EAST AFRICA

REGIONAL DEBT PROFILE 2019

1. INTRODUCTION

This profile gives an analysis of the trends in Official Development Assistance (ODA)[1] for the East Africa region. It considers disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC countries to promote economic development and welfare in East Africa. The profile brings to the fore trends in average Net ODA Received Per Capita of the region and also analyses and draws conclusions on the region's average ODA as a percentage (%) of gross national income (GNI) The trends in ODA are from the period 2012 to 2017. The profile concludes by giving policy recommendations on how best East African states can best utilise the dwindling ODA and move towards non-dependency.

According to the economic classification of East Africa by the Africa Development Bank, the sub region is made up of the following 13 countries which would be used for the profiling of aid in the region: Burundi, Comoros, Djibouti, Ethiopia, Eritrea, Kenya, Rwanda, Sudan, South Sudan, Tanzania, Uganda, Somalia and Seychelles). The regional economic intergovernmental organisations in this region are East African Community (EAC), the Common Market of Eastern and Southern Africa (COMESA) and the Intergovernmental Authority on Development (IGAD).

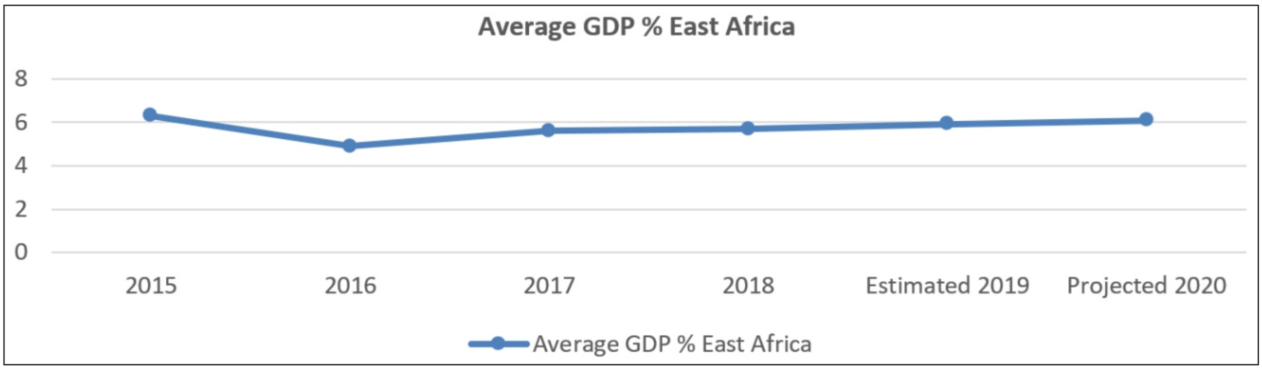
East Africa was the fastest growing region in Africa since 2015 – growing at the rate of 6.3 percent.[2] Despite this growth, large parts of East Africa remain trapped in extreme poverty.

In 2015 more half of the population in East Africa lived below the poverty line. Hence ODA has an important role in propelling the economic development of the region and lifting the masses out of poverty. In other words, ODA inflows in the region contribute to the rate of economic growth.

East Africa remains the fastest-growing sub-region in Africa, with GDP growth of 5.6 percent in 2017, up from 4.9 percent in 2016. Growth remained buoyant. It reached 5.7 percent in 2018, was estimated at 5.9 percent for 2019 and projected to reach 6.1 percent in 2020 as shown in Figure 1 below.

At least half of the countries in the region (Djibouti, Ethiopia, Kenya, Rwanda, Tanzania and Uganda) demonstrate strong growth - at 5 percent or more.[3] Private consumption is the most important driver of growth in Comoros and Kenya; public investment in infrastructure has been instrumental in Djibouti and Ethiopia though caution is required to maintain sustainable debt levels.

Figure 1: East Africa Regional Average GDP %



Source: East Africa Economic Outlook, 2019

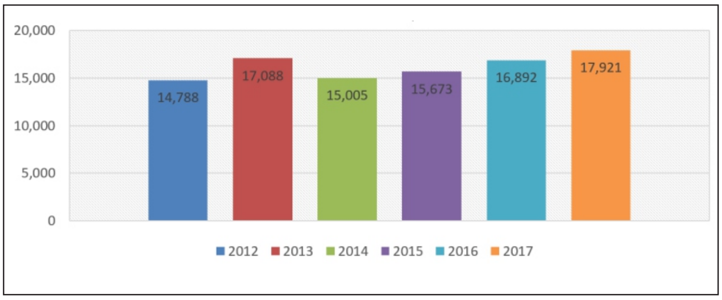
[1] ODA is classified by the OECD/DAC as "flows to countries and territories on the DAC List of ODA Recipients and to multilateral institutions which are provided by official agencies, including state and local governments, or by their executive agencies; and each transaction of which is administered with the promotion of the economic development and welfare of developing countries as its main objective; and is concessional in character and conveys a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent).

[2] African Economic Outlook 2016

2. Trends in Net ODA Received

In Figure 2 below, aid data from 2012 to 2017 indicates that ODA to the East region rose from US$ 14.78 billion in 2012 to US$17.21 billion in 2017 owing to post reconstruction and refugee costs in the region. In all, the regions total aid receipts for the 2012-2017 period amounts to US$97.34 billion and puts the region as the second highest recipient of ODA in Africa.

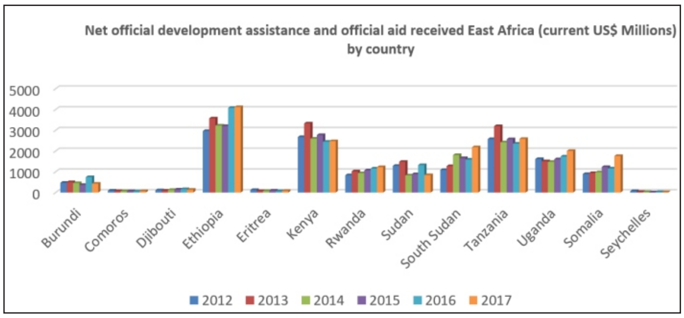
Figure 2: Trends in ODA to the East Region (US$ billions)



Source: AFRODAD's calculations based on World Bank Figures, 2019

On a country level, in terms of net ODA received (Figure 3 below), Ethiopia received the most ODA compared to other countries in East Africa. The country received US$21.2 billion worth of ODA during the period 2012 to 2017. It can be noted that Kenya is the second biggest recipient of ODA - reaching US$16.2 billion during the same period. However, ODA is substantive in the Rwanda context given its share as a percentage of Gross National Income. Seychelles and Comoros received the least ODA during the 2012 to 2017 period. In 2017 the East Africa region received more ODA than any other region in Africa. The huge inflows into the east African region can also be linked to economic growth in the region stimulated by massive infrastructure development and investments in the services sector that saw a +5% growth in Ethiopia, Tanzania, Kenya, Rwanda, Uganda and Rwanda in 2018[4]

Figure 3: Net official development assistance and official aid received (current US$) by countries from 2012 to 2017



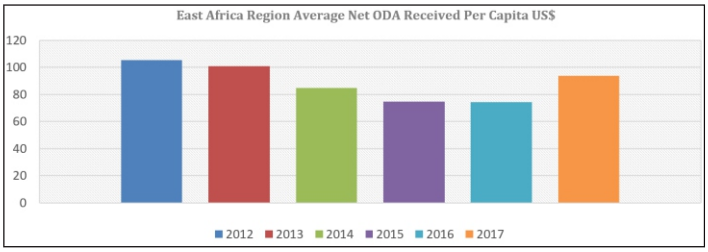
Source: World Bank and Africa Development Bank data, 2019

3. Trends in Net ODA Received Per Capita

Net official development assistance (ODA) per capita brings to the fore the adequacy of the ODA provided to countries in East Africa and the region in totality. During the period under review (2012-2017) the average ODA per capita in the East Africa region was a mere US$88.95.

This has been constant over the decade owing to the effects of the global recession of 2008-10 as well as the general dwindling of aid between 2015 and 2016. The slight increase in net ODA per capita is largely due to the call for more aid within the light of the Sustainable Development Goals. This has not materialised in the critical social sectors it is required but rather through refugee costs.

Figure 4: East African Region Average Net ODA Received Per Capita US$



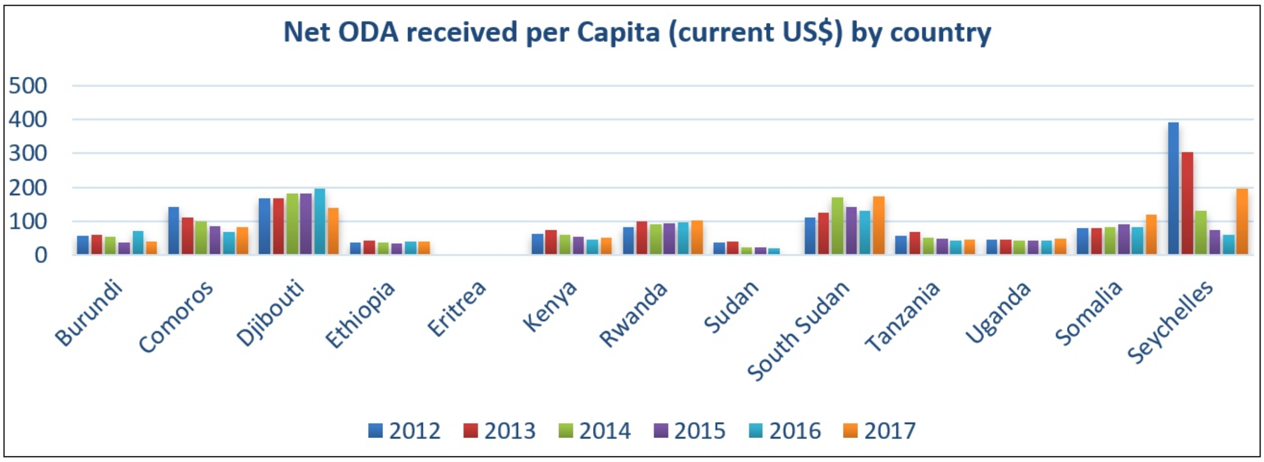
Source: World Bank Open Data and OECD statistics, 2019

For the East Africa region, the trend as assessed by ODA per capita depicts overreliance on external assistance. In a region that average poverty rate as per the 2015 survey, the poverty datum line was US$1.90, and accounting for at least 50% of the population in the region which is a trend that is not desirable. In 2012 ODA per capita stood at US$105.18 and gradually declined to US$74.38 and sharply rose again to US$93.92.

Whilst it is imperative that all sources of financing be utilised in the development of the East Africa region; it is important that deliberate actions and plans be effected to move away from aid dependency.

[3] East Africa Economic Outlook, April 2019
[4] East Africa Economic Outlook, April 2019

Figure 5: Net ODA received per Capita (current US$) 2016



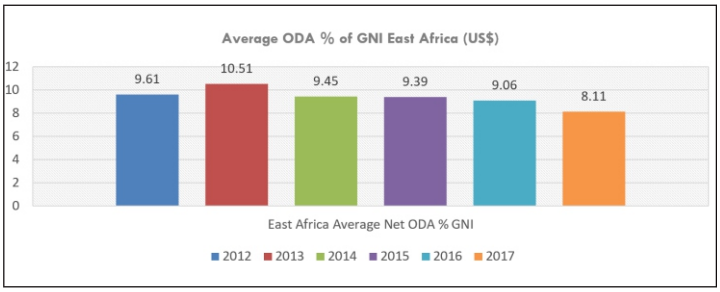
Source: AFRODAD compilation based on World Bank Statistics, 2019

As noted by Figure 5 above, over the period 2012 to 2017, Seychelles and Djibouti received the most ODA per capita in the East African region. For Seychelles the highest figures were recorded in 2012 when ODA per capita reached a peak of $393.53 before dropping in 2016 to $60.31. However, as Figure 5 depicts, Seychelles is not among the top three recipients of net ODA in the Eastern region yet it has the highest per capita figures, owing to the fact that aid receipts to population ratio are higher thus giving an assumption that the amount of aid disbursed has much more impact as compared to other countries with higher population densities. This is the case for Ethiopia and Sudan which have higher populations but received the least ODA per capita which averaged US$37.37 and US$27.94 respectively during the period under review. This is in contrast to the fact that 81.8% of their populations leave below the poverty datum line (US$1.90 per day) yet aid to those most in need of it is not reaching them. Another country with the highest number of people living below the poverty datum line is Rwanda (World Bank figures puts 60.3% of population living below the PDL). Nevertheless, it received an average of US$93.48 per capita during the period 2012 to 2017.

4. Trends in ODA % of GNI

ODA as percentage of GNI is defined as the total ODA given or received as a share of GNI of the source or recipient country, respectively, net of repayment of principal. Figure 6 below shows that in 2013, East Africa recorded the highest figure of 10.51% GNI. A downward trend however ensued the years after, up to 2017.

Figure 6: Average ODA % of GNI East Africa (US$)

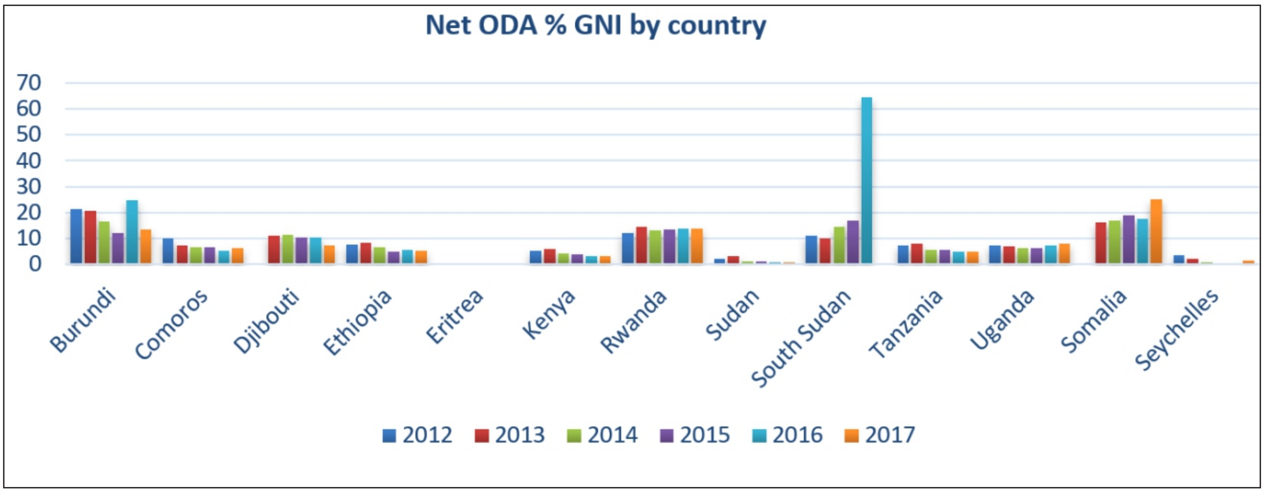


Source: AFRODAD calculation based on World Bank Statistics, 2019

In 2017 ODA % of GNI for the East Africa region dropped to 8.11% GNI - being the lowest figure for the period 2012 to 2017. As from 2013, a downward trend can be seen with a drop from 10% of GNI to 8.11% of GNI in 2017 respectively.

On the overall this trend is depicting that ODA is not the most important source that is financing development in countries such as Sudan, Kenya and Seychelles but rather services such as banking and tourism.

Figure 7: Net ODA % GNI



Source: Compiled by AFRODAD based on World Bank Statistics 2019

Comparison of ODA as a percentage of GNI in the East African region from 2012 to 2017, as depicted in Figure 7 above, shows that Rwanda, Somalia, South Sudan and Burundi depend more on ODA than any other countries in the sub region. However, the trends for Ethiopia and Kenya depict a depreciating value in ODA as a percentage of GNI. During the period under review, it decreased from 7.5% and 5.29% in 2012 respectively, to 5.14% and 3.15% in 2017 respectively. In South Sudan, ODA % of GNI climbed up from 10.92% in 2012 to a peak of 64.35% % in 2016. In the case of Somalia, the value of ODA % of GNI has been going up over the years albeit steady fluctuations. It rose from a low of 16.35% in 2013 to a high of 25.07% GNI in 2017. Seychelles and Sudan have the lowest figures of ODA % of GNI. This depicts that ODA is not the most important source as a component of GNI and that also mean less dependence on ODA. However, in the case of Sudan, the political environment characterised by human rights abuses, corruption and tyranny has not attracted the much needed aid hence the lowly disbursements.

5. Policy options and recommendations

- **Capacity Enhancement in Domestic Resources Mobilisation** - Governments in East Africa should focus more on enhancing their capacities for domestic resource mobilisation. The trend of ODA as a percentage of GNI depicts a diminishing value of ODA in all the countries. These suggest that in East Africa ODA is becoming less and less significant in GNI terms.

- **Efficient Utilisation of Official Development Assistance** - ODA should be used effectively and efficiently. The Nairobi Outcome Document of December 2016 reiterated the continued implementation of the Busan four principles of development effectiveness, that is, country ownership of development priorities by partner countries; focussing on results; inclusive development partnerships; and transparency and mutual accountability. These should continue to inform policy on aid management in East African region member countries.

- **Broaden Sources for Financing for Development** - Net ODA figures depict that the resources provided by official development assistance have been going down during the period under review. Countries in East Africa have to seek alternative development finance sources such as broadening tax systems, tackling illicit financial flows and corruption as well as engaging private sector players within the ethos of leaving no one behind and pro-poor policy making.

- **AID Frameworks should support effective DRM** - Donor organisations and partners should ensure that ODA supports the effective mobilisation and use of domestic resources in these countries. Considering that domestic resource mobilisation is viewed as the most viable and reliable option for financing development projects as compared to external financing, East African countries should focus more on ensuring that ODA is used to enhance domestic resource mobilisation. Hence, ODA should play a rather catalytic role to boosting domestic resource mobilisation.

- **Gradually Wean from Aid Dependency** - In the face of dwindling net ODA received, countries such as the Kenya, Tanzania endowed with high worth natural resources should utilise ODA to strengthen their capacity to extract their natural resources. Countries that are benefiting from the discovery of oil and gas in the great lakes region such as Uganda should reduce overreliance on ODA for economic development and focus more on using their newly found wealth. Subsequently, donors should channel more ODA towards countries that are regarded as non-resource rich such as Comoros, Djibouti, Ethiopia and Seychelles.

- **Promote Regional Integration and Deal with Conflict** - East African countries and their sub-regional economic institutions should use ODA to bolster intra-regional trade, economic and political unity. This can be achieved by using ODA to finance infrastructure projects that cut across national boundaries. Donor organizations and partners must facilitate cross country development initiatives and use ODA as the common denominator.

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