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Sessional Committee II

**UNCTAD'S CONTRIBUTION TO THE IMPLEMENTATION OF
THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT
OF AFRICA IN THE 1990s: CAPITAL FLOWS AND GROWTH IN AFRICA**

Draft agreed conclusions 1/

The Trade and Development Board welcomes the report of the UNCTAD secretariat entitled *Capital Flows and Growth in Africa* and, having reviewed the report and subsequent to discussions undertaken in its Sessional Committee II, adopts the following conclusions:

1. The United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF) established an objective of an average annual growth rate of at least 6 per cent in order for the continent to achieve sustained and sustainable economic growth and equitable development, increase income and eradicate poverty. However, the average growth rate attained in the 1990s has only been 2.4 per cent per annum. Notwithstanding the diversity of African economies, it is recognized that sustained economic growth is a necessary condition for poverty reduction, and must be complemented by a conducive national and international economic environment and by a range of social investments and institutional reforms.

1/ Approved at the Committee's informal meeting on 16 October 2000.

2. Domestic savings should, in the long run, be the main source for domestic investment. However, despite significant policy reforms carried out by a number of African countries, current levels of savings and investment in Africa are too low to ensure sufficient investment in human capital and social and physical infrastructure. Measures must therefore be taken to fill this investment gap. These measures could include increased foreign capital flows, both private and official, and institutional reforms to reverse capital flight. Closer cooperation is required at the international level in this regard.

3. Despite extensive efforts by African countries to attract and promote foreign direct investment (FDI), such flows have remained stagnant in terms of total share of global FDI flows at a low level of 1.2 per cent and most of them have been concentrated in a small number of countries. Therefore, despite recent slight increases in total flows of FDI to Africa and on the basis of past and current trends, these flows are unlikely to fill the resource gap in the foreseeable future. FDI in Africa should be encouraged through, *inter alia*, the promotion of cooperation between industrialized countries and Africa. There should be efforts to mitigate the undifferentiated negative perception that prevents reforming countries from reaping the full benefits of their efforts and to attract greater foreign capital flows.

4. The role of macroeconomic stability as a fundamental precondition for mobilizing both domestic and international financial resources must be stressed. Stability, the rule of law and predictable macroeconomic policies, in conjunction with the necessary structural reforms, are essential for fostering a climate conducive to equitable social and economic growth. Financial resources commensurate with the needs of Africa's development are required, and sustained efforts should continue to be made to create the necessary conditions for increasing FDI and mobilizing internal and external resources. Concessional resources of the official development assistance (ODA) type are required in order to address as a priority the structural rigidities which constrain Africa's development effort, especially the development of human resources capacities and poverty alleviation, as well as the extension of physical infrastructure and production capacities. All partners in development cooperation - donors as well as beneficiaries - are encouraged to organize their development assistance more effectively in order to work for

enhanced coordination and complementarity. In order to ensure better and more efficient use of ODA resources, development partners should cooperate to reinforce the absorptive capacity of the recipient countries.

5. ODA remains an important source of external financing in Africa at present, but despite efforts by African countries for a more efficient and better use of it, such flows have continued to decline in the past decade. Current ODA flows represent less than one third of United Nations targets. Efforts should be made to increase ODA in line with these targets, and to maintain a substantial level of ODA flows for a sufficiently long period in order to fill the investment gap. Over the longer term, private capital flows and domestic savings should replace official financing, thereby reducing the aid dependence of African countries.

6. Increasing official flows should be incorporated into a comprehensive development approach which would include other measures such as the swift and effective reduction of the debt burden of African countries enacting appropriate policy and institutional reforms. It is agreed that debt relief assistance should not be provided at the expense of other ODA flows. In spite of various efforts to address the debt crisis, at regional, national and international levels, Africa's external debt has grown at a very high rate. The Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the goal of bringing an additional 10 HIPCs to decision point by the end of the year are a welcome development. The Board notes the UNCTAD Secretary-General's recommendation that consideration be given to the immediate suspension of debt service payments for HIPCs undertaking reform, with no additional interest obligations being incurred in consequence. In this connection, it is recalled that UNCTAD X invited the international community to consider ways and means of identifying that portion of debt assessed as unpayable for possible action by creditors. The success of any debt-relief initiatives depends on the availability of necessary resources and the implementation of economic reform measures. In this regard, African countries are encouraged to continue to implement such reforms, to strengthen transparent and accountable governance, and to commit themselves to using savings from debt relief for poverty alleviation, including the improvement of the social sectors and the rehabilitation of infrastructure.

7. Recognizing the various efforts made by many African countries with the aim of creating a domestic environment conducive to capital inflows, African countries need to adopt where necessary appropriate policies which ensure efficient use of existing and additional resources for the development of human capital and social and physical infrastructure. This includes generally paying attention to shortcomings in markets, institutions and infrastructure. In this connection, the promotion of a dynamic private sector and the conditions for well-functioning markets, as well as the building up of public institutions with necessary capacity to implement macroeconomic policies leading to growth and development, are essential. National ownership and, where appropriate, a more active government role are essential for the success of reform programmes. These programmes should include policies to mitigate the social costs of reform.

8. A comprehensive approach to the development of African economies would be significantly assisted by greater market access for African exports and by the transfer of technology. For African countries to take full advantage of market access opportunities, which is associated with positive externalities, it is imperative to enhance productive capacities and to reduce supply constraints.

9. The report entitled *Capital Flows and Growth in Africa* and a summary of the Board's discussions of the report should serve *inter alia* as an input to the preparatory process for the United Nations High-level Event on Financing for Development as well as for the review of the United Nations New Agenda for the Development of Africa in the 1990s, due to take place in 2002.