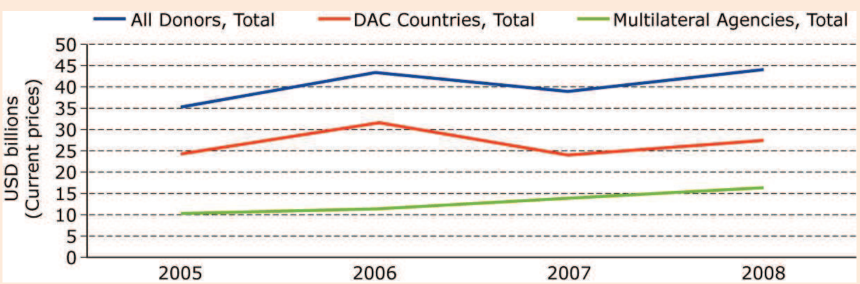
Aid to Africa

Policy brief no.1 - October 2010

Africa receives a greater share, at 36%, of total global aid than any other part of the world. Over the past four decades, aid to Africa has quadrupled from around US$11 billion to US$44 billion,[1] with a net increase of almost US$10 billion during the period 2005-2008 alone (Figure 1).



Source: OECD DAC statistics 2010.
Note: * Includes debt relief (mostly to Nigeria), which accounts for the peak in 2006

The accelerating pace of aid to Africa, as measured by the conventional benchmark of Official Development Assistance (ODA),[2] is a direct result of commitments made by the world's major aid donors at the G8 Gleneagles and UN summits in 2005 to increase aid to the continent generally and to Sub-Saharan Africa in particular.

But while aid to Africa has reached record levels, it has fallen well below international commitments. Current forecasts suggest a US$14 billion shortfall on the original Gleneagles estimate that aid would increase by US$25 billion a year from 2004 to 2010. Much of this additional ODA was destined for Sub-Saharan Africa where, despite strong increase in other inflows (such as foreign direct investment and domestic resources), aid still makes an important contribution to government revenues.

In an era of global financial crisis and amidst concerns over the effectiveness of aid, Africa is confronted with new challenges and opportunities regarding the use of aid for development.

This document is part of a series of policy briefs produced by the United Nations Office of the Special Advisor on Africa (OSAA) and the NEPAD-OECD Africa Investment Initiative for African policymakers and their development partners. The policy briefs provide an overview of key economic and development issues affecting Africa today. They are available at www.un.org/africa/osaa, and at www.oecd.org/daf/investment/africa. For more information, please contact: David Mehdi Hamam, Chief (OSAA) at hamamm@un.org or Karim Dahou, Executive Manager (NEPAD-OECD Initiative) at karim.dahou@oecd.org.

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The changing role of aid to Africa

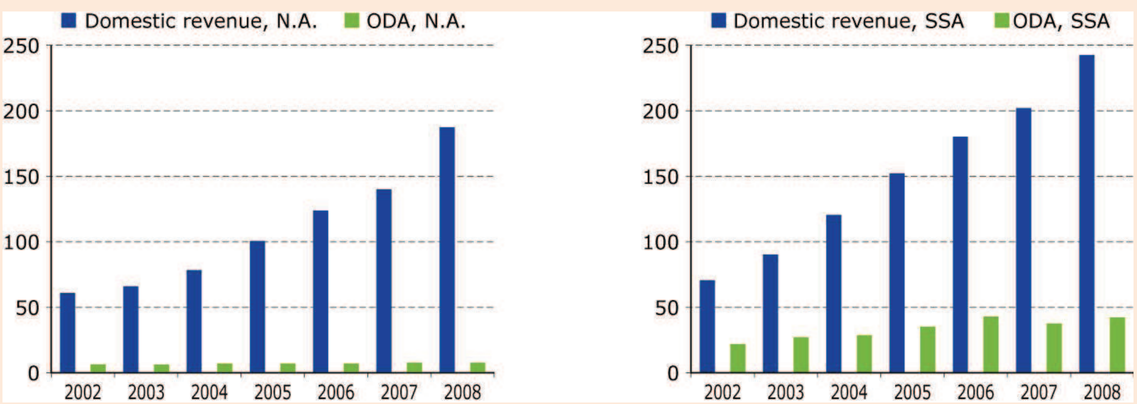
Total resource flows to Africa remain less diversified than in other developing regions, with a relatively smaller share of other resource flows (e.g. foreign direct investment, bank lending, remittances, bonds and portfolio equity) compared to ODA.

While aid as an average proportion of domestic revenue has been declining over recent years (Figure 2), ODA still plays a significant role in Sub-Saharan Africa, especially in the least developed and resource-poor countries which have not seen significant increases in their revenue base.

In addition to domestic resources, other flows such as remittances, foreign direct investment[3] and private aid[4] are becoming increasingly prominent components of African development finance.

Broken down into sectoral allocations and excluding debt relief, ODA to Africa is directed mostly to the social sector (45%), followed by economic infrastructure (15%) and the rest split between production sectors, general programs, debt, humanitarian and other needs. Table 1 shows the African countries which receive the most ODA, and the bilateral and multilateral donors who give the most ODA to Africa.

Figure 2. Net ODA versus Domestic Revenue in North Africa and Sub Saharan Africa (in US$ billion, nominal)



Source: Adapted from Africa Partnership Forum update report on "Development Finance in Africa", 2010. Domestic revenues cover tax and non-tax resources mobilized by the central government. Aid is covered under development assistance. The figures for sub-Saharan Africa include South Africa. The figures for North Africa are based on the African Union definition (i.e. covering Algeria, Egypt, Libya and Tunisia. Morocco has withdrawn its membership from the African Union and is not included here.

Impact of the Crisis

The global financial crisis has had an adverse impact on the continent, notably in Sub-Saharan Africa, where real GDP per capita contracted in 2009 for the first time in a decade. The International Monetary Fund estimated that the sharp downturn in domestic revenue, * combined with declining export revenue and remittances as well as a loss of access to international capital markets, highlighted the critical need for more resources from the international community, including through increased ODA. Yet projections for 2009 and 2010 suggest that aid disbursements in Africa will fall short of previous commitments. International organizations also stress the importance of maintaining momentum on improving tax collection to mitigate the impact of the crisis on domestic revenue. In addition to reaffirming OECD commitments to aid, open trade and investment markets, the G20 has agreed to review the need for a capital increase for the African Development Bank in the first half of 2010. Other responses include a new crisis response window in the World Bank's International Development Association (IDA), and early commitments for ambitious replenishments of IDA and the African Development Fund.

* The International Monetary Fund estimated that it amounted to about 5% of GDP for sub-Saharan Africa in 2009 compared to 2008 – IMF (2009). Regional Economic Outlook for sub-Saharan Africa (October 2009).

Table 1. Top ODA recipients and donors to Africa

Top 10 African ODA recipients USD Million, net disbursements in 2008 and country share in total			
1	Ethiopia	3 327	8%
2	Sudan	2 384	5%
3	Tanzania	2 331	5%
4	Mozambique	1 994	5%
5	Uganda	1 657	4%
6	Congo, Dem. Rep	1 610	4%
7	Kenya	1 360	3%
8	Egypt	1 348	3%
9	Ghana	1 293	3%
10	Nigeria	1 290	3%
	Other recipients	25 411	58%
	Total	44 005	100%

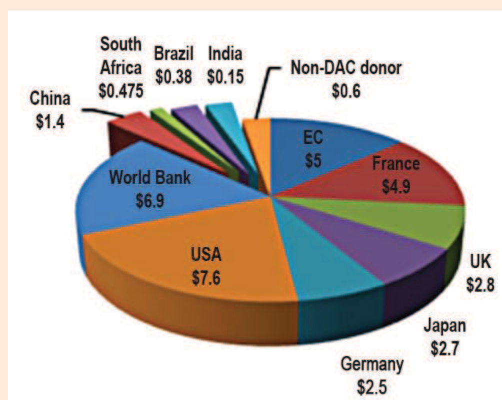
Top 10 ODA donors to Africa USD Million, net disbursements in 2008 and country share in total			
1	United States	7 202	16%
2	EU institutions	6 012	15%
3	IDA	4 053	9%
4	France	3 370	8%
5	Germany	2 703	6%
6	United Kingdom	2 594	6%
7	AfDF	1 625	4%
8	Japan	1 571	4%
9	Netherlands	1 516	3%
10	Global Fund	1 372	3%
	Other donors	11 986	27%
	Total	44 005	100%

Source: OECD DAC Statistics

It is more difficult to determine how much aid comes from non-OECD donors and emerging economies. Current evidence suggests that development aid and South-South co-operation from these sources is growing rapidly and may represent a significant share of global aid flows. In many cases, these "new" donors have been recipients of ODA in the past and therefore experienced aid from the recipients' point of view. This experience can lead to exchanges and potentially effective relationships between "new" donors and African partner countries. The OECD Development Assistance Committee (DAC) has been tracking non-OECD donors' aid flows for several years, but some of the most significant providers of development assistance to Africa, such as China, India, Brazil and South Africa, do not report to the DAC. These non-OECD donors also tend to use different categories or benchmarks in accounting for development spending, making direct comparisons with OECD countries difficult. Despite this significant caveat, it is nonetheless important to attempt some assessment of aid flows from all of Africa's major donors.

Figure 3 uses official reporting of ODA to the DAC as well as other sources to estimate the aid flows from OECD countries and emerging economies.

Figure 3. Major Donors' ODA Commitments*/South-South Co-operation to Africa (2007 figures in US$ billion)



Sources: OECD DAC Statistics; World Bank Annual Reports. Figures for China, India, Brazil and South Africa are combined estimates from these sources and Brautigam, D (2009).

*Includes loans and grants.

Policy challenges and opportunities

There are two important and inter-linked challenges for the future of development aid to Africa. In a context of rapid decline in the share of ODA compared to other resources, the first challenge is to use aid to leverage other flows in order to meet development objectives. The 2002 Monterrey Conference on Financing for Development and its follow-up meeting in Doha in 2008 signaled a tide change in international thinking on the role of aid in development.

While welcoming increased aid commitments, [5] the Monterrey Consensus and the Doha Declaration stressed the importance of mobilising domestic resources, increasing foreign direct investment and other private flows, and promoting international trade as an engine for development. In this light, ODA is seen as a means of leveraging other flows to ward off aid dependency and catalyse a more holistic approach to development.

The second challenge is to improve aid effectiveness. This has been highlighted as a key area for action for both aid donors and aid recipients. Over the past decade, a series of declarations (most recently the 2005 Paris Declaration on Aid Effectiveness and the 2008 Accra Agenda for Action), together with the formation of coalitions such as the International Aid Transparency Initiative (IATI), have maintained pressure on improving the quality of aid. Results show significant improvements in some areas (such as untying aid and in the health sector), but also slow progress in others (for example, in delivering aid on schedule and through country systems). These new challenges require improved tools to monitor the impact of aid and measure progress towards the United Nations Millennium Development Goals. The most important of these tools is Country Programmable Aid (CPA),[6] which tracks the portion of aid for which donors can be accountable "as programmed" and over which recipient countries have a significant say. It has become a powerful tool for improving the quality and predictability of aid to Africa and other regions.

Outlook and prospects

Looking forward, the international aid architecture can be expected to change, as non-OECD (i.e. non traditional) donors take on a bigger role; as South-South Co-operation becomes more pronounced; and as innovative funding mechanisms are brought to bear on Africa's development plans. All the same, aid will continue to be an important tool for Africa's progress, especially for the poorest countries. Therefore, efforts to improve the quantity and quality of aid should be strengthened and new ways of using aid to leverage other sources of development finance found.

Notes

1 The US$44 billion figure is based on the most recent (2008) ODA reporting to the OECD's Development Assistance Committee.

2 "Aid" is a broad term but the headline measure for international aid spending is Official Development Assistance. This covers grants and soft loans (with a grant element of at least 25%, calculated using a discount rate of 10%) from government agencies, to support the economic development and welfare of the recipient countries. It does not include other official and private flows such as trade finance, export revenues, remittances, bank lending, foreign direct and equity investment that have increased strongly in recent decades and now largely outstrip aid flows to most countries, except the very poorest.

3 Foreign direct investment to Africa in 2008 is recorded as US$ 88 billion, their highest historical level (Source: UNCTAD). Worker remittance flows increased from US$ 11.2 billion in 2000 to US$ 40.8 billion in 2008 (UNECA). Private equity is present only in South Africa but a number of middle-income countries have issued bonds.

4 Private international giving as reported to the OECD showed a strong upward trend in grant making, rising to US$18.6 billion in 2007 and the full extent of aid from philanthropic foundations and corporations may be somewhat larger, depending on coverage and valuation choices.

5 EU-15 donors have committed to achieve the UN target of 0.7 percent of GNI by 2015 and an interim target of 0.56 percent of GNI by 2010, with a minimum country target of 0.51%.

6 Country Programmable Aid (CPA) measures the amount of ODA that can be programmed at the country level, excluding debt relief, humanitarian aid, NGO funding and administrative, imputed student and refugee costs in donor countries.