



## Preface

This year's edition of the AEO contains, once again, grounds for optimism regarding the continent's sustained economic development. Backed by favourable commodity prices, increased aid flows, debt forgiveness and, most importantly, the implementation of needed reforms, economic performance improved in many African countries in 2006.

Many African governments have taken promising steps towards restructuring their countries' economies. In many countries, democracy is becoming deeply rooted, leading in turn to increased participation by civil society in the political process. Substantial progress has been achieved towards regional co-operation supported by the NEPAD initiative, under the auspices of the African Union. We are also pleased to note that the first three of the African Peer Review Mechanism (APRM) reviews have been completed, signifying in concrete terms the beginnings of a sustained commitment to improved political and economic governance. Furthermore, there appears to be a resurgent commitment on the part of the international community to support African efforts to mobilise resources for investment in infrastructure through the Infrastructure Consortium for Africa. These recent developments provide a sound basis for future economic progress.

Access to drinking water and sanitation is the topic of special focus for this edition of the report. It is to be deeply regretted that few African countries are on track to reach the Millennium Development Goals set for these areas. In order for sub-Saharan African countries to reach the drinking water MDG by 2015, annual growth in the number of people provided with access to safe drinking water would need to triple. For the same countries to meet the MDG for access to sanitation, a further 35 million people annually would need to be provided with access to it; this is to be compared with the current pace of 7 million. Financing remains a major issue: government financing, private-sector participation and development assistance have been largely insufficient to cover the scale of investments needed.

Within this generally disappointing panorama, many outstanding examples of good performance have nevertheless been identified. The experiences of the good performers in water and sanitation show that moving forward requires ambitious reforms in institutions, legal frameworks and policies in order to change the structure of incentives. They also point to the enormous benefits of strengthening capacity on the ground, notably at local level where most water management is undertaken, and developing monitoring mechanisms to follow progress and adopt corrective measures as necessary. They also demonstrate the need for cross-subsidisation between wealthier and poorer users, and between water and sanitation, as well as the identification of those polluting industries that should bear the costs of abatement. On the issue of financing, public-private partnerships need to be encouraged and international effort has to be redoubled to mobilise resources for water and sanitation in Africa.

Looking ahead, economic prospects for 2007 and 2008 are in aggregate positive, though, in view of the likelihood of a softening in non-oil commodity prices, substantial differences are expected between the experiences of net oil-exporters and oil-importers. Resource-rich countries will need to ensure that a large part of the windfall gains now accruing to their treasuries due to favourable terms of trade is directed towards supporting medium- and long-term development: emphasis will need to be placed on investments in infrastructure and human capital. Net oil-importing countries will need to ratchet down inflation to single-digit levels while minimising the impact on growth.

Though the economic prospects are broadly favourable, most countries are of course starting from a very low base. Human security continues to be severely affected by the vulnerability that accompanies extreme poverty. Exacerbated by weak governance structures and by internal conflicts, this vulnerability is holding back private-sector development and continues to impede the integration of African countries into the global economy. The added impetus to the international community's support to Africa given by the G8 Summit in St-Petersburg has therefore been essential; the decision of the German presidency of the European Union to maintain this impetus at Heiligendamm is to be warmly welcomed.

We are pleased that our two organisations have succeeded over the past six years in steadily increasing the usefulness of the AEO in improving understanding of the changes that are shaping the economy of Africa. We are proud to announce that this collaboration will continue in the future with the African Development Bank taking the lead role in this partnership beginning with the 2007/2008 edition.

Donald Kaberuka  
President, African Development Bank  
Tunis

Louka T. Katseli  
Director, OECD Development Centre  
Paris

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