G8 Action Plan for Private Sector Led Growth in Africa: Improving the Investment Climate and Strengthening the Financial Sector
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1. According to recent estimates, growth accounts for approximately 80% of the poverty reduction that has occurred over the last 15 years, lifting 500 million people around the world above the poverty line. Growth among emerging and developing economies has been generally strong with activity driven by a robust global growth, sound economic reforms, and strong domestic private demand in recent years. In 2007, growth in these economies reached 7.8 percent and is expected to remain robust at around 7 percent in both 2008 and 2009, despite the recent turmoil in financial markets.

2. This encouraging growth, however, is still susceptible to exogenous factors, including rising food and energy prices, which pose great challenges to the most vulnerable populations, especially in Africa. We are committed to working together with African countries to maintain and strengthen this favorable momentum as well as to honouring our existing committments to double aid to Africa and cancel 100 per cent of debts for eligible Heavily Indebted Poor Countries (HIPCs) to the IMF, the World Bank and the African Development Fund. This will be a key contribution to attaining the MDGs.

3. To maintain the favorable momentum of high growth and to stem unfavorable headwinds, fostering private-sector led growth supported by a sound policy framework is indispensable. While aid and debt forgiveness make an important contribution to poverty reduction, long-term durable reductions in poverty require a sustained process of growth driven by private-sector activity. Each developing country needs to have a specific and appropriate poverty reduction and growth strategy, tailored to the individual country circumstances and opportunities, at the heart of its national development. We propose to focus our support on the following two pillars: improving the investment climate and strengthening the financial sector.

Improving the Investment Climate

4. Building reliable infrastructure is crucial to encourage growth. According to the World Bank, Sub-Saharan Africa needs US$18 billion a year in infrastructure investment to achieve the economic growth target needed to halve extreme poverty in the region by 2015. In particular, facilitating the trade of landlocked countries should be a priority. We therefore are increasing contributions to develop cross border infrastructures such as transport corridors and electricity networks, and port and storage facilities, and to promote PPP (public private partnerships) in building reliable infrastructures. We welcome the AfDB's expansion of infrastructure financing including through the EPSA (Enhanced Private Sector Assistance), the European Union's support for infrastructure through the 10th EDF (European Development Fund), and the World Bank's Sustainable Infrastructure Action Plan. We call on MDBs (Multilateral Development Banks) and the ICA (Infrastructure Consortium for Africa) to work together with African governments to

build Africa's institutional capacity to develop, implement and manage economically sustainable infrastructure projects. We continue to believe that particular attention should be paid to developing regional economic communities' capacity in the field of planning and implementation of cross-border infrastructure projects.

5. Raising productivity across the board is vital. Capacity building of SMEs (small and medium sized enterprises) should be encouraged. SMEs make up the bulk of Africa's businesses. Based on recent investment climate surveys, firms with less than 50 employees represent about 88% of private sector production in Africa. However, broad-based entrepreneurship remains lacking in many countries. We will help African governments facilitate the expansion of emerging industrial clusters and improve their opportunities to compete in global markets. We support the AfDB's work in setting up a framework to dispatch appropriate SME specialists to assist with the capacity building of SMEs. It is also essential to improve productivity in the agricultural sector to help address high food prices.

6. We affirm the importance of good financial governance for supporting sustainable pro-poor growth and boosting investor confidence in Africa. To send a positive message to potential investors, fairness and transparency in taxation, procurement, and concession-letting, as well as reliability in the reporting of public economic, monetary and fiscal data are important. We continue to encourage countries to make publicly available the results of independent diagnostic work on their public financial management systems. We will also support governments in maintaining the sustainability and improving the management of public debt.

7. We stress the importance of long-term fiscal discipline for resource-rich countries in order to realize the full potential of internal financing for development. We ask the IMF, working closely with the World Bank, to bring together the latest experiences of managing resource revenues and make advice available to partner countries. It is crucial to transform resource revenues into productive investments, including in education and infrastructure. We recognize the usefulness of EITI (Extractive Industries Transparency Initiative) as a framework for improving the accountability and transparency of revenues from extractive industries. In order to fully realize EITI's potential, we call on candidate countries to complete the validation process in a timely manner. We urge its Secretariat to focus on assisting countries to that end and to support the international extractive industries in implementing this initiative.

8. National regulatory frameworks should be strengthened to attract and retain private capital. Complicated regulatory barriers reduce incentives for African entrepreneurs to enter the formal economy. While a few African countries are making progress in simplifying business regulations, much is still to be done in most others. To this end, we encourage countries to use surveys, such as the World Bank's "Doing Business Reports," as indicators of possible barriers to business and of reform efforts. We renew our commitment to the existing technical assistance facilities focusing on the promotion of anti-corruption enforcement, and the reform of regulations, taxation and customs, such as the IFC (International Finance Corporation)'s PEP (Private Enterprise Partnership) Africa, the World Bank's FIAS (Foreign Investment Advisory Services) and the multi-donor ICF (Investment Climate Facility). In order to identify the most relevant and efficient reform paths, we will encourage the IMF to work further on the issue of capital flight.

9. A focus should be put on securing property rights and expanding access to the formal economy. The majority of economic activity in developing countries is outside of the formal economic system. Insecure property rights limit access to credit and incentives for investment. Efforts to better secure property rights and enhance the poor's access to the formal economy have the potential to produce large, measurable returns. We will ask the World Bank to take stock of their current efforts to develop property rights systems in countries and report to us on the lessons learned. We will also ask the World Bank, in conjunction with other appropriate bodies, to examine the feasibility, including a cost analysis, of developing best practices to guide policy reforms in the areas of property rights and access to the formal economy, while respecting traditional property rights systems.

10. We will continue to help African countries' efforts to promote trade and to support African countries improve their customs and relevant border services by promoting "One Stop Border Post" through technical assistance in collaboration with the World Customs Organization. More broadly through implementing our commitments on "Aid for Trade", we will address constraints on capacity to trade by providing support in a range of areas such as trade policy reform, trade-related infrastructure and trade facilitation. In particular, we will aim to improve and deepen regional integration to enlarge regional markets and south-south trade.

11. We will ask the World Bank and the AfDB, in cooperation with the ICF and noting the report of the Spence Commission on Growth and Development, to study how to address comprehensive investment climate reform in Africa, and report back to us at the next G8 Summit Finance Ministers' Meeting.

Strengthening the Financial Sector

12. Better access to financial services is key to enhancing the economic well-being and financial security of households. It is also crucial for promoting SMEs' activities and, at an even earlier stage, enabling entrepreneurs to launch their first business venture. We welcome recent improvements, but banking systems in Africa are small in absolute terms and are insufficiently responsive to the needs of poor households, micro-enterprises, and SMEs. Building stronger institutional and regulatory capacity, including for the principles of bank operations, is central to achieve increased access to financial services. In addition, African borrowers often either fund long-term investments with short-term liabilities in local currency, or they resort to long-term, hard currency debt from international investors. Both options create a financial mismatch that often results in unforeseen costs and risks. We initiated the "Partnership for Making Finance Work for Africa" to assist African countries in strengthening their financial markets and to facilitate coordination among development partners in the financial sector.

13. We will support capacity building of local banks. We back the AfDB's capacity building of local banks including through the EPSA, and encourage a wider use of risk mitigation schemes such as guarantees of bank credit to SMEs. We will expand local currency financing for African borrowers, especially SMEs. We note the activities of TCX (The Currency Exchange Fund) which offers currency and interest rate derivatives for investment in developing countries.

14. We will boost the development of local bond markets. Considering the huge financial demands for infrastructure development and private sector activity, deep and well functioning local currency bond markets are key to reducing local enterprises' dependency on loans and broadening financial opportunities. We continue to emphasize the importance of technical assistance for local bond markets development in African countries. Applying the knowledge and experiences gained through initiatives in Asia, such as the ABMI (Asian Bond Markets Initiative), may be useful. We will also back MDBs' programs that invest in local currency bonds in developing countries and provide technical assistance to governments, regulators and market participants.

15. We will continue to encourage private investment in African countries. Private capital flows to Africa have increased significantly in recent years as investors take advantage of Africa's benign macro-economic conditions, comparatively high yields, and improving investment climate. In 2006, net private capital flows ($39.8 billion) exceeded bilateral aid grants ($36.9 billion) for the first time since 1999. Maintaining private capital flows to Africa and diversifying them across countries, including fragile states, and to non-extractive industries is critical. We will boost bilateral and multilateral supports for investment funds which provide smaller African companies with long-term financing. Such supports can help leverage participation from private investors who would be otherwise reluctant to commit their funds. The knowledge, skills and remittances from African diasporas should also be better mobilized. With respect to remittances, we are looking forward to progress along the line with the G8 conference recommendations. We will continue to strengthen the initiative to facilitate remittance flows, which focuses on improving data, development impacts, remittance services, access to finance, and innovative channels.