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EXECUTIVE SUMMARY

ECONOMIC LETTER OF EAST AFRICA AND THE INDIAN OCEAN (EAIO)

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Official Development Aid in EAIO

In concise...

In 2021, the EAIO region attracted USD 25.3 billion in ODA, representing 45.9% of official development assistance (ODA) to Sub-Saharan African countries and 18.7% of global ODA. Characterized by a high degree of concessionality, due to the low level of development of the countries in the region, this aid is mainly concentrated in Ethiopia (1st recipient in Sub-Saharan Africa), Sudan (2nd), Kenya (5th) and Tanzania (6th), due to their large populations. As of 2021, ODA per capita is prevalent in small countries and Sudan. Although the amount of ODA received by the region has declined compared to its 2020 level (which peaked at USD 27.2 billion due to the pandemic), there is a sharp increase compared to its pre-crisis 2019 level (+22.2%).

In detail...

Ethiopia, Sudan and Kenya are the main beneficiaries of ODA in the EAIO in 2021

According to OECD data, in 2021 the EAIO region received USD 25.3 billion in ODA, representing 45.9% of ODA to Sub-Saharan African countries and 18.7% of global ODA. This high level is due in particular to the substantial support provided by donors to Ethiopia (1st recipient of ODA in sub-Saharan Africa; 1st recipient of ODA in the form of grants in sub-Saharan Africa; USD 4.1 billion of ODA received in 2021, of which 92.7% are grants), **Sudan** (3rd; 2nd; USD 3.8 billion, o/w 94.7% are grants) and **Kenya** (5th; 9th; USD 3.2 billion, o/w 56.3% are grants).

In the case of Ethiopia, the special focus by donors is due to a combination of factors, notably its demographic weight (the most populous country in the EAIO region, with 127 million inhabitants in 2023), its high level of poverty and its major role in the stability of the Horn of Africa. **Donor involvement in Sudan was stepped up significantly in 2020-2021 following the democratic revolution.** However, the outbreak of armed conflict in April 2023 brought the donor's interventions to a halt. Only humanitarian aid and a few projects in areas spared by the conflict remain. **Although Kenya has been considered an upper-middle-income economy since 2014, it continues to benefit from substantial concessional loans.** This is due to the "too big to fail" nature of the country which, despite its very fragile financial situation, plays an indispensable role in the region's economic development and political stability.

In addition to the above-mentioned countries, **Tanzania, Uganda, Somalia, South Sudan, Rwanda, and Madagascar**, (in that order) **are also major ODA recipients**, with cumulative aid of USD 12.1 billion in 2021. Following suit is **Burundi** with total net ODA of USD 608.2 million (of which 87.2% are grants), **above to its pre-political crisis level**. Despite a comparatively higher level of development, **Mauritius and Comoros continue to benefit from donor support**, receiving respectively USD 293.2 million (o/w 28.7% are grants) and USD 153.7 million (o/w 88% are grants) in 2021. The last country in the EAIO zone in terms of ODA, with USD 43.9 million received in 2021 entirely in the form of grants, **Eritrea** stands out from its neighbors thanks to a policy based on rejecting aid initiated in 2005. Lastly, **Seychelles did not receive ODA** in 2021 due to its high-income status.

Driven upwards by Ethiopia, Sudan and Kenya, the EAIO zone's level of ODA per capita is high. In 2021, the 14 countries in the zone (excluding Seychelles) received an average ODA of 98 USD/capita. This is significantly higher than the world average of 26 USD/capita and the average for Sub-Saharan Africa (at 53 USD/capita). **Looking at ODA per capita, the ranking of recipients changes radically, with Ethiopia at the bottom of the pack, after Madagascar.**

While the impact of ODA on the evolution of development indicators remains uncertain, it should be noted that they have improved overall over the last twenty years. Between 2000 and 2021, the weighted average of GDP/capita in EAIO rose from USD 282 to USD 1,035. Over the same period, the weighted average HDI in EAIO rose from 0.38 to 0.52, an increase of 38.5%. This upward trend is also reflected in life expectancy, whose weighted average in EAIO rose by around 11 years, from 52 years in 2000 to 63 years in 2021.

As the majority of countries in the region are classified as LDCs, they receive ODA mainly in the form of grants (around 79% of total aid to the EAIO region) or highly concessional loans. While all the countries in the region (excluding the Seychelles) benefit from concessional financing conditions, there are still differences in the degree of concessionality granted. Of particular interest is the case of (i) Kenya, which, given its level of development, benefits from less concessional financing conditions from the WB, ADB and IMF compared to other countries in the region, and (ii) Comoros, which benefits from more concessional financing conditions from the WB than other countries due to the small economy nature of the archipelago.

The World Bank, the United States and, the IMF are the main donors in the EAIO

In 2022, according to data from the Regional Economic Department of Nairobi, **the number of projects approved by multilateral donors in EAIO rose by around 26% compared to 2021, reaching a total of USD 19.0 billion.** In terms of committed amounts, **the World Bank Group** leads the way with 76.6% of multilateral donor commitments¹. Following suit is the **AfDB** with 6.9% of committed amounts, the **IMF** with 6.6%, the **European Union** with 3.3%² and the **EIB** with 1.8%.

In 2022, aid from multilateral donors will mainly be allocated to the agri-food (11.9%), transport (11.9%), social (10.9%), budgetary (10.1%) and private (8.8%) sectors.

Regarding the IMF, the countries under Fund assistance as at November 2023 are:

- (i) Under the **Extended Credit Facility** (ECF) and **Extended Fund Facility** (EFF) programs, **Kenya** (USD 3.0 billion committed, USD 2.1 billion in loans disbursed to date) and **Somalia** (USD 395.5 million committed, USD 385.8 million in loans disbursed to date);
- (ii) Under **EFF**, **Seychelles** (USD 57.0 million committed, USD 8.2 million disbursed to date);
- (iii) Under the **ECF**, **Comoros** (USD 43.0 million committed, USD 4.8 million in loans disbursed), **Uganda** (USD 1.0 billion committed, USD 0.7 billion in loans disbursed), **Tanzania** (USD 1.1 billion committed, USD 304.3 million in loans disbursed) and **Madagascar** (USD 312.4 million committed, USD 234.1 million in loans disbursed);

¹ In detail, IDA accounts for 66.2% of committed amounts, compared with 7.3% for IFC, 1.8% for MIGA and 1.2% for IBRD.

² While the EU's contribution is relatively low compared to that of other donors, it should be noted that it is made up entirely of grants.

- (iv) Under the **Resilience and Sustainability Facility** (RSF), **Rwanda** (USD 319.2 million committed, USD 98.5 million in loans disbursed), **Seychelles** (USD 46.0 million committed, USD 4.2 million in loans disbursed) and **Kenya** (USD 544 million committed);
- (v) **South Sudan**, while not ready for a financed program, benefits from an SMP, which has been matched by a disbursement under the RCF (USD 114.8 million);
- (vi) **Burundi** has benefited from an **ECF** since July 2023, for a total amount of USD 266.9 million.

Among bilateral donors, according to OECD data, the **United States** (21,8% of total ODA to EAIO) were leading in 2021, focusing its aid mainly on Ethiopia, South Sudan, Sudan and Kenya. Next come **Germany** (4.4%), the **UK** (3.9%) and **Japan** (3.4%). Although China's aid is not considered concessional, the country remains an important bilateral donor for the region.

In terms of sectors of intervention, bilateral ODA is mainly directed towards **social infrastructure** and **services** (39.1%), **humanitarian aid** (26.5%) and **financial governance** (10.6%).

In 2021, French bilateral ODA to the EAIO region reached EUR 546.6 million, or 14.1% of France's total ODA to Africa. France is the leading donor in the Comoros and the 3rd largest bilateral donor in Djibouti. The main beneficiaries of French ODA are Kenya, Mauritius, Somalia and Madagascar. Health is France's leading sector of intervention, followed by the water and sanitation sector and education. In addition, 65.2% of aid is distributed by AFD Group (60.3% from AFD and 4.8% from Proparco).

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