Chapter 2: External Financial Flows

The last decade has been one of impressive changes in the volume and composition of financial flows to Africa. Between 2000 and 2010 the sum of foreign direct investment (FDI), portfolio investment and official development assistance (ODA) increased almost fivefold, from USD 27 billion in 2000 to an estimated USD 126 billion in 2010 (OECD/DAC, 2010; UNCTAD, 2010a; IMF, 2010a). It is the changing composition of these flows, however, that best represents Africa's new economic dynamism: since 2005 Africa has attracted more FDI than ODA flows. Moreover, Africa's share of global FDI flows has risen over the last decade, from 0.7% in 2000 to 4.5% in 2010. These figures offer an impressive testimony to Africa's changing role in the world and its increasing ability to harness the opportunities from globalisation. Nevertheless, some challenges remain.

Foreign Direct Investment in Africa continues to be concentrated in a few countries and sectors, with 15 oil-exporting countries receiving 75% of FDI flows, pointing to a further need for diversification. Many governments are tackling this challenge and show commitment to improving institutional frameworks. The outlook for FDI flows to Africa in 2011 is basically good given the strong recovery in many parts of the world and rising resource prices. The current uncertainty in north Africa renders predictions difficult, however, as the region has been Africa's top FDI destination for the last five years.

Official Development Aid globally reached USD 120 billion in 2009, a 0.7% increase in real terms against 2008. ODA increased despite the financial crisis and its severe impact on government budgets in donor countries. Net bilateral ODA from donors that are members of the OECD Development Assistance Committee (DAC) to Africa totalled USD 28 billion in 2009, of which USD 25 billion went to sub-Saharan Africa. This represents an increase of 3% in real terms over 2008 for all of Africa and an increase of 5.1% for sub-Saharan Africa.

Direct investment flows

FDI is an especially important source of investment in Africa. Over the last decade, FDI's share of gross fixed capital formation in Africa has, at 20%, been twice the global average and 8% above that of other developing countries (UNCTAD, 2010b). Although it is of growing importance for the whole continent, FDI continues to be unevenly distributed. A large share of FDI goes to extractive industries in a limited group of countries. Attracting investment into diversified and higher value-added sectors remains a challenge for Africa. Many governments are tackling this challenge and show commitment to improving institutional frameworks.

Figure 2.1 shows that FDI to African countries peaked in 2008 at USD 72 billion (UNCTAD 2010a), five times the value of FDI receipts in 2000. The rise in FDI up to 2008 was supported by the surge in prices for raw materials, particularly oil, which triggered a boom in commodity-related investment. The global financial crisis had a twofold negative impact. First, investors suffered and reduced their investment volume. At the same time, the crisis lowered demand for Africa's commodities. This lowered demand has reduced capital investment in those sectors and countries where most foreign investment has historically been concentrated in Africa. Consequently, FDI inflows to African countries fell by 20%, to USD 59 billion in 2009. For 2010 the United Nations Conference on Trade and Development (UNCTAD) estimates a further decline to USD 50 billion, while the International Monetary Fund (IMF) estimates FDI to African countries at USD 52 billion in 2010.

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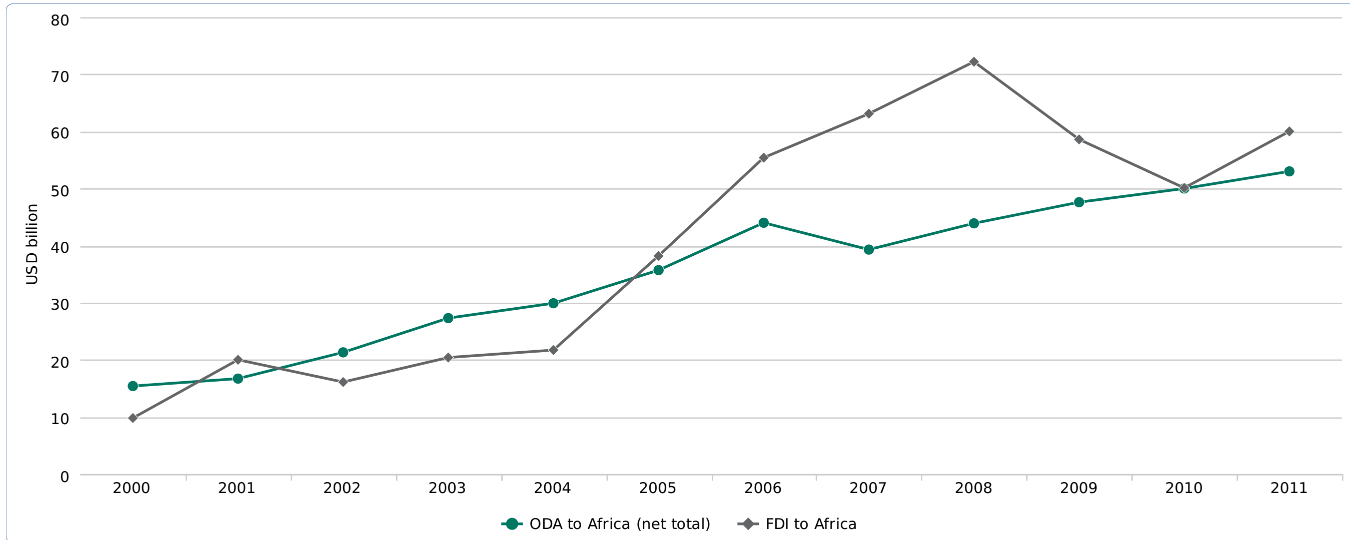
Figure 2.1: FDI and ODA flows to Africa 2000-11 (billion USD, current)



Source: OECD/DAC for ODA, UNCTAD for FDI 2000-2010.

Projections for 2011: FDI: IMF; ODA: Simple forecast (author's calculation)

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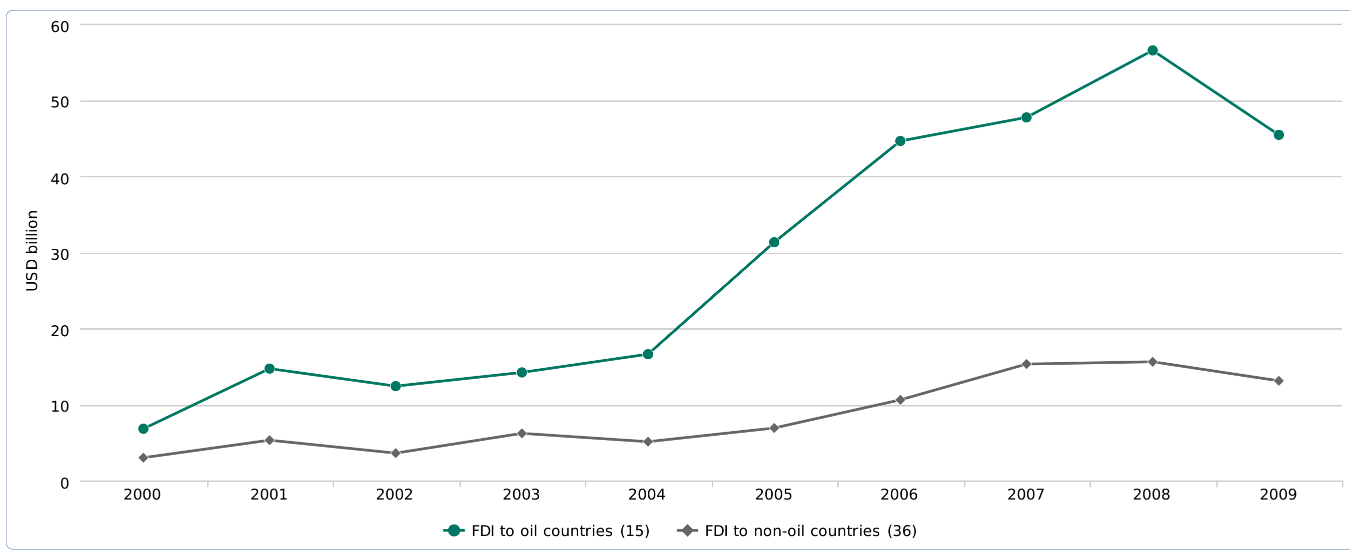
Measured in shares of global FDI, inflows to African countries have been rising steadily over the last decade, from 0.7% in 2000 to 5.3% in 2009. However, Africa's shares of global FDI dipped slightly in 2010, to 4.5%. This drop in Africa's share is largely due to a quicker recovery of FDI flows from the financial crisis elsewhere in the world.

In terms of sectors, the services sector, led by the telecommunications industry, became the dominant FDI recipient in 2009 and attracted the largest share of cross-border mergers and acquisitions (M&As) in Africa (UNCTAD, 2010b). The primary sector, in turn, experienced pressure from low commodity prices and lack of credit. Nevertheless, FDI in Africa continues to be concentrated in a few countries and sectors, pointing to a further need for diversification. As Figure 2.2 shows, between 2000 and 2009, about 75% of FDI to Africa flowed to oil-exporting countries. For FDI from OECD member countries, this percentage is even higher: 85%.

Figure 2.2: FDI flows to countries exporting oil vs countries without oil 2000-09 (billion USD, current)



Source: UNCTAD FDI data, own calculation

StatLink http://dx.doi.org/10.1787/888932403439

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From 2008 to 2009, net cross-border mergers and acquisitions (M&As) fell much more sharply than overall FDI, by 75% from an all-time high of USD 21 billion in 2008 to USD 5 billion in 2009. However, these cross-border M&As rebounded by 50% in 2010 to USD 8 billion, compared with a global rebound of only 37% (UNCTAD, 2010b). The biggest M&A deal related to Africa was Indian telecom Bharti Airtel's USD 10.7 billion acquisition of the African assets of Kuwait's Zain. This deal is not included in the preceding numbers, however, as it does not involve any financial flows to Africa but only a change of ownership of African assets between foreigners. In contrast, Japan's Nippon Telegraph and Telephone's USD 3 billion purchase of the South African IT firm Dimension Data Holdings brought significant financial flows to Africa. Major equity market deals included miner African Barrick Gold's nearly USD 900 million London IPO, while the top debt market issuance was nearly USD 2 billion South African sovereign bonds (ThomsonReuters, 2010).

A number of factors influence the possibilities for FDI to Africa in 2011. On the positive side, the global economy continues to recover from the financial crisis, especially the emerging economies that play an increasingly important role in Africa. In combination with rising commodity prices, this economic recovery makes for a favourable scenario for resource-exporting countries that can expect increasing FDI flows. As investors, especially from emerging partners, become more comfortable with the overall African business environment, the global upswing will also likely increase investment in other sectors.

However, negative factors also influence the 2011 possibilities for FDI to Africa. Specifically, the political developments in North Africa and the Middle East since the beginning of 2011 will likely have a negative effect on FDI and portfolio flows to Africa in the near future through two channels. North Africa has been important as both a destination of FDI inflows from outside of Africa and as a source of intra-African FDI. Owing to the current political uncertainty, foreign investors will likely hold off on the region, and North African investors will be much less active in the rest of Africa. To a lesser extent, a similar assessment holds true for the Middle East, which has been a key source of investment in Africa. A larger negative effect of North Africa on FDI to Africa is conceivable if investors interpret recent events in North Africa as a sign of increasing political instability across the continent.

FDI destinations in Africa

In 2009[1] Angola received the largest amount of FDI, at USD 13.1 billion. Angola was followed by Egypt, with USD 6.7 billion, and South Africa and Nigeria with USD 5.7 billion each[2]. In 2010 Angola is estimated to have received USD 7.9 billion, equivalent to 15% of all FDI to Africa in that year. Egypt, with USD 6.8 billion, and Nigeria, with USD 4.5 billion, follow. Libya, Morocco, the Republic of Congo and Sudan each received between USD 3 billion and USD 4 billion in FDI in 2010, while South Africa ranked eighth with USD 2 billion in FDI.

In terms of regional aggregates, **Northern Africa** has been the top destination for FDI in Africa between 2004 and 2008 and again in 2010, receiving a little more than one-third of all FDI flows to Africa. North Africa thus benefited enormously from the strong growth of FDI to the continent. In addition to attractive oil resources in Algeria, Libya, Egypt, Sudan and Tunisia, this surge is due to efforts by a number of governments in the region to open their economies to more foreign investment. In 2010 North Africa received USD 20 billion, up from USD 18.3 billion in 2009 but still significantly lower than its peak of USD 24 billion in 2008. Although Egypt receives by far the greatest amount of FDI in North Africa, its regional share has dropped from almost 40% in 2008 to 34% in 2010. Together with Egypt, Algeria saw a drop in FDI from USD 2.5 billion in 2009 to USD 1.5 billion in 2010. FDI to Libya is estimated to have increased USD 2.7 billion in 2009 to USD 3.8 billion in 2010.

Middle Africa has been the second FDI destination over the last years. The region was the first destination in 2009 with USD 18.7 billion, one third of FDI to African countries, but it fell back to USD 14 billion in 2010. The bulk of this investment is linked to the oil industry. Angola is by far the biggest FDI recipient in the region and accounts for about two-thirds of investments. The Republic of Congo comes second, with USD 2 billion in 2009 and USD 3.2 billion in 2010, followed by Equatorial Guinea with USD 1.7 billion in 2009 and USD 1.4 billion in 2010.

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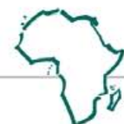

Table 2.1: FDI flows to African regions 2005-10 (billion USD, current)

	2005	2006	2007	2008	2009	2010
Africa	38.2	55.4	63.1	72.2	58.6	52.3
Northern Africa	12.2	23.1	24.8	24.1	18.3	19.7
Middle Africa	9.4	12.1	15.7	20.9	18.7	14.4
Western Africa	7.1	16.0	9.5	11.1	10.0	9.1
Southern Africa	7.3	0.6	7.1	10.4	6.6	3.1
Eastern Africa	2.1	3.6	6.0	5.7	5.0	6.0

Source: 2005-09 UNCTAD; 2010 IMF estimates from October 2010.

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Western Africa has received about 20% of FDI to Africa over the last five years, attracting USD 10 billion in 2009 and USD 9 billion in 2010. Nigeria's oil industry is the main destination in the region. Nigeria received almost USD 6 billion in 2009 and USD 4.5 billion in 2010, accounting for 50% of FDI to the region. Ghana is the second largest recipient of FDI in the region, with USD 1.5 billion in 2010. FDI to Ghana has increased tenfold over the last five years, linked to Ghana's recent oil discoveries (production will start this year). This dynamism is only topped by Niger, which received USD 900 million in 2010, up from USD 30 million in 2005, and Liberia, which increased its FDI from practically nothing in 2005 to USD 350 million in 2010.

Over the last five years, about 11% of FDI to African countries has gone to **Southern Africa**, reaching USD 6.6 billion in 2009, down from USD 10 billion in 2008. In 2010 southern Africa experienced a further drop to USD 3 billion. South Africa is the main FDI destination in the region, accounting for 85% during 2007-09. Unlike in most other African countries, much foreign investment in South Africa goes to the manufacturing sector. Especially in the automotive industry, South Africa has successfully applied investment incentives to develop an export-manufacturing industry (International Strategic Analysis, 2011a). Elsewhere in the region, foreign investment will be targeted at the large mining and tourism industries in countries such as Namibia and Botswana (International Strategic Analysis, 2011ab.

Eastern Africa's share of FDI to African countries is the smallest, amounting to 8% over the last five years. For 2010 FDI to eastern Africa is estimated at USD 6 billion, up from USD 5 billion in 2009. Zambia has been the region's top recipient, with about USD 1 billion annually over the last three years, mainly directed at its mining industry. With almost 900%, Mozambique had the highest east African growth rate over the last five years, reaching USD 900 million in 2010. This surge consists mainly of megaprojects in resource extracting industries, notably in coal and aluminium. These megaprojects reward Mozambique's efforts in setting up special economic zones (SEZs) and providing attractive legal and fiscal conditions for investors. Except for Uganda, where oil reserves have recently been discovered, the other countries in the region have no significant natural resources, attracting lower amounts of FDI. Although low in value, east Africa's share of investment in terms of numbers of projects is significant. During the first quarter of 2010, 25% of African greenfield investment projects were in the region, reflecting the focus on market seeking investment in the productive and service sectors, which are much smaller in value than extractive industry projects.

Sources of FDI

Developed countries are the most important source of FDI flows to African countries, accounting for 72% between 2000 and 2008 (UNCTAD, 2010c). Hit hard by the global economic crisis, OECD countries substantially reduced their foreign investment activities. According to FDI outflow data compiled by the OECD (n.d.), member countries reduced their global FDI outflows by 43% from USD 1.8 trillion in 2008 to USD 1 trillion in 2009. OECD FDI flows to Africa also took a hit, but to a much lesser extent: from USD 34 billion in 2008 to USD 29 billion in 2009. As a result Africa's share of OECD FDI outflows grew from 2% in 2008 to 3% in 2009, up from less than 1% in 2000. Despite this positive development, FDI from the OECD is concentrated in a few countries and sectors and does not reach the whole continent equitably. During 2007-09 60% of OECD investment in Africa was made in three countries (South Africa, Egypt and Nigeria). The largest OECD investors in Africa are companies from the United Kingdom, France and the United States, having historically mainly invested in extractive industries.

Data on FDI to Africa from non-OECD countries are difficult to obtain. In a sample of ten African countries, whose central banks provided the AEO with their own data on FDI inflows,[3] OECD countries accounted for 83% of FDI inflows between 2005 and 2010. The Middle East constituted the second most important region of investors, followed by African countries (intra-African investments). China and India make up roughly 3% of FDI to these ten African countries, with India's share being larger than China's. According to China's statistical bulletin, in 2008 China invested USD 5.5 billion in sub-Saharan Africa, representing 9.82% of its outward FDI. This investment from China was up from USD 70 million in 2003 but declined to USD 1.1 billion in 2009 (IMF, 2011). South Africa, where the Chinese Industrial and Commercial Bank acquired a 20% stake in the Standard Bank, recorded most of the 2008 growth.

These numbers might seem low. However, data on FDI flows from emerging economies to Africa should be seen in the context of a broad variety of financing mechanisms that these countries provide to Africa. Export credits, for example, play a much more significant role in the Africa portfolios of emerging economies than in OECD countries. Generally, investments from private entities from emerging economies in Africa are most likely to be registered as FDI, whereas deals involving state-owned enterprises often involve a range of financing instruments and are not accounted for as FDI.

Although still largely focused on extractive industries, growing investments by emerging economies in Africa have the potential to become key drivers of economic development. Several deals by emerging partners in Africa combine the development of resource extractions with the development of industrial complexes and the construction of necessary infrastructure. Moreover, emerging economies invest increasingly in other sectors, starting to build local manufacturing capacity.

African investors are an equally critical source of more diversified FDI. Most African investment in Africa is made in neighbouring countries, focusing on manufacturing and services rather than primary commodities. Intra-African investment therefore benefits and helps to drive regional integration and structurally balanced economic development in Africa. The increasing volume of intra-African FDI is thus very positive.

South Africa is the most vital source of intra-African FDI and the second most important developing country investor in Africa after China. The share of African host economies in South Africa's outward FDI stock reached almost USD 11 billion in 2008, representing 22%, compared with 5% in 2000. In 2009 South Africa invested USD 1.6 billion (FDI outflows) in other African countries, a reversal from its disinvestment activities during 2008 and a return to an active foreign investment strategy in Africa.

Northern Africa ranks second as a source of intra-African FDI. Libya's sovereign wealth fund, the Libyan Africa Portfolio Fund for Investment (LAP), has over USD 5 billion in capital and invests, both directly and through its subsidiaries, in a wide range of sectors in many African countries. Egypt's Orascom also has a broad portfolio of investments throughout Africa, notably in telecommunications and construction. Morocco holds 55% of its stocks of outward FDI in North Africa, and Tunisia 84% (IMF, 2010 a). Given this importance of North Africa as a source of intra-African FDI, the recent political turmoil in this region will likely negatively affect these flows in the near future.

African outward FDI

Although intra-African investment is growing in importance, it does not yet make up the majority of foreign investment flows originating in Africa. Between 2000 and 2009, 63% of all African FDI outflows were invested in OECD countries. In 2009 this ratio was 56% of a total of USD 5 billion outward FDI (Combining data from UNCTAD, 2010a and OECD,n.d.) On the one hand, this investment can play a critical role in bringing expertise to the continent through acquisitions in more advanced economies. On the other hand, this large share of African investment going to OECD countries instead of other African countries presents an untapped potential.

Portfolio investment

Figure 2.3 shows that, compared with FDI in Africa, portfolio investment is still small, but of growing importance. At only USD 2 billion, or 13% of FDI in 2000, portfolio investment started to play a significant role in Africa around 2004, with a volume of USD 8 billion, 23% of FDI. Portfolio investment flows to Africa peaked in 2006 at USD 24 billion and took a deep hit during the following years, bottoming at USD -22 billion in 2008. Since then an equally steep and impressive recovery has followed: in 2010 portfolio flows to Africa amounted to USD 22 billion, just USD 2 billion shy of the peak of 2006, and equivalent to 30% of FDI.

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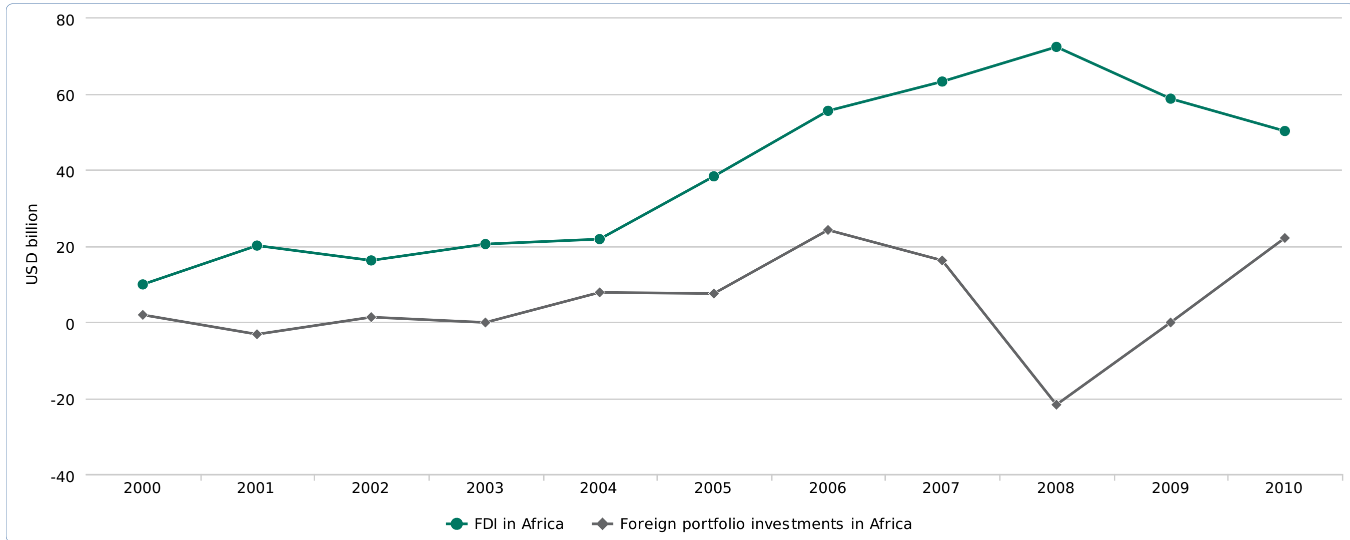
Figure 2.3: Foreign direct investment and portfolio investment in Africa (billion USD, current)



Source: UNCTAD for FDI; IMF for Portfolio.

StatLink http://dx.doi.org/10.1787/888932403458

South Africa is by far the most important destination for portfolio investment in Africa. Over the period 2000-10, portfolio flows going to South Africa amounted to 128% of all flows to Africa (mainly because Libya had negative portfolio flows of USD 28 billion during this period). In 2010 South Africa received USD 17.5 billion in portfolio flows, 80% of the continent's total. Another USD 8 billion, or 36% of the total, went to Egypt, whereas Libya had a net outflow of USD 4 billion, or -18% of the total African portfolio volume. Libya's high net outflows reflect the activities of its sovereign wealth fund, which has become a central player in African investment.

The IMF's Coordinated Portfolio Investment Survey (CPIS) collects information on the stock of cross-border holdings of equities and debt securities from 75 investor countries and territories (IMF 2010b).[4] In 2009 the portfolio investment stock of these 75 countries in Africa was USD 150 billion, consisting of 72% equity securities and 28% debt securities. This was also the ratio for the rest of the decade. The United States held a portfolio investment stock of USD 66 billion in Africa in 2009, or 44% of the total investment stock of all countries responding to the survey, followed by Luxembourg with USD 19 billion and Mauritius and the United Kingdom with USD 8 billion each. These figures reflect Mauritius's critical role as an investment gateway to Africa.

Aside from Mauritius, which is by far the most important source of intra-Africa portfolio investment, the intra-African dynamics of portfolio investment are similar to those of FDI, with South Africa and the northern African countries as the main sources of investment. The only continental respondents to the CPIS, Egypt held 0.2% and South Africa 0.8% of all portfolio stock in Africa.

Box 2.1: A glimpse at African investment policy developments

Global trends in Foreign Direct Investment (FDI) are often tied to developments in investment policy. Certainly, FDI inflows to Africa have increased substantially over the last decades, and so has liberalisation of investment policies – especially in sub-Saharan Africa. Policy reforms are essential to create an enabling environment for boosting domestic as well as foreign investment as a means for African governments to reach their development objectives.

In recent years, Africa has made more progress than any other region in economic freedom rankings, with countries such as Rwanda joining the ranks of top global reformers (Heritage Foundation Index of Economic Freedom, 2011; World Bank *Ease of Doing Business Index*, 2011). However, many African countries continue to manifest some regulatory shortcomings, such as in property registration and land titles, in attracting more and better investment.

African governments have undertaken a number of policy initiatives towards investment promotion and further liberalisation of their investment frameworks. These initiatives include:

Further Promotion and Facilitation of Investment:

The Zambia Development Agency facilitated joint ventures between local and foreign investors by providing a match-making facility and streamlining the business licences process;

Mozambique launched reforms to improve investor protection and strengthen the legislative framework for Public Private Partnerships (PPPs), concessions and megaprojects;

Rwanda, Mozambique and Uganda strengthened their legislative environments through launching company laws or improving existing laws aimed at easing business start-up procedures;

Burkina Faso created the Autorité de Régulation des Marchés Publics, a regulatory body aimed at enhancing transparency of public procurement procedures;

Namibia enacted measures authorising foreign banking institutions to open local branches;

Burundi removed nominal screening procedures for foreign investors.

Tax Policy Reforms:

South Africa launched a tax incentive programme for investors in the manufacturing sector;

Namibia reduced the corporate tax rate for non-mining companies by 1% (2010 Income Tax Bill);

Burundi embarked on tax exemptions for real estate purchases related to new investments and for goods purchased to establish new businesses;

Cameroon eliminated the corporate registration tax through the 2010 Revenue Bill.

International Investment Rule Making:[5]

Mozambique and Spain signed a bilateral investment treaty (BIT);

Mauritius and Australia signed an income tax treaty.

Recent Focus on Investment in Agriculture: With 60% of the world's remaining uncultivated farmland (McKinsey Global Institute, 2010), Africa has started to attract large-scale foreign investments for agricultural production. Recent policies at country level to attract more and better investment in the sector include:

Burkina Faso adopted a rural land management law that ensures equitable access to rural lands and effective management of land disputes to promote agricultural productivity. In addition, the country has streamlined property registration by allowing transfer taxes to be paid at the land registry.

Kenya set up an insurance system for pastoralists in the north of the country.

Despite these initiatives, attracting more and better agricultural investment remains a challenge for African policy makers. In this regard, international initiatives – such as Principles for Responsible Agricultural Investment that respect Rights, Livelihoods and Resources by the World Bank, the Food and Agriculture Organisation (FAO), UNCTAD and the International Fund for Agricultural Development (IFAD); or the Voluntary Guidelines on responsible governance of tenure of land and other natural resources by the FAO – can support governments in designing sound policy frameworks for responsible agricultural investment. Other instruments, such as the OECD Policy Framework for Investment in Agriculture (PFIA), can also help African governments enhance policy coherence for agricultural investment. These efforts complement the advances made by the New Partnership for Africa's Development (NEPAD) to boost investment for Africa's agricultural development through the Comprehensive Africa Agriculture Development Programme (CAADP).

Overall, African countries have continued to strengthen their investment frameworks. This has been one of the factors, alongside improved macroeconomic management, that have contributed to Africa's resilience to the recent global financial crisis. Moreover, FDI continues to serve as a vital source of growth and development for African people and economies, particularly through spurring employment creation, technology and knowledge transfer, and export diversification.

Source: Provided by the NEPAD-OECD Africa Investment Initiative.

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Growth of aid to Africa

Global ODA

Given the financial crisis and its severe impact on government budgets in donor countries, global ODA volumes decreased slightly, from USD 121.5 billion in 2008 to USD 120 billion in 2009. Despite this drop, 2009 ODA represents a higher share of DAC members' combined gross national income owing to the economic contraction in DAC-member economies: ODA was 0.31% in 2009 compared to 0.30% in 2008.[6] These numbers, however, understate the important increase in core development funding. If debt relief[7] and humanitarian aid are excluded, bilateral aid for development programmes and projects rose by 8.5% in real terms. This continues a strong trend over recent years.

At the Gleneagles G8 and Millennium +5 summits in 2005, donors made specific commitments to increase their aid. When quantified by the OECD Secretariat, the pledges implied lifting aid from around USD 80 billion in 2004 to nearly USD 130 billion in 2010. At constant 2004 prices, these pledges represent 0.36% of estimated gross national income (GNI) in 2010. The OECD now estimates that the recent economic contraction has, by cutting nominal GNI, reduced the value of the commitments made for 2010 to around USD 126 billion (in constant 2004 USD), or USD 46 billion over the 2004 level. Donors are estimated[8] to have delivered USD 108 billion in 2010, falling short of the Gleneagles target by USD 18 billion (in 2004 USD).

Nevertheless, the increase in aid since 2004 is significant: USD 28 billion (2004 USD) over the 2004 baseline, with the ODA/GNI ratio rising over the same period from 0.26% to an estimated 0.32%. This is the largest volume increase ever in ODA over such a period and does not depend on the large increase in debt relief that boosted the aid numbers in 2005-07. The continued growth in ODA has shown that aid pledges are effective when backed up with adequate resources, political will and firm multi-year spending plans. ODA will continue to rise in 2010, unlike other financial flows to developing countries, which have fallen sharply since the onset of the global financial crisis.

As for other categories of international financial flows, new players are entering into development assistance, offering additional financial resources and new ways of engaging with Africa. Development assistance funding from the 23 members of the OECD's DAC account for about 90% of global aid flows, roughly based on the DAC method of accounting. The total gross development assistance flows from countries beyond the DAC has been estimated at USD 12 billion in 2009. China's development assistance is estimated at USD 2 billion to USD 3 billion, Russia's at USD 800 million, India's at USD 500 million, Brazil's at USD 360 million, and South Africa's at USD 100 million (Smith and Zimmermann, forthcoming).

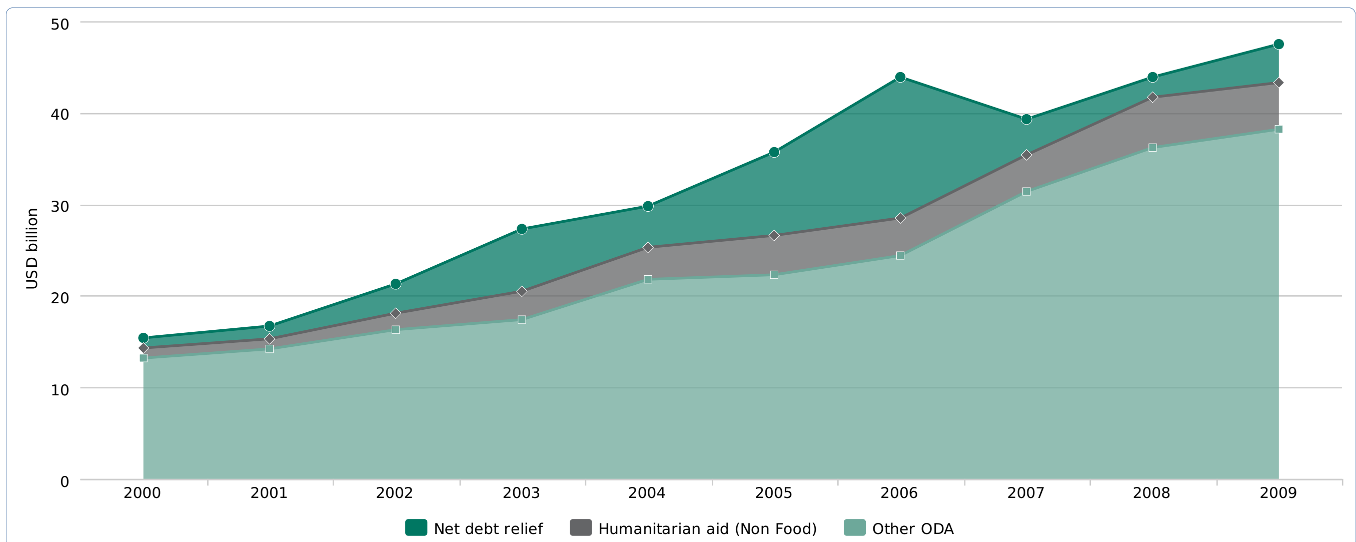
Africa

ODA to Africa has been rising steadily over the last decade, from USD 15 billion in 2000 to USD 30 billion in 2004 and to USD 48 billion in 2009. Despite this increase, donors risk failing to meet their Gleneagles commitments made in 2005. In real terms (2004 USD, the basis for the Gleneagles commitments), overall ODA to Africa in 2009 was USD 38 billion, and an estimated USD 42 billion in 2010,[9] USD 13 billion (or 24%) short of the target.

Net bilateral ODA from DAC donors to Africa totalled USD 28 billion in 2009, of which USD 25 billion went to sub-Saharan Africa. This number represents an increase of 3% in real terms over 2008 for all of Africa and an increase of 5.1% for sub-Saharan Africa.

DAC data indicate that humanitarian aid decreased slightly, from USD 5.5 billion in 2008 to USD 5.2 billion in 2009. Bilateral debt relief doubled, from USD 2 billion in 2008 to USD 4 billion in 2009. The other ODA flows increased and reached USD 38 billion in 2009 from USD 36 billion in 2008. All are shown in Figure 2.4.

Figure 2.4: Net ODA disbursements to Africa 2000-09 (billion USD, current)



Source: OECD/DAC.

StatLink http://dx.doi.org/10.1787/888932403477

One country offering additional financial resources is China, whose co-operation with Africa has grown rapidly. At the fourth Forums for China-Africa Co-operation (FOCAC), held in November 2009, China pledged to provide USD 10 billion in concessional loans to African countries. China also pledged USD 1 billion in special loans for small and medium-sized African enterprises. India also promised help to Africa, pledging, at the First India-Africa Forum Summit in 2008, to provide USD 5.4 billion in loans and USD 500 million in grants to the continent over the five to six following years. Major initiatives include the Pan-African e-Network Project, the Techno-Economic Approach for Africa-India Movement (TEAM 9) and the Special Commonwealth African Assistance Programme (SCAAP).

In addition to aid from China and India, South Africa's development co-operation amounted to USD 108.7 million in the 2009/10 fiscal year. Almost all of South Africa's development co-operation is directed at the African continent, with a strong focus on member countries of the Southern African Development Community (SADC). The biggest among the Arab donors, Saudi Arabia provided Africa with USD 5.5 billion in gross ODA in 2008. The Saudi Fund for Development finances investment projects through concessional loans, targeted at transportation and energy infrastructure (60%), agriculture (18%) and social sectors (13%). Of these loans, 28% are directed at countries in sub-Saharan Africa.

Focusing on pure development assistance in line with DAC's ODA definition[10] misses the full picture of financial flows directed at development between Africa and other developing countries. The development finance that emerging economies supply to Africa comes largely in modalities different from those which traditional partners provide. Under the framework of aid effectiveness, DAC donors have spent the last decade putting in practice a number of strict rules separating development assistance from other forms of economic co-operation such as trade and investment. "Tied" aid, development assistance funds that were linked to products and services from the donating country, has been largely phased out, aiming to promote fair competition for aid contracts and ensure value for money (2001 OECD/DAC Recommendation on Untying Official Development Assistance and 2008 Accra Agenda for Action). Developing country partners, on the other hand, pursue a different strategy, one that combines commercial with developmental interests and financing modalities.

For example, export credits do not fall within the ODA definition, but they play an increasingly large role in relations between Africa and its developing country partners. The sum of all export credits from China in 2006 reached close to USD 1.2 billion. In the case of India, export credits went up from USD 50 million in 2004 to USD 89 million in 2010 (Chanana, 2009). Emerging partners also use what is called "mixed credits", *i.e.* a financing package that combines concessional rate and market rate loans (Brautigam, 2010a). For China, Brautigam (2010b) estimates an annual average of USD 7.1 billion of such financing over the period 2007-09. This estimate is much higher than the DAC's USD 1.9 billion estimate for 2009, which accounts only for concessional finance. Part II of this report provides an in-depth discussion of Africa's emerging partners and their expanding interactions with Africa, including both FDI and development assistance from emerging partners.

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Notes

1. All data up to 2009 from UNCTAD (2010a); 2010 estimates from IMF (2010a).
2. For Angola the IMF reports USD 4.2 billion in 2009. For the other countries the reported data are the same.
3. Morocco, Republic of Congo, Djibouti, Gabon, Tanzania, Mauritius, Malawi, Nigeria, Rwanda and Uganda..
4. Respondents: Argentina, Aruba, Australia, Austria, The Bahamas, Bahrain, Barbados, Belgium, Bermuda, Brazil, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Costa Rica, Cyprus, Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Gibraltar, Greece, Guernsey, Hong Kong SAR of China, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Kazakhstan, Republic of Korea, Kuwait, Latvia, Lebanon, Luxembourg, Macao SAR of China, Malaysia, Malta, Mauritius, Mexico, Netherlands, Netherlands Antilles, New Zealand, Norway, Pakistan, Panama, Philippines, Poland, Portugal, Romania, Russian Federation, Singapore, Slovak Republic, Slovenia, South Africa, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, United States, Uruguay, Vanuatu and Venezuela.
5. These measures were signed in 2010 and have not yet been ratified.
6. Specific data are available at stats.oecd.org/qwids
7. Debt relief had been especially high owing to exceptional Paris Club packages for Iraq and Nigeria in 2005 and 2006, but fell sharply thereafter.
8. ODA figures for 2010 will be available in April 2011.
9. See footnote 8.
10. The DAC defines ODA as "those flows to countries and territories on the DAC List of ODA Recipients and to multilateral development institutions which are: i) ***provided by official agencies***, including state and local governments, or by their executive agencies; and ii) each transaction of which: a) is administered with the promotion of the ***economic development and welfare of developing countries*** as its main objective; and b) is ***concessional in character*** and conveys a grant element of at least 25% (calculated at a rate of discount of 10%)." See www.oecd.org/dac/stats/methodology.

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