OFFICIAL DEVELOPMENT ASSISTANCE TO SUB-SAHARA AFRICA;

PREFERENCE AND SECTOR DEVELOPMENT SKEWNESS PRIOR AND DURING COVID 19 PANDEMIC

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Abstract

This paper evaluates Sub-Sahara African countries (SSA) preference of Official Development Assistance (ODA) from Western Countries and China prior and during the COVID -19 pandemic. Using time series analysis, the paper shows increased preference of China's ODA as opposed to Western countries' ODA prior to the COVID-19 pandemic. The trend changed during the 2020 pandemic as countries received aid regardless of underlying conditions due to economic distress experienced by SSA countries. International Monetary Fund (IMF) and the World Bank that represent the Western countries accounted for 60% and 30 % of social - economic aid disbursed to SSA countries as opposed to 12% disbursed by China. The paper further depicts sector preference as Western countries' ODA was skewed towards the social - economic sectors with China's ODA skewed towards the construction sector. The paper concludes by advocating for a hybrid of Western and China ODA to foster balanced economic growth in SSA countries.

KEY WORDS; Sub-Sahara Africa, Official Development Aid, COVID-19
JEL: E6, F3, G2, G4, H5

Introduction

ODA flows to SSA stems way back from the 2008 Financial Crisis to the current 2020 COVID-19 era. The 2008 Financial Crisis, termed to be one of the biggest crises in history affected many sectors and economic variables including international financial flows (Mishkin, 2009; Cismaş and Donath, 2008; Allen and Giovannetti, 2011; Bussiere et al, 2014). The effects on financial flows were evident in the declined lending by foreign financial institutions (Van Bergeijk, 2012; Jones and Ocampo, 2009; Naude, 2009). Foreign banks' lending came to a stall as the headquarters based in developed economies were facing market illiquidity.

Acceding to the preceding argument, Cali et al (2008) attested to western Development Finance Institutions (DFIs) having challenges in finding good projects despite having sufficient capital. DFI potential portfolios were riskier due to illiquid markets and lower returns. In this regard, DFIs such as International Financial Corporation (IFC) developed a new mechanism to sustain trade with emerging markets by boosting the IFC Global Trade Finance Programme by 50 % to a ceiling of $1.5 billion (Cali et al, 2008). This measure guaranteed payment risk of issuing banks and sustained trades. IMF also availed $200 billion towards emerging markets lending. Such measures availed SSA Countries with the much-needed funds for social- economic development during the crisis.

However, in the recent past decade prior to COVID-19 era, SSA countries have also been flooded by non-western DFIs financing from the Asian market such as China Development Bank (Dreher and Fuch, 2011; Fuch and Vadlamannati, 2013). As at mid – 2018, China Development Bank channeled finance to a tune of US$50 billion as reported by China Development Bank chief economist, Liu Yong (Xinhua net, 2018). The beneficiaries amounted to 500 projects in 43 African countries. The pronounced figures are presumed to be estimates by researchers as China DFIs do not conform with the Organization for Economic Cooperation Development (OECD) Creditor Reporting System that supports transparency and accountability (Walz and Ramachandran, 2011). The West fears that China non- membership to the OECD Development Assistance Committee (DAC) and non-adherence to the OECD Creditor

Reporting System makes China's ODA obscure as well as a threat to transparency (Walz and Ramachandran, 2011).

Using SSA countries, the first section of the paper articulates the funding conditions for major Western and China DFIs prior to COVID -19 era. Applying time series analysis, the subsequent section analyses growth trajectory for the Western and China ODA to establish the preferred ODA source in SSA. The preference outcome is aligned to the pinioned financing conditions. Stemming from the source of flows, the next section establishes the sector development skewness by employing correlation comparison analysis of China's ODA to SSA infrastructure GDP and Western Countries' ODA to SSA social - economic GDP. COVID-19 financial flows to SSA countries from the Western countries and China are analyzed in the sub-sequent section to determine ODA preference during the pandemic. In conclusion, the last section postulates how SSA countries can resolve the financing need amidst rising debt sustenance dilemma devised by receipted flows.

Western and China ODA conditionalities to African countries Prior to the COVID -19 era

Contrary to western DFIs that tie development assistance to initiatives such as structural adjustment, good governance, liberalization, privatization, to mention but a few, non-western DFIs particularly from China attach no conditions to development assistance (Condon, 2012). China DFIs provide cheap loans and investments with no attachment bordered on the principles of non-intervention and respect for sovereignty. Export-Import (EXIM) Bank of China and China Development Bank are the driving institutions that channel cheap loans and investments to African countries (Institute of Economic and Resource Management, 2003). In support of the global development assistance, other Chinese banks such as Construction Bank, Industrial and Commercial Bank of China (ICBC), and Bank of China set up offices in Africa to support Chinese companies' business (Bräutigam, 2011). Overall, China developmental assistance focused on infrastructure, jobs creation and economic growth motivated by a concept of mutual benefits, where the cheap loans and investments with no attachment are in exchange of African countries' natural resources (Condon, 2012).

For decades, Western countries' ODA to African countries has been tied to conditional initiatives or policies (Baah, 2003; Bräutigam, 2011). This spans back to the early 1980's when the World Bank and IMF tied ODA to Structural Adjustment Program (SAP) (World Bank Report, 1981). African countries in receipt of ODA were made to embark on state owned company privatization, economic liberalization and fiscal austerity (Stiglitz, 2002). The failure of these policies to address the escalated poverty levels, huge debt levels and weakened African economies during SAP implementation forced the World bank and IMF to come up with the Heavily Indebted Poor Countries (HIPC) initiative in the late 1990s (Easterly, 2000). In order to be granted debt relief and access to the IMF Poverty Reduction and Growth Facility as well as the World Bank concessional loans and grants, poor countries inclusive of African countries were required to prepare Poverty Reduction Strategy Papers (PRSPs) (World Bank report, 1996). This condition bordered on commitment to democratic governance, transparency, accountability, poverty reduction in return for debt relief and increased assistance.

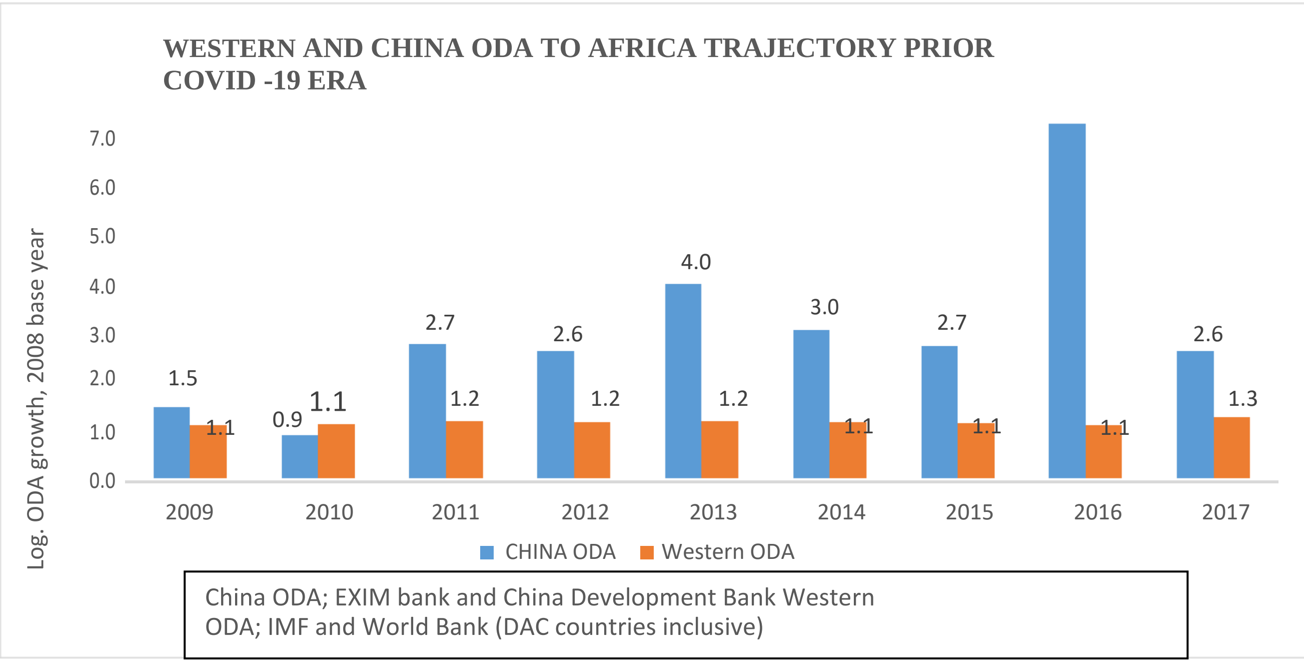
The trend of conditional initiatives has continued with the most recent initiative in the 21st century being the Millennium Development Goals (MDGs) that was championed by the United Nations (UN) in 191 member countries inclusive of African countries till the end of 2015 (UN, 2020). As a continuation of MDG initiative, a new initiative with 17 goals called Sustainable Development Goals (SDG) was ushered beginning 2016 to run till 2030 (UN, 2020).

Logarithm Time Series Analysis: Growth Trajectory for Western and China Official Development Assistance to Sub-Sahara African Countries prior COVID -19 Era

With 2008 as the base year in the analysis when the 2008 Financial Crisis had its toll on the global financial markets, 2008 to 2017 ODA yearly figures for Western and China ODA were obtained from the World bank, IMF, and Aid data website. China's ODA figures were derived from the Chinese state-owned EXIM bank and China Development Bank while the Western ODA figures are a summation of IMF and World Bank (inclusive of DAC countries) figures.

The time series analysis in Figure 1 shows low ODA flows in the immediate aftermath of GFC from both Western ODA and China ODA. Over time, there was a build-up in China's ODA as opposed to a low steady assistance flow from Western countries prior to the COVID-19 era. Western countries' ODA extended to SSA is noted to be restricted between 10 % and 20 % from 2009 to 2016, an era of pro - poor Millennium Development Goals (MDG) implementation that focused on poverty alleviation. With the locked in allocations towards the program, revision of the flows was only recommended during the implementation to enhance attainment of MDG goals (Heller and Gupta, 2002). As a continuation of the MDG initiative, implementation of the new Sustainable Development Goals (SDG) initiative tallied with the ODA growth increase recorded at 30 % in the subsequent year, 2017.

Figure 1; Log Time Series Trajectory of Western and China ODA to Africa Prior COVID-19 Pandemic



Source: Computed by Author, based on China Africa Research Initiative 2017, IMF database 2020, World

During the period under review, China was aggressively building up ODA flows to Africa as shown in Figure 1. The ODA growth stood at 160 % in 2017 from a low of 50 % in 2009. Between 2009 and 2017, the build-up hit a high of 620 % in 2016 when both EXIM Bank and China Development bank offloaded US$ 30.41 billion from a low flow of US$ 3.92 billion in 2008 (Aid data, 2020; Atkins et al, 2017, Ndiili, 2020). China was aggressively targeting infrastructure projects in Africa such as road networks, schools, hospitals, production as opposed to social programs implemented under Western countries' ODA (Condon, 2012). The timing and huge flows was in tandem with the dawn of increased appetite for developmental projects funding embarked on to transform the face of Africa. China's cheap loans and investments also supplemented the proceeds from the rising Euro bonds issuance by African governments (The Economist, 2018).

Official Development Assistance Preference in Sub-Sahara Africa Prior Covid-19 and Debt Implications

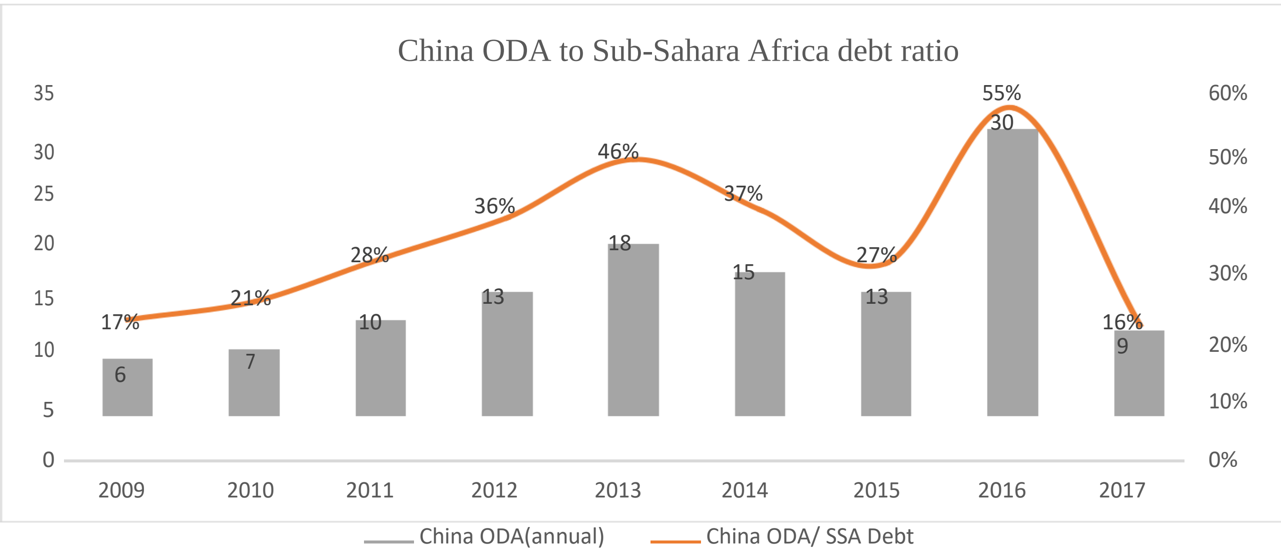
Based on the ODA trajectory in the preceding section, China's ODA proved to be a preferred source among SSA countries as opposed to Western countries' ODA prior COVID-19 era. With China cheap loans and investments at their disposal, African countries were architects of their own programs and the ODA helped in actualizing developmental projects (Bräutigam, 2011). The projects were designed by Africans based on the local needs and the prevailing developmental needs.

Lack of stringent conditionalities and easy access to China ODA also propelled the appetite for these funds as attested by Abdoulaye Wade (2008). The agreements were mutually inclusive and concluded in a short period of time as evidenced in the Angola case (Condon, 2012). The quantities and modalities are not imposed but negotiated between counterparties to both parties' satisfaction.

Researchers such as Condon (2012) and Bräutigam (2011) highlight China non-interference in counterparty's politics. Such a stance makes African countries settle for China's ODA. Regardless of prevailing political injustice and violation of human rights, African countries access to China's ODA is uncompromised.

Over time, China's investments and loans loosely termed as ODA have led to high debt levels in SSA countries as shown in Figure 2. China's ODA increased to a high of US$ 18 billion in 2013 from a low of US$ 6 billion in 2009 depicting 46 % China ODA / SSA debt ratio in 2018 from a low ratio of 17 % in 2009. The highest ratio was recorded at 55 % in 2016 when China offloaded US$ 30 billion on the SSA market. The highest recipient country of these flows is the oil endowed Angola that backs the loans and investments with oil depository (Eisenstein & Smith, 2019). The country receipted $42.8 billion of China cheap loans and investment over 17 years as at end 2019. Other recipients such as Zambia have recently been in the limelight of backing loans and investments with national assets (Solomon, 2018). As at end 2017, China's loans and investment to Zambia's debt ratio stood at 32 % (Reuters, 2018).

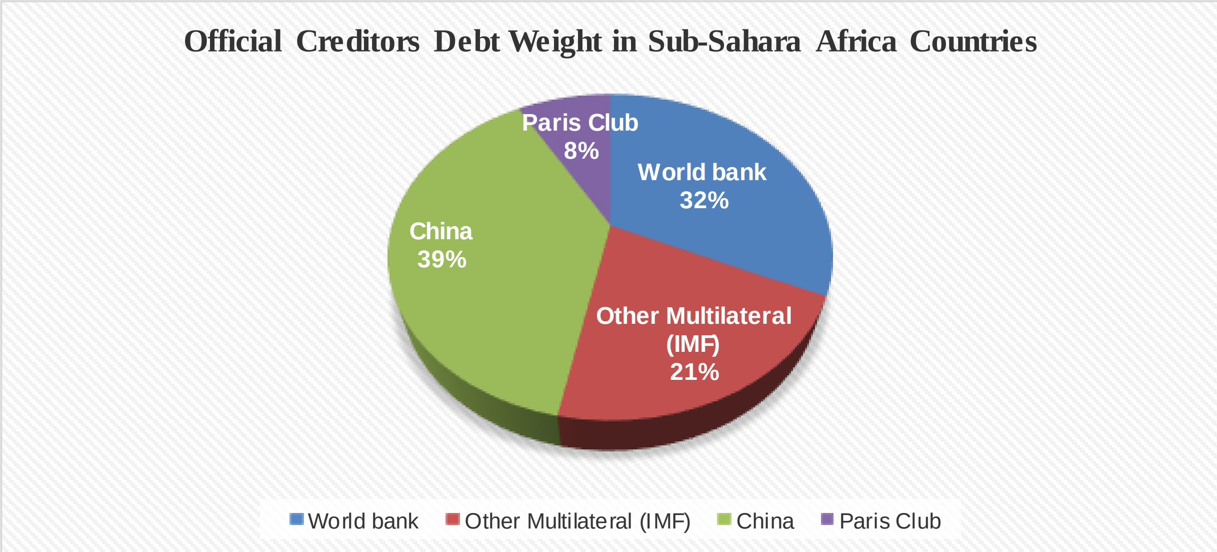
Figure 2; China's ODA to Sub-Sahara Africa debt ratio



Source; Computed by Author, based on China Africa Research Initiative 2017, IMF database 2020, World Bank database 2020, Aid data 2020

Structuring the debt accrued from the official creditors, China had the highest weight of 39%, followed by the World Bank at 32%, and IMF stood at 21% with Paris club depicting the lowest at 8% in 2018 as shown in Figure 3.

Figure 3: Official Creditors Debt weight in Sub-Sahara African Countries



Source; Computed by Author, based on China Africa Research Initiative 2018, IMF database 2020, World Bank database 2020, Aid data 2020.

Sector Analysis Correlation: China and Western Countries Official Development Aid Correlation to Sub-Sahara Africa Gross Domestic Product Prior Covid-19 Era.

The Western countries and China focus on different sectors development and their support is skewed towards their areas of interest. Western countries' ODA is channeled towards social- economic activities such as health, water and sanitation while China's ODA goes into infrastructure development. In the recent past, the massive infrastructure and construction projects that African countries have embarked on is in tandem with the receipted China's ODA. Table 1 indicates an increase in China's ODA that correlates to the growth in the construction sector. The correlation value of 0.68 prior COVID-19 is clear indication of the trajectory link between China's ODA and growth in the infrastructure and construction sector. This outcome is collaborated by Figure 4a where China's ODA extended to infrastructure development led to an increase in infrastructure and construction growth with the highest value added recorded at 92% in 2017.

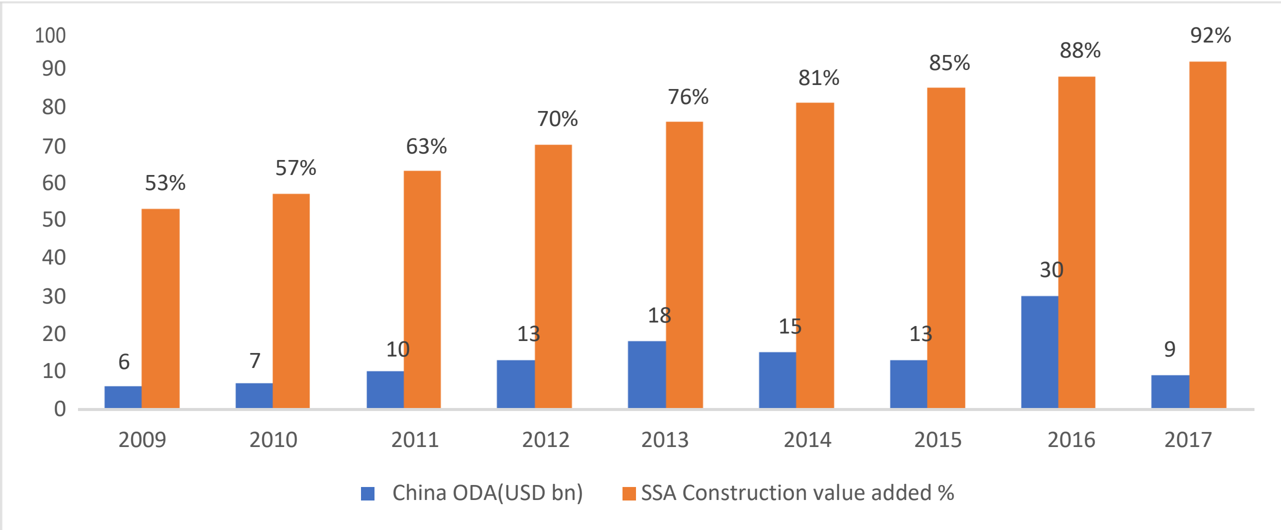
Table 1; China ODA/ SSA Construction value added Correlation

2007-2017: China ODA/ SSA Construction value added Correlation

	China ODA (annual)	*SSA Construction value added*
China ODA (annual)	1	
SSA Construction value added	0.68	1

Source: Computed by Author, based on China Africa Research Initiative 2017

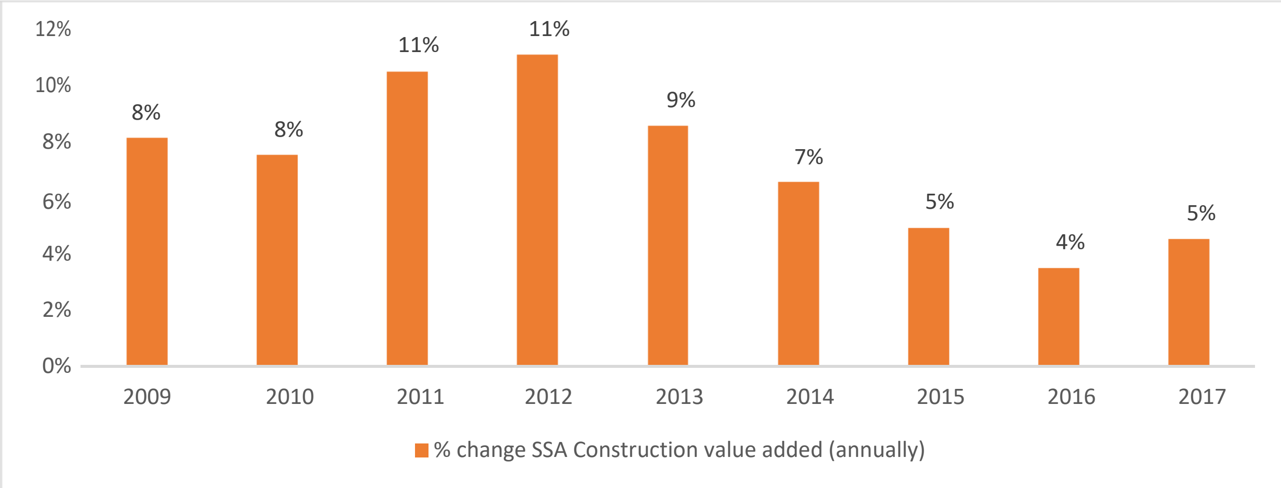
Figure 4a; China's ODA and SSA Construction value added Annual position



Source; Computed by Author, based on China Africa Research Initiative 2017, IMF database 2020, World Bank database 2020, Aid data 2020

Notwithstanding an increase in infrastructure and construction growth, Figure 4b depicts a steady annual growth. Infrastructure and construction sector displays a progressive constant annual growth from 2009 to 2012 and a decline in subsequent years. Despite an increase in China's ODA to African countries, the rate of growth is slow as compared to the huge amounts injected in the sector. This is explained by the nature of capital construction projects implemented that take years to completion and realization of economic gains. For example, Angola used the funds to re-construct rail lines that are vital to Angola's mineral exports, a new airport and low-income houses (Condon, 2012). Similarly, Zambia has commenced the extension and upgrading of the Kenneth Kaunda International airport, construction of the Kafue Gorge hydroelectric dam and road networks (The Guardian, 2019, Rosen, 2018). These are capital projects in nature that will only fully realize the economic gains in the long run. This position is depicted in the steady SSA Construction growth in Figure 4b.

Figure 4b; Annual % change; SSA Construction value added



Source: Computed by Author, based on China Africa Research Initiative 2017, IMF database 2020, World Bank database 2020, Aid data 2020

On the health front, Western countries depict a positive correlation value of 0.57 between the disbursed ODA and SSA health sector prior COVID-19 as indicated in Table 2 and Figure 5.

Table 2; Western Countries ODA/ SSA Health value added Correlation

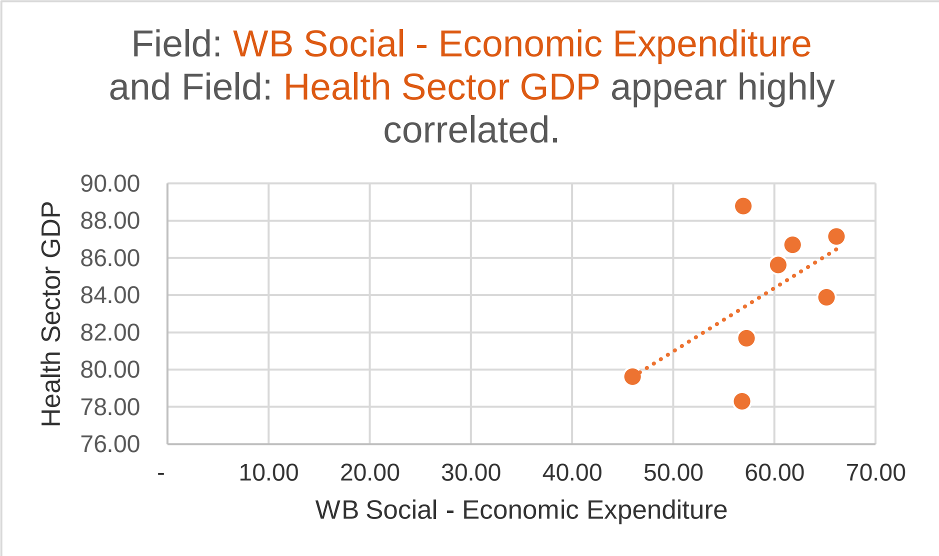
2011-2018: World Bank Contribution/ SSA Health value added Correlation

	SSA Health Value added	*World Bank Social -Economic Sector Contribution*
World Bank Social -Economic Sector Contribution	0.57	1
SSA *Health Value added*	1	0.57

Source; Computed by Author, based on World Bank database 2021

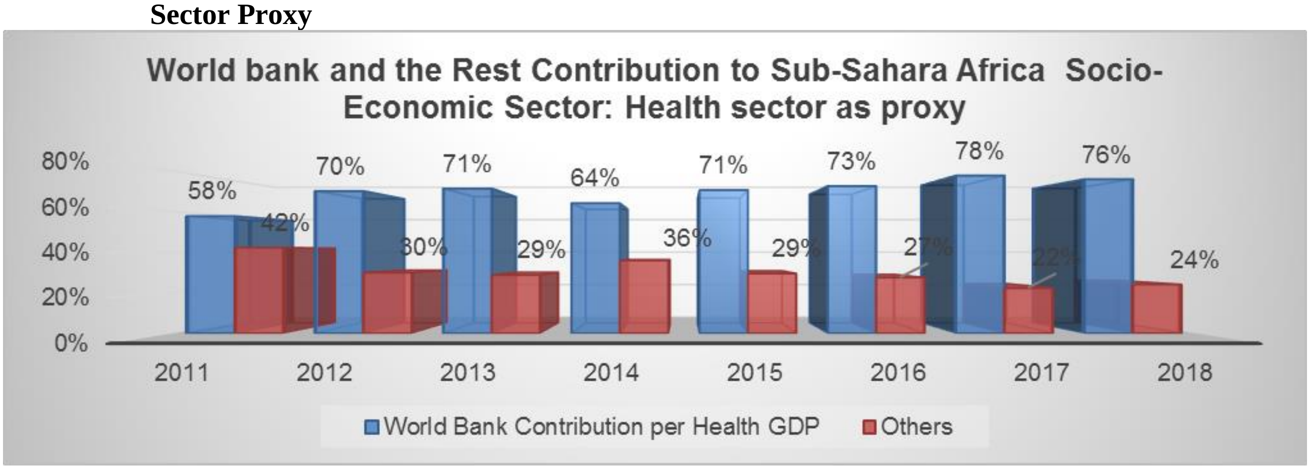
Utilizing the social - economic financial inflows as a proxy for SSA Health sector flows, the World Bank was the major contributor towards health development with contributions accounting for 58% of health value added in 2011 that surged up to a high of 76% in 2018 as shown in Figure 6. Other contributors comprising IMF, China and PARIS Club accounted for 42 % SSA health contribution in 2011 that declined to a low of 24% in 2018.

Figure 5; World Bank Social Economic Contribution and SSA Health Sector correlation prior to COVID -19 Era.



Source; Computed by Author, based on World Bank database 2021

Figure 6; Western Countries ODA Contribution to Sub-Sahara Social -Economic Sector; Health Sector Proxy

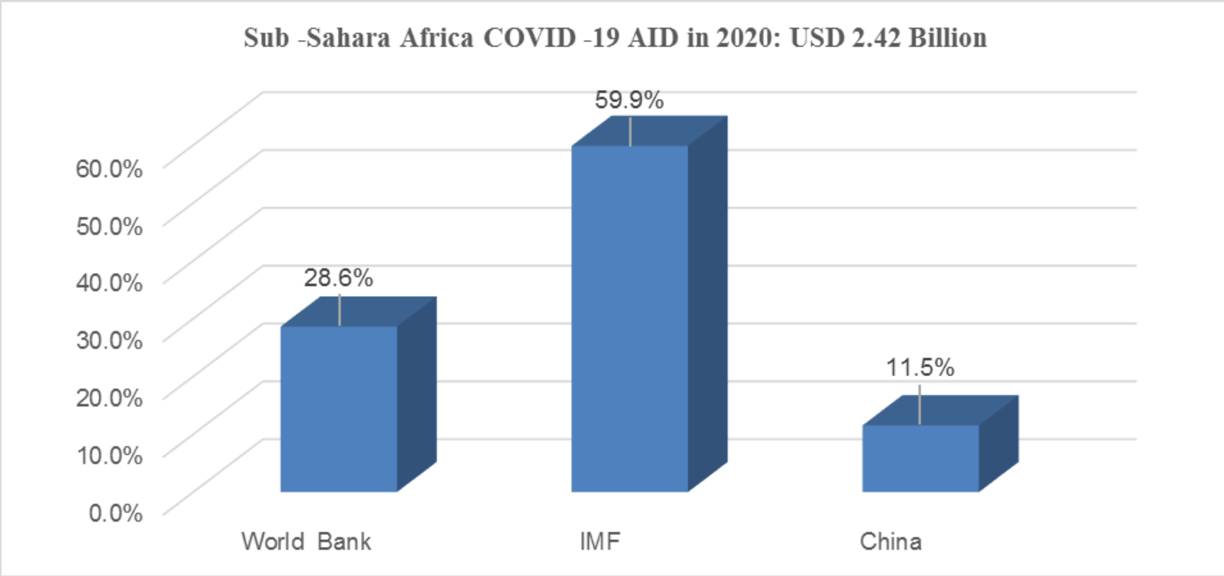


Source: Computed by Author, based on World Bank database 2021

Official Development Assistance Preference in Sub -Sahara Africa during COVID-19

History attest to Western countries' ODA being channeled towards socio- economic activities such as health, water, and sanitation, education in SSA countries, contrary to China's focus on infrastructure development. With the health sector adversely affected by the pandemic, most aid has been channeled to this sector. The World Bank Group (WBG) and IMF has allocated above USD 2 billion to aid SSA countries in the prevention, detection and treatment of coronavirus (IMF, 2020). A comparison analysis in Figure 7 shows more aid flowing from Western Countries than China during the pandemic.

Figure 7; Trajectory of Western and China ODA to Africa during COVID-19 Pandemic



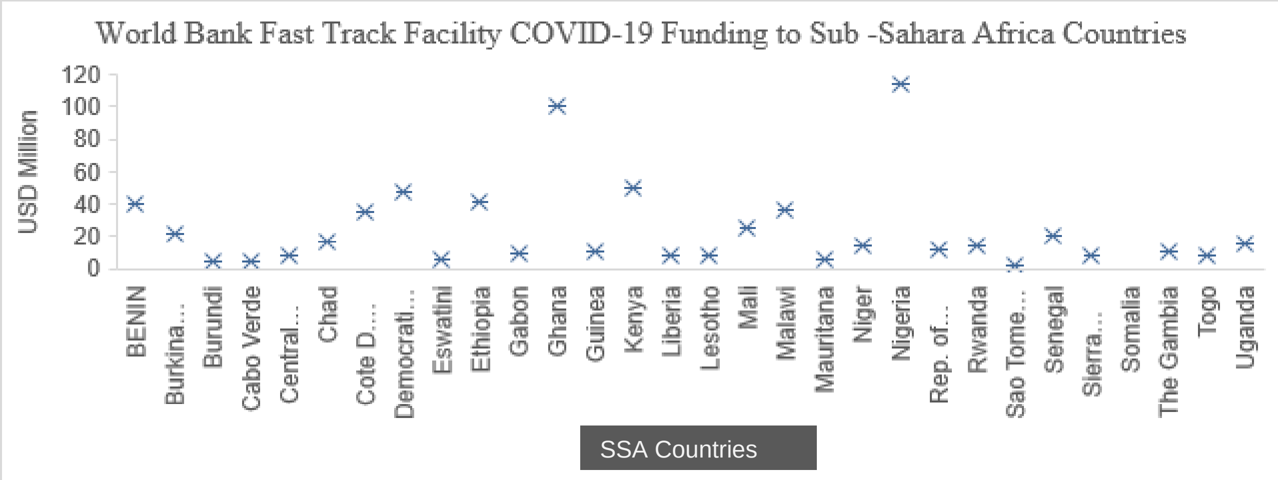
Source; Computed by Author, IMF database 2020, World Bank database 2020, RWR advisory group 2020.

IMF and World Bank representing the Western countries have rendered larger support to SSA countries during the pandemic than China. As shown in Figure 7, US$ 2.42 billion was disbursed to SSA countries in 2020 to curb the spread of the virus and aid in treatment activities. IMF and World bank's contribution summed up to US$ 2.14 billion with China depicting a low contribution of US$ 0.28 billion which is 88.5% and 11.5% respectively. The COVID -19 support profile collaborates with the skewed sector preference analysis in the proceeding section where Western countries rendered vast support towards social – economic activities, unlike china that is more skewed towards the construction sector. With SSA countries experiencing stalled economic activities and growth due to COVID -19 adverse repercussion on all social – economic sectors, SSA countries have recorded increased flows of 88.5 % from the Western countries in 2020 as shown in Figure 7 from a low of 76 % in 2018 as depicted in Figure 6.

As an entity, the World Bank disbursed US$ 0.69 billion to thirty SSA countries via the FastTrack Facility Program (World Bank, 2020). Nigeria receipted the highest disbursed amount of US$ 0.114 billion with Sao Tome e Principal accessing the lowest amount of US$ 0.03 billion as shown in Figure 8.

Figure 8; World Bank Fast Track Facility COVID -19 Funding to Sub -Sahara Africa Countries

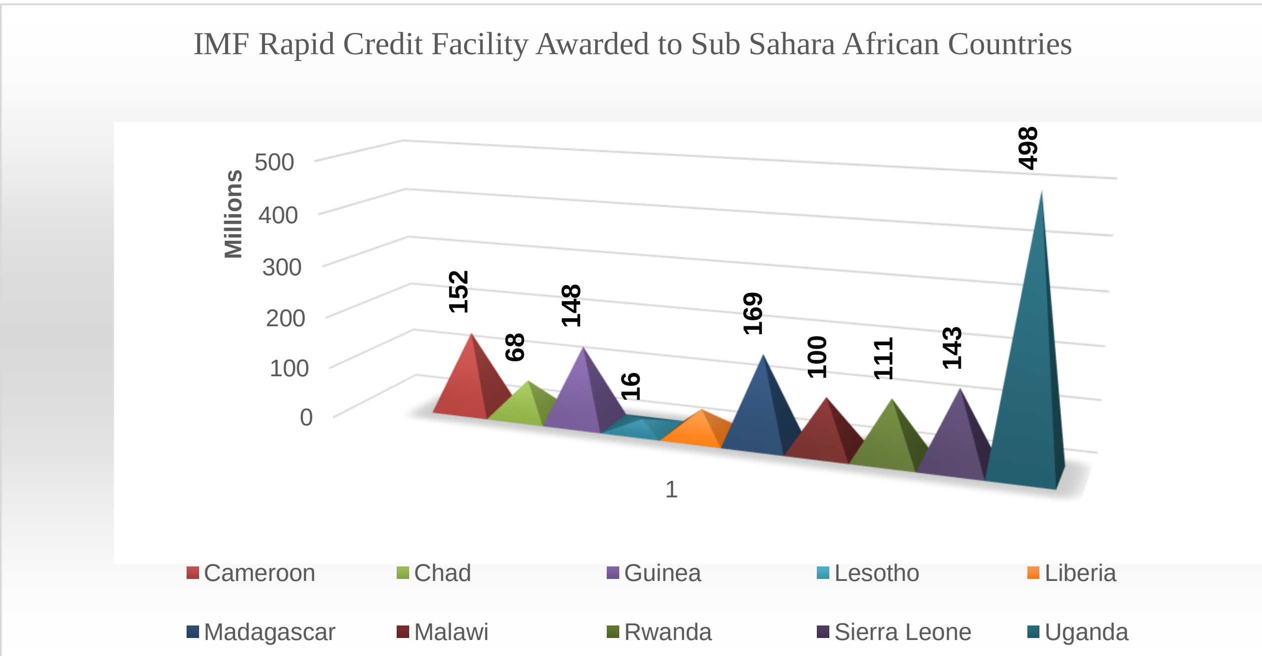
USD0.69 Bn



Source; World Bank database 2021

IMF disbursed the highest funds amounting to US$ 1.5 billion to eligible member countries under the Rapid Credit Facility. Uganda accessed the highest fund of US$ 0.5 billion with Lesotho recording the lowest US$ 0.016 billion as shown in Figure 9.

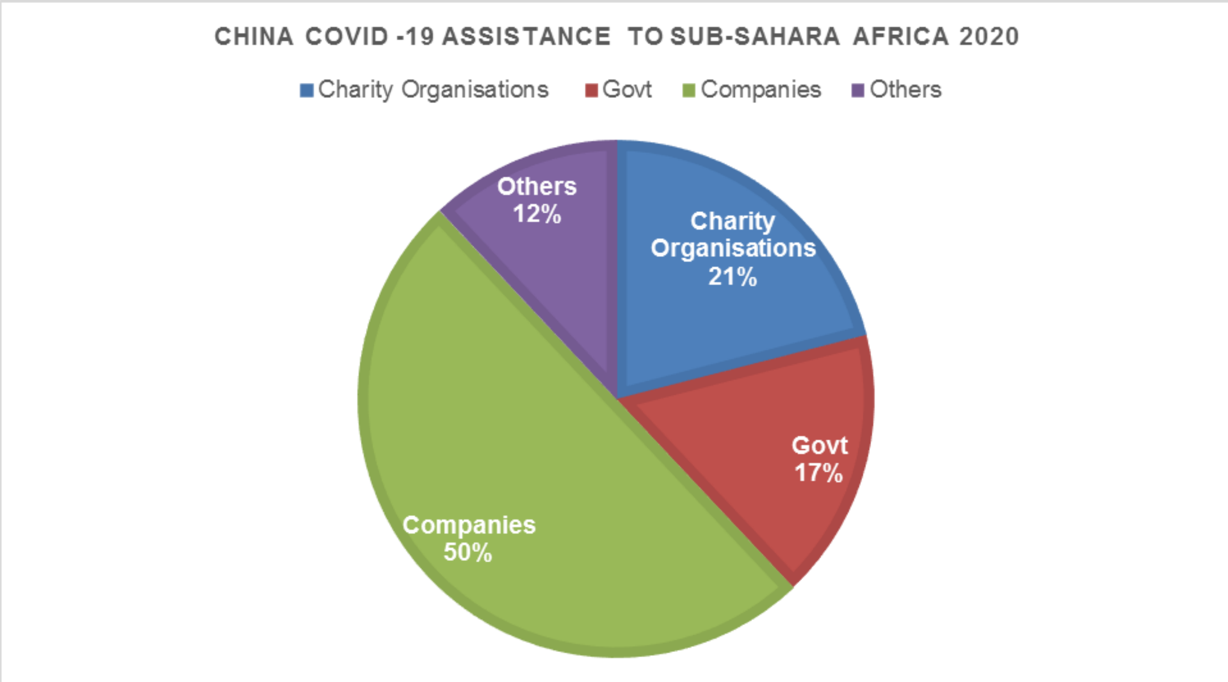
Figure 9; IMF Rapid Credit Facility COVID -19 Funding to Sub -Sahara Africa Countries USD1.5 Bn



Source: Computed by Author, based on IMF database 2020

With China's support skewed towards construction, it contributed the least amount of US$ 0.3 billion mainly disbursed by companies. The Chinese government disbursed 17% of the China COVID-19 flows with Companies and Charity organizations contributing the largest 50% and 21% respectively as shown in Figure 10.

Figure 10: China COVID -19 Funding to Sub -Sahara Africa Countries - USD 0.28 Bn



Source: Computed by Author, based on RWR advisory group

The official China loans and investment amount extended to SSA stood at US $143 billion from 2000 to 2017 (China Africa Research Initiative, 2017). The announced debt positions by African countries in respect to China loans and investment are noted to be obscured on account of lack of transparency on contracted loans. Mozambique has been cited as an example due to omitting US$ 2 billion of China loans and investment (Condon, 2012). Therefore, China cheap loans and investment to SSA debt ratio may be more than what is depicted in Figure 3.

Addressing Financing Development Needs amidst Debt Sustainability

Though Western ODA was unpopular among SSA Countries prior COVID-19 pandemic due to stringent conditions tied to extended ODA, the change in the trend during the pandemic calls for SSA countries and Western countries to review the nature of partnerships that will yield mutual benefits. With a focus on different sectors, Western countries ODA is channeled towards socio- economic activities such as health, water, and sanitation while China's ODA goes into infrastructure development. Therefore, a hybrid of both is cardinal to foster economic growth in SSA Countries. In this regard, Western countries' ODA may devise a new approach on the delivery of ODA in SSA countries. These may be tailored in partnership with the ultimate recipient based on the needs identified by the respective SSA countries. Consented efforts to this effect were elaborated at the recent Senegal conference held in December 2019 (UN, 2020). With stakeholders drawn from both developed and developing countries, one of the discussed issues pertained to how borrowers and lenders can achieve greater debt transparency and develop new modes of private financing. With more of such initiatives that foster bilateral dialogue between Western and SSA countries, the ODA platform may take new inclusive, mutual, and local needs targeted programs.

Notwithstanding the need to contract debt below the 40 % international debt to GDP ratio (IMF, 2010), natural resources sustenance management is a concern that needs to be addressed by SSA Countries. Commodity- exports are cardinal for SSA commodity- exports based countries like Angola, Zambia, Nigeria to mention but a few. On the backdrop of China cheap loans and investment being exchanged for Africa's natural resources, SSA countries need to devise policies on the quantities of natural resource contracted in this barter-system arrangement to avoid depletion for future debt financing and suppressed growth in other sectors. For most of SSA countries, commodity– export is the main source of forex flows and driving force to economic growth. Hence, the exchange of natural resources for China cheap loans and investment may compromise on other sector's growth that thrives on commodity – export earnings. Further, quantities of natural resources exchanged for the contracted loans may lead to natural resources extinct for future export revenues and debt financing. This calls for SSA countries to negotiate sustainable quantities of natural resources exchanged for China loans that will not compromise on other sector's growth that thrive on commodity – export earnings as well as preserve natural resource for future exports revenue and debt financing.

The nature of resources exchanged for China loans should also be addressed by SSA Countries. According to Solomon (2018), resource - rich countries like Angola easily service the loans by mutual benefit barter-trade of oil for infrastructure, unlike non - oil endowed countries that may struggle to settle the loans. Non - oil endowed countries unable to generate adequate revenue from commodities export given the frequent trend of falling prices on the global market may struggle to service their debt in the long term. An example is the recent incident reported by Phiri (2018) where the African copper top exporter Zambia's debt of US$22 million (150 million RMB) was partially cancelled by China by exempting Zambia from its obligation of paying back one batch of interest free loan that matured in December 31, 2018. The looming concern is the exchange of the China loans with state owned assets that may compromise on state security and sovereignty in case of a default. Therefore, the nature of resources exchanged for China loans needs to be considered when contracting the cheap loans.

Finally, caution must be applied when accessing China loans where SSA governments strive to balance between infrastructure financial needs and debt sustenance given China's lack of interest in sovereign issues inclusive of debt sustainability. This can be attained by government's commitment to debt accountability and establishment of control for the contracted debt to be below the 40 % international debt to GDP ratio amidst economic growth. Though most African countries have adopted the Public Financial Management System (PFMS) to address budgeting, accountability and establishment of control structures deficiencies for government funds, the execution component still has challenges as opposed to the budgeting that has improved (Andrews, 2010). With the existing execution deficiencies in government financial management, the concealed China loans and investment augments the existing problem. Therefore, governments should foster formal receipt of all China loans in the PFMS and strengthen accountability as well as control systems. In this regard, contracted debt and intended programs are in the public domain. This will foster transparency and accountability, unlike contracting obscured China loans that are also poorly managed. Furthermore, this will curb the moral hazard of increased appetite for developmental projects funding at the expense of debt sustainability. Most importantly, the success of debt sustenance is dependent on government's level of commitment and strict adherence to budgeting, accountability and controls amidst infrastructure development. Without government's commitment to debt accountability and establishment of control, debt sustainability in SSA countries will continue to be compromised.

CONCLUSION

China has transformed the ODA system in SSA countries from aid to trade arrangement where ODA is exchanged for natural resources. With no stringent conditions attached to the ODA, SSA country's appetite for China ODA for infrastructure development surged up prior the pandemic. However, economic stall during the pandemic propelled SSA countries access to Western ODA. Notwithstanding, the popularity of Western ODA in SSA Countries during COVID -19 pandemic, a hybrid of Western and China ODA is cardinal to foster economic growth in SSA Countries. This is due to Western ODA being channeled towards socio- economic activities that compliments China ODA that is utilized for infrastructure development. In this regard, Western countries and SSA Countries need to re-visit the stringent conditionality ODA arrangement that is straining the developmental partnerships. Further, SSA countries need to negotiate sustainable quantities of natural resources exchanged for China loans that will not compromise on other sector's growth that thrive on commodity – export earnings as well as preserve natural resource for future exports and economic growth.

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