

INTER-AGENCY TASK FORCE
ON FINANCING FOR DEVELOPMENT

Issue Brief Series

**The increasing importance of
quality development aid**

Economic Commission for Africa (ECA)

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The increasing importance of quality development aid¹ Economic Commission for Africa (ECA)

1. Introduction

The Addis Ababa Action Agenda (AAAA) highlights the importance of Official development assistance (ODA) for the poorest and most vulnerable countries by reiterating the fulfilment of all ODA commitments, including the commitment by many developed countries to achieve the target of 0.7 per cent of ODA/GNI and 0.15 to 0.20 per cent of ODA/GNI to least developed countries (LDCs)². Commitment was also made to reverse the recent decline in ODA to LDCs and to encourage ODA of 0.2 per cent of GNI to LDCs. The agenda stresses the importance of the catalytic role of ODA to foster domestic revenue mobilization through enhancing the capacity of tax collection and administration as well as strengthening the enabling environments. The Addis Tax Initiative, which was launched at the third International Financing for Development conference in Addis Ababa in July 2015 by more than 30 countries and international organizations, also calls for substantial additional development cooperation to enhance domestic revenue mobilization, with donors commitment to collectively double their technical cooperation in the area of domestic mobilization/ taxation by 2020.

2. Stocktaking

2.1 Although many donors' commitments remain unfulfilled, ODA flows to Africa has been generally rising

Total net ODA flows to Africa was at a record high of US\$57 billion in real terms in 2013 though it substantially declined the following year. In real terms, total net ODA to Africa was steadily rising since 2010, though it declined by 5 per cent in 2014 following the sudden rise by over 9 percent in 2013 (see figure 1). During 2012-14, 47 per cent of the total net ODA to Africa went to the top ten recipients, five of which are LDCs that shared close to one-fourth of the net ODA flows to the region during the same period³. However, commitments on delivering ODA remain unfulfilled, including promises made to LDCs.

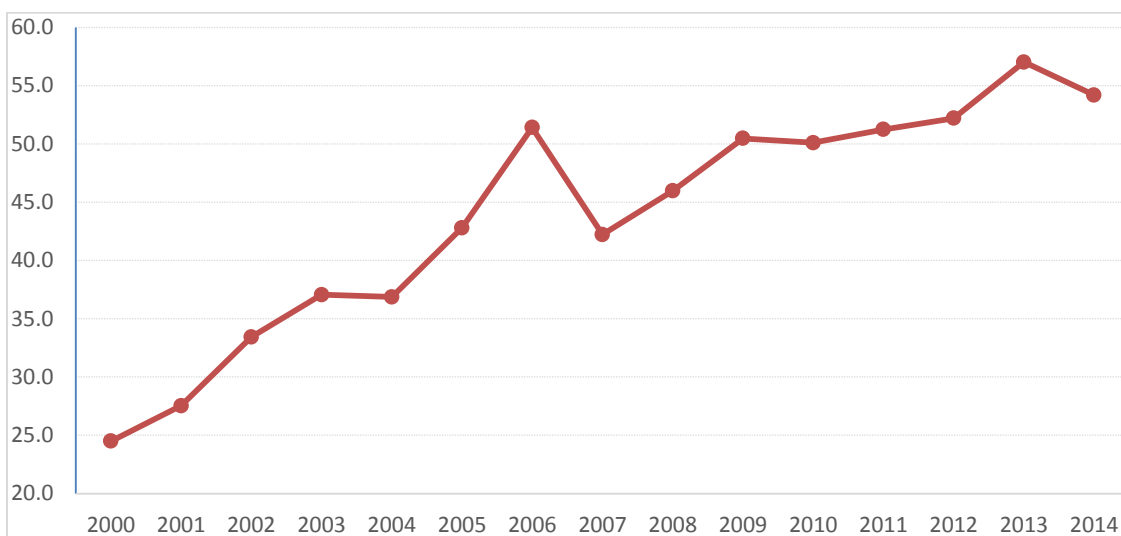
¹ By Derrese Degefa and Jean Abel Traore.

² GNI stands for Gross National Income of donor countries.

³ The top 10 recipients (with share of total flows to the region) of net ODA flows to Africa during 2012-2014 are Egypt (7%), Ethiopia (7%), Tanzania (5%), Kenya (5%), Democratic republic of Congo (5%), Nigeria (4%), Mozambique (4%), Morocco (4%), Uganda (3%) and Cote d'Ivoire (3%) and the five LDCs in the top 10 recipients are Ethiopia, Tanzania, Democratic republic of Congo, Mozambique, and Uganda.

Moreover, preliminary results from the 2016 DAC Survey on Forward Spending Plans⁴ indicate that the Country Programmable Aid (CPA) to LDCs and other Low-Income Countries increased by 3% in real terms in 2015 compared to 2014. CPA to Africa (excluding North Africa) grew by 5% in 2015 with increases from both bilateral and multilateral sources. The same survey reveals that Aid is expected to rise significantly for LDCs and Africa up to 2019 while this increase will be limited for Land-locked developing countries (LLDCs) and Small Island Developing States (SIDS). In fact, the trend of net ODA flows to SIDS has been falling since 2010 while the trend was more or less stable for land-locked countries (figure 2).

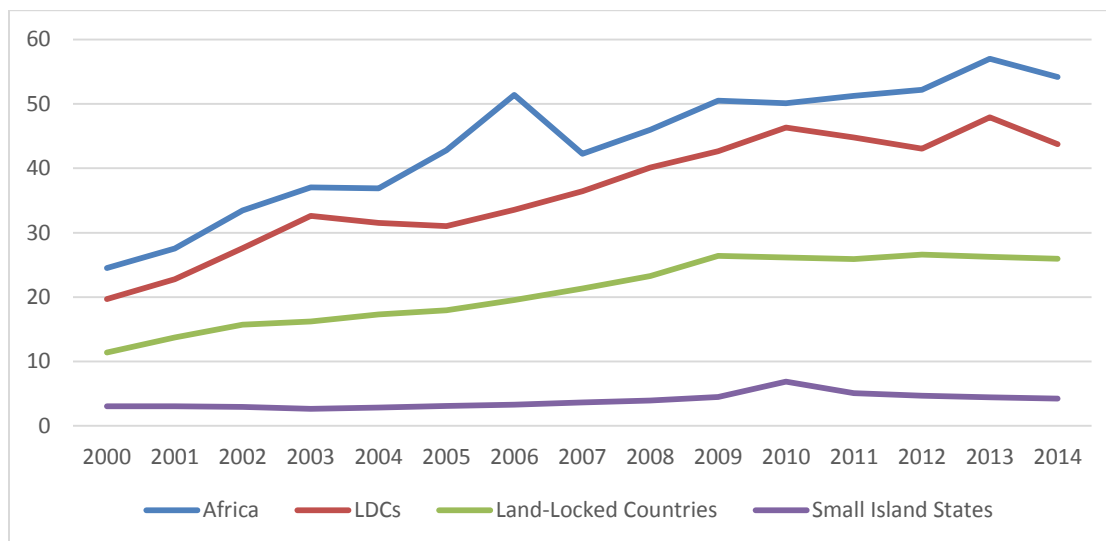
Figure 1: Total Net ODA flows to Africa, 2000-2014, US\$ billions, constant prices



Source: OECD Dataset on ODA disbursements to countries and regions

⁴ <https://www.oecd.org/dac/financing-sustainable-development/documentupload/FSS%202016%20flyer.pdf>

Figure 2: Net ODA received by priority groups of countries from all donors, in constant 2014 USD billions

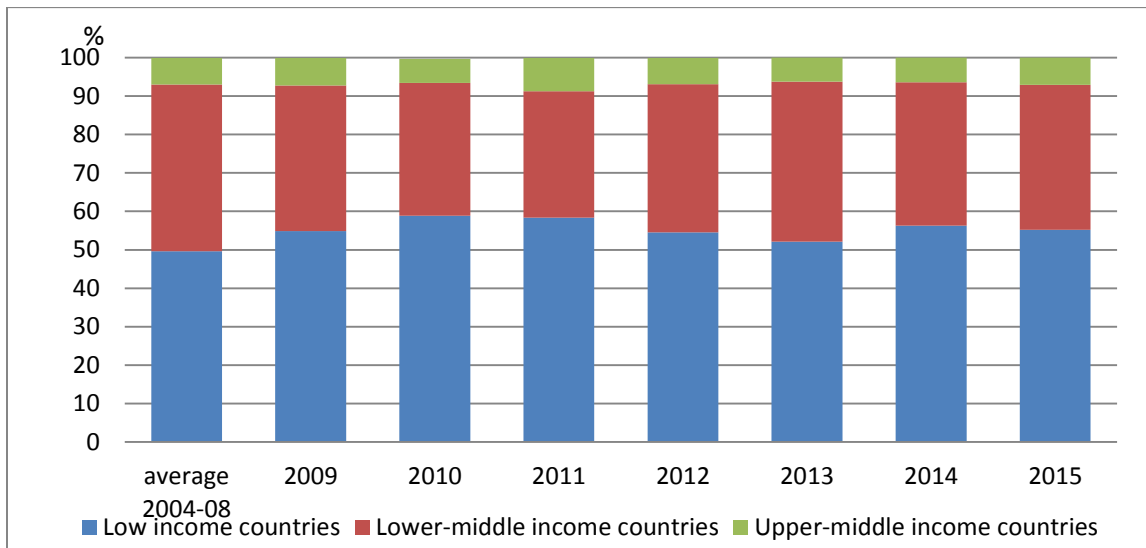


Source: <http://stats.oecd.org/>, Accessed July 2016

More than half of ODA to Africa goes to low-income countries (LICs)⁵, with the LIC's share of Africa declined from a peak of 58.9% in 2010 to 52.1% in 2013 though there was a slight rebound in 2014. ODA to African LICs has remained stable at roughly US\$ 27 billion during 2011 - 2014. In 2015, it is estimated to have risen to US\$ 27.5 billion. According to CPA projections, the distribution of ODA to low-income, lower-middle income and upper-middle income African countries is expected to remain the same in 2016.

⁵ AfDB/OECD/UNDP (2015). *African Economic Outlook 2016: Sustainable Cities and Structural Transformation*. OECD Publishing, Paris.

Figure 3: Net ODA disbursements to African countries by income group, 2004-2015

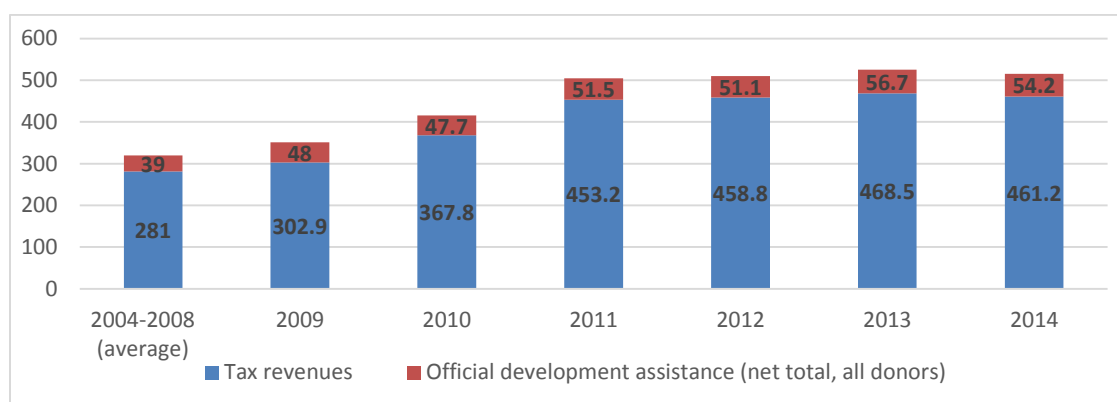


Source: African Economic Outlook 2016

2.2 ODA’s sectoral distribution and its catalytic role in fostering DRM

Sectoral allocation of bilateral ODA commitments to Africa has changed considerably. In particular, debt relief efforts dissipated clearly since 2005, opening up more interventions in the social and economic sectors. Although total net ODA to Africa remained far below the domestic revenue mobilized on the continent (see Figure 3), it continues to play complementary role of achieving the sustainable development agenda of the region.

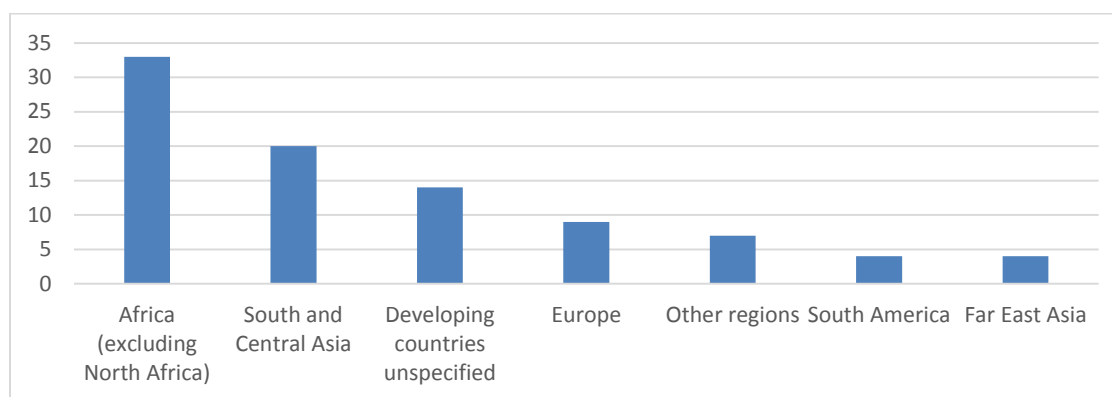
Figure 4: ODA and Tax revenues to Africa, 2004-14, current USD billion



Source: African Economic Outlook 2016

Given the limited role of ODA, an increasing attention has been given to core ODA for domestic resource mobilization in recent years. However, ODA directed at capacity development for domestic revenue mobilization has remained volatile since 2006 and attracted a minimal share of only 0.06 per cent of the total ODA flows to developing countries in 2012 and 2013, down slightly from 0.07% in 2011 (Development Initiatives 2016).

Figure 5: Core aid for domestic revenue by region (USD millions), 2013



Source: Development Initiatives' calculations based on OECD DAC

In 2013, more than a third of core aid for domestic revenue mobilization in developing countries went to Africa (excluding North Africa) (see Figure 4). In the same year, Tanzania and Mozambique were among the top three largest recipients of the total core aid for domestic revenue mobilization to developing countries. This international support—through core aid for domestic revenue mobilization—has resulted in positive impacts. For instance, Mozambique has more than doubled domestic revenue mobilization in five years from 52.1 billion Metical in 2008 to 138.5 billion Metical in 2013⁶. Further, tax to GDP ratio⁷ increased steadily from 9.4% in 2000 to 22.9% in 2013. Likewise, Tanzania's tax to GDP ratio increased from 7.6% in 2000 to 12.2% in 2013. In Rwanda, total tax revenues as a share of GDP almost doubled during 2000-2013, by rising from 8.7% in 2000 to 16.7% in 2013.

3. Policy options and recommendations

3.1 Donors should deliver on commitments and enhance effective partnership with African countries

Official development assistance will remain a key source of external finance for the implementation of Sustainable Development Goals (SDGs). It remains important to address the needs of the poorest and most vulnerable African countries, particularly those countries that

⁶ Development Initiatives calculations based on data from IMF Article IV publications.

⁷ Source: World Revenue Longitudinal Data (WoRLD), June 2015.

have limited capacity to raise domestic public resources, such as LDCs, SIDS and countries emerging from conflict (AU & ECA 2015).

While donor countries will have to reaffirm their commitment to reach the UN target of 0.7 per cent of GNI for ODA, African governments must equally take responsibility for development of the region by stepping up efforts to mobilize domestic resources to achieve the financing needs of region's SDGs and inclusive development. Moreover, what is required is effective partnership from the international community to allow Africa to reap the full benefits of its natural resources, fair trade and real market access, and good governance and effective institutions.

3.2 Increased aid for DRM based on harmonization, ownership, alignment, and accountability

ODA to Africa should increase with a special attention to countries where the domestic resource mobilization is the lowest. In this regard, the donors and African countries should be encouraged to join multi-stakeholder partnerships like the Addis Tax Initiative which aims to catalyze significant increases in domestic revenue as well as improve the transparency, fairness, effectiveness and efficiency of tax systems.

Like the general ODA to Africa, aid for domestic revenue mobilization should be built on harmonization, ownership, alignment, and accountability. The donors are strongly encouraged to harmonize their support to improve synergy and avoid fragmentation, inconsistency and elevated transaction costs. Donors' aid for domestic revenue mobilization should align with the domestic revenue mobilization priorities of African countries by providing technical cooperation, a key modality for delivering aid for domestic revenue mobilization while African governments should demonstrate, political will, leadership, ownership, and accountability.

3.3. Improving the systems for monitoring aid for capacity building

The lack of a comprehensive system for reporting or monitoring means that there is little comprehensive information on its scale or nature of cooperation by undermining the evaluation of its impact. Development partners need to ensure that the delivery of aid aligns to country ownership under strong political commitment. Donors should be encouraged to retrospectively detail their support to domestic resource mobilization by indicating for example, the types of tax systems they have helped partner countries create and the specific taxes they have helped to establish or improve when they report project information to the OECD and International Aid Transparency (IATI) standards. Further, it is important that the monitoring systems established do not overemphasize inputs at the expense of tracking and learning lessons from the results achieved.

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