Financial Flows

Aid to Africa

Kouassi Yeboua and Jakkie Cilliers

Last updated 05 June 2024 using IFs v7.84

Table of contents

Aid to Africa 3

Briefly 3

Contributions from the US 5

Contributions from the EU 6

Contributions from China 7

The importance of aid to Africa 8

Endnotes 9

Donors and Sponsors 9

Reuse our work 9

Cite this research 9

Aid to Africa

- Briefly
- Contributions from the US
- Contributions from the EU
- Contributions from China
- The importance of aid to Africa

Briefly

Aid to Africa is contentious, with proponents and detractors in unyielding positions on either side of the policy divide. The aid sector is complex, and the environment in which it works is diverse, with the sweeping generalisations from the two camps shedding little light on the matter. Many analysts have argued that aid has contributed to corruption and conflict and inhibited social capital formation, making African countries dependent on Western donors instead of deepening the social contract with their citizens and that African governments must wean themselves off this destructive addiction. However, some, like economist Jeffrey Sachs, call for increased aid.

The levels of aid to Africa shown in Chart 5 reflect an interesting geopolitical story. After an initial period of benign aid neglect following African independence, the Cold War sustained ever-higher levels of aid until the collapse of the Soviet Union in 1989, which effectively robbed Africa of its strategic relevance. The end of the Cold War eventually allowed the aid community (then largely consisting of OECD countries) to pay greater attention to aid effectiveness and value for money. Still, corruption, poor governance and high debt levels led to a significant degree of pessimism regarding Africa's development prospects in subsequent years.

Matters turned around with the United Nations Millennium Summit in New York in 2000, followed by the Report of the Commission for Africa released in 2005 and the European Consensus on Development (the EU policy declaration on aid) also issued that year. Collectively, these efforts paved the way for the 2005 World Summit in New York, which called for increased aid transfers to achieve the eight Millennium Development Goals (MDGs) set in 2000. The 2005 Paris Declaration on Aid Effectiveness subsequently outlined five fundamental principles (developing country ownership, alignment to developing country objectives, harmonisation among donors, results-based aid and mutual accountability) that established an important framework including donor and recipient countries.

The 2011 Busan Partnership for Effective Development Cooperation expanded the Paris Agreement by establishing, for the first time, an internationally agreed framework for development cooperation, which included traditional and new donors from the South, civil society organisations and private philanthropy. Donors agreed to allow aid recipients to use aid to procure from the cheapest suppliers rather than those prescribed by donors, an issue that ODA advocates had been lobbying for decades, as well as various other measures that harmonised aid modalities among donor countries.

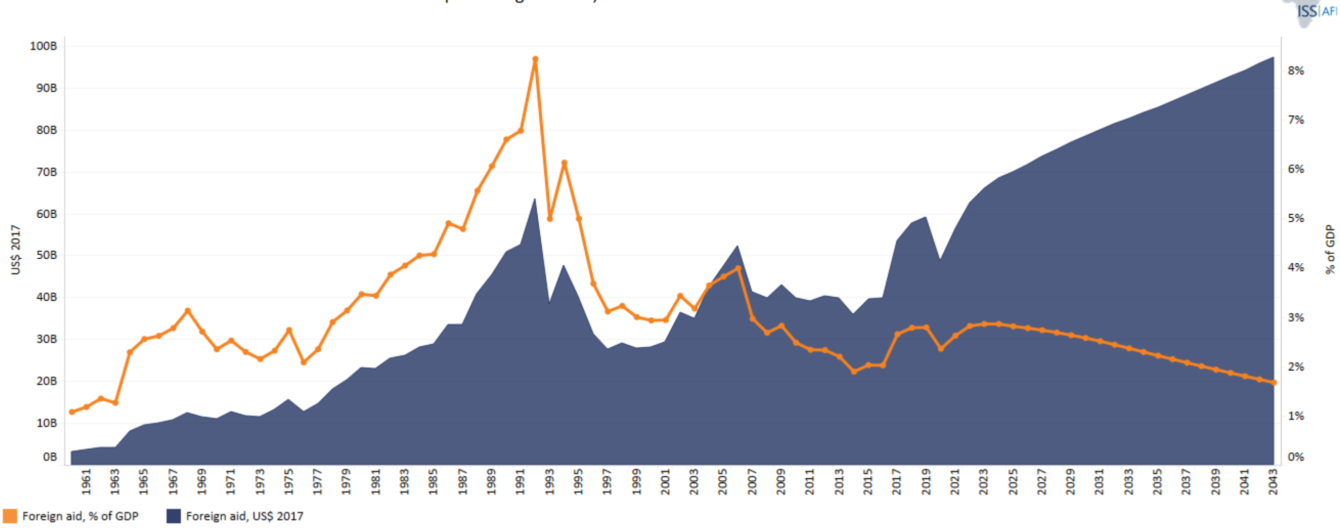
The reforms saw aid to Africa's 23 low-income countries increase to more than 8% of GDP in 2019, equating to more than 45% of government revenue. In contrast, aid has dropped to below 8% as a percentage of government revenue in low-middle-income African countries and below 2% in upper-middle-income countries, illustrating the progress made in shifting aid to the greatest need. By contrast, if aid were distributed equally among African countries, it would equate to an average of 2.4% of GDP.

The push to halve poverty by 2015 was met five years ahead of the deadline, largely due to rapid economic growth and pro-poor policies in China, which had little to do with the MDGs. The number of people living in extreme poverty in China fell from 1.9 billion in 1990 to 836 million in 2015, the final year of the MDGs. However, as were several other MDGs, the target to halve the portion of people suffering from hunger was narrowly missed.

Although ratios differ, most aid is provided bilaterally, not through multilateral agencies. Given its sceptic views of multilateral organisations, the US provides most aid, approximately 89%, bilaterally. The ratio for countries in the EU is lower at 78%. The average for the 30-member OECD Development Assistance Committee (or large aid providers) is 59%.

Chart 5 presents the trends in aid as a percentage of GDP from 1960 to 2019 (historical data) and forecast to 2043. Although the absolute amount of aid is forecast to increase (left-hand vertical axis) between 2019 and 2043, the relative importance of aid (as a proportion of GDP, right-hand axis) is forecast to decline from 2.3% of GDP in 2019 to 1.3% by 2043. Aid to Africa peaked at 6.6% of GDP at the end of the Cold War in 1990. Since North African countries have long since graduated to middle-income status, more than 90% of the aid to Africa now goes to sub-Saharan Africa (although a larger share of European aid has gone to its immediate neighbourhood in North Africa and the Sahel in recent years, in line with the concerns about stemming migration from there).

Chart 5: Aid flow to Africa in absolute amounts and as a percentage of GDP, 1960–2043



Source: IFs 7.84 initialising from World Bank data

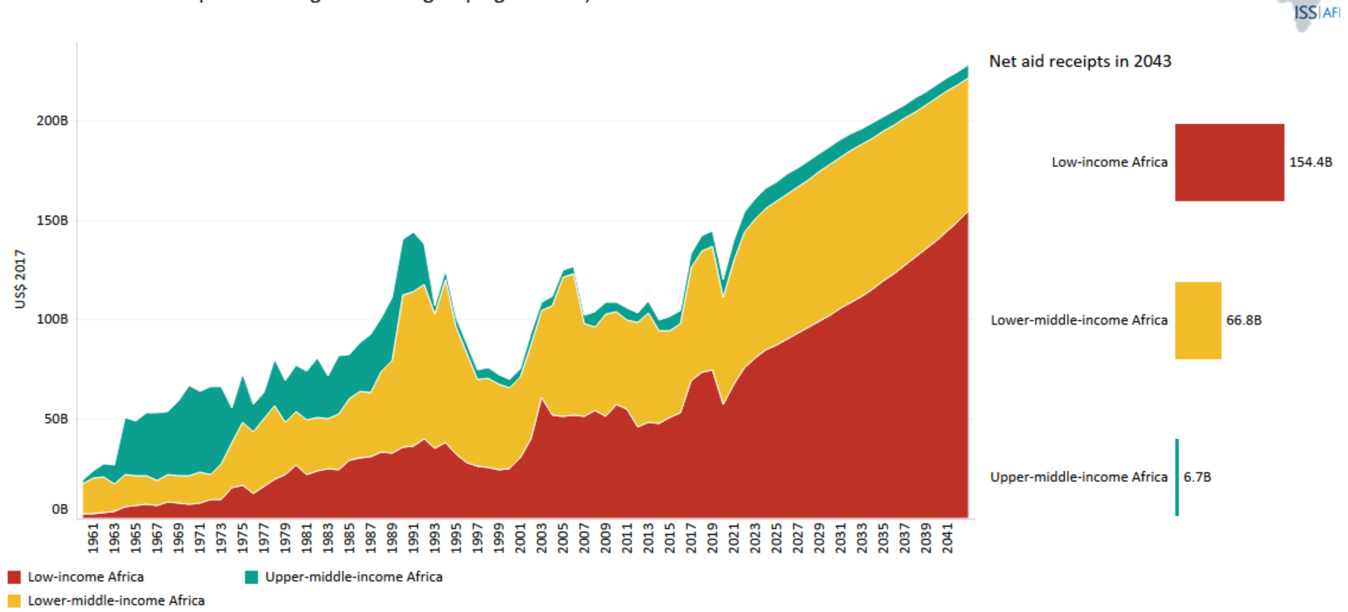
The absolute amount of aid flows to Africa would be significantly larger if developed countries met the 0.7% of gross national income (GNI) target for aid contributions as set out in the Sustainable Development Goal (SDG) ambition. But that is unlikely: in fact, wealthy nations spent just 0.3% of their GNI on international aid in 2019, and only five countries—Luxembourg, Norway, Sweden, Denmark and the UK—met or exceeded the 0.7% target. In 2020, UK Prime Minister Boris Johnson indicated that his government would reduce aid levels to 0.5% as COVID-19 as Brexit hammered its economy.

Resources are also being shifted closer to home. In 2023, for example, 28% of the total UK aid budget was spent on hosting refugees and asylum seekers within its borders.

Slow growth globally is impacting on Africa. That, and the renewed great power competition between the West, China and Russia in Africa could, in time, modestly increase rather than decrease aid flows.

Chart 6 presents aid to Africa according to income grouping (as announced by the World Bank for 2021/22), including a forecast to 2043. It illustrates the extent to which aid is increasingly targeted at poorer, low- and lower-middle-income countries. It is important to acknowledge that several countries have graduated from the low-income category to lower middle-income status over the course of the period shown in the chart, resulting in an over-representation of aid to lower-middle-income- compared to low-income countries. While foreign aid remains the main source of external finance for low-income countries, the role of ODA is much smaller for low-middle- and upper-middle-income countries, which now receive more FDI and remittances.

Chart 6: Net aid receipts according to income grouping in Africa, 1960–2043



Source: IFs 7.84 initialising from WDI data

Contributions from the US

The US is the largest donor globally, providing almost a quarter of total aid. It is also Africa's largest bilateral donor. In its financial year (FY) 2023 Department of State, Foreign Operations, and Related Programs (SFOPS) budget request, the administration proposed US$7.77 billion (current US$) in assistance for Africa, up from US$7.65 billion in FY2021 but significantly down from the US$10.7 billion provided for in 2018.

Most of the aid (roughly 70%) from the US supports health programmes, particularly HIV/AIDS relief followed by efforts to combat malaria. US assistance has also sought to foster agricultural development and economic growth; strengthen peace and security; improve education access and social service delivery; and strengthen democracy, human rights and governance. However, spending on aid as a portion of GNI amounts to only 0.17%, ranking the US as 24th among the OECD Development Assistance Committee donors, well below the United Nations target of 0.7% of GNI and providing significantly less aid on a per capita basis than the EU and its member states.

In response to domestic and international affairs alike, the US's primary interests in Africa have changed and its future evolution is unclear. In 2004 President George W Bush authorised the creation of an agency eventually known as the Millennium Challenge Corporation (MCC) that rewarded low- and low-middle-income countries for practicising good governance, investing in their populations, and implementing sound economic policies. By 2024 the MCC has invested close to US$17 billion across 47 countries, many in Africa.

After 9/11, the US focus shifted to the war on terror, culminating in the disastrous Western interventions in Iraq and Libya, which destabilised the Middle East and North Africa and also spread terrorism into Africa. In addition, the shale energy revolution (see the theme on Leapfrogging) reduced the US's dependence on imported oil and hence its relationship with oil-producing countries such as Nigeria and Angola. As a result, US trade with Africa reduced sharply.

The US and other large donors continue to push for a larger role for the private sector, promoting the belief that Africa needs trade and investment, not aid. For example, after several years of inaction, the Better Utilisation of Investments Leading to Development (BUILD) Act (passed in the US Senate in October 2018) supports private investment in Africa.[1] The US International Development Finance Corporation (US IDFC), which was subsequently established, can guarantee up to US$60 billion investment in Africa, focusing on small and medium-sized enterprises and supporting local companies.

The BUILD Act was part of the 'Prosper Africa' initiative, aimed at supporting US investment across the continent. Launched in December 2018, it was part of the Trump administration's counter to China's involvement in Africa and is meant to open markets for US businesses in Africa by leveraging mechanisms such as the President's Advisory Commission on Doing Business in Africa (PAC-DBIA).

In 2019, USAID published its strategy on the 'Journey to Self-Reliance', which aimed to 'end the need' for foreign assistance in partner countries. Under the presidency of Donald Trump, the US strategy focused on countering China, but it did not provide a coherent view of the continent. Its transactional approach was also evident in the requirement for Sudan to recognise Israel in return for being removed from the US list of State Sponsors of Terrorism. In 2020, the Trump administration held progress on a free trade agreement with Kenya hostage to the same requirement while recognising Morocco's occupation of the Western Sahara in exchange for its recognition of Israel.

There have been important changes with the presidency of Joe Biden. Initially, policy development was overtaken by a series of crises, particularly the need to respond to COVID-19, the US withdrawal from Afghanistan, and, in 2022, the impact of Russia's invasion of Ukraine.

However, in contrast with the Trump administration, the Biden administration seeks to revitalise ties with Africa although it has maintained and sharpened the focus to counter both China and Russia's growing influence on the continent. In August 2022, it released its Strategy towards Sub-Saharan Africa that sought to 'reframe Africa's importance to US national security interests.' The strategy commits the US to the pursuit of (1) openness and open societies; (2) democracy and security; (3) pandemic recovery and economic opportunity; and (4) supports conservation, climate adaptation and a just energy transition. A flurry of official visits followed the US–Africa Leaders Summit in December 2022, where President Biden announced a US$55 billion commitment to the continent over the next three years, much of it coming from previously announced programmes and budgets, however.

Contributions from the EU

Europe remains connected with Africa through shared histories, languages and physical proximity, and its foreign and development policies are increasingly shaped by concerns around migration from Africa.

- Before Brexit, the various EU institutions provided about 13% of aid to Africa.
- Additional bilateral aid is also donated by individual countries such as Germany and France.
- At the end of 2020, before subsequent budget cuts, the UK provided about 7% of aid to Africa.
- For the 2017 to 2020 External Investment Plan, the EU budgeted €32.5 billion in grants to Africa and, in its 2021 to 2027 budget, it made provision for €40 billion.
- The EU budgeted for a further €3.7 billion in grants for blending and guarantees.
- Note that these amounts exclude bilateral aid from individual EU member states.

The EU has diligently nurtured a collaborative and consultative relationship with Africa. Whereas the US is cautious about engaging with regional organisations such as the African Union and Africa's various regional economic communities, the EU often sees them as its primary engagement point, reflecting its supranational economic and political architecture. After decades of European investment in building the capacity of the African Union as well as the legacy of colonialism, the relationships of aid and trade have created a network of friendship and collaboration that remains important for both parties although widespread anti-migrant sentiments across Europe are testing the strength of this relationship.

For example, without European assistance, the African Union's much-vaunted African Peace and Security Architecture (APSA) would not have been able to establish its three (out of an envisioned five) brigade-size capabilities for conflict prevention and management in Southern, West and East Africa.

The EU's intent to move beyond a donor–recipient relationship to achieve a more mature engagement was first captured in the Joint Africa–EU Strategy (JAES) of 2007, which was adopted by heads of state of the African Union and the EU at their second EU–Africa Summit in Lisbon.

In 2017, the EU launched its External Investment Plan, which includes a new guarantee mechanism that uses aid to be used to mobilise private capital flows through 'blended arrangements' and provides guarantees to mobilise additional resources for investment in Africa, generally aimed at addressing the socio-economic causes of migration. Considerable attention is being given to efforts such as Aid for Trade and arrangements to mobilise additional financial support to the region through loans or equity.

For its 2021–2027 Multiannual Financial Framework, the EU is merging several of its development instruments into a consolidated body, the Development and International Cooperation Instrument, which will receive €70.8 billion (US$83.6 billion). At least €26.0 billion (US$30.7 billion) will go to sub-Saharan Africa.

The 2022 EU–AU Summit (Brussels, February 2022) subsequently approved partnerships in five key areas: green transition; digital transformation; sustainable growth and jobs; peace and governance; and migration and mobility.

Although no longer a member of the EU, the UK has been an important partner to Africa, but its interest has waned in recent years following the decision by Prime Minister Boris Johnson, to dissolve the UK Department for International Development in the midst of the COVID-19 pandemic. There have been some efforts at reform, particularly the publication, in November 2023, of a new White Paper on International development in a contested world: ending extreme poverty and tackling climate change, but its effort appear half hearted amidst the ongoing program to repatriate illegal migrants from Africa to Rwanda.

Contributions from China

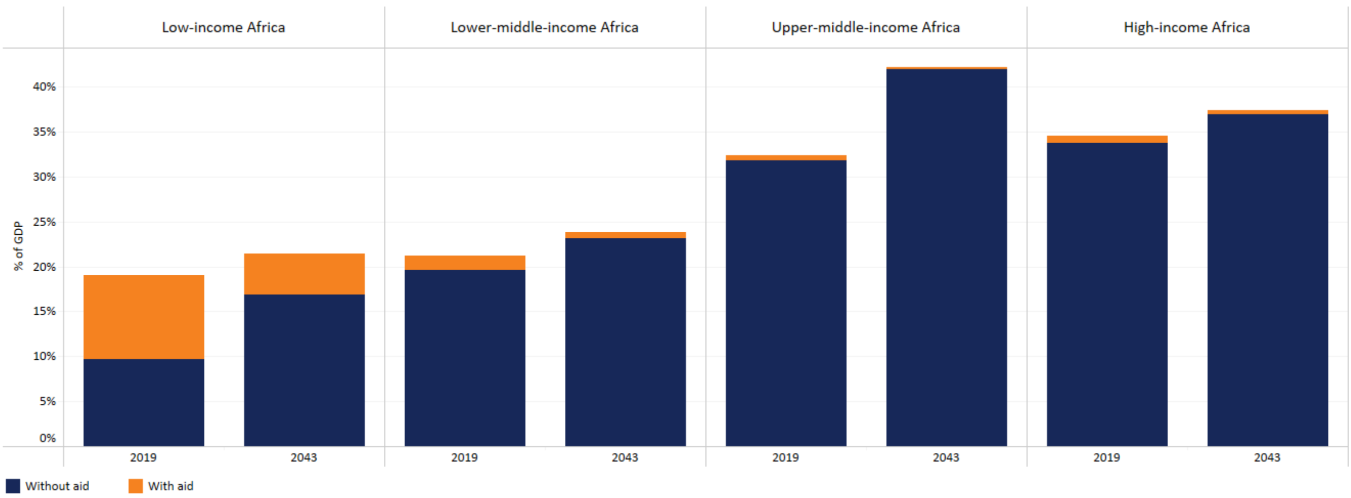
Sources differ widely in their calculations of the amount of Chinese money that qualifies as aid instead of loans. The China Africa Research Initiative at the Johns Hopkins University School of Advanced International Studies estimates that China provided US$3.3 billion in aid globally in 2018, up from US$2.99 billion in 2015. The bigger portion of this amount likely went to Africa, but it is unclear how much of this would technically qualify as aid. A more detailed estimate from the JICA Ogata Sadako Research Institute for Peace and Development estimates that China's foreign aid on a net disbursement basis increased from US$5.1 billion in 2015 to US$5.9 billion in 2018. Estimates for 2019 were the same as for 2018, with a decrease to US$5.4 billion in aid in 2020.

A recent dataset compiled by AidData elucidates China's overseas finance programme further. Although much of its lending and grant-making is shrouded in secrecy, China has established itself as a notable financier in many low- and middle-income countries. Finance is predominantly in the form of debt provided at commercial and non-concessional rates. In fact, since 2014, the Chinese ratio of loans to grants is at 31:1 and against significant collateral. Nearly 70% of China's overseas lending is now directed to state-owned companies, state-owned banks, special purpose vehicles, joint ventures and private sector institutions in recipient countries rather than to central government institutions, giving rise to the notion of vast amounts of so-called 'hidden debt'. The data shows that, for the most part, these debts 'do not appear on their government balance sheets. However, most of them benefit from explicit or implicit forms of host government liability protection, which has blurred the distinction between private and public debt and created major public financial management challenges for developing countries.'

The importance of aid to Africa

Chart 7 presents the average for government revenues as a percentage of GDP with and without aid in 2019 and 2043 for low-, lower-middle- and upper-middle-income countries in Africa. The largest difference is forecast to occur in low-income countries, where most aid goes to.

Chart 7: Government revenue with and without aid by country income group, 2019 vs 2043



Source: IFs 7.84 initialising from IMF data

Despite the criticisms often directed amongst some circles, aid in Africa remains essential for low-income, small and fragile countries on the continent. Cutting off aid could worsen the lives of millions of Africans, as aid accounts for a big chunk of the national budget in many poor countries. For example, without aid, total government revenues in Africa's 23 low-income countries would be 10% of GDP instead of 19%. The potential positive effect of aid is acknowledged in the SDGs, with SDG 17 calling on states to 'strengthen domestic resource mobilisation, including through international support to developing countries, to improve domestic capacity for tax and other revenue collection.' Aid, including humanitarian support, can alleviate the worst effects of war, hunger, poverty, poor governance and the lack of provision of services.

Aid cannot compensate for the lack of domestic revenue collection or poor policy, and bad governance. Hence, most aid can be considered palliative unless it can kickstart and sustain inclusive economic growth or serve a specific purpose contributing to that goal. That was the outcome of the Marshall Plan in Europe after the Second World War and the vast amounts of aid and technology transfer provided to countries such as South Korea and Japan. In these cases, recipient governments used aid as a force multiplier while working hard to regain financial independence. For instance, a large percentage of aid received by South Korea was used to bolster its manufacturing and transport sectors. Generally, that has not been the case in Africa.

Eventually, the combined impact of a range of policies could reduce the need for aid, including fair access to markets for African goods and encouraging foreign direct investment in infrastructure, agriculture, manufacturing, service and tech industries to stimulate inclusive sustained growth.

Endnotes

1. The BUILD Act replaces the Overseas Private Investment Corporation, which was created in 1971.

Donors and sponsors

Hanns Seidel Foundation

Sweden Sverige

AUDA-NEPAD AFRICAN UNION DEVELOPMENT AGENCY

Cite this research

Kouassi Yeboua and Jakkie Cilliers (2024) Financial Flows . Published online at futures.issafrica.org. Retrieved from https://futures.issafrica.org/thematic/10-financial-flows/ [Online Resource] Updated 05 June 2024.

About the authors

Dr Kouassi Yeboua is a senior researcher in African Futures and Innovation programme in Pretoria. He recently served as lead author on ISS studies on the long-term development prospects of the DR Congo, the Horn of Africa, Nigeria and Malawi. Kouassi has published on various issues relating to foreign direct investment in Africa and is interested in development economics, macroeconomics, international economics, and economic modelling. He has a PhD in Economics.

Dr Jakkie Cilliers is the ISS's founder and former executive director. He currently serves as chair of the ISS Board of Trustees and head of the African Futures and Innovation (AFI) programme at the Pretoria oce of the Institute. His 2017 best-seller Fate of the Nation addresses South Africa's futures from political, economic and social perspectives. His three most recent books, Africa First! Igniting a Growth Revolution (March 2020), The Future of Africa: Challenges and Opportunities (April 2021), and Africa Tomorrow: Pathways to Prosperity (June 2022) take a rigorous look at the continent as a whole.

About African Futures & Innovation

Scenarios and forecasting can help Africa identify and respond to opportunities and threats. The work of the African Futures & Innovation (AFI) program at the Institute for Security Studies aims to understand and address a widening gap between indices of wellbeing in Africa and elsewhere in the world. The AFI helps stakeholders understand likely future developments. Research findings and their policy implications are widely disseminated, often in collaboration with in-country partners. Forecasting tools inspire debate and provide insights into possible trajectories that inform planning, prioritisation and effective resource allocation. Africa's future depends on today's choices and actions by governments and their non-governmental and international partners. The AFI provides empirical data that informs short- and medium-term decisions with long-term implications. The AFI enhances Africa's capacity to prepare for and respond to future challenges. The program is headed by Dr Jakkie Cilliers.