Policy Brief:

From residual to worthy: enhancing the value of ODA for Africa's development

JULY 2022

United Nations

OSAA
Office of the Special Adviser on Africa

This policy paper has been developed as part of OSAA's mandate to undertake analytical, advisory and advocacy work, in particular its efforts to highlight the challenge of illicit financial flows out of Africa and promote international tax cooperation to increase domestic resource mobilization, in order to advance implementation of the 2030 Agenda for Sustainable Development and Agenda 2063 in Africa.

For more information, please visit www.un.org/osaa or contact osaa@un.org

Financial support from the UN Peace and Development Fund to produce this brief is gratefully acknowledged.

United Nations publication issued by the Office of the Special Adviser on Africa.

Table of Contents

I. Executive Summary

One of the best-known targets in international cooperation is the commitment by donor countries to provide 0.7% of their respective GNI as Official Development Assistance (ODA), first adopted by the UN General Assembly resolution A/RES/2626(XXV) on 24 October 1970.

The target was reaffirmed in numerous major UN conferences, including most recently the Addis Ababa Action Agenda (AAAA), which reiterated not only the pledge by many developed countries to achieve the 0.7% ODA/GNI target, but also the commitment to allocate 0.15 to 0.20% of GNI to Least Developed Countries (LDCs). However, at this point in time, among the Development Assistance Committee (DAC) countries, only a handful has met the 0.7% target, which has thus remained by and large an aspirational target.

This brief argues that the focus of ODA goals on the amount of disbursed assistance, instead on of its impact, has prevented ODA from playing the role as enabler of financing for development that was aimed when the 0.7 target was first established. In turn, this has undermined the sustainability of development financing and prevented African countries from progressing toward the achievement of Sustainable Development Goal (SDG) 17 and Agenda 2063 Goal 20[1] . In order to revert this trend, this brief proposes evaluating ODA by its impact on achieving sustainability of financing and development efforts.

1 Goal 20 of the Agenda 2063 called on African countries to take full responsibility for financing their development and reduce the percentage of national budget financed by ODA. According to the First Continental Report on the Implementation of Agenda 2063 published by the AU, the continent registered varied progress and achieved the 2019 target (12.1%) by 73%. AU. "First Continental Report on the Implementation of Agenda 2063 ". February 2020.

II. Playing cat and mouse

Following the adoption of the Millennium Declaration in 2000, efforts have been made by international organisations including the United Nations System to promote partnerships between donors and recipient countries as critical to enhancing the developmental impact of aid in developing countries. The Millenium Declaration and, afterwards, the 2030 Agenda, were pioneers in establishing minimum goals that all countries had to achieve in order to promote an inclusive and equitable globalisation where no one was left behind.

Besides the achievement of development goals, both the Millenium Development Goals (MDGs) and the 2030 Agenda established targets to measure the commitment of international partners and stakeholders. In both cases, a framework for financing development was proposed, referring different measures to ensure that Member States had the necessary means for implementation of those goals. Among them, the best known is perhaps the commitment by donor countries to provide 0.7 of their GNI as ODA.

The 0.7 target was initially proposed by the Pearson Commission in 1969 in a report commissioned the World Bank[2] . The report noted that the overwhelming proportion of growth in developing countries was due to the efforts of developing countries themselves. However, it noted that ODA had been critical in areas such as savings and imports and had played a critical role as risk-absorber for industrial and agricultural enterprises. In this regard, and against a background of decreases in global ODA[3] , the report called for an increase of ODA to underpin development efforts.

Despite the fact that the Pearson report had underscored the role of ODA as a strategic tool to mitigate risks or generate a multiplying impact in certain areas of development, international discussions soon left behind the qualitative aspects of the use of ODA and focused instead on the target number. In turn, this approach has led to an unintended situation in which donor and developing countries seem to be playing cat and mouse with ODA. The more developing countries increase pressure in international fora to demand donors to abide by the 0.7 commitment, the more donor countries promote changes in the assessment of ODA in order to include areas that had not been previously considered as development assistance.

In fact, just around the time when the Agenda 2030 and the AAAA were being discussed, the OECD launched a series of measures that have led to changes in the concept and composition of ODA. In 2014, the OECD Development Assistance Committee (DAC[4]) decided to change the methodology of reporting concessional loans by introducing a grant-equivalent system for calculating ODA figures rather than the actual flows of cash between a donor and recipient

2 Partners in Development, 1969
3 In 1968, for the first time, ODA flows decreased
4 DAC currently includes 30 members: the European Union and 29 countries – Australia, Austria, Belgium, Canada, Czech Republic, Denmark, European Union, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, the Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, United Kingdom, United States.

country. In 2016, DAC countries decided to apply the grant equivalent methodology to other non-grant instruments, such as equities and private sector instruments (PSI). However, they fail to reach agreement on how to calculate ODA grant equivalents for equities, PSI and debt relief. Pending an agreement, they put in place provisional reporting arrangements based on either face value (institutional approach) or cash-flow basis (instrument approach). That same year, the DAC updated its rules on the eligibility of peace and security expenditures as ODA to recognize the developmental role played sometimes by military actors. In 2017, the DAC agreed to quantify in-country refugee expenditures. In 2019, the change in the ODA methodology for reporting concessional loans took effect with the publication of 2018 ODA figures. While the implementation of the new methodology had a relatively small impact on the aggregate in 2020 adding only 0.09% to ODA flows for all DAC countries, the difference was significant for some countries, for instance Japan and Spain reported increases of 19% and 9% respectively in comparison to the old methodology, whereas France reported an 11% decline.

The difference between the two methodologies is that in the cash basis "old methodology", the net capital flow over the lifetime of a loan is nil as repayments of principal are deducted when made; interest payments are not taken into account. In the grant equivalent method, both principal and interest payments are taken into consideration, but discounted to the value they represent in today's money – although there is also an unresolved debate on what discount rate should be used in present-value calculations with the OECD preferring a fixed discount rate as opposed to market interest rates[5].

To ensure a valid time-series analysis, OECD publishes ODA flows data also on a cash-basis using the old methodology. However, the actual commitment on 0.7% of ODA/GNI ratio is being published by the OECD on a hybrid basis mixing grant equivalents and flows[6]. Without discounting the possible merits of the new methodology, it is fair to argue that it is still work in progress and there is no general agreement on how to move forward. In the meantime, the temporary reporting arrangements seem to be erring on the side of oversimplifying the complex present value calculations and attempting to standardize these based on rules of thumb rather than actual market rates.

Much clearer is the impact of the other two measures taken in 2016 and 2017. Contributions to peace and security currently represent over 2.6% of ODA flows[7]. In-country refugee expenditures represent over 7.6% of the flows[8]. Comparatively, flows aimed at strengthening critical sectors for the sustainability of development financing, such as domestic resource mobilization, remittance facilitation, anti-corruption or public finance do not even reach 1% of ODA[9].

---

5 In a well-publicized Brookings blog, Simon Scott, former head of DAC Statistics Division, argues that grant equivalents could only be credible if the present value of repayments are calculated based on prevailing market interest rates. By contrast, OECD applies fixed discount rates comprising of a 5% base rate plus a risk-premium of 1% to 4%, depending on the borrowing country's per capita income. Scott points out that these discount rates systemically underestimate the net present value of loan repayments, thereby inflating the headline grant equivalent figures. An additional point of critique of this methodology is that it does not take into account a number of crucial parameters, such as currency and the duration of the loan and actual country risk of the borrower. For more detailed discussion, please see https://www.brookings.edu/blog/future-development/2019/09/26/a-note-on-current-problems-with-oda-as-a-statistical-measure/ and for the OECD's response and the counter-response by the aforementioned author, please see https://www.brookings.edu/blog/future-development/2019/11/18/the-ongoing-debate-on-the-reform-of-the-definition-of-official-development-assistance/

6 From a monitoring perspective, the present note uses the data calculated using the old methodology, to the extent possible, in order to present valid comparisons across time.

7 US$ 3,141.384105 million in 2019

8 US$ 9,708.356026 million in 2019

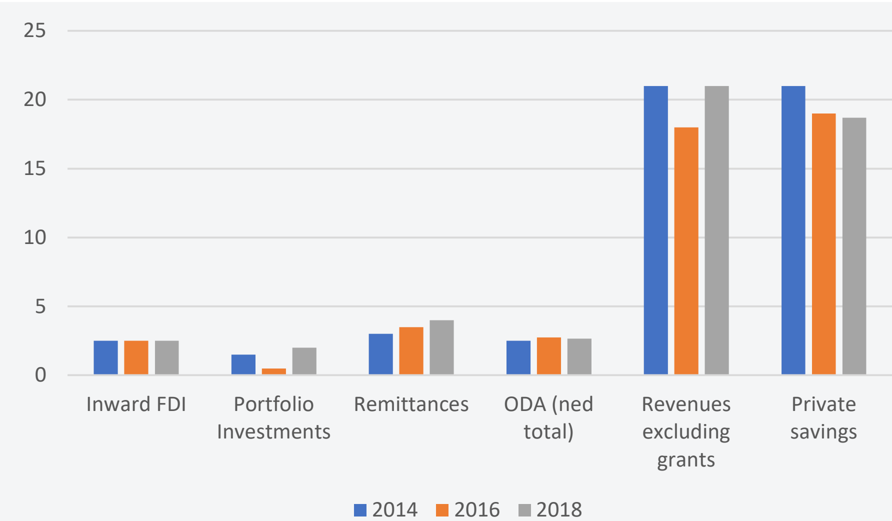
9 In 2019, only US$ 265.73 million of ODA were focused in DRM, US$ 202.1 million on anti-corruption institutions, and barely US$ 5 million on remittance facilitation

III. The relative importance of ODA

Despite the strong focus that international discussions on financing for development (FfD) place on ODA, it continues to be a residual source of financing[10].

When comparing the magnitude of various sources of financing for Africa's sustainable development (figure 4), it is evident that Africa's development is primarily being financed with its own domestic resources. The share of ODA in Africa's total external inflows declined from more than 40% between 2000 and 2004 to 18% in 2017[11]. Furthermore, between 1990 and 2000, a decline in the total volume of aid to Africa led also to a sharp decline in the share of Africa in total ODA to developing countries. After 2000, the trend was reversed in absolute terms and aid has been increasing since then, expanding by 23% from US$46.9 billion in 2010 to US$57.7 billion in 2019[12][13]. Despite the increase, this figure is barely 65% of the estimated illicit financial flows leaving the continent every year[14].

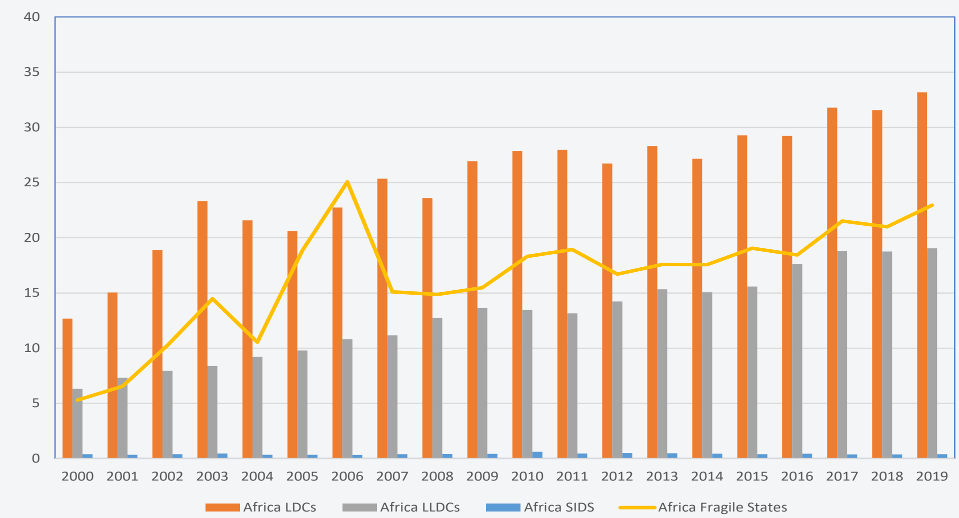
FIGURE 1. SOURCES OF FINANCE FOR DEVELOPMENT IN AFRICA (% OF GDP)



Source: OSAA with data from UNCTAD, IMF, World Bank and OECD.

10 According to the OECD, in 2019 total net ODA from all official donors to developing countries reached $163.5 billion, compared to $164.3 billion in 2018, representing a slight fall of 0.5% when measured in constant 2019 US dollars.
11 AUC/OECD (2019), Africa's Development Dynamics 2019: Achieving Productive Transformation
12 Measured using 2019 US dollars and based on OECD data
13 In April 2021, OECD reported that "Preliminary data in 2020 show that net bilateral ODA flows from DAC members to Africa were USD 39 billion, representing an increase of 4.1 % in real terms compared to 2019. By contrast, net ODA to sub-Saharan Africa amounting to USD 31 billion, fell by 1% in real terms." https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf Detailed data and breakdowns on total ODA to Africa for 2020 were not yet available at the time of writing.
14 Tackling illicit financial flows for sustainable development in Africa, UNCTAD, 2020

FIGURE 2. TOTAL NET ODA DISBURSEMENTS FROM ALL OFFICIAL DONORS (BILLIONS, 2019 US$)



Source: OSAA with data from OECD.

African LDCs, LLDCs and Fragile and Conflict-Affected States[15] have followed a similar trend to the rest of the continent. OECD data suggests that ODA disbursements to them have risen in the last decade by 19%, 41%, and 25%, respectively. On the contrary, ODA to the African SIDs saw a decline by 35% from $0.6 billion in 2010 to $0.4 billion in 2019 (figure 2).

The evolution of ODA flows to Africa shows modest increases in absolute terms and a considerable decrease in relative terms over the last decades. Furthermore, despite these increases in absolute terms, the share of Africa in total ODA has barely changed since 2000, except for slight upticks in 2005 and 2015, probably linked to the adoption of the MDGs and the SDGs, respectively. All in all, Africa's share in total ODA stayed at 35.3% in 2019, 10 points below the peak of 1990, which suggests that donor countries, besides diversifying the ODA recipient sectors, when pressured to increase their assistance have also diversified recipient countries regardless of their level of development. In this regard, it can be affirmed that, even if the 0.7% ODA/GNI were reached, it would never become a primary source of FfD in Africa.

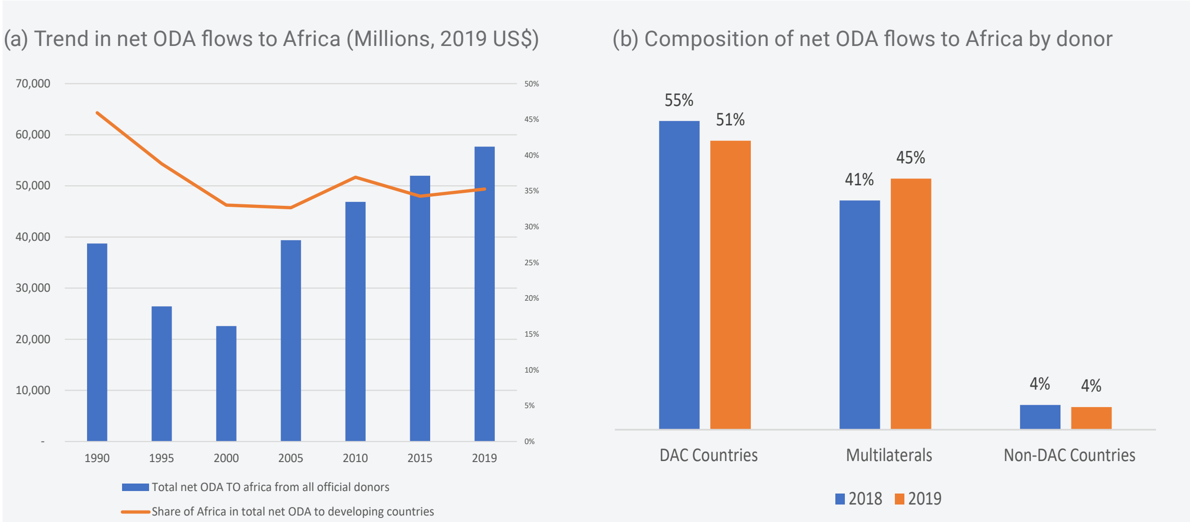
The relative importance of ODA is clear even if the "delivery gap"[16] is assessed. Between 2000 and 2020, ODA to developing countries as a percentage of the OECD-DAC GNI was 0.28% on average which resulted in an ODA delivery gap of more than $170 billion a year on average and a total of more than $3.6 trillion, as seen in Figure 4. During the same period, Africa's share of the total net ODA reached its peak in 2002 (54%) and decreased to 35% in 2011 then stagnated around 40%. On average, ODA delivery gap to Africa[17] was around $70 billion annually and reached its peak in 2019 ($102 billion) with a total gap of $1.4 trillion between 2000 and 2020.

15 According to UN-OHRLLS, there are 32 Least Developed Countries (LDCs), 16 Landlocked Developing Countries (LLDCs), and 5 Small Island Developing States (SIDS) in Africa as of 2021. In addition, the World Bank classifies 21 African countries as Fragile and Conflict-Affected Situations.

16 ODA Delivery gap to developing countries is the financing gap as a result of non-fulfilment of the OECD-DAC ODA/GNI target of 0.7% to developing countries.

17 ODA Delivery gap to Africa is Africa's share in the total ODA delivery Gap to developing countries.

FIGURE 3. ODA FLOWS TO AFRICA



Source: OSAA with data from OECD. The ODA flows cover flows from all bilateral and multilateral donors

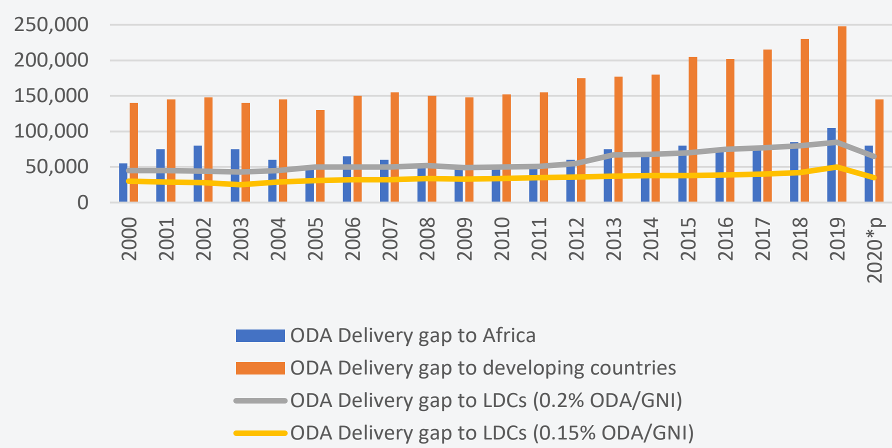
On average, ODA to African LDCs as proportion of OECD-DAC GNI was 0.06% below the commitment in the Programme of Action for the LDCs for the Decade 2011-2020 (Istanbul Programme of Action) of providing between 0.15% to 0.20% of GNI in the form of ODA. Between 2000 and 2020, ODA delivery gap to African LDCs was between $35 billion and $56 billion annually with a total gap between $750 billion and $1.2 trillion. Even though the share of African LDCs in total ODA was on average 23%, the ODA delivery gap to African LDCs continued to increase annually.

While these figures are relevant, the delivery gap could be easily absorbed if illicit financial flows were curbed, remittances mobilized, and revenue collection increased. That is, if strong domestic resource mobilization systems were put in place. For example, as pointed above, every year, an estimated $88.6 billion leaves the continent as Illicit Financial Flows (IFFs)–about half of what Africa needs to achieve sustainable development. These are originated from three main sources: commercial, including tax evasion, trade mis-invoicing and abusive transfer pricing (65%), criminal activities (30%) and bribery and theft by corrupt government officials and their collaborators (5%). Africa's Annual IFFs are equivalent to 3.7% of its GDP[18].

In addition, the current tax gap is estimated at 3% of GDP in Africa or $72 billion in forgone revenue[19]. While there is some overlap between this figure and that of IFF, the tax gap in Africa is mostly due to limitations in African countries' tax collection capacities, which facilitate tax evasion and present a relevant lack of efficiency. According to UNECA, in 2014, 12 out of 24 countries with sufficient data had a gap of 50 per cent or more in value-added tax (VAT) collection. This gap was mainly due to low tax capacity and collection, lack of compliance issues and enforcement ability, and inadequate fiscal policy challenges[20].

18 UNCTAD (2020) Economic Development in Africa Report: Tackling Illicit Financial Flows for Sustainable Development in Africa
19 UNECA (2019) Economic Report on Africa 2019: Fiscal Policy for Financing Sustainable Development in Africa
20 For example, Nigeria would have doubled its VAT revenues from 0.8% of GDP to 1.6% if it addressed only compliance issues and raised its VAT rate to 10% instead of 7.5%. Ibid.

FIGURE 4. ODA DELIVERY GAP (MILLIONS OF US$)



Source: OSAA with data from OECD.
p calculated based on preliminary data for total net ODA to developing countries
* calculated based on the estimated total net ODA to Africa in 2020

Similarly, IFFs originated from commercial activities continue to be a major challenge, mainly due to a combination of unbalanced international trade rules that lead to lack of global transparency and limited international tax cooperation, which is topped off with weak customs services. The lack of adequate and strong institutions and regulatory bodies in many African countries contribute to tax avoidance, corruption and mismanagement of natural resources[21].

All in all, the main problem of ODA is not the figure, it is the focus of the expenditures.

21 Around 25% of the total illicit outflows from the Continent stem from the extractive sector, according to UNECA and African Minerals Development Centre. (2017). Impact of Illicit Financial Flows on Domestic Resource Mobilization: Optimizing Revenues from the Mineral Sector in Africa. Addis Ababa.

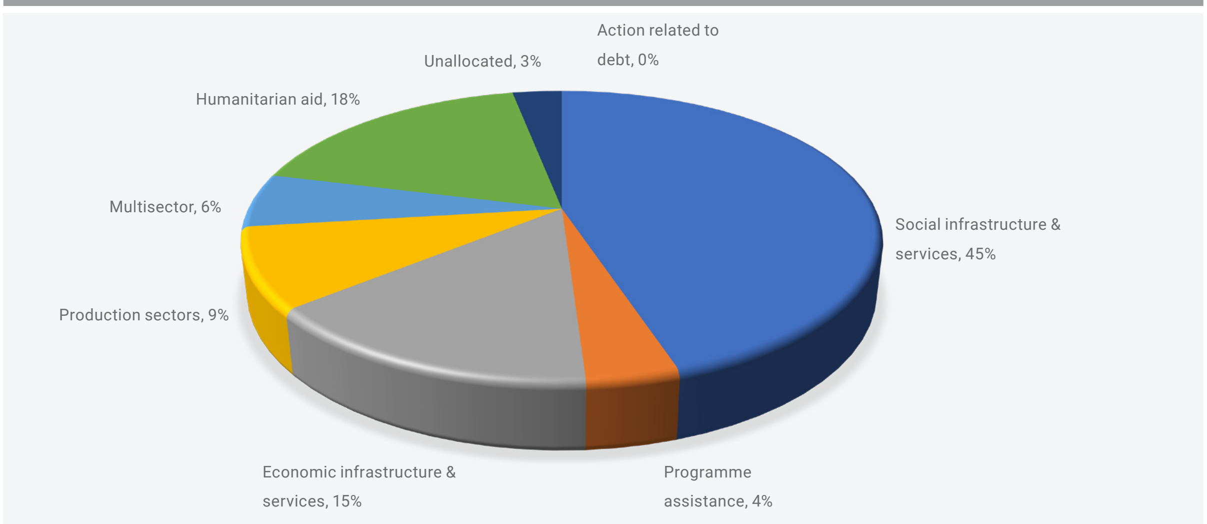
IV. The impact of the current ODA dynamics: the lack of a strategic approach

Total ODA to developing countries as proportion of OECD-DAC Gross National Income (GNI) increased in 2020 to 0.32% from 0.30% in 2019. Despite this overall increase in absolute terms, the share of DAC countries in total net ODA disbursements to Africa fell from approximately 61% in 2010 to 51% in 2019.

Over the same period, the share remained low for non-DAC countries. By contrast, the share of multilateral donors increased from approximately 38% to 45% of the total net ODA disbursements to Africa, driven mainly by the increase in disbursements from UNICEF and the World Bank Group. It is still early to assess whether this will be the starting point of a long-term shift in the composition of ODA away from bilateral towards multilateral ODA, but the available data suggest that this shift is linked to the increased focus of ODA on humanitarian and relief activities.

Indeed, a similar perception arises when analysing bilateral ODA flows to Africa from DAC countries. The latest available data on sectoral distribution show that in 2019 humanitarian aid made up 17.1% of ODA flows, compared to 12.9% of economic infrastructure and services or 8.7% of production sectors. Furthermore, the ODA flows to key areas with a multiplying impact in Africa's empowerment and financing self-sufficiency are remarkably low.

FIGURE 5. BILATERAL ODA COMMITMENTS TO AFRICA BY SECTOR (2019)



Source: OSAA with data from OECD.

For example, in 2019, bilateral ODA focused on the facilitation, promotion and optimisation of remittances represented 0.005% of the total, despite the fact that it was a source for US$48 billion to Africa and one of the sources of financing to show more resilience in 2020 in spite of the impact of the COVID-19[22]. Only 0.38% of bilateral ODA focused on trade policies and regulations, including trade facilitation and regional trade agreements, even though a recent study showed that the continent's current untapped export potential amounts to US$ 21.9 billion (43% of intra-African exports)[23]. Even lower are the shares of bilateral ODA flows that focused on domestic resource mobilization in general (0.32%) or anti-corruption policies and institutions (0.14%) despite the fact that, as noted above, illicit financial flows constitute the main hindrance to Africa's financial autonomy.

Although the ODA support provided by the OECD-DAC to social sectors and humanitarian aid is important and critical, especially during conflicts and pandemics, its real contribution to Africa's transformation has been limited so far. ODA has focused on applying patches that are highly visible but that do not contribute to laying the foundations of sustainable development in Africa.

According to OECD preliminary estimates, in 2020, overall total official ODA flows from DAC members increased to $161.2 billion[24] in 2020, representing an increase of 3.5 per cent in real terms over 2019. The entire increase was accounted for by support related to COVID-19[25].

While there is still no detailed disaggregated data available, recent trends allow to presume that most of the increased focused on short-term response and very little on long-term sustainable development and structural transformation. For example, in 2019, 8.45% of bilateral ODA flows focused on the health sector in general, including basic healthcare, reproductive healthcare, infectious disease control, medical education and medical services, inter alia. Conversely, only 0.00048% of bilateral ODA focused on the pharmaceutical industry, a key sector that would have multiplied Africa's resilience and enhanced its own response to the COVID-19 pandemic.

22 Migration and Development Brief n. 34, World Bank Group - Knomad

23 Reaping the potential benefits of the ACFTA for Inclusive Growth, UNCTAD, 2021

24 Total ODA includes ODA grant equivalent subtotal of US$158 billion and US$3.18 billion in private sector instruments. It is important to note that the grant equivalent subtotal includes US$541 million in debt relief.

25 Within this amount, DAC countries spent $12 million on COVID-19 related activities. Based on a survey conducted by OECD in 2020, donors indicated that they channeled resources from existing 2020 development programmes towards COVID-19 related activities. OECD. "COVID-19 spending helped to lift foreign aid to an all-time high in 2020 Detailed Note". April 2021.

V. Conclusions and recommendations

To fully unlock Africa's growth, regional integration and industrialization potential, African policymakers would be well-advised to look inward and put in place capacity building measures to improve revenue collection and pursue economic policies that would not only maximize private savings, but also channel them towards productive investments. And Africa's partners would be wise to focus their efforts in ensuring that African countries are "at the driver's seat", leading their own development.

Without downplaying the catalytic role of external financial flows and investments, there is sufficient empirical evidence that domestic resource mobilization (DRM) is the main source of FfD. Consequently, structuring strong DRM systems will be crucial in order to secure the sustainability of African economic growth and for rebuilding better after the COVID-19 pandemic.

This was the original purpose of the ODA commitment, as clearly reflected by the Pearson Commission. ODA was expected to become a catalyser, an igniter of financing for development. However, the excessive focus on the quantity of ODA, instead of the quality, has led to a damaging dynamic in which donor countries try to justify their lack of compliance with the quantitative goal by promoting highly visible but short-term actions, mostly in the humanitarian and social services sector, that help to address some of the immediate problems that African countries face, but fail to support the establishment of policy frameworks and institutions that are indispensable to achieve sustainable development. At the same time, recipients' focus on the quantity of the assistance received, instead of its quality and potential multiplying impact, feeds this dynamic and in turn leads donors to progressively increase the emphasis on their budgetary effort, rather than on the impact of their support.

The only option to break this perverse dynamic is to go back to the origins and place quality and impact of ODA in the focus of attention. After more than 50 years and many changes in the way that ODA is quantified, it is safe to affirm that, even at inflated rates, donor countries are far from reaching the ODA/GNI target and they might probably not reach it ever. But that is not the main problem of ODA. The problem is that US$ 930 million are spent every year in administrative costs of processing ODA to Africa (including payments to NGOs), when only US$ 168 million are spent in supporting its public finance, US$ 123 million are devoted to support trade policies, US$ 105 million for domestic resource mobilization or US$ 45 million to underpin anti-corruption efforts. The main shortcoming is that ODA is not being channelled as a tool for supporting the empowerment of African countries, through institutions and policy-frameworks, to build strong domestic resource mobilization systems.

The key to ensuring that African countries are able to build the schools, hospitals and roads their populations need is to reach a combination of domestic resources and sustainable external financing that expands fiscal space and provides African countries with enough room to enhance public services. In order to ensure the sustainability of external financing, African countries require strong domestic resource mobilization, since that is the only tool that will provide them with bargaining power when tapping to international markets.

Instead of being leveraged as a catalytic tool, ODA is being used today to build those schools, hospitals and roads but without ensuring their institutional and financial sustainability. This use of ODA as a patch that solves short-term needs but fails to ensure their medium or long-term sustainability explains the lack of significative progress toward sustainable development achieved through ODA.

African countries should not give up their aspiration for continued increases in ODA. However, real impact will only be achieved if ODA is leveraged as an accelerator of Africa's financial autonomy. Consensus between African countries and their partners regarding the need to focus on the quality and impact of ODA instead of looking only at the quantity is crucial. The following recommendations highlight some areas in which ODA funds could really play a catalyser role both for their potential multiplying impact on other areas of development and for the positive results that relatively small investments can obtain.

Supporting Domestic Resource Mobilization with Capacity and Institutional Building

Tackling IFFs and related issues is a Herculean challenge for African countries with limited human and institutional capacity. Africa's development partners should support African countries to address tax evasion and tax avoidance, fight money laundering and tax havens and curtail base erosion and profit sharing (BEPS) through initiatives such as Tax Inspectors Without Border (TIWB[26]).

A substantial share of ODA to Africa should be directed towards strengthening capacities and institutions including of tax authorities to adapt their tax collection systems to the emerging challenges of an increasingly digitalized economy. Allocating a proportion of ODA to digitalize African national revenue authorities and customs services and strengthen tax administration institutions could have a multiplier effect on African development and contribute to African governments' efforts in fighting tax evasion and mis-invoicing which drains governments of critical resources estimated at $30-$52 billion. This is critical to de-risking Africa's fiscal space for long-term sustainable development.

Development partners and international organisations should also increase support to Africa to strengthen capacity for tax assessment including through developing requisite skills, broadening knowledge, and deepening experiences through training, mentorship and coaching, and expanding infrastructures including laboratories for testing and related R&D. Efforts will also be needed to strengthen the capacities of African countries to enact and implement policies and legislations to tackle BEPS and transfer pricing, starting with a comprehensive review of all tax treaties, tax incentives and trade and investment agreements to eliminate all loopholes for BEPS and other IFFs. African countries can draw from the successful experiences of other countries most notably Argentina, Brazil in the use of the 'Sixth Method' in the application of BEPS.

In addition to tax revenues, remittance flows are also an untapped resource in Africa. Remittances have become an integral source of funds to Africa thanks to the links between

26 TIWB is a joint initiative of the OECD and the UNDP to support countries in building tax audit capacity

the continent and its diaspora. However, they are mostly used to finance consumption and efforts to channel remittances toward medium and long-term investment options are not widespread. In the same vein, policymakers pay considerable attention to maintain a healthy business environment based on secure property rights and the rule of law in order to attract both short term portfolio flows and foreign direct investments (FDI), which are expected to have medium to long term horizons in contributing to the local economies not only thanks to the value of the initial investment, but also through spillovers, such as those of technology and know-how.

ODA's contribution to financing for development could be leveraged to unlock increased private financial resources by mitigating risks inherent in private investment in Africa, attracting FDI and promoting solutions that use remittances as a sustainable source of funding for development investments.

Strengthening Governance

Despite progress in strengthening governance in recent years through a number of frameworks and instruments including the African Peer Review Mechanism (APRM) and the other continental and international frameworks, governance challenges remain pervasive across the continent. This not only diverts resources away from development activities and SDG implementation but also corrodes public trust in governance. Perceived high level of corruption deters people from paying taxes. Therefore, addressing issues of governance and improving transparency in the use of public resources is vital to domestic resources mobilization and stemming IFFs, particularly those that are associated with corruption. In this regard, efforts should be geared at supporting African countries to strengthen governance and tackle corruption. Technological improvements and digitalization could be leveraged to improve scale and efficiency and prevent corruption through increased transparency.

Leveraging the AfCFTA through Trade Facilitation and Trade-related Infrastructure

The launch of the African Continental Free Trade Area (AfCFTA) holds great prospects for Africa's sustainable development. To enhance the transformative impact of ODA for Africa's development, donor countries should allocate a substantial proportion of Aid-for-Trade resources towards trade facilitation (the simplification or harmonization of international trade procedures) through addressing infrastructural bottlenecks (including improving transport and communication connectivity), enhancing access to reliable and efficient energy sources, and pursuing forward-looking and pragmatic trade and industrial policies to maximize the potential of regional integration.

Supporting Productive Capacity Development to Build Back Better

The productive capacities of African countries remain the weakest compared to other regions, according to UNCTAD Productive Capacities Index (PCI)[27]. Africa's share of manufacturing value added (MVA) averaged

27 Productive capacities are the productive resources, entrepreneurial capabilities and production linkages that together determine a country's ability to produce goods and services that will help it grow and develop. The PCI covers 193 economies over 2000-2018 and include components of human capital, natural capital, energy, transport, ICT, institutions, private sector, and structural change.

at 11% from 1990 to 2019), 10 percentage points lower than Asian countries and five points under the world average[28].

As African countries emerge from the challenges of the COVID-19 pandemic, they are presented with opportunities to reorient and focus their recovery efforts on the establishment and strengthening of local production systems, firm heterogeneity, and regional supply chains, especially within the framework of the AfCFTA, which will contribute to reducing the continent's dependence and increasing its economic resilience to future shocks.

In this respect, African countries need to promote energy access and industries such as agro-processing and pharmaceutical manufacturing and their capacity to respond to disruption in the food and medical supply chains. Commendable initiatives are already underway, such as AUDA-NEPAD's Pandemic Resilience Accelerator. The ongoing negotiations in Phase II on Intellectual Property Rights (IPRs), investment and competition policy of the AfCFTA provide prospects to agree on an optimal IPR framework at the regional level, including for the pharmaceutical industry. In this regard, the AfCFTA negotiations and its IPR Protocol should provide an enabling legal environment for promoting innovation and technology transfer, strengthening productive capacity, developing sub-regional and regional value chains, and facilitating the integration of industries into the global value chains.

In order for ODA to play a transformative role, aid resources could complement the efforts to strengthening local and regional productive capacities. Building back better after COVID-19 will depend on strengthening productive capacities as well as improving the utilization rate of existing capacities.

Leaving No-one Behind

While the analysis of relative magnitudes presented above illustrates clearly that Africa's sustainable development cannot be financed by ODA alone, ODA can still play a critical role in easing certain bottlenecks. For instance, mainstreaming gender in ODA from the allocation stage and targeting women and the youth explicitly will yield long-term benefits and help put Africa's human development on a more sustainable path. Information in Annex 3 shows that still plenty of room for improvement in mainstreaming gender in ODA – both globally and also from a regional. Numerous studies have demonstrated the positive impact of mother's education on children's life time earnings and opportunities[29]. Similarly, the World Bank estimates that in low and lower-middle income countries women account for a third or less of human capital wealth, which points to the substantial costs of gender inequality in earnings in terms of global wealth[30]. In fact, if well targeted and designed with gender-sensitivity in mind, ODA could act as a catalyst to address inequalities in education, health and social outcomes and help Africa harness its demographic dividend by facilitating the continent's youth and women realize their full productive and social potentials. Supporting home-grown school-feeding programmes established by national authorities could be one of the most effective ways for ODA to contribute to building sustainable public services with a real impact on Africa's human capital.

28 ECA, Economic Report on Africa 2020.
29 See for instance Lee, Roys and Seshadri (2018): https://www.ssc.wisc.edu/~aseshadr/WorkingPapers/spillover.pdf
30 See for instance: https://www.worldbank.org/en/topic/gender/publication/unrealized-potential-the-high-cost-of-gender-inequality-in-earnings