



**AFRICAN FORUM AND NETWORK
ON DEBT AND DEVELOPMENT**

POLICY BRIEF

**THE ROLE OF OFFICIAL
DEVELOPMENT
ASSISTANCE
IN REALIZING
AGENDA 2063**

INTRODUCTION

The Addis Ababa Action Agenda (AAAA) reaffirmed official development assistance (ODA) commitments contained in both the Monterrey Consensus and the Doha Declaration on Financing for Development, including the commitment by many developed countries to achieve the target of 0.7 per cent of Gross National Income (GNI) and 0.15-0.2 per cent of ODA/GNI to the least developed countries¹. The Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) defines ODA as government aid that promotes and specifically targets the economic development and welfare of developing countries². The DAC highlights the importance of ODA for the poorest and most vulnerable countries and includes a commitment to reverse the recent decline in ODA to Least Developed Countries (LDCs) to encourage ODA of 0.2 per cent of GNI to LDCs, and to recognize those countries that allocate at least 50 per cent of ODA to LDCs. It also commits to prioritizing the allocation of concessional international public finance to those with the greatest needs and least ability to mobilize other resources. In line with the principles of the AAAA; in its Resource Mobilisation Strategy, The African Union's Ten-Year Strategy for Financing Agenda 2063 also points out ODA as an instrumental external financing mechanism for Africa's development. ODA combined with other sources of external finance are pegged to contribute at-least 10% - 30% in financing for development in the Africa region³. Whilst harnessing external sources such as ODA may be commendable in contribution to eradicating poverty and boosting support for trade, it is important to note that ODA is still shrinking and creates dependency amongst African states leaving them with limited capacity to commit to effectively mobilize domestic revenue⁴.

TRENDS IN ODA FLOWS AND IMPLICATIONS ON REALIZING AGENDA 2063

Recognising the importance of ODA to the socio-economic development and welfare of low-income countries, it is imperative to ensure that ODA disbursements reach those in dire need of it. Trends within the disbursement of ODA globally shows that aid has been on a steady increase from 2012 up until 2016 (Figure 1 below). However, this increase has been as a result of the DACs support for humanitarian emergencies and the first-year costs of refugees in member countries⁵. Another reason is the fact that concessional development financing is increasing but from other actors beyond the Development Assistance Committee parameters. However, as spending targeted at refugees and humanitarian emergencies increased in 2017, net ODA flows from the DAC can be seen to be steadily decreasing to USD146 billion, a fall of 0.6% from 2016. ODA also witnessed a slight fall in gross national income from 0.32% in 2016 to 0.31% in 2017⁶. Denoting from this, irrespective of the commitments made at the DAC High Level Meeting in 2014, the Addis Ababa Action Agenda in 2015 and the Sustainable Development Goals Agenda 2030 Agenda; ODA levels are lagging, and they remain below the United Nations target of 0.7% of GNI⁷. Amidst these trends, the OECD notes that programmable aid through government channels and flows to sub-Saharan Africa have continued to decline, while the proportion of aid channelled through the multilateral system and civil society organisations has been rising. This then calls for scrutiny for Africa's Agenda 2063 Resource Mobilisation targets for external resources mobilisation to ascertain whether ODA should remain a target for Africa's resources mobilisation.

¹ OECD, Africa Development Aid at a Glance 2017, <https://www.oecd.org/dac/stats/documentupload/Africa-Development-Aid-at-a-Glance.pdf>

² <https://www.oecd.org/dac/stats/What-is-ODA.pdf>

³ Financing Agenda 2063 First 10-Year Plan Agenda 2063 Financing, Domestic Resource Mobilization And Partnership Strategy, <https://www.tralac.org/images/docs/8260/financing-agenda-2063-first-10-year-plan-september-2015.pdf>

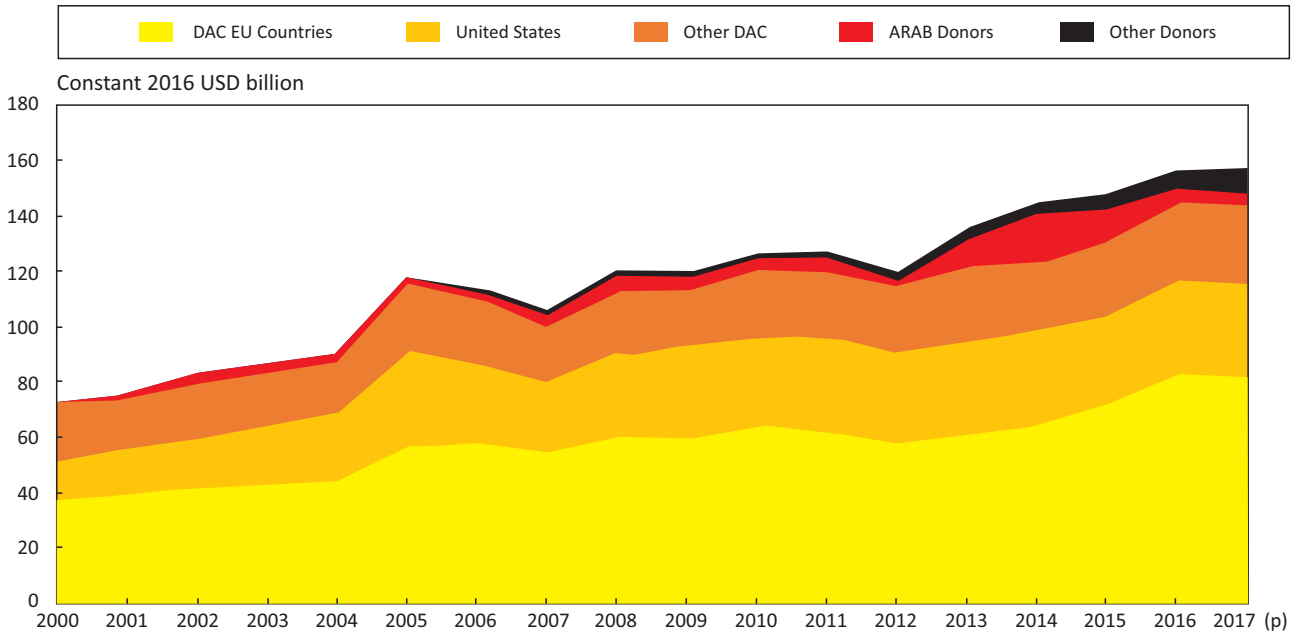
⁴ Global Policy Forum, Poverty and Development in Africa <https://www.globalpolicy.org/social-and-economic-policy/poverty-and-development/poverty-and-development-in-africa.html>

⁵ OECD - Africa Development Aid at A Glance, 2018, <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2018.pdf>

⁶ Ibid, 2018

⁷ Ibid, 2018

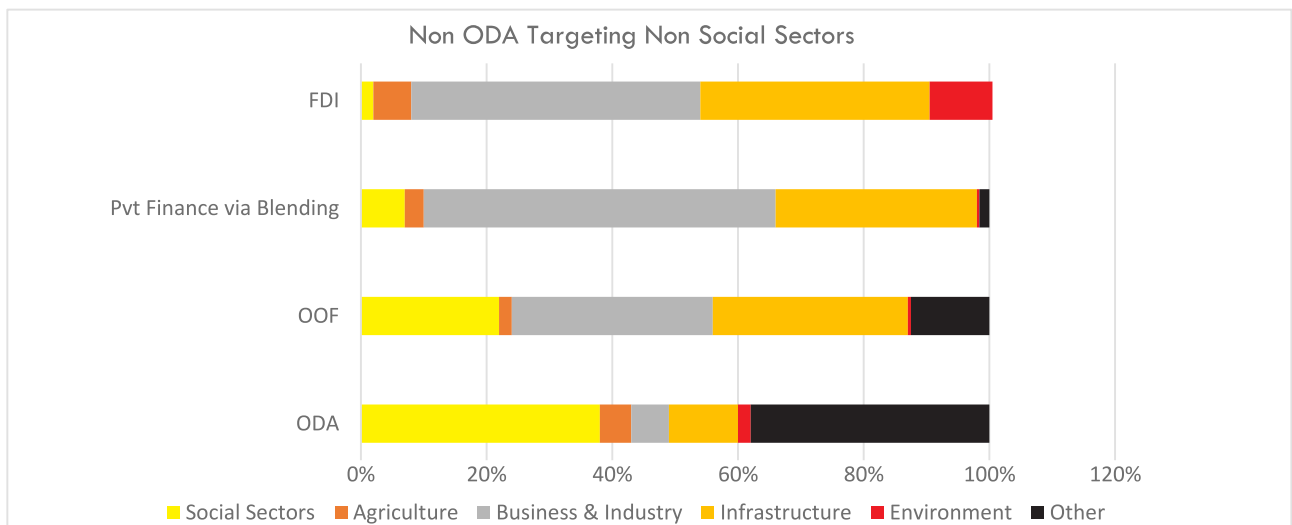
Figure 1: Composition of ODA Globally



Source: OECD 2018

Amongst Africa’s development needs is the development of robust infrastructure with the ability to boost economic activity and growth, reduce inequality and poverty. Within this area, ODA is also one of the targeted financing instruments for Agenda 2063 however, trends show that ODA is limited when it comes to financing for sectors including infrastructure, business and industry as well as agriculture as shown in Figure 2 below. The comparisons of sectoral data across types of finance flows shown below gives a picture of sectors that are being prioritised by different actors and resources within development aid. This is important in informing Africa’s position on financing mechanisms for Agenda 2063 and its position on AID in the region with specific emphasis on sectors linked to poverty reduction and the development of human capital such as education and health, as well as broader social protection.

Figure 2: AID Distribution Across sectors



Source: Development Initiatives 2018, OECD 2018, World Bank 2018*

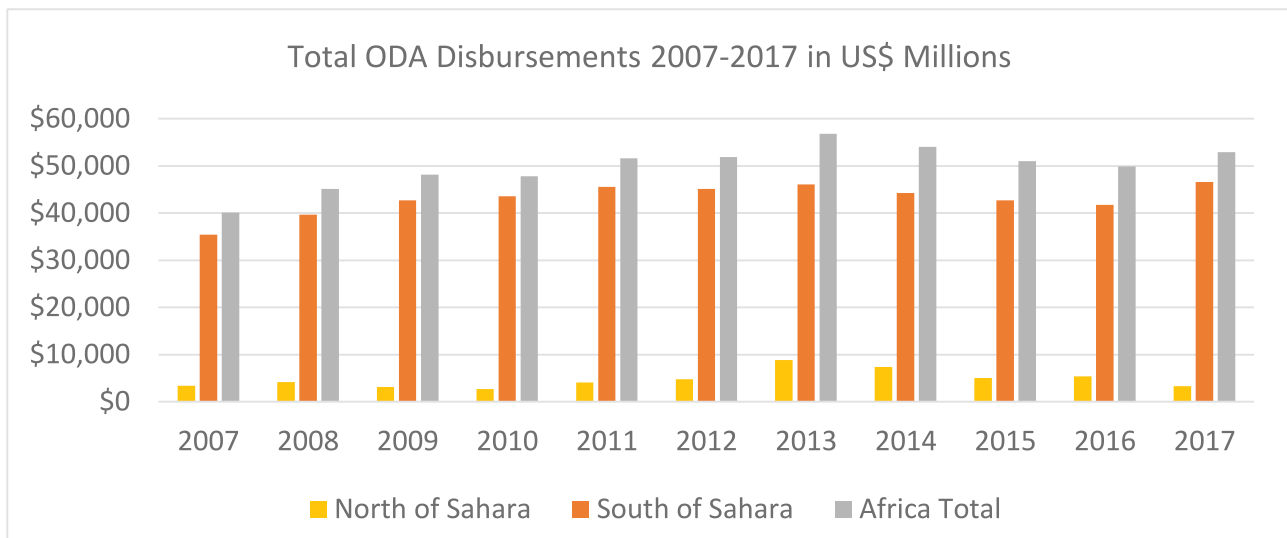
* ODA, FDI and OOF data is for 2016, Private Finance Data is for 2012-2015

Denoting from Figure 2 above, it is also evident that non-concessional public and private flows target sectors that offer economic returns, such as productive sectors and infrastructure projects and play a smaller role on social sectors such as health and education. Almost 30% of Other Official Finances (OOFs) spending and private finance mobilized mainly through blending target infrastructure projects in areas such as transport, communications and energy. However, a 56% proportion of blended finance and 46% of FDI inflows are focused and channeled towards productive business and industry activities such as financial services, mining construction and tourism⁸. As for ODA, approximately 38% is targeted at social sectors including social protection, education and health but with hindsight of the decline of ODA in the Africa region, it is important to note that there is need to shift focus to other forms of financing. Caution is however a pre-requisite when engaging private sector and development finance institutions as their instruments are concessional and are crafted within business models implying that countries ought to borrow and or contribute finances for their development initiatives. Given the rising debt burdens that several countries face. It is important that countries borrow sustainably and within the confines of their laws and oversight by statutory independent institutions and frameworks.

ODA TO THE AFRICA REGION

Assistance to Africa, especially sub-Saharan Africa, has been falling yet civil society's and other development partners having been calling for additionality of ODA and this has not been happening. Whilst ODA between 2007 and 2010 shows a steady increased as depicted in Figure 3 below, gross bilateral ODA to sub-Saharan Africa fell even more, by 13% in real terms between 2011 and 2016. However, the top aid recipients in the region in 2016 and 2017 as shown in Figure 4 were Ethiopia (USD 8.1 billion), Nigeria (USD 5.8 billion), Tanzania (USD 4.8 billion), Kenya (USD 4.6 billion) and DRC (USD 4.3 billion). For all these countries except Ethiopia, increases in ODA for the year 2017 were mainly a result of humanitarian emergencies and refugee costs. It is however currently unpredictable what the trends for 2018 and 2019 are yet to show considering that the 2017 hike was for first year costs for the aforementioned reasons.

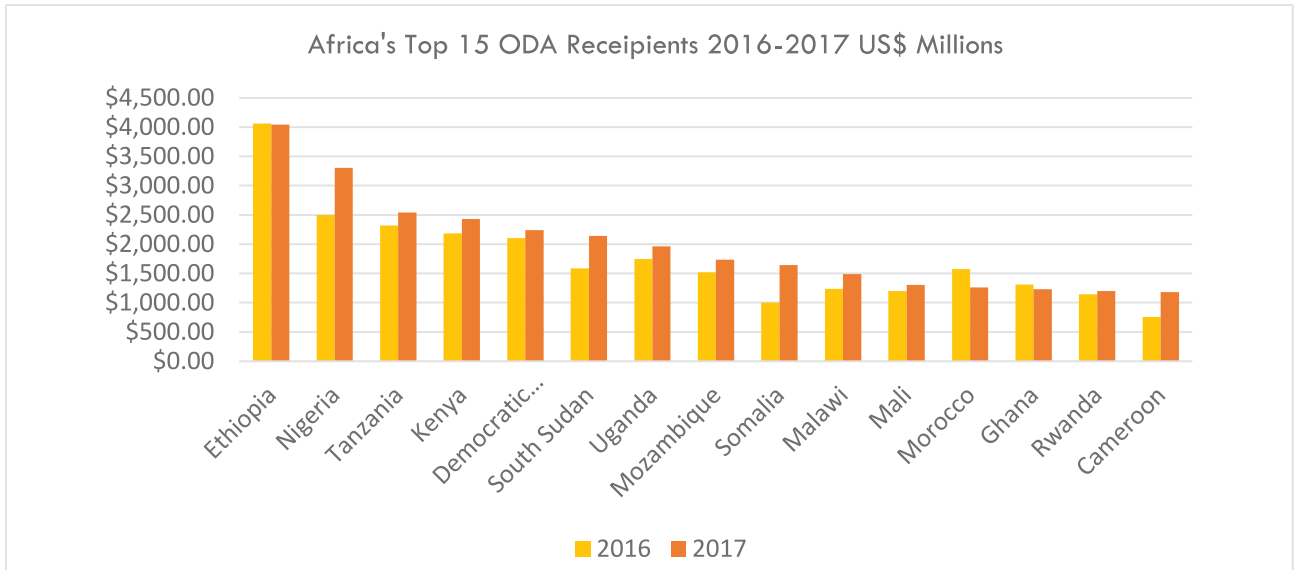
Figure 3: Africa: Total ODA disbursements 2007-2017



Source: OECD 2018, *Development Initiatives 2018*

⁸ http://devinit.org/wp-content/uploads/2018/10/Investments-to-End-Poverty-2018_Chapter-3.pdf

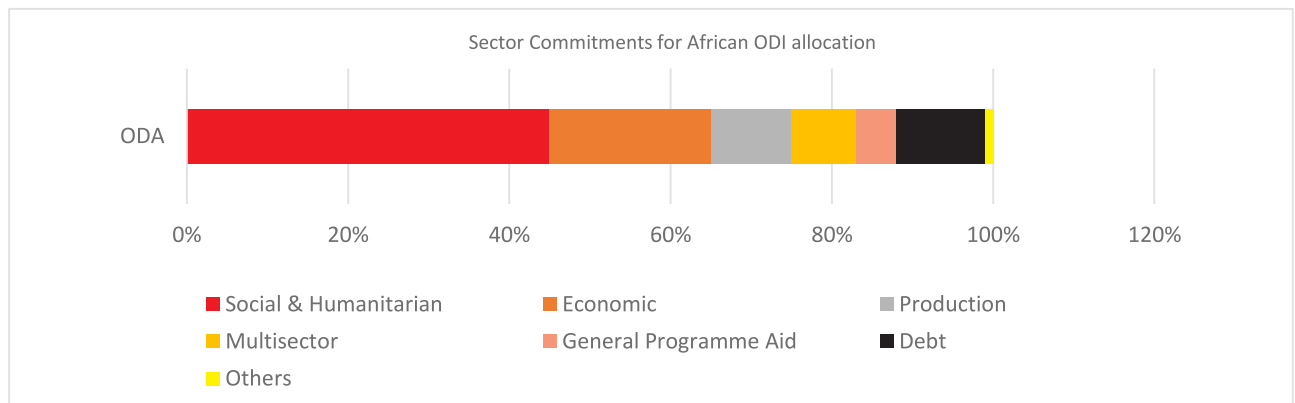
Figure 4: Africa's top 15 ODA Recipients 2016-2017



Source: Development Initiatives 2018, World Bank Data 2018

Whilst these statistics and data show that albeit dwindling, huge sums of development finance in the form of ODA are being injected into Africa, if they are to be measured against their impact, it is prudent to then examine what ODA to Africa is really spent on citing the fact that inequality in the region especially in countries such as were AID it is increasing yet African governments are receiving budgetary support to complement the revenues they collect. The Organisation for Economic Cooperation and Development notes that of the USD\$49 Billion development aid that was disbursed to Africa in 2016, 20% was injected into economic activities such as transport, energy, banking and finance, agriculture, mining and construction with 44% being expended on social sector activities that include education, health, sanitation, government and civil society. The remainder was disbursed towards on debt financing and governance as shown in Figure 6 below but however what is of concern, are the allegations on wastefulness and corruption that some African states have been bridled in with regards to the utilization of ODA funds⁹.

Figure 5: Sector Commitments for African ODI allocation (2016)



Source: OECD Aid at a glance 2018 edition

⁹ OECD - Africa Development Aid at A Glance, 2018, <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/Africa-Development-Aid-at-a-Glance-2018.pdf>

3. ODA AND THE FINANCING AGENDA 2063: CHALLENGES AND OPPORTUNITIES

The financing of Agenda 2063 within the context of external resources mobilization is characterised by the need to leverage Africa's comparative advantage as a destination for investment and trade whilst fully developing and effecting its domestic resource mobilization capacities to stimulate progressive growth and development. Whilst this is the preferred, the frameworks for Aid and Development have had their own challenges that have had a ripple effect on the disbursement and utilization of ODA in Africa. One of the critical weaknesses is in frameworks such as the Monterrey Consensus and the Doha Declaration where there were registered deficiencies of monitoring and evaluation mechanisms which would enable countries to establish a baseline for their resource mobilization efforts and develop a mechanism to track improvements and the extent to which resources were channeled to key priority areas.¹⁰ This is coupled by the fact that development aid is not reaching deserving constituencies as noted in Brookings Institute study on disbursement of aid in Kenya where it was highly biased and disbursed to the richer regions of the country as contrasted to the poor areas where it has greater impact.¹¹

More-so, whilst the African Agenda 2063 calls upon members of the international community to respect Africa's vision and aspirations, and to align their partnerships accordingly. Africa's voice remains ignored when it comes to aid unconditionality. Despite various aid commitments of development partners, ODA continues to be based on conditionality and changing donors' priorities whilst it continues to dwindle. As such African countries need to establish sustainable Afrocentric or home-grown solutions to financing African development needs based upon national priorities and strategies.

However, with the establishment of the Inter-Agency Task Force on Financing for Development at the Third International Conference on Financing for Development, there is a pledge to monitor progress in implementing commitments in the Addis Ababa Action Agenda, the means of implementation of the Sustainable Development Goals and also commitment on advising the intergovernmental follow-up on progress, implementation gaps and recommendations for corrective action.¹² This has set up the tone for global action on tracking development progress and in this regard the African Union can harness the structure in the implementation for Agenda 2063 as it is critical in harmonize similar targets as in the SDGs.

Whilst some proponents highlight that ODA fuels inequality and has a negative impact on aid recipients' domestic resource mobilization capacities, it is evident in countries such as Uganda and Ethiopia (also in the top 10 of ODA recipients in Africa) show that aid can, if delivered correctly, have a positive rather than negative effect on tax revenue. For example, in Uganda, aid has supported improvements in budgeting and fiscal management and has been associated with increased tax revenue, to some extent reflecting donor support for fiscal reforms. In Ethiopia it appears to be more of an incentive effect — the government knows that if tax revenues are increased then donors will reward the effort with additional aid that can be used to finance increased investment spending.¹³ Given this concern, the African Union ought to strengthen the role of the Africa Peer Review Mechanism as it can be an important system for checks and balances on governance within the region.

4. CONCLUSIONS AND RECOMMENDATIONS

Given the current dwindling state and trend of ODA inflows to Africa. It is important that all forms of resources be harnessed to finance Agenda 2063 as well as the SDGs. However, the African Union Commission as well as African governments need enhance their resource mobilization strategies especially domestic as it is worth noting that 6 years into Agenda 2063, several African countries are still hinged on external mechanisms of financing that are notoriously plunging them in debts as a result of ineffective Public Financial Management (PFM) policies on loan contraction amongst other factors. As such greater efforts are needed to improve the quantity and quality of development finance.

¹⁰ Joint African Union Commission, https://www.uneca.org/sites/default/files/PublicationFiles/eca_policy_brief_16-107-reflections_on_africas_priorities_in_financing_for_development_.pdf

¹¹ https://www.brookings.edu/wp-content/uploads/2016/06/01_kenya_aid_mwega.pdf

¹² Economic Commission for Africa: Reflections on Africa's Priorities in Financing for Development. ECA Policy Brief No. ECA/16/107., https://www.uneca.org/sites/default/files/PublicationFiles/eca_policy_brief_16-107-reflections_on_africas_priorities_in_financing_for_development_.pdf

¹³ Aid is not Dead, the latest evidence on the Effectiveness of ODA, <https://www.wider.unu.edu/sites/default/files/Publications/Policy-brief/PDF/PB2017-8-Aid-is-not-dead.pdf>

RECOMMENDATIONS

- i. For African countries to make better use of concessional finance there should be a greater focus on investment- and trade-oriented ODA, which can be used to unlock, broaden and leverage their domestic resources and revenue collection bases so that they can wean themselves from AID.
- ii. More needs to be done to ensure that donors support national planning processes; use country systems for resource allocation and implementation; improve predictability of resource provision; and improve Public Financial Management (PFM) systems to be more results-focused, transparent and accountable. There is also a need to develop statistical indicators or a standardized aid tracking framework to closely follow the disbursement of ODA to governments bilaterally as well as through international NGOs and CSOs.
- iii. Development partners should also support African countries to address development challenges by focusing on the key pillars to promote structural transformation, such as building infrastructure and supporting local industries as well focusing on AU mutually agreed priorities such as agriculture and rural development.
- iv. There is need for redefining the parameters and objectives of ODA and its criteria of allocation should be discussed openly and transparently and agreed upon by all member States under the auspices of the UN.

Acknowledgement: Adrian Chikowore

¹⁴ Eighth Joint Annual Meetings of the African Union Specialized Technical Committee on Finance, Monetary Affairs, Economic Planning and Integration and the Economic Commission for Africa Conference of African Ministers of Finance, Planning and Economic Development Addis Ababa, 30 and 31 March 2015, https://www.uneca.org/sites/default/files/PublicationFiles/eca_policy_brief_16-107-reflections_on_africas_priorities_in_financing_for_development_.pdf



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