The European Union, Africa and New Donors

Moving Towards New Partnerships

HIGHLIGHTS
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Project implemented by SACO (SAFEGE/COWI) in cooperation with SAFEGE and Tech4Dev.


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Seven so-called emerging donors of development assistance (Brazil, China, India, Kuwait, Saudi Arabia, Turkey and the United Arab Emirates) have been active to varying degrees on the African continent for many decades and have intensified their activities in recent years. The features of their actions and the contributions of those actions to economic growth and poverty reduction, as well as the current dynamics of their relations with the so-called traditional donors, are reviewed in this report. When relevant, and because most emerging donors are from Asia, the contributions of two Asian donors belonging to the Development Assistance Committee (DAC) of the OECD, the Republic of Korea and Japan, are also highlighted for purposes of comparison.

**KEY FEATURES OF EMERGING DONORS IN AFRICA**

As shown in Table 1 and Figures 1 and 2, emerging donors provide substantial resources to Africa (almost €15 billion in 2012), especially when compared with the Republic of Korea and Japan. Among the emerging donors considered in this study, China is the most important provider of flows to Africa that resemble the official development assistance (ODA) provided by DAC members. China’s ODA-like aid represented about 76% of total commitments from emerging donors over the period 2003–12, followed by India and Kuwait, which each represent 6% of commitments. Saudi Arabia, the United Arab Emirates, Turkey and Brazil together account for only 5% of total commitments. However, comparing data on emerging donors’ aid activities in a meaningful way is difficult, chiefly because of limited public information and differences in aid definitions.

**Table 1. Total commitments to Africa from selected donors, 2003–12 (€ million, constant 2011 prices)**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Total Period</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Emerging Donors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>–</td>
<td>3</td>
<td>5</td>
<td>1</td>
<td>3</td>
<td>9</td>
<td>3</td>
<td>93</td>
<td>–</td>
<td>–</td>
<td>117</td>
</tr>
<tr>
<td>China</td>
<td>2,127</td>
<td>4,167</td>
<td>1,744</td>
<td>5,816</td>
<td>11,578</td>
<td>2,799</td>
<td>10,054</td>
<td>9,026</td>
<td>7,477</td>
<td>11,172</td>
<td>65,960</td>
</tr>
<tr>
<td>India</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>1,217</td>
<td>94</td>
<td>209</td>
<td>491</td>
<td>373</td>
<td>15</td>
<td>1,151</td>
</tr>
<tr>
<td>Kuwait</td>
<td>246</td>
<td>834</td>
<td>462</td>
<td>511</td>
<td>481</td>
<td>340</td>
<td>179</td>
<td>657</td>
<td>136</td>
<td>715</td>
<td>4,561</td>
</tr>
<tr>
<td>Saudi Arabia</td>
<td>92</td>
<td>225</td>
<td>177</td>
<td>105</td>
<td>163</td>
<td>113</td>
<td>125</td>
<td>146</td>
<td>104</td>
<td>719</td>
<td>1,968</td>
</tr>
<tr>
<td>Turkey</td>
<td>0</td>
<td>4</td>
<td>11</td>
<td>21</td>
<td>23</td>
<td>34</td>
<td>28</td>
<td>29</td>
<td>140</td>
<td>573</td>
<td>861</td>
</tr>
<tr>
<td>UAE</td>
<td>45</td>
<td>94</td>
<td>–</td>
<td>–</td>
<td>59</td>
<td>190</td>
<td>99</td>
<td>385</td>
<td>90</td>
<td>260</td>
<td>1,222</td>
</tr>
<tr>
<td><strong>Total DAC Donors</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Japan</td>
<td>1,368</td>
<td>3,286</td>
<td>2,968</td>
<td>5,121</td>
<td>3,009</td>
<td>1,482</td>
<td>1,446</td>
<td>3,181</td>
<td>1,535</td>
<td>2,286</td>
<td>25,682</td>
</tr>
<tr>
<td>Korea</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>64</td>
<td>632</td>
<td>202</td>
<td>608</td>
<td>394</td>
<td>306</td>
<td>275</td>
<td>2,482</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,368</td>
<td>3,286</td>
<td>2,968</td>
<td>5,121</td>
<td>3,009</td>
<td>1,482</td>
<td>1,446</td>
<td>3,181</td>
<td>1,535</td>
<td>2,286</td>
<td>25,682</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>3,879</td>
<td>8,613</td>
<td>6,582</td>
<td>11,733</td>
<td>16,155</td>
<td>5,659</td>
<td>12,915</td>
<td>13,927</td>
<td>10,939</td>
<td>17,231</td>
<td>107,634</td>
</tr>
</tbody>
</table>

1. Data for India for 2010 are incomplete.
2. Data for Brazil include only ODA-like (concessional) flows provided by the Agencia Brasileira de Cooperação (ABC).
3. Data for Turkey refer to net ODA.

Source: Authors’ calculations based on data from AidData (Tierney et al. 2011; Strange et al. 2013) and OECD Creditor Reporting System.
Recipient countries and sectors

Although many observers commonly use the terms ‘new’ or ‘emerging’ donors when referring to non-DAC donors, all donors analysed in this report have been active in the aid business for decades. As Fuchs and Klann (2013) emphasise, almost every country in the world is a supplier of at least some international humanitarian assistance. However, their activities are much less significant than those of the donors covered in detail in this study.

China is active in almost all African countries, but Ghana, the Democratic Republic of Congo and Ethiopia receive the largest shares of the official finance it provides on the continent. The largest recipient of aid from India, including Exim Bank loans, is Sudan. Priority sectors for these two emerging donors are transport (24% of total flows from China) and power generation (37% of total flows from India). Brazil provides aid mainly to the five Lusophone countries—Mozambique, São Tomé and Príncipe, Guinea-Bissau, Cape Verde and Angola—for education and health. Arab donor countries—Kuwait, Saudi Arabia and the United Arab Emirates—focus their aid on North Africa and Sudan for transport, energy and water projects. Almost 13% of the aid from the United Arab Emirates is provided through general budget support. A large fraction of Turkey’s aid flows to Egypt for humanitarian aid and education.

Although not members, some emerging donors—Kuwait, Saudi Arabia, Turkey and the United Arab Emirates in particular—report their data to DAC and comply with its guidelines to varying degrees. However, in official statements and documents, most emerging donors describe themselves as ‘providers of South–South cooperation.’ This means, first, that they refer to themselves as ‘partners’ rather than as ‘donors,’ a term that is now also used by traditional donors. And, second, that they practice noninterference in the internal affairs of other countries, as a guiding principle of their cooperation. Third, it means that they emphasise a mutually beneficial relationship while offering experiences from their own recent development successes.

Institutional framework

Turkey, the only OECD member under analysis, has an aid agency and an export-import bank. Kuwait, Saudi Arabia and the United Arab Emirates provide aid through both their development funds and their ministries of finance, while Brazilian and Indian aid is highly fragmented across several agencies, including their respective export-import banks, with limited coordination. In China,
the Ministry of Commerce is the coordinating agency, and the large policy banks (Exim Bank and China Development Bank, both established in 1994) are important actors that extend large lines of credit.

Overall, emerging donors provide less budget support than DAC donors, and the grant share of their total official finance to Africa is lower. Among emerging donors reporting to the OECD, the United Arab Emirates has the highest grant share (at 74%), but that is still less than the average share among DAC countries (81%).
Emerging donors do not apply conditionality, officially rejecting the practice. Even so, China links its aid to the stance of recipients on the One-China policy.

### Channels of delivery of aid

The private sector plays a large role in South–South cooperation—at least in part because most aid is tied to goods and services provided by private firms. Package deals consisting of aid, trade and investment flows are characteristic of such cooperation. Only in a few cases—that of Turkish aid, for example—is close collaboration with nongovernmental organisations common.

### Competitive advantages and disadvantages of emerging donors’ aid

Aid from emerging donors offers several competitive advantages over that provided by traditional donors. First, emerging donors do not have a history of exploitation in Africa as colonial powers. Second, as developing countries themselves, their recent experiences of economic success can offer African states learning opportunities. Third, close cultural links with recipients may offer advantages over traditional donors. Fourth, the implementation costs of emerging aid are lower than those of traditional aid owing to lower labour costs in the donor countries. Fifth, because emerging donors do not condition aid on the establishment of democratic institutions and human rights, they may offer an advantage in the eyes of authoritarian regimes that are sometimes avoided by Western donors. Interestingly, however, aid from emerging countries is not always viewed more positively by beneficiary populations, especially in countries where emerging donors enjoy overwhelming bilateral trade surpluses, as evidenced by surveys in Uganda (Milner et al. 2013).

Some potentially unwelcome side effects have been flagged in the literature about new providers of development cooperation, although to date research on these factors is inconclusive. The fact that aid from emerging donors is not explicitly linked to democracy and human rights may undermine the pro-democracy efforts of DAC donors. Large nonconcessional loans provided by emerging donors could erode debt sustainability. The volatility of aid from emerging donors owing to fluctuations in oil prices or geostrategic considerations may make assistance less predictable. Lax environmental and labour standards among some emerging donors can have negative effects on the environment and on the local labour force. Emerging aid is largely tied to the purchase of goods and services from donor countries, which may reduce its value for money. The large number of foreign staff involved in projects, particularly in the case of Chinese aid—even though there are some signs that this is changing—limits the transfer of knowledge and the development of local human capital. The low level of aid from some new donors implies relatively high transaction costs.

No emerging donor has announced plans to revisit its policy of tying aid to the purchase of goods and services from the donor economy. Although the study has not identified a specific rule tying aid provided through India’s Ministry of External Affairs, lines of credit provided by the country’s Exim Bank are consistently linked to the purchase of Indian goods and services (representing 85% of the project amount). Similarly, aid projects provided through China’s Ministry of Commerce are principally tied to Chinese companies and products, but any project can be granted an exception.
if deemed necessary. Regarding the tying status of loans from China’s Exim Bank, the institution’s guidelines say that at least 50% of all procurement should come from China. This situation contrasts with the practice of most DAC donors, which generally offer untied aid. By 2012, only 14% of aid provided by DAC countries was tied, even though there is a large variation across DAC members (OECD 2014), with some countries still following practices not unlike those of emerging donors.

**IMPACT OF EMERGING DONORS ON AFRICAN COUNTRIES**

Using statistical models and original research, this study investigates the impact of aid from emerging donors on the economic development of African countries. It also identifies the determinants of aid allocations from emerging donors and compares them with those of DAC donors. It examines the degree to which aid from emerging donors is targeted at the Millennium Development Goals (MDGs). The underlying idea is that aid makes a difference in development if increased aid flows to countries with the greatest need and if aid is allocated to MDG-relevant sectors.

The new research reported in the study reached the following key conclusions:

- Whereas DAC donors demonstrate some need-orientation by giving significantly less aid to richer countries, per capita GDP of the recipient country does not affect the amount of aid given by the emerging donor group. Analysing each emerging donor individually, the study finds that most emerging donors give more aid to larger countries. With respect to per capita GDP, Brazil, China (but only when including nonconcessional flows) and the United Arab Emirates appear to be the least need-oriented donors since they send more aid to richer countries—significantly so compared with DAC donors.

- In line with announcements by some DAC members, greater political rights lead to more aid from traditional donors; aid from emerging donors is not connected to political rights. DAC donors give less aid to closer political allies whereas emerging donors give more aid to closer allies, as measured by their voting alignment in the United Nations General Assembly.

- China’s official finance does not seem to respond to the quality of recipient institutions, in line with China’s policy of noninterference in the internal affairs of other countries. This is also the case for the average DAC donor, though aid from Japan and Korea seems to reward countries with good governance.

- The study’s quantitative models also point to the greater commercial self-interest of the emerging donors, as measured by the share of donors’ exports going to specific aid recipients. China (only if nonconcessional flows are included), Kuwait and Saudi Arabia provide significantly more aid to countries that account for a larger share of their exports.

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1. The study’s empirical research builds on earlier work by Thiele et al. (2007) and Dreher et al. (2011).
Mineral- and energy-resource depletion, a proxy for the importance of natural resources, does not appear to determine the amount of aid from either traditional or emerging donors, although Brazil, China, Turkey and the United Arab Emirates provide significantly more aid to countries engaging in the substantial extraction of natural resources.

Few emerging donors allocate aid in line with MDG targets (see Table 2 for details). India is an exception—its aid allocation is in line with 6 of 11 MDGs. The study also shows that none of the emerging donors analysed allocates aid in line with recipient countries’ infrastructure or agricultural needs. Aid provided by traditional donors, including Japan and Korea, generally appears to be more targeted towards the MDGs than aid supplied by emerging donors. Japan and Korea perform particularly well with regard to health, education and humanitarian aid.

The study did not find a measurable correlation between aid from emerging donors and economic growth in recipient countries. However, given the limited information available, these results are tentative and preliminary.

AFRICA’S DEVELOPMENT FINANCE NEEDS TO 2030

Growth prospects and drivers

The study includes a prospective analysis of demographic and economic trends through 2030 and their implications for Africa, the European Union (EU) and emerging donors, based on prior studies and world economic projections.

Rapid population growth will be a major driver of Africa’s demand for public expenditures and domestic investment over the next two decades. Africa’s economies are expected to grow faster than population at rates between 4% and 6% per year depending on the methodology and scenario adopted. Africa’s population is expected to increase by more than 40% between 2013 and 2030. It is anticipated that rapid growth of cities will boost urban populations from about 36% of the total population in 2010 to 50% in 2030 and 60% in 2050. This growing urban population will provide economies of scale in economic activities that will boost growth but also generate additional demand for both resources and more advanced social services, which will require adequate funding.

If we consider the projections on population growth, African countries will, on average, have to grow at a steady rate of at least 5.5% per year to achieve significant poverty reduction and narrow the income gap with middle- and high-income countries. In the past, most countries of the subcontinent have failed to achieve and sustain such levels of performance over a long period, underscoring the challenges ahead. In order to improve on past performance, countries will have to increase the level and efficiency of private and public investments (notably in infrastructure) while providing an adequate safety net for the poor.
**Table 2. Aid allocation and MDGs—Tobit results for individual donor aid and total aid**

Donors listed in **bold** type grant significantly more aid to countries with greater need; donors listed in *italics* grant significantly less aid to countries with greater need.

<table>
<thead>
<tr>
<th>Targets/Indicators of Need</th>
<th>Total Aid</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Target 2: Hunger</strong></td>
<td></td>
</tr>
<tr>
<td>• undernourishment</td>
<td><strong>India, Kuwait, Saudi Arabia</strong></td>
</tr>
<tr>
<td>• malnutrition in schools</td>
<td><strong>India, Japan, Kuwait</strong></td>
</tr>
<tr>
<td><strong>Target 3: Primary schooling</strong></td>
<td></td>
</tr>
<tr>
<td>• net primary completion rate</td>
<td><strong>India, Kuwait, Saudi Arabia</strong></td>
</tr>
<tr>
<td>• primary completion rate</td>
<td><strong>India, Japan</strong></td>
</tr>
<tr>
<td>• average years of schooling</td>
<td><strong>United Arab Emirates, Brazil, Japan</strong></td>
</tr>
<tr>
<td><strong>Target 4: Gender disparity in education</strong></td>
<td></td>
</tr>
<tr>
<td>• ratio girls/boys in education</td>
<td><strong>India, Japan</strong></td>
</tr>
<tr>
<td>• literacy ratio, males/females</td>
<td><strong>Brazil</strong></td>
</tr>
<tr>
<td><strong>Target 5: Under-5 mortality</strong></td>
<td></td>
</tr>
<tr>
<td>• under-5 mortality rate</td>
<td><strong>United Arab Emirates, Japan, Kuwait, Saudi Arabia</strong></td>
</tr>
<tr>
<td>• immunization, measles</td>
<td><strong>United Arab Emirates, Japan, Kuwait, Saudi Arabia</strong></td>
</tr>
<tr>
<td><strong>Target 6: Maternal mortality</strong></td>
<td></td>
</tr>
<tr>
<td>• maternal mortality ratio</td>
<td><strong>Kuwait, Saudi Arabia</strong></td>
</tr>
<tr>
<td>• births attended</td>
<td><strong>India, China ODA</strong></td>
</tr>
<tr>
<td><strong>Target 7: HIV/AIDS</strong></td>
<td></td>
</tr>
<tr>
<td>• prevalence of HIV</td>
<td><strong>United Arab Emirates, Saudi Arabia</strong></td>
</tr>
<tr>
<td><strong>Target 8: Malaria, other diseases</strong></td>
<td></td>
</tr>
<tr>
<td>• incidence tuberculosis</td>
<td><strong>Saudi Arabia</strong></td>
</tr>
<tr>
<td>• malaria deaths</td>
<td><strong>Japan</strong></td>
</tr>
<tr>
<td><strong>Target 9: Environmental sustainability</strong></td>
<td></td>
</tr>
<tr>
<td>• CO2 emissions</td>
<td><strong>Brazil, China, Saudi Arabia</strong></td>
</tr>
<tr>
<td>• forest area</td>
<td><strong>Saudi Arabia</strong></td>
</tr>
<tr>
<td>• nationally protected areas</td>
<td><strong>Saudi Arabia</strong></td>
</tr>
<tr>
<td>• GDP per unit of energy use</td>
<td></td>
</tr>
<tr>
<td><strong>Targets 10/11: Water and sanitation/slum dwellers</strong></td>
<td></td>
</tr>
<tr>
<td>• access to improved water</td>
<td><strong>Brazil, India, Korea, Kuwait</strong></td>
</tr>
<tr>
<td>• access to improved sanitation</td>
<td><strong>China OF, India, Kuwait, Saudi Arabia</strong></td>
</tr>
<tr>
<td><strong>Agriculture</strong></td>
<td></td>
</tr>
<tr>
<td>• irrigated land</td>
<td><strong>Kuwait</strong></td>
</tr>
<tr>
<td>• agricultural machinery</td>
<td></td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td></td>
</tr>
<tr>
<td>• access to all-season roads</td>
<td><strong>China OF</strong></td>
</tr>
<tr>
<td>• road density</td>
<td><strong>Brazil</strong></td>
</tr>
</tbody>
</table>

China ODA = ODA-like (concessional) aid from China; China OF = all official finance from China.

Based on Tobit model with per capita income, population, and governance as control variables; controls and constant term not reported.
to World Bank projections, Africa’s growth to 2017 will be lifted by infrastructure investment, increased agriculture production and buoyant services.

The policy environment is a crucial determinant of private and public investment in another critical driver of growth—physical capital. Energy, for example, remains an untapped source of growth—provided demand can be met—and of improved social outcomes—to the extent that access can be widened. According to estimates, if demand for electricity were met in Sub-Saharan Africa, the region’s GDP would grow by an additional 2 percentage points each year. A 2010 World Bank study on Africa’s infrastructure investment needs found that one-third of the financing gap could be filled through efficiency gains (Foster and Briceño-Garmendia 2010). In this respect, there are several sources of inefficiencies in Africa. First, some countries are allocating resources to various types of infrastructure in a suboptimal manner. Second, they typically execute only about two-thirds of budgets for public investment in infrastructure. Third, on average, about 30% of a typical African country’s infrastructure assets need rehabilitation, which costs several times more than the cumulative real cost of sound preventive maintenance. Fourth, Africa’s power and water utilities are extremely inefficient owing to distribution losses, under-collection of revenues and overstaffing. Fifth, infrastructure services are substantially under-priced, resulting in excess demand and an inability to maintain the assets used to provide services.

National policy makers seeking to support economic investments, especially by domestic firms, should concentrate their efforts on establishing a favourable investment climate. According to various investment climate indicators, most African countries perform poorly compared with other developing countries, highlighting the challenge ahead. Policy makers in developing countries also have a central role to play in increasing human capital through policies aimed at raising educational attainment, especially for the poor. For Africa, this means improving educational quality—not just primary school enrolment—and ensuring that many more students receive a secondary and tertiary education.

## Financing needs and sources

While there are no accurate forecasts of future financing needs for African countries, several recent studies published on the subject try to measure the investment needs in key sectors—infrastructure, education, health and climate change. The compiled data show that most investment needs in Africa—totalling around US$200 billion per year for the period 2015–30—will be for infrastructure, with over 71% of Sub-Saharan Africa’s and 97% of North Africa’s financing needs coming in sectors with a high or mid-range potential for private participation.

At the same time, projections of domestic savings and investments until 2030 in Africa (and globally) demonstrate that there will be a widening imbalance between national savings and investments in Africa, indicating a continuing need for external financing.

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In terms of official external finance, our projections show that aid from emerging donors will slightly outgrow aid from traditional donors: ODA to Africa from traditional donors is expected to grow by between US$5 billion and US$11 billion per year until 2020, accelerating thereafter to US$17–40 billion per year. Emerging donors’ ODA-like financing will probably continue to grow as well, amounting to between US$7 billion and US$17 billion per annum until 2020 and accelerating to US$19–57 over the following decades. However, the World Bank estimates that the most significant pool of resources will come from private external finance, with gross capital inflows for Sub-Saharan Africa exceeding US$2.4 trillion over the period 2015–30.

Figure 4 and 5 summarise Africa’s overall investment needs and available sources, based on estimates in various studies. They show two scenarios with low and high projections for the different flows. Although these estimates are very rough, they point to a deficit to be filled through domestic savings (where domestic or regional financial markets have enough breadth and depth) or other sources, at least up to 2020. The balance includes both reallocation of current flows from any source and the potential contribution of domestic savings. The deficit is concentrated in the current decade and is likely to narrow rapidly after 2020.

Figure 4. Africa’s investment needs and potential funding sources (US$ billion, current prices)—low case scenario

Source: Authors’ calculations.
Figure 5. Africa’s investment needs and potential funding sources (US$ billion, current prices)—high case scenario

- Annual funding needs
- Add’l ODA: traditional donors
- Add’l official finance: emerging donors
- Private external finance
- Domestic tax revenues
- Gap or surplus

Source: Authors’ calculations.

IMPLICATIONS FOR AFRICA

- Despite increasing domestic finance, external financing will still be needed to close a significant gap.
- Private investors are expected to play an important role in Africa’s development.
- Domestic resources will make up the largest pool of funds for social spending
- Removing inefficiencies will be key to reducing infrastructure investment needs.

Following the above analysis, African countries should design their resource mobilisation strategies with a view toward addressing several issues.
First, while domestic finance will continue to play a dominant role in funding African investments in human capital and infrastructure, a significant gap will have to be closed through external funding. Private investment and public support from OECD countries is unlikely to close this gap. The other large savings pool that Africa can tap over the long term is found in Asia, primarily China. Traditional donors can play an important role by better coordinating their activities with those of emerging donors; by leveraging the capital of private investors, foreign and domestic; and, wherever possible, by encouraging triangular cooperation with emerging donors. From a purely commercial perspective, these steps may not be in a donor’s best interest, but they may make sense from a development standpoint.

Second, private investors are expected to play an important role in Africa’s development. Private participation in infrastructure (PPI) can help secure additional financing for government efforts to fund infrastructure investments. In order to attract such investors, however, African countries must ensure that their policy environments are favourable. Donors can help by leveraging their official aid to reduce some of the risks associated with these types of financial operations, including those related to contingent liabilities and low governmental capacity to oversee PPI. The fact that the private sector is the borrower in build-operate-transfer and build-own-operate (BOT/BOO4) arrangements, two common models of public-private partnership, means that governments need not incur immediate debt obligations, allowing them to get around borrowing ceilings through ‘off-balance-sheet liabilities.’ Furthermore, PPI allows governments to benefit from private sector expertise in building and maintaining infrastructure. This can be a powerful consideration in low- or middle-income countries where government capacity may be weak. It is important, however, that PPI be accompanied by strong legal frameworks, implementation regulations, and effective supervision and negotiation in order to successfully complete PPI projects and to manage contingent liabilities.

Third, as in the past, domestic resources will continue to make up the largest pool of funds for social investments, with local bond markets playing an increasingly important role. During the period 1999–2007, for example, about two-thirds of the increase in funding for public education in Sub-Saharan Africa was generated by economic growth and the resulting increase in tax revenues. Similarly, about two-thirds of infrastructure investments in the 2000s was funded by domestic resources. With projected cumulative domestic savings over the next 15 years in excess of US$6 trillion, according to the World Bank (2013), the countries of Sub-Saharan Africa have sufficient resources to fund a good part—but not all—of the investments they require.

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4. Under BOT, the government delegates infrastructure design, building, and operation and maintenance of facilities for a certain period to a private sector entity. Under the BOO scheme, ownership remains with the project company.
Fourth, as noted earlier, infrastructure investment needs could be reduced by about US$17 billion per year if African countries could completely remove inefficiencies in project implementation. The favourable policy environment created to address inefficiencies will help attract additional foreign investment and foster growth. The EU is well positioned to contribute on both fronts through its long-standing tradition of policy dialogue with the African, Caribbean and Pacific Group of States and through technical assistance and budget support. New donors such as South Africa, India and Brazil could also be important sources of relevant technical assistance on energy, transport and telecommunications in a developing-country context. Drawing a parallel with the personal computer industry, where the United States focused on design and software and left the hardware to more competitive Asian manufacturers, there is space for emerging donors to focus on infrastructure design wherever they have a significant advantage in price and quality.

Fifth, African countries need to consider the regional dimension of projects so as to benefit from economies of scale and ensure interconnectivity. The 2010 World Bank study on African infrastructure found that intraregional connectivity was very low, whether measured in transcontinental highway links, power interconnectors or fibre-optic backbones:

> With many small, isolated economies, Africa’s economic geography is particularly challenging. Regional integration is likely the only way to overcome these handicaps and allow African countries to participate in the global economy. Interconnecting physical infrastructure among countries (for example in power, telecom, or railways) is both a precursor to and an enabler for deeper economic integration, thereby allowing countries to gain scale economies and harness regional public goods. (Foster and Briceño-Garmendia 2010, 143)

The following year, the Programme for Infrastructure Development in Africa concluded that regional infrastructure integration could generate important savings: ‘Overall, full integration and unlimited trade in power would save US$1.24 trillion over the 2011–40 period—US$42 billion each year and fully 23% of the cost of the continent’s electricity’ (African Union PIDA 2011, 23).

Regional projects are a logical solution for several small and isolated African countries, and the EU has significant expertise in this domain—as well as considerable convening power. The African Union—through which China is actively supporting regional infrastructure programs—would be a logical partner for such efforts.

“Regional integration is probably the only way to overcome Africa’s challenging economic geography.”
With the overall objectives of making aid to Africa more effective and efficient and of maximizing financial flows to Africa, the EU strategy until 2030 should be articulated along four lines of action:

- Engage with emerging donors to increase the quality of aid.
- Assist African countries to better tap and manage different sources of financing.
- Leverage EU value-added compared with emerging donors.
- Promote private sector involvement in Africa.

1. Engage with emerging donors to increase the quality of aid

The EU has room to engage in dialogues on development policy and practices (including untying of aid) as well as exchanges of staff and experts in order to give all parties a clearer understanding of one another’s practices. Such engagement would allow more coordination in the field and would ultimately reduce fragmentation. Where appropriate, emerging donors could be included in a progressive manner in joint programming exercises. Although coordination between traditional and emerging donors is still at an early stage, there is a growing willingness on both sides to engage.
In order to achieve common statistical standards, the EU could continue to signal openness to reform the current definition of ODA along the lines discussed at the last DAC High-Level Meeting in December 2014. By adopting the recent changes on concessionality of loans, the DAC moved closer to the accounting systems of some aid from emerging donors. For instance, China already presents its loan figures by their grant value rather than by their face value. The wide participation of emerging donors at the last DAC High-Level Meeting seems to reflect a growing consensus among major parties to strive towards a common definition of ODA.²

Concerning aid transparency, progress has already been made (Turkey and some of the Arab donors already report to DAC). The EU could therefore continue offering support to improve aid-reporting platforms and to build capacity in recipient countries for the registration and monitoring of aid flows. The accreditation of data across countries would provide an overall picture of development cooperation on the African continent.

Triangular operations are already practiced by two-thirds of DAC member states (Ashoff 2010). In a context in which the EU could take advantage of the cultural and historical backgrounds of some emerging donors, triangular cooperation could help raise aid effectiveness. For example, in the infrastructure sector, collaboration with emerging donors could bring in appropriate technology and help reduce operation and maintenance costs. To mitigate environmental side effects, EU aid could, for instance, accompany large infrastructure projects financed by emerging donors within a framework of triangular cooperation. Emerging donors currently face incentives (such as learning from the ‘mature methods’ of DAC donors) and disincentives (such as eroding their image through a too-close association with a traditional donor) but perceptions could change if the recipient countries themselves ask for these types of operations.

². The United Arab Emirates, Brazil, China and India participated in the meeting as observers.
2. Assist African countries to better tap and manage different sources of financing

The EU could provide technical and administrative support to recipient countries to better manage incoming aid and to negotiate appropriate conditions and modalities. The absorptive capacities of recipient countries limit the effectiveness of aid (ODI 2005). Efforts to raise the capacity of recipient countries to negotiate the conditions and modalities of financing arrangements should enable them to lead the negotiating process.

The EU could also help African countries to stem efficiency losses associated with public domestic investment. Measures could include (i) helping officials better design projects so that execution is not delayed due to technical difficulties and (ii) facilitating knowledge exchanges with Europe’s major utility companies to share experiences and knowledge about the management methods and systems of modern public utilities.

The EU could engage in support activities for the development of domestic financial markets. A key factor that has facilitated the development of domestic financial markets in Africa has been the macroeconomic stability brought about by a combination of government policies and support from traditional donors. Donors’ support for strategic macroeconomic structural changes and sectoral reform has meant that African governments are now in a better position to tap and use domestic resources. In turn, the availability of domestically generated funds enables African governments to allocate funds to high-yield development projects in support of national development strategies.

The EU could support improvements in the investment climate in African countries. As already noted, foreign direct investment and portfolio investment are becoming primary sources of financing for Africa, magnifying the importance of the investment climate on the continent. Efforts are already being carried out by some European development agencies. A good example is the Investment Climate Facility for Africa (supported by the UK Department for International Development), which works to improve investment conditions in Africa by bringing about more business-friendly policies, laws and regulations and strengthening the institutions that administer them. Additionally there are regional initiatives to improve the investment climate in Africa, such as the Investment Climate Facility for Africa (supported by the African Development Bank), which already receives financial support from European donors (Germany, Ireland, Netherlands and the UK) and the World Bank, through its Investment Climate Advisory Services. The EU’s involvement could include providing financial support for such regional initiatives (and the initiatives of other international organisations) and leading the coordination of technical assistance in this field.

The EU could also assist in developing a sound legal and regulatory framework for public-private partnerships since the largest financing gaps are found in sectors with great potential for private sector participation.

“The EU could also assist in developing a sound legal and regulatory framework for public-private partnerships since the largest financing gaps are found in sectors with great potential for private sector participation.”
3. Leverage EU value-added compared with emerging donors

European values, principles and experience must continue to be promoted. The EU should continue its support for policy improvements in recipient countries. It is crucial that the EU continue to support structural changes, including through general and sector budget support. Emerging donors are very unlikely to follow traditional donors in providing this type of support.

The EU should continue to share its experience on regional integration with Africa. Small, relatively closed economies make the economic geography of Africa particularly challenging. Regional integration is probably the best way to overcome these handicaps and to enable African countries to participate more effectively in the global economy. The regional integration of physical infrastructure is an important precondition for deeper economic integration. It would also allow countries to gain economies of scale and harness regional public goods. Regional projects are a logical solution for several small and isolated African countries, and the EU has unparalleled expertise in the area of regional integration. That experience should be shared with institutions and governments at the continental and national levels.
Speed is commonly cited as a competitive advantage of some emerging donors. However, in the long run, sustainability pays off. The EU should maintain the high quality standards of its projects but also strive to modify its procedures to speed up delivery. Quality and speed do not have to be mutually exclusive.

Europe is difficult to access for African students and workers, but other destinations are becoming more available to African students. Reportedly, for instance, Chinese visas easier to obtain than U.S. or EU visas, the entire administrative process being handled by the receiving university. Fostering the exchange of students and scholars is one of the goals included in the FOCACV action plan, and it was among the five top priorities agreed to by Chinese president Hu Jintao for boosting relations between China and African countries. Recent research shows that studying abroad influences values and politics in the home country. For example, upon their return to their countries of origin, foreign students educated in democratic countries tend to advocate and support democracy at home (Spilimbergo 2009). The EU is already funding many scholarship programmes, but this effort should be scaled up and access to visas and scholarships should be facilitated.

4. Promote private sector involvement in Africa

The EU should further catalyse financial flows to Africa through mechanisms such as blending and guarantees. Blending can be an effective tool for leveraging additional resources for African countries. Combining EU grants with loans or equity from public and private financers is a way to attract and facilitate financing for investment projects in beneficiary countries. Blending facilities can provide a way for low-income countries to access commercial financing on concessional terms and thus to comply with agreed limits on nonconcessional borrowing. Such a policy should be particularly useful for the infrastructure and ITC sectors because concessional aid for major projects in these sectors is limited. It is important, however, that these blending mechanisms meet development objectives and standards of transparency and accountability (Eurodad 2013).

“The EU should maintain the high quality standards of its projects but also strive to modify its procedures to speed up delivery. Quality and speed do not have to be mutually exclusive.”

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