

# **AFRICAN DEVELOPMENT REPORT 2005**

**AFRICA IN THE WORLD ECONOMY  
PUBLIC SECTOR MANAGEMENT IN AFRICA  
ECONOMIC AND SOCIAL STATISTICS ON AFRICA**

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## FOREWORD

The *African Development Report*, prepared annually by the staff of the Development Research Department of the Bank, provides an in-depth review of recent macroeconomic performance and structural issues in Africa, viewed from continental, regional and national perspectives. It also assesses the prospects of the African economy in the context of recent global developments. In addition, it provides an in-depth analysis of a topical issue that is critical to Africa's development -- with this year's focus being on *Public Sector Management in Africa*.

With respect to Africa's economic performance in 2004, the Report notes that it improved markedly. The region's GDP growth rate reached an average of 5.1 percent from 4.4 percent in 2003, resulting in a per capita GDP growth of 2.8 percent. This is the highest GDP growth rate recorded for the continent since 1996, and considerably above the average of 3.7 percent for the previous five years. It is also noteworthy that this is the first time in over two decades that the continent has recorded growth rates exceeding 4 percent per annum for two consecutive years. As was the case in the past, growth in 2004 exhibited a considerable variation across individual countries, although the trend, overall, was quite positive. Some 20 countries achieved GDP growth rates exceeding 5 percent and 14 others recorded growth rates of between 3 and 5 percent. Only three countries witnessed negative growth rates, compared with six in the preceding year.

Several factors, both external and internal, contributed to this strong overall economic performance. Externally, Africa's terms of trade improved considerably -- by 6.7 percent -- largely due the rise in oil prices and the further strengthening of the prices of major non-fuel commodities, particularly metals. In addition, the rebound in the global economy along with strong demand from Asia for the region's primary export commodities also boosted the Continent's exports. As a result, Africa's current account improved significantly in 2004, recording a surplus of over \$5 billion. Improved export performance and debt relief measures have contributed to a continuing decline in the debt service ratio for the Continent, which reached 11.8 percent in 2004, the lowest in some two decades. Similarly, Africa's total debt in relation to its GDP continued its trend decline, reaching 43 percent from a high of 76 percent in 1994.

On the domestic front, most African countries made good progress towards sound macroeconomic policies and management. And although much remains to be done, many countries continued to pursue their programs of reforms, including privatization of state-owned enterprises, public sector reforms, and the strengthening of regulatory frameworks. Significant strides in creating a better environment for private sector participation and for attracting foreign direct investment were thus made, with many adopting policies to promote small and medium enterprises.

This combination of policies has resulted in strikingly improved key macroeconomic indicators. For the first time, Africa's average fiscal position produced a balanced outcome in 2004, thanks to the fiscal surpluses achieved by many countries and prudent policies in most. Monetary growth was also quite restrained. These two factors contributed to an average inflation rate of 7.7 percent, the lowest in over two decades.

While welcoming the improved economic performance of the African economy, it should nonetheless be noted that the overall GDP growth rate is still below the 6-8 percent required to achieve the Millennium Development Goals (MDGs). Indeed, on current trends only the countries of North Africa and Mauritius are likely to attain the goal of halving by 2015 the number of people living below the poverty line, although a number of others may meet some of the education and health MDGs. Clearly, African countries would need to build on the achievements of the recent past and accelerate their economic and social progress. This would require a number of policy measures.

First, it is essential that peaceful and stable conditions are maintained or restored. Second, countries would need to sustain the prudent macroeconomic policies that they have begun to implement as well as deepen their reform programs. In particular, financial sector and governance reforms are critical to create a more favorable climate for the growth of the private sector. Third, in an era of globalization, it is imperative that African countries strengthen their regional cooperation and integration arrangements, particularly in the context of the NEPAD initiative. And fourth, African countries would need to give high priority to combat the HIV/AIDS pandemic.

In all such efforts, African countries will continue to need the support of the international community. Such support is particularly critical with respect to official development assistance (ODA), debt reduction, and enhanced market access for Africa's exports. With respect to ODA, there have been sizeable increases in ODA to Africa in recent years, although much of it accounted for by debt relief. Despite these developments -- and as the recent report of the UN Millennium Project makes clear -- ODA stills falls short of what is required for Africa to be on course towards attaining the MDGs. It is therefore essential that the donor community take further action to increase ODA in line with the pledges it had made earlier at Monterrey and other fora.

Progress has also been made in terms of reducing Africa's external debt burden -- in part due to the HIPC initiative -- but more needs to be done. In this regard, the United Kingdom has proposed further action by providing additional debt relief on the debts owed by post-completion HIPC countries to the international financial institutions. It has also indicated its willingness to finance its share. Canada has supported this initiative and other countries should follow suit. And with respect to external trade, the WTO July 2004 Framework holds the promise of eliminating the tariff and non-tariff barriers for Africa's exports as well as reducing the trade-distorting agricultural subsidies of industrial countries.

Meeting the development challenges of Africa requires the state to be an effective regulator, facilitator and provider -- the topic that the African Development Report deals with extensively this year. The Report addresses these and other public sector management reform issues in Africa and provides a number of recommendations.

The Report notes that a development-oriented state needs a strong administrative capacity, with an efficient, open, and accountable public service. This is critical for designing and implementing sound policies, managing the public sector, regulating the private sector and

providing key services – particularly in public health, education and some infrastructure services -- where the private sector may be reluctant to invest. To perform these essential development functions more effectively, African governments would need to build a public service capable of understanding the challenges of development, evaluating development policy proposals, and effectively implementing them.

Clearly, these tasks are best performed under conditions of good political and economic governance. By contrast, lack of accountability and transparency, and corruption often serve to undermine competitiveness, economic growth and development. Despite the significant progress that most African countries have made in the past decade in developing and institutionalizing democratic institutions much remains to be done. In particular, African governments would need to redouble their efforts to fight corruption.

In assessing public sector management reforms in Africa, the Report finds that good progress has been made in a number of countries. Nonetheless, the process of rationalizing the role of the state and adapting it to the requirements of a modern competitive economy remains a major challenge in many. A number of factors have contributed to this state of affairs. Past approaches to public sector management reforms have often relied heavily on strategies that failed to take account of the historical legacies and peculiarities of individual countries. Reform efforts have also often over-emphasized one facet of reform over others.

Given the limited success of such approaches, the Report recommends the adoption of a broader and long-term approach that takes into account the specificities of each country. Of critical importance in this regard is the need to mobilize political support among all stakeholders. In addition, success in public sector management reform requires a clarity of vision, the development of well-trained and professional administrators, and effective collaboration with all relevant stakeholders. A critical challenge in this regard is developing an effective incentive system to attract and retain skilled administrative officials. Clearly, when the incentive structures in the public service remain unattractive, its efficiency as well as ability to effect policies will remain very low. To effect successful public sector management reforms, many African countries would continue to rely on increased support from the international community, not only in terms of financial support to finance key reforms but also in terms of having access to much-needed technical expertise.

As in past years, this year's *African Development Report* provides rich reference material on the African economy and on public sector management reforms in Africa. I am confident that policy makers, researchers, and representatives of the civil society and the private sector on the continent and elsewhere will find the information and analysis useful.

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**President**  
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