account liberalization.

A closer analysis of country experiences may also help identify important factors in attracting FDI. Some non-oil producing countries, such as Botswana, Lesotho, Namibia, Mauritius, Mozambique, Swaziland, and Uganda, have been relatively successful in attracting FDI (Basu and Srinivasan, 2002). Though the main reasons for attracting FDI differed from country to country, overall their positive experience points to the advantages of: (a) far-reaching macroeconomic and structural reforms, (b) political stability, (c) the availability of natural resources, and (d) a policy environment conducive to investment, such as privatization of state assets, and other host-country policies targeted towards attracting foreign investment.

Most African countries need to overcome the perception of high risk. Apart from macroeconomic stability, further improvements are essential in the institutional environment and the functioning of domestic financial markets. Asiedu (2002) argues that an absolute improvement in the investment climate may not be sufficient to attract a larger share of FDI in a globally competitive environment. For African countries, it is also important to achieve a relative improvement in the policy environment vis-à-vis their main competitors. Essential to an improved investment climate will also be the way in which the various NEPAD initiatives are implemented. Rigorous implementation of action plans would signal a clear change in policy and make policy reversal less likely in the eyes of international investors.

More generally, financial market access requires a good management of market expectations. An analysis of risk ratings suggest that several years of good policy performance may be needed to change market perceptions. An active dialogue between the government and executives of domestic and international companies is essential. Investment Advisory Councils (IACs) are one vehicle to improve the investment environment. The recently established IACs in Ghana, Senegal, and Tanzania are steps in this direction.

Fostering Good Governance and Institutional Reforms

The foregoing discussion has highlighted that two interrelated key challenges are to implement reforms successfully and to improve the quality of institutions. Two countries with identical endowment of capital and labor and identical production facilities may have different levels of income and wealth if governance and institutions differ in these countries. The absence of good governance, the rule of law, and a sound institutional environment typically leads to rent-seeking and widespread corruption (Abed and Gupta, 2002).

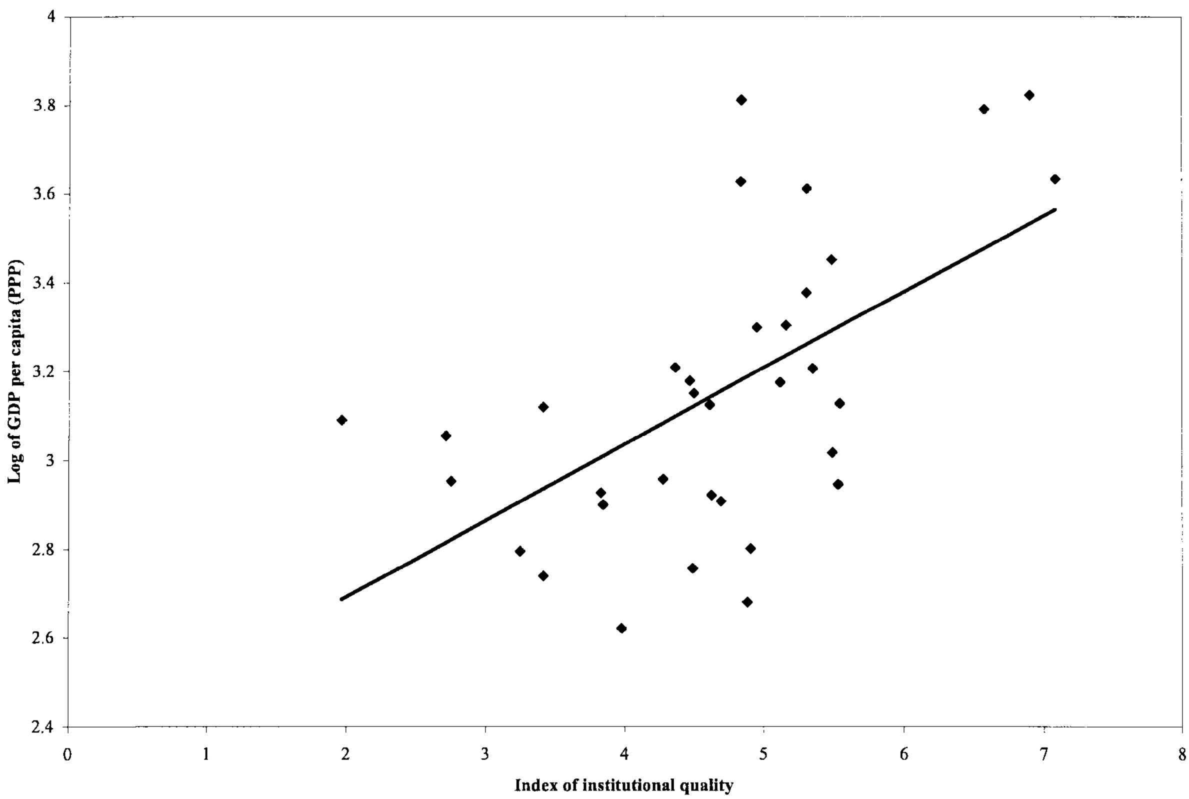
Governance refers to the manner in which authorities deal with their responsibilities (Wolf and Gürgen, 2000). Key questions are: Is the government effective? Are the authorities' decisions and policies transparent? Do the authorities follow internationally accepted standards and codes? Is the government accountable for its decisions? In the context of the NEPAD, an explicit distinction is made between political and economic governance through two separate initiatives: (a) the peace, security, democracy, and political governance initiative, and (b) the economic and corporate governance initiative. By giving these two initiatives a prominent place in the section on "Conditions for Sustainable Development," the NEPAD acknowledges the overriding importance of good governance for the achievement of its basic objectives (Sako, 2002).

Good governance is an important part of a sound institutional environment which is essential for many other reform areas. If institutions are weak, policies are also most likely to be weak (Goldsmith, 1998). In general, good governance and well-functioning institutions provide an enabling environment for private initiative and allow for a more efficient use of resources. Policy reforms in areas such as trade and capital flows will only bring about the full gains if the institutional framework is appropriate.

Empirical evidence confirms that institutions play a key role in economic performance (World Bank, 2002b). An index of institutional quality performs well in explaining growth differentials (for example, Rodrik,1997). Hall and Jones (1997) confirm in a cross-country study of 133 countries that differences in social infrastructure account to a very large extent for differences in output per worker. Institutions that favor production over "diversion"—i.e., the misuse of production—and some form of private ownership foster the accumulation of human and physical capital, eventually leading to higher total factor productivity and overall growth. A more recent analysis even provides some evidence that the quality of institutions is the most important determinant of income levels around the world (Rodrik, Subramanian, and Trebbi, 2002). Merely having institutions is less important than making sure that they are functioning well. Also, a simple correlation analysis shows that institutional quality and GDP per capita are very closely related in Africa (see Figure 3).

The question is no longer whether institutions matter, but "which institutions matter" and which institutional reforms have to be implemented when. Rodrik (1999a) distinguishes between five types of institutions: property rights, regulatory institutions, institutions for macroeconomic stabilization, institutions for social insurance, and institutions for conflict management. A clearly delineated system of property rights protects the assets of investors and the return on these assets and supports contract enforcement. Regulatory institutions, such as a bank regulator, encourage competitive behavior, limit anti-competitive practices, limit the worst of fraud, and more generally promote sound economic development. Institutions for macroeconomic stabilization refer to institutions for monetary and fiscal management and can help to support economic development. For example, oil stabilization funds fall into this category. Institutions for social insurance may take the form of transfer programs, such as institutions for the payment of unemployment benefits, or may refer to health and pension related institutions. Finally, institutions for conflict management include, for example, the rule of law and high-quality judiciary systems.

Figure 3. GDP and Institutional Quality in Africa



Sources: World Bank, International Country Risk Guide, and IMF, 2000c, p. 51.

The above distinction between five types of institutions suggests that reform priorities differ between countries, depending on the development of the various types of institutions. In an initial stage of development, and to encourage private sector initiative, market creating institutions may be most important. In countries where clearly defined property rights are still missing, highest priority needs to be given to this task. In addition, reliable institutions for conflict management are important to promote the domestic exchange of goods, to foster international trade, and to attract international capital.

IV. Implementation Issues and Challenges

A. Moving from a Basic Framework to an Operational Blueprint

As the NEPAD represents a common vision and strategic framework for Africa's development, a key issue is how will this framework be effectively translated into action. To a very large extent, the move from a basic framework to an operational blueprint will depend on the resolve and the steps to be taken by individual African countries. Every African country will have to design its own blueprint, consistent with NEPAD's goals to accelerate growth and achieve the MDGs. In light of individual country circumstances, this will involve setting more specific quantitative objectives, as well as pursuing consistent macroeconomic policies and structural reforms, enhancing capacity building for deeper integration into the global economy, embracing the APRM, and transforming partnerships with donors through mutual commitments and accountability.

Work on national development blueprints has already progressed substantially, as in recent years many African countries have prepared either interim or full-fledged Poverty Reduction Strategy Papers (PRSPs), which are focused on enhancing growth and reducing poverty. As the PRSP approach is country-driven, participatory in nature, comprehensive, result-oriented, and based on a long-term perspective for poverty reduction, it shares many of the NEPAD's fundamental principles. It is an important instrument for incorporating continent-wide priorities into national poverty reduction programs and attracting the needed support from Africa's development partners. However, both PRSPs and the NEPAD are still work in progress. In this regard, it is important to avoid duplication of efforts, which may lead to inefficiencies and conflicting signals.

The lessons of a recent in-depth review of the PRSP process may be useful for those working to achieve NEPAD's objectives. The lessons learned suggest the need to (IMF 2002b; IMF and WB, 2002):

- Be as specific as possible in setting targets, thus facilitating their monitoring and increasing transparency;
- Develop and promote action plans on the basis of alternative policy choices, and social impact analyses of these choices;
- Improve public expenditure management;
- Elaborate on the risks to policy implementation, including those related to external shocks and shortfalls in financing;
- Include contingency planning into the macroeconomic framework; and
- Encourage and broaden further the systematic participation of stakeholders in the discussion, design, and implementation of the various initiatives.

Apart from the key role of individual countries in the implementation of the NEPAD framework, responsibility for carrying out some programs and projects has been given to designated institutions, notably the African Development Bank and the Economic Commission for Africa. Moreover, the regional economic communities (RECs), which are considered essential building blocks of Africa's economic integration, have also been called upon to play a leading role in the implementation of infrastructure projects at the sub-regional level (Banny, 2002). Accordingly, it is expected that the organization and capacities of the RECs will be strengthened and their evolution will be more closely related to the development of the African Union.

B. Opportunities and Risks

The NEPAD involves many opportunities. First, and foremost, is the unique opportunity for African countries to demonstrate ownership and leadership in setting the development agenda and carrying it out. Recent international discussions have stressed the importance of country ownership for the success of reform programs and strategies (for example, Khan and Sharma, 2002). The African-wide recognition of the need to accelerate Africa's economic development and the broad consensus among African leaders regarding development priorities constitute an important precondition for the ability of African countries to reduce the development gap.

The NEPAD also provides a unique opportunity to align development objectives across countries, while acknowledging country-specific differences. There are likely to be benefits from closer cooperation among African countries to achieve these goals. When moving together, economies of scale and scope can facilitate the overall tasks, provided that new inefficiencies are avoided.

The NEPAD is also expected to facilitate co-operation with the international community. The development challenge to reduce poverty requires a comprehensive strategy not only based on the efforts of African countries themselves but also on increased international financial assistance. A common understanding of reform priorities and needed resources will facilitate the dialogue between the international community and Africa. The NEPAD may also put Africa in a better position to strengthen its voice in international gatherings, which may ultimately lead to an increase in the transfer of resources to Africa.

Notwithstanding these opportunities, the NEPAD also involves two broad interrelated categories of risk: political risk and implementation risks. Given NEPAD's diversity of objectives, political priorities may differ between countries and hinder progress of various initiatives. Implementation risks may also stem from too high expectations, unclear responsibilities, a lack of credibility, and resource constraints. Even only a partial fulfillment of the objectives of the NEPAD may be considered, by some observers, as a failure. A failure of this initiative would most likely increase the hurdles to be faced by any future reform initiative.

Expectations may be too high on the implementation side because of the broad-based nature of the NEPAD. Given its scope, it is almost inevitable that progress will vary between countries and among various reform areas. The challenge therefore remains to translate the broad objectives into well-specified and tractable goals. Attention needs to be given to setting realistic targets and time frames for individual initiatives that take into consideration country-specific circumstances and constraints.

Another potential problem relates to the roles and programs of existing regional institutions. The NEPAD foresees that certain projects and reforms will be implemented regionally, but the ideal regional approach may not correspond to existing institutions or regions. There is a risk that the NEPAD leads to varying reform initiatives across regional institutions. At the same time, it is important that the NEPAD does not develop into another bureaucratic layer. Though the current size of the NEPAD structures is small compared to their tasks, it will remain a challenge to rightly balance the amount of resources devoted to this initiative.

Despite its current support, the NEPAD has to meet the challenge of maintaining credibility over time. To establish the credibility of the NEPAD, it is important to demonstrate at least some early progress. However, it has to be recognized that in many cases it simply takes time to implement reforms. Given the scope of the reforms, each of the participating countries' administrative capacity will be tested and may determine the country-specific speed at which reforms can proceed. Therefore, initiatives cannot be implemented in an identical manner across the continent. In addition, in a difficult external environment, it may take longer than anticipated to achieve positive results.

Finally, the availability of adequate resources, particularly of external financing, will put a natural limit on the speed of implementation. The willingness of the international community to actively contribute to the NEPAD will to a large extent depend on Africa's ability to cope with the above-mentioned challenges.

V. What Must African Countries Do to Achieve Results?

To be successful, African countries will need to ensure good governance in all of its aspects and to implement sound macroeconomic policies and structural reforms as discussed in the previous sections (see Calamitsis, 2001, and Basu, Calamitsis, and Ghura, 2000). At the same time, there will be a need for further prioritization of reform initiatives. Uncertainties about the time frame, the costs and benefits of the various reform elements, and available financial resources make it difficult to set priorities. Setting priorities will necessitate a very good understanding of the critical reform needs and available resources in each country case. Prioritization should be based on a clear identification of policy options and trade-offs. Political economy considerations also suggest that the focus should be on measures which lead quickly to positive and measurable results.

In some cases, initial reforms may be accompanied by temporary costs in terms of output and employment. Reform credibility would reduce the risk and the magnitude of potential short-term costs. However, credibility is difficult to establish and easy to lose. It requires consistent policy performance and visible achievements over a sustained period of time. One way to gain credibility is to implement policies on the basis of broad-based discussions with the general public, interested parties, and the international community. This must be followed by a convincing track record, transparency, and accountability.

Although the NEPAD explicitly foresees a wider public discussion, it has been acknowledged in several forums, including the Conference of African Ministers of Finance, Planning and Economic Development in October 2002, that more needs to be done in this area (UNECA, 2002). Whereas awareness at the senior international level is high, public participation in Africa is still limited. Reform efforts need to be based on a more open dialogue between governments and domestic stakeholders. The active selling of reforms must become an integral part of the NEPAD framework. In this regard, the efforts under way to set up national and regional NEPAD communication centers are steps in the right direction.

The APRM can also serve as an important vehicle for enhancing credibility. However, as African leaders noted themselves (UNECA, 2002, p. 4), the APRM must be free from political interference, it must be conducted consistently using high standards, and countries must be willing to take corrective measures in light of the findings. Countries not willing to accede to the APRM or to follow recommended measures will in one way or another be exposed to the downside risks of inaction. Though envisioned to start in 2003, the APRM will take time to organize and implement its review process.[11] A period of learning by doing may be involved, and the first reviews may not look like subsequent ones. It will take time until all interested countries have been reviewed, and a few years until a second review can assess any improvements. Though potentially a forceful mechanism, short-term improvements as a result of the APRM are less likely. In the meantime, it remains in the hands of each country to improve the economic and governance environment, using as a basis the internationally accepted guidelines and codes of good practices that were endorsed by the African Heads of State and Government at their meeting in Durban, South Africa, in July 2002.

For each initiative and the NEPAD as a whole, a clear follow-up mechanism must be in place. Any broad-based initiative, such as the NEPAD, may encourage some countries to try to free-ride on achievements in their partner countries. To make action plans more credible and verifiable, detailed timetables must be set-up. At the same time, it is necessary to develop indicators that facilitate the monitoring and control of implementation.

While in many cases it may be easy to see whether a country has implemented the envisaged changes, such as a tariff reduction, it is more difficult to assess whether these changes lead to the desired outcome.[12] Therefore, two types of indicators may be needed. The first set of indicators should be closely linked to the required action, that is to the instrument of economic policy (Type 1 indicator). The second set of indicators should be closely linked to the desired outcome of the action (Type 2 indicator). Type 1 indicators would give a clear picture of whether the authorities pursued reforms as announced. Type 2 indicators would signal whether implemented policies are leading to the desired results. It would be essential that these indicators be as objective as possible and free of manipulation. For example, in the area of trade reform, Type 1 indicators could relate to the abolition of quantitative restrictions or the reduction of average tariff rates. Type 2 indicators could relate to openness, measured as trade volume in percent of GDP or to real export growth.

---

[11] The HSIC recently asked the NEPAD Secretariat to develop criteria and indicators for measuring performance on political and economic governance.

[12] See also the discussion on conditionality by Khan and Sharma, 2002.

The use of indicators, if widely published, would raise the transparency of policy actions and increase the accountability of the authorities. In particular, a comparison of Type 1 and Type 2 indicators would allow to differentiate between government failure to implement reforms and any discrepancies in the relationship between actions and outcome.

It some areas, reform progress may be slower than anticipated, in part because of unforeseen shocks. To minimize costs associated with reform slippage, contingency provisions are needed. Contingency provisions relate to specific actions that have to be taken if the expected results of certain measures are not realized or if unforeseen shocks occur. For example, in the case of an external shock, the appropriate response will depend on the likely nature of the shock, distinguishing between country-specific and global shocks, demand and supply shocks, transitory or permanent shocks, and the size of the shock. To the extent that adequate contingency provisions are in place, the policy response to events that could adversely affect the reform efforts would be speeded up, thereby ensuring the achievement of the desired objectives.

VI. How Can the International Community Support the NEPAD?

The G-8 and the International Financial Institutions (IFIs) have welcomed the NEPAD and expressed their commitment to establishing enhanced partnerships with African countries. However, the international community has also made clear that support will be focused on countries whose actions and performance are in line with the objectives of the NEPAD. Exceptions will be made only in the case of humanitarian needs. In the G-8 Africa Action Plan, adopted at the G-8 Summit in Canada in June 2002, the leading industrial countries pledged substantial assistance to promote peace and security in Africa, strengthen institutions and governance (including the APRM), and improve education and health (including combating HIV/AIDS). Moreover, they made commitments to give greater market access for African products, implement debt relief under the enhanced HIPC initiative, and provide more effective official development assistance. The IFIs have also committed themselves to provide increased technical and financial assistance to support strong African reform programs.

African leaders have noted with satisfaction these expressions of support for the NEPAD, and the specific actions already taken by the international community. In particular, with regard to market access, they welcomed the Everything-but-Arms Initiative of the European Union and the African Growth and Opportunity Act (AGOA) of the United States as important steps in enhancing opportunities for African producers and exporters.[13] They also welcomed the G-8 commitment to further trade liberalization under the Doha round. As to debt relief, they appreciated the commitment made by the G-8 to help ensure that the projected shortfall in the HIPC Trust Fund is fully financed. Last but not least, they welcomed the donor commitment to allocate more new aid to Africa.

[13] On the AGOA, see, for example, Mattoo, Roy, and Subramanian (2002).

However, there remain significant differences in nuance as well as substance between African views and expectations and those of the donor community. In sum, African leaders are seeking from their international partners to remove all further barriers to trade, particularly agricultural subsidies, tariff peaks, and non-tariff barriers; to expand and speed-up the relief provided under the enhanced HIPC initiative; and to increase ODA to the initial target of 0.7 percent of GDP, as well as reform the modalities for the provision of such assistance. Furthermore, African leaders are urging a partnership with the rest of the world based on mutual commitments and accountability.

In welcoming the consensus reached in recent international conferences to fight world poverty, and noting especially the challenges of the NEPAD, the heads of the IMF and the World Bank have emphasized the importance of a two-pillar approach to Africa's renewal (see, for example, Köhler, 2002). First, African countries must take strong actions to implement appropriate policies and reforms along the lines discussed above. Second, the international community must provide increased, more efficient, and more comprehensive support to help African countries accelerate their progress toward attaining the MDGs. Otherwise, on present trends, few African countries are likely to meet most of the desired goals.

Apart from its financial assistance to African countries, notably under the concessional Poverty Reduction and Growth Facility (PRGF), the IMF has responded to the requirements of the NEPAD by intensifying its support for capacity building in Africa.[14] Accordingly, the IMF just opened an Africa Regional Technical Assistance Center (AFRITAC) in Dar es Salaam. This is the first of five such centers envisaged for the region. Through the AFRITACs, the IMF will help African countries to build local capacity for economic and financial management. Working closely with the African Capacity Building Foundation, the African Development Bank, the World Bank, and bilateral donors, the IMF will provide capacity-building efforts in its core areas of expertise, including macroeconomic policy, fiscal affairs, financial sector policies, and macroeconomic statistics. At the same time, the IMF will continue to enhance the training activities of the IMF Institute, which provides substantial support to African countries.

The IMF is also helping African countries to improve the institutional environment by fostering transparency and accountability. The IMF has done extensive work on internationally agreed standards and codes of good practice and, in conjunction with national authorities, has embarked on a series of Reports on the Observance of Standards and Codes (ROSCs). These focus on 11 areas, including information on monetary and fiscal transparency, corporate governance, banking supervision, and accounting. In autumn 2002, reports from 14 African countries were already published on the IMF website, with a majority of the reports focusing on fiscal transparency. The expertise gained through these assessments as well as the ROSCs themselves could usefully serve as inputs for the APRM.

[14] On capacity building, see, for example, Dessart and Ubogu, 2000, and Bio-Tchané, 2002a,b.

Under the enhanced HIPC initiative, by September 2002, the IMF and the World Bank had approved debt-reduction packages for 22 African countries and 4 other low-income countries. For these 26 countries that have benefited from debt relief, debt service is expected to fall by half in relation to exports or GDP between 1988-99 and 2001-2005; and it is expected to decline from 24 percent to about 10 percent of government revenue by 2005. Thus, although debt relief is not a panacea, more resources will become available for economic and social development purposes.

VII. Conclusion

Despite the progress made by an increasing number of African countries toward macroeconomic stability and reform since the mid-1990s, Africa's overall growth performance has remained inadequate and poverty is still widespread, with almost one half of the population living on less than US$1 a day. Thus, the adoption of the NEPAD has been timely and important, giving renewed impetus to efforts focused on accelerating growth, reducing poverty, and integrating Africa into the world economy, consistent with the MDGs.

The enthusiastic support of the NEPAD by African leaders and the international community has been based on its far-reaching vision and objectives. However, the NEPAD has not yet attracted the same degree of support among the wider African public. Although the NEPAD is based on a number of previous initiatives, in some respects it is fundamentally new. New is the wide recognition of African leaders that they themselves have primary responsibility for improving economic and social conditions in Africa. Also new is their acceptance that good governance is critical for the achievement of sustainable development. Thus, the NEPAD provides a unique opportunity to demonstrate African ownership of and leadership in implementing the development agenda.

In this paper, we have emphasized that poverty reduction can be seen as the overarching objective of the NEPAD. Increased growth is then a necessary, but not a sufficient, condition for tackling poverty. The various NEPAD initiatives are geared toward increasing growth or achieving a more satisfactory social and structural environment. But the challenges are enormous, and realizing the targeted average annual growth of real GDP of some 7 percent will require unprecedented efforts and sustained implementation of sound macroeconomic policies and structural and institutional reforms.

The analysis in this paper has highlighted a number of risks and pointed to factors which the authorities will need to take into account in order to minimize these risks. In moving from vision to action it remains essential:

- To broaden and deepen discussions with the wider public, so that the NEPAD can obtain the necessary attention from, and acceptance by, all stakeholders;
- To use PRSPs or other nationally owned development strategies to translate NEPAD's framework into operational blueprints;

- To avoid duplication of efforts by making good use of existing national, regional, and international arrangements and institutions;
- To continuously pay attention to the sequence and pace of policy implementation in order to ensure policy coherence;
- To strengthen the monitoring of progress by making some goals more operational, developing detailed time tables, and establishing indicators in all relevant areas;
- To prepare contingency plans to be able to react quickly to sudden or unexpected shocks;
- To clarify the responsibilities of the NEPAD structures, individual countries, and regional and designated institutions in the implementation process; and
- To fully harmonize implementation of the NEPAD with other ongoing projects.

As implementation will, to a large degree, take place on a national basis, the success of the NEPAD will depend primarily on individual country willingness and ability to implement needed reforms. The APRM is potentially an important mechanism to promote good governance and best practices in policy implementation. Although it will take time to make this instrument fully operational, it will need to be carried out in an objective and constructive manner, free of political interference. Anticipating a future peer review, countries may be tempted to wait until a first thorough review is finished; but such an attitude would clearly delay progress of the NEPAD. It can only be hoped that the anticipation of an upcoming review helps to speed up reform efforts.

Although Africa's own efforts will be critically important, there is no doubt that substantial international support will be needed to help Africa achieve, or come as close as possible to achieving, the MDGs. Thus, consistent with commitments already made in various international forums, the leading industrial countries need to open up their markets to African products, provide adequate debt relief, and increase as well as improve the delivery of official development assistance. More international support will also be essential for capacity building and strengthening institutions in Africa. In all of these areas, the IMF, the World Bank, the WTO, and the UN system as a whole will also have an important role to play. But it needs to be emphasized that such support will not be forthcoming, or will be much smaller than needed, if African countries do not deliver on the major promises and commitments embodied in the visionary NEPAD framework.

References

Abed, George T., and Sanjeev Gupta, eds., 2002, *Governance, Corruption, and Economic Performance* (Washington: International Monetary Fund).

African Union (AU), 2002, *Towards the Implementation of the New Partnership for Africa's Development (NEPAD): Progress Report and Initial Action Plan* (Addis Ababa: AU).

Asiedu, Elizabeth, 2001, "On the Determinants of Foreign Direct Investment to Developing Countries: Is Africa Different?" *World Development*, Vol. 30, No. 1, pp. 107–19.

____, 2002, "Policy Reform and Foreign Direct Investment in Africa: Absolute Progress but Relative Decline," paper prepared for the Conference on NEPAD organized by the IMF Institute in the context of the 2002 program of the Joint Africa Institute (JAI), Dakar, December 9–11.

Baldacci, Emanuel, Maria Teresa Guin-Siu, and Luiz de Mello, 2002, "More on the Effectiveness of Public Spending on Health Care and Education: A Covariance Structure Model," IMF Working Paper 02/90 (Washington: International Monetary Fund).

Banny, Charles Konan, 2002, "*La contribution des institutions régionales à la réalisation des objectifs du NEPAD*," Paper prepared for the Conference on NEPAD organized by the IMF Institute in the context of the 2002 program of the Joint Africa Institute (JAI), Dakar, December 9–11.

Baquir, Reza, 2002, "Social Spending in a Panel of Countries," IMF Working Paper 02/35 (Washington: International Monetary Fund).

Basu, Anupam, Evangelos A. Calamitsis, and Dhaneshwar Ghura, 2000, "Promoting Growth in Sub-Saharan Africa: Learning What Works," Economic Issues, No. 23 (Washington: International Monetary Fund).

Basu, Anupam, and Krishna Srinivasan, 2002, "Foreign Direct Investment in Africa: Some Case Studies," IMF Working Paper 02/61 (Washington: International Monetary Fund).

Berg, Andrew, and Anne Krueger, 2002, "Lifting All Boats: Why Openness Helps Curb Poverty," *Finance & Development*, Vol. 39 (September), pp. 16–19.

Berthélemy, Jean-Claude, and Ludvig Söderling, 2002, "Will There Be New Emerging-Market Economies in Africa by the Year 2020?" IMF Working Paper 02/131 (Washington: International Monetary Fund).

Bio-Tchané, Abdoulaye, 2002a, "Transcript of an Economic Forum—Capacity Building: Lessons for Africa," International Monetary Fund, September 12.

_____, 2002b, "What Can the IMF Do to Support NEPAD," Luncheon Address at the Conference on NEPAD organized by the IMF Institute in the context of the 2002 program of the Joint Africa Institute (JAI), Dakar, December 9–11.

Calamitsis, Evangelos A., 2001, "The Need for Stronger Domestic Policies and International Support," *Finance and Development*, December, pp. 10–13.

Cilliers, Jakkie, 2002, "NEPAD's Peer Review Mechanism," Institute for Security Studies, No. 64.

Dessart, Michel, and Roland Ubogo, 2001, eds., "Joint Africa Institute - Capacity Building, Governance, and Economic Reform in Africa," Proceedings of the Inaugural Seminar held in Abidjan, Côte d'Ivoire, November 2–3, 1999 (Abidjan: African Development Bank, International Monetary Fund, World Bank).

Dollar, David, 1992, "Outward Oriented Developing Economies Really Do Grow More Rapidly: Evidence from 95 LDCs, 1976–85," *Economic Development and Cultural Change*, April, pp. 523–44.

_____, and Aart Kraay, 2001a, "Growth is Good for the Poor," World Bank Policy Research Working Paper 2587, April (Washington: World Bank).

_____, 2001b, "Trade, Growth, and Poverty," World Bank Policy Research Working Paper 2615, June (Washington: World Bank).

Easterly, William, and Ross Levine, 1998, "Africa's Growth Tragedy: Policies and Ethnic Divisions," *Quarterly Journal of Economics*, Vol. 112, No. 4, pp. 1203–50.

Edwards, Sebastian, 2001, "Capital Mobility and Economic Performance: Are Emerging Economies Different?" NBER Working Paper No. 8076, January (Cambridge, Massachusetts: National Bureau of Economic Research).

Eichengreen, Barry, Michael Mussa, and others, 1998, "Capital Account Liberalization: Theoretical and Practical Aspects," IMF Occasional Paper No. 172, pp. 1–27 (Washington: International Monetary Fund).

_____, 1999, "Liberalizing Capital Movements," Economic Issues, No. 17 (Washington: International Monetary Fund).

Feltenstein, Andrew, and Saleh M. Nsouli, 2001, "'Big Bang' versus Gradualism in Economic Reforms: An Intertemporal Analysis with an Application to China," IMF Working Paper 01/98, August and forthcoming IMF Staff Papers (Washington: International Monetary Fund).

Fuchs-Schündeln, Nicola, and Norbert Funke, 2001, "Stock Market Liberalizations: Financial and Macroeconomic Implications," IMF Working Paper 01/193 (Washington: International Monetary Fund).

Goldsmith, Arthur, 1998, "Institutions and Economic Growth in Africa," Harvard Institute for International Development Discussion Paper Number 7 (Cambridge, Massachusetts: Harvard University).

Group of Eight, 2002, "G-8 Africa Action Plan," G-8 Summit at Kananaskis, Canada.

Gupta, Sanjeev, Benedict Clements, Emanuele Baldacci, and Carlos Mulas-Granados, 2002, "Expenditure Composition, Fiscal Adjustment, and Growth in Low-Income Countries," IMF Working Paper 02/77 (Washington: International Monetary Fund).

_____, Louis Dicks-Mireaux, and others, 2000, "Social Issues in IMF-Supported Programs," IMF Occasional Paper No. 191 (Washington: International Monetary Fund).

Hall, Robert E., and Charles I. Jones, 1997, "Fundamental Determinants of Output per Worker Across Countries," Stanford Economics Working Paper No. 97–021 (Stanford: Stanford University).

Herbert, Ross, 2002, "Implementing NEPAD: A Critical Assessment," draft (Johannesburg: South Africa Institute of International Affairs).

International Monetary Fund (IMF), 1999, "Growth in Sub-Saharan Africa: Performance, Impediments, and Policy Requirements," *World Economic Outlook*, October, Chapter VI, pp. 136–51 (Washington).

_____, 2002a, IMF Survey Supplement, Volume 31, September (Washington).

_____, 2002b, Annual Report 2002 (Washington).

_____, 2002c, "Africa: Establishing the Conditions to Growth out of Poverty," *World Economic Outlook*, September, Chapter I, pp. 48–54 (Washington).

_____, and World Bank (WB), 2002, "Poverty Reduction Strategy Papers—Progress in Implementation" (Washington: International Monetary Fund and World Bank).

Iqbal, Zubair, and Mohsin S. Khan, eds., 1998, *Trade Reform and Regional Integration in Africa* (Washington: International Monetary Fund).

Ishii, Shogo, and Karl Habermeier, 2002, "Capital Account Liberalization and Financial Sector Stability," IMF Occasional Paper No. 211 (Washington: International Monetary Fund).

Kanbur, Ravi, 2001, "The New Partnership for Africa's Development (NEPAD): An Initial Commentary," Draft, December (Ithaca: Cornell University).

Khan, Mohsin S., and Abdelhak Senhadji, 2001, "Inflation and Financial Depth," IMF Working Paper 01/44 (Washington: International Monetary Fund).

Khan, Mohsin S., and Sunil Sharma, 2002, "IMF Conditionality and Country Ownership of Programs," IMF Working Paper 01/142 (Washington: International Monetary Fund).

Köhler, Horst, 2002, "Building a Better Future in Africa," address given by the Managing Director of the International Monetary Fund, Accra, Ghana, May 3.

Krueger, Anne, 1996, *The Political Economy of Trade Protection* (Chicago: University of Chicago Press).

Lal, Deepak, and Richard M. Snape, 2001, *Trade, Developments, and Political Economy: Essays in Honor of Anne O. Krueger* (New York: Palgrave).

Mattoo, Aaditya, Devesh Roy, and Arvind Subramanian, 2002, "The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined?" IMF Working Paper 02/158 (Washington: International Monetary Fund).

Mengistae, Taye, and Catherine Pattillo, 2002, "Export-Orientation and Productivity in Sub-Saharan Africa," IMF Working Paper 02/89 (Washington: International Monetary Fund).

Ndukwe, Felix O., 2002, "Promoting Trade: Regional Integration and the Global Economy," Paper prepared for the Conference on NEPAD organized by the IMF Institute in the context of the 2002 program of the Joint Africa Institute (JAI), Dakar, December 9–11.

NEPAD, 2001, "The New Partnership for Africa's Development," October.

NEPAD, 2002a, "The New Partnership for Africa's Development (NEPAD): The African Peer Review Mechanism" (APRM), June.

NEPAD, 2002b, "Summary of NEPAD Initial Action Plans," June.

NEPAD, 2002c, "Declaration on Democracy, Political, Economic and Corporate Governance."

NEPAD, 2002d, "Report to the Heads of State Implementation Committee," July-October.

NEPAD, 2002e, "Communiqué Issued at the End of the Fifth Summit of the Heads of State and Government Implementation Committee (HSIC) of the New Partnership for Africa's Development," Abuja, November.

Nsouli, Saleh, Mounir Rached, and Norbert Funke, "The Speed of Adjustment and the Sequencing of Economic Reforms: Issues and Guidelines for Policymakers," IMF Working Paper 02/132 (Washington: International Monetary Fund).

Organization for Economic Cooperation and Development (OECD), 2002, "Issue Paper on the NEPAD," May (Paris: OECD).

Rodriguez, Francisco, and Dani Rodrik, 2000, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," Macroeconomics Annual 2000, eds. Ben Bernanke and Kenneth S. Rogoff (Cambridge: Massachusetts MIT Press).

Rodrik, Dani, 1997, "TFPG Controversies, Institutions, and Economic Performance in East Asia," NBER Working Paper 5914 (Cambridge Massachusetts: National Bureau of Economic Research).

_____, 1999a, "Institutions for High-Quality Growth: What Are They and How to Acquire Them," paper prepared for the International Monetary Fund Conference on Second Generation Reforms (Washington, DC).

______, 1999b, "The New Global Economy and Developing Countries: Making Openness Work," Policy Essay No. 24 (Washington: Overseas Development Council).

______, Arvind Subramanian, and Francesco Trebbi, 2002, "Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development," unpublished (Boston: Harvard University).

Sako, Soumana, 2002, "The NEPAD Economic and Corporate Governance Initiative: Building Institutions for Sustainable Development," Paper prepared for the Conference on NEPAD organized by the IMF Institute in the context of the 2002 program of the Joint Africa Institute (JAI), Dakar, December 9–11.

Sharer, Robert, and others, 1998, *Trade Liberalization in IMF-Supported Programs,* World Economic and Financial Surveys (Washington: International Monetary Fund).

Sievers, Sara E., 2001, "Competitiveness and Foreign Direct Investment in Africa," in *Policies to Promote Competitiveness in Manufacturing in Sub-Saharan Africa*, eds. Saleh M. Nsouli, Augustin Kwasi Fosu, and Aristomene Varoudakis, pp. 99–110 (Paris: OECD Development Center Seminars).

Srinivasan, T.N., 2002, "Poverty and its Eradication," paper prepared for the Conference on NEPAD organized by the IMF Institute in the context of the 2002 program of the Joint Africa Institute (JAI), Dakar, December 9–11.

_____, and Jaddish Bhagwati, 2002, "Trade and Poverty in the Poor Countries," unpublished.

United Nations, 2002, "Declaration on the New Partnership for Africa's Development," September.

United Nations Economic Commission for Africa (UNECA), 2002, "Ministerial Statement, Issued at the Close of the Conference of African Ministers of Finance, Planning and Economic Development" (October 19–20, 2002) in Johannesburg, South Africa.

Wolf, Thomas, and Emine Gürgen, 2000, Improving Governance and Fighting Corruption in the Baltic and CIS Countries, Economic Issues, No. 21 (Washington: International Monetary Fund).

World Bank, 2000, World Development Report: Attacking Poverty (Washington).

_____, 2001, *Global Development Finance* (Washington).

_____, 2002a, "World Development Indicators" (Washington).

_____, 2002b, World Development Report 2003, Sustainable Development in a Dynamic World, Transforming Institutions, Growth, and Quality of Life (Washington).