Aid, Development and the State in Africa

Carlos Oya and Nicolas Pons-Vignon

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Introduction

Sub-Saharan Africa (SSA)[1] as a region currently receives the highest share of Official Development Assistance (ODA) in the world with around one third of overall net ODA flows during the period 2000-2007 (Figure 1). It is also the leading region in aid receipts in per capita terms (Figure 2). A significant number of countries can be classified as 'aid-dependent' in the sense that aid represents 15 per cent or more of their GNI (Table 1). To an extent, the contemporary history of many SSA countries is closely tied in with what we can call the 'aid complex', which includes the various international and national institutions funding and implementing aid projects, the financial and in-kind flows, associated technical assistance, and the various African government and non-government institutions dealing with or created by donor agencies over the past four decades. Foreign aid in Africa has had multiple and contradictory effects in the short and the long-term. It has, for example, shaped state formation (and 'deformation') and state-society relations, affected regional geopolitics, moulded and driven policy regimes, assisted in emergencies, prevented *and* fuelled conflict, and provided much needed services, infrastructure and capital injections. For some critics, ODA in Africa is mainly an expression of Western imperialist projects (Petras and Veltmeyer 2005), perhaps even including Chinese aid, which is also interpreted as a new form of imperialism taking advantage of SSA's vulnerabilities and weak bargaining power (see quotes of this view on Chinese aid in Alden et al. 2008). For others, who are less pessimistic and 'functionalist', ODA remains the only realistic and reliable source of foreign finance at least for the medium term, and particularly in a context of global financial crisis.

The MDG (Millennium Development Goals) agenda has provided further impetus to calls for more aid, by establishing a series of universal targets. The adoption of the MDGs in some ways signals a victory of what Reinert (2007) calls 'palliative economics', where 'instead of attacking the sources of poverty from the inside through the production system – which is what development economics used to be about – the symptoms are addressed by throwing money at them from the outside' (p. 240). Underlying the MDGs is Jeffrey Sachs' idea, embraced by a remarkable number of donors, NGOs, and pop singers, that poor countries need a 'Big Push', that can be provided by aid, to lift them out of poverty (Sachs 2005). This is possibly where the problem lies: to lift countries out of poverty is not seen as premised on lifting them out of underdevelopment. This renewed but sometimes superficial case for aid is somewhat weakened by an excessive emphasis on the African 'tragedy'. However, the economic situation of Africa has not always been bleak and the data to support 'tragic' diagnostics is to an important extent questionable (Sender 1999; Jerven 2008). Before 1980, policies pursued by nationalist post-independence governments nurtured serious hopes of economic take-off, as the frequency of growth episodes was significant and evidence of indigenous capitalist development was noteworthy (Sender 1999). The evidence is less ambiguous on the fact that things started going wrong in the wake of the debt and global crisis of the late 1970s, with the 1980s characterized as a 'lost decade' (not uniquely though, as the Latin American experience also shows). Despite the potential importance of aid for growth and improvements in living standards in Africa since the 1950s, what went wrong during the neoliberal phase of the 1980s and 1990s, we argue, has much to do with aid. The more recent forms it has taken, following the 'good governance' agenda, and the gradual reforms of the aid complex are far from an improvement. If the importance of aid in economic development cannot be denied, in Africa it has proven problematic ever since it became extremely intrusive into policy decisions and processes and, more crucially, weakened fairly weak states. Evidence of the beneficial impact of aid, largely found in East Asia (Wade 1990; Amsden 1989), suggests that it should support not some kind of universal unhistorical set of 'good policies', but context-specific long-term development strategies which are nationally owned, negotiated and implemented. Unfortunately, the weakening of state capacity in Africa driven by aid-induced conditionality, reforms and interference represents a major obstacle to an effective use of aid for development.

This chapter will first provide a somewhat traditional but still compelling macroeconomic case for aid to Africa. It is followed by a brief overview of trends in aid to SSA, in terms of volume, approaches, historical drivers and differential time and regional patterns. Here we will emphasize the unequal distribution of aid flows especially in the wake of the rise of foreign aid 'starlets' and moves towards country selectivity, typical of the 'New Aid Agenda'.[2] Second, the chapter engages with some of the issues emerging from the vast literature on aid effectiveness. We focus on two sets of issues. First, the possible negative macroeconomic effects of aid, such as disincentives to save, Dutch disease and aid volatility. We stress the significance of the latter and raise doubts about the former two. Second, we briefly review the move towards a good governance agenda that has become central to the Western aid complex in Africa since the 1990s.

In this regard, we focus on the further *loss of policy space*[3] that the New Aid Agenda entails in comparison with the old Washington Consensus (WC), and the lack of evidence supporting the link 'good governance'-development. The paper pays particular attention to the erosive effects of aid relations on African states, especially in contexts of aid dependence. Thus we ask the question whether dependence on aid is becoming a 'resource curse' for some African countries, and thereby assess whether dependence on aid should be reduced as a priority towards domestic resource mobilization (see McKinley 2005 and Di John 2006).

An important but often under-researched issue that the chapter addresses are the perverse effects that the complex and demanding delivery of ODA has had on the functioning of state administrations. The burden of aid management, coordination and execution, as well as the biases introduced in public administration through technical assistance and conditionality-led loss of policy space, have contributed to the formation of states (a) that now seem unable to deal with long-term strategic issues; (b) are ill-suited to creative and innovative policy thinking; (c) are far too constrained by the fragmentation and ideological biases of the aid complex; and (d) remain more preoccupied with managing and maximizing aid than with long-term development goals.

Why Africa needs aid

The macroeconomic and developmental case for aid and even for *more* aid to Africa is perhaps not particularly fashionable nowadays, but arguably its macroeconomic and historical rationales remain powerful. A historically- and analytically-informed case for more aid ought to link aid to the process of establishing the basics for countries to step up their development efforts and get into a more sustained growth-with redistribution development path, in other words, towards increasing long-term growth *potential*. Here we summarize some of the main arguments for maintaining or increasing aid flows to low income African countries.

First, history teaches us that most successful accumulation processes and late industrialization strategies have been associated with significant foreign capital inflows, which have taken a variety of forms, and been mobilized through economic or extra-economic (including violent) means. For example, the 'imperialist' industrialization of Britain and France was of course not simply based on domestic forces of accumulation, if one considers the role of unequal treaties and extra-economic force exerted on African and Asian colonies (Chang 2006). Meanwhile, the economic recovery in post-war Europe, Japan, and Korea could not have been possible, at least not as rapid and sustained, without 'Marshall Plans'. Generally the East Asian episodes of economic and industrial catching-up (especially South Korea, Taiwan, Thailand, Malaysia from the 1960s onwards), also underscore the importance of foreign capital flows and especially of large volumes of aid in the early stages. In other cases, ranging from Russia to several Latin American economies, debt through foreign state banks was actively sought to finance late industrialization in the late XIXth and early XXth century (Schwartz 2000). In most of these experiences one of the key challenges was the long gestation period between the inflows of foreign finance, particularly in the form of debt (concessional or not), technological catch-up and the subsequent build up of export competitiveness in manufactures with increasing technological sophistication (Schwartz 2000: 248). Arguably, some of the most successful late industrialization stories, such as South Korea, Taiwan and other East Asian 'tigers' partly hinged on a combination of time, luck and capacity to manage substantial capital inflows in the form of commercial debt, development assistance and foreign direct investment, which eventually served to fund accumulation strategies that paid off in the long term by dynamically shifting competitive advantages (Amsden 1989: 38-9; Schwartz 2000).

Second, most capitalist accumulation strategies require systematic real increases in imports and technology transfer that cannot be simply financed by current domestic resources, especially in low surplus-low savings economies, because of the known savings, foreign exchange and fiscal gaps (McKinley 2005; Taylor 1993; Schwartz 2000). Equally aid, as a non-market and concessional form of foreign finance, if absorbed and well spent, can provide the necessary foreign exchange to distribute benefits across several developmental outcomes, such as promoting rapid improvements in welfare (health, education), developing basic infrastructure necessary for accumulation and industrialization, enhancing dynamic linkages for poverty reduction, facilitating technological adoption and catching up, and strengthening productivity-enhancing institutions (which could be a more effective and stronger state). Of course, aid 'pessimists' question the aid-investment-growth link with specific basket cases like Zambia (Easterly 2001). One could indeed be tempted to argue that there has been no shortage of aid in SSA, otherwise characterized by below-par performance, especially since the 1980s. This is, however, not a strong enough argument against aid *per se* but rather, an argument about *how* aid is managed, absorbed and spent. The same can be argued for other forms of foreign capital (Eatwell and Taylor 2000; Chang and Grabel 2004). Moreover, the 1990s aid 'pessimism', mostly based on cross-country growth regression analysis, has been questioned on technical grounds (Roodman 2008) and by alternative specifications and samples (Karras 2006; Minoiu and Reddy 2006).[4]

Finally, if one accepts the less demanding proposition that flows of foreign capital (in general) may have an important contribution to growth and long-term development, the question for Africa is: what are the possible realistic sources of external finance in the short to medium term? Overall long-term net capital flows into developing countries declined in the 1990s by almost 25 per cent in nominal terms, which means that the decline is more acute in real terms.[5] Moreover, foreign direct investment (FDI) flows tend to consistently concentrate in very few countries (among developing countries and *within* developing regions, e.g. China, India, Indonesia, and within Africa, Nigeria, Angola, South Africa, etc.). Despite some important increases in FDI to SSA after the late 1990s, the region still receives a marginal proportion of FDI directed to developing countries (5 per cent), while two thirds of this volume go to Latin America and East Asia. Even the most recent recorded increases in FDI to SSA are very concentrated in few countries, for some years (2001-02) largely accounted for by some individual massive investments (such as Mozal, the aluminium smelter in Mozambique), and privatization processes, mergers and acquisitions, thus not much 'Greenfield' investment (UNCTAD 2005: 32). Moreover, until 1996 the largest recipients of FDI in SSA, such as Angola, Nigeria, Côte d'Ivoire and Cameroon have also been some of the most affected by capital flight, leading to extremely large *net outflows* of capital (UNCTAD 2005: 32 and table 5).

Aid thus still represents the bulk of external finance to Africa and, according to UNCTAD, the only reliable source in the medium term. African and generally Least Developed Countries (LDCs) find it very hard to raise funds through bank consortia, public debt or portfolio equity flows. Precisely FDI is likely to go to countries where a minimum of basic infrastructure and funds to maintain it are in place, thus likely to follow ODA rather than precede it (Chang and Grabel 2004). Therefore, agencies like UNCTAD have supported the idea that, given the paucity of private capital flows, the vicious circle of low growth and aid dependence can only be broken with combinations of a big push in official aid and a revision of WC policies, in other words, a 'Marshall Plan' with policy space. We will come back to some of these questions below.

Why and how aid is *not* helping Africa so much

Aid distribution: trends and composition of flows

A simple inspection of data on aid flows, trends and composition suggest some stylized facts that can be summarized as follows (see Figures 1-3 and Table 1).

- First, African countries have received overall *increasing* volumes of aid, particularly after the take off in the 1970s, then sustained over the 1980s.
- Second, fluctuations have been important both in the region as a whole and within countries, as evidence of marked aid volatility clearly attests (see below and Figure 3). In aggregate terms, the aid flows declined in constant terms and also in relative terms as a proportion of total aid to developing countries during the 1990s. Thus the data clearly show that the combined 'aid fatigue'-effects of the end of the Cold War and failed structural adjustment were felt particularly in Africa.
- Third, there are significant differences in average annual net aid flows across countries between the 1960s and the 2000s (Figures 2 and 3). Some countries have received much more than others, notably Tanzania, Ethiopia, Kenya, Mozambique and Sudan, in comparison with a range of small countries, and some success stories like Mauritius, Gabon and Bostwana (themselves with relatively small populations).
- Fourth, aid per capita has also followed trends similar to those of total volumes of aid (Figure 2), but small countries receive substantial and higher than average volumes of aid per capita, suggesting there is some minimum threshold for aid flows into a country. In fact, many small countries tend to be particularly dependent on aid in terms of proportions of several macroeconomic aggregates like GNI (gross national income), investment and government expenditures (see Table 1). Moreover, some countries with similar levels of income per capita have also received markedly different volumes of aid per capita also as a result of donor preferences for particular destinations (Figure 2).
- Fifth, as advanced above, despite recent increases in FDI and other forms of private capital flows, aid remains by far the most important source of foreign savings for most African countries, which, in turn receive the largest share of total ODA flows (at around one third) (Figure 1).
- Finally, aid to Africa has become increasingly multilateral as the rise of the World Bank, IMF, UN agencies, and regional banks (like the African Development Bank) has offset the negative effect of the end of the Cold War on bilateral aid flows. However, bilateral aid flows today are to a significant extent pegged to the endorsement of recipient government policies by multilateral institutions thereby significantly increasing the bargaining power of the latter beyond their financial muscle. With the rise of multilateral aid and policy conditionality, aid delivery has gradually moved from project towards programme support with a more recent drive towards general budget support (GBS) although this is still quantitatively quite marginal (around 20 per cent in Mozambique, one of the top receivers of GBS).

Increasing aid to Africa has indeed followed and driven at the same time the exponential growth of the world's 'aid complex'. As Riddell (2007) shows, the number of official donors, implementing agencies, projects and NGOs has expanded exponentially over the last three decades. There are over 100 major (large) official aid donors. There are many more smaller agencies operating in most African countries. Each individual recipient country deals with an average of 26 different official donors and several African countries exceed this figure. According to Riddell (2007) over 35,000 separate official aid transactions were reported in 2004 to the OECD/DAC. He also quotes astonishing figures about how individual African ministries are overloaded by aid proliferation. For example, Tanzania had over 2,000 donor projects ongoing in the early 1990s, while the Ministry of Health in Mozambique alone managed over 400 projects recently.

Aid to Africa from a historical perspective

Aid was born out of World War II and its first, possibly most successful incarnation – the European Recovery Programme, or Marshall Plan – allowed massive transfers from the United States to Europe. The objective was clearly stated: to help restore prosperity in war-affected countries in order to prevent them from becoming communist. This philosophy was applied to other parts of the world, from Latin America to Africa and in particular Asia – 'We have learned in Europe what to do in Asia', said Paul Hoffman, the first administrator of USAID[6]. However, aid to non-European countries was granted substantially lesser means. As far as African countries were concerned, the aid flows they received still reflected their colonial ties, especially with Britain and France, except when they decided to break away from the latter's grip and to pursue socialist policies. Tanzania, Guinea and Mali (until the devaluation of the Malian franc in 1967) were among those and received aid from the Soviet Union. In the 1960s and 1970s, aid flows to Africa increased thanks also to the emergence of multilateral and Scandinavian donors (or the 'Nordic group', which includes The Netherlands), the latter asserting a more disinterested approach than the US or Western European countries.

It is striking to note that the share of aid in Western governments' spending grew smaller over time (except in a few Scandinavian countries), only to increase temporarily when the Cold War became more intense. Aid, moreover, soon became tied, a trend that spread from the US to other donors because it limited the impact of aid on their balance of payments and promoted national 'interests'. Tied aid is aid which has to be used entirely on (usually intermediate and capital) goods bought from the country which supplies the loan (one should also include consultancy services, of course). This further limited the positive impact aid may have had since, as Amsden puts it, '(t)ying prevents an aid recipient from shopping worldwide for the best bargain, and from building an experienced local cadre of executives, managers, and engineers, with the result that the real value of aid is lower than the nominal value'(Amsden 2007: 60).

With the emergence of the WC and the debt crisis which hit numerous developing countries from the late 1970s, stabilization and structural adjustment (i.e. BWI aid with its attached conditions) were forced on many African countries, with consequences which continue to be felt today (see below). The collapse of the Soviet Union gave way to a brief belief in the end of history, which would imply the advent of liberal democracy all over the world. From François Mitterrand's speech in La Baule in 1991 – where he warned African leaders that they should democratize to continue receiving French support – to the numerous 'democracy enhancing' programmes organized in order to promote 'good governance' (see section below), a Post-Washington Consensus (PWC) emerged which in Africa consisted, for example, of a focus on (technical) aspects of democratic life, such as elections and various 'institutional fixes' designed to make economic reforms (i.e. liberalization, privatization, public sector restructuring, etc.) 'work'. It is in this period that the rise of multilateral aid in Africa accelerates, with the World Bank becoming the largest single donor in several countries.

Yet, Africa has not ceased attracting aid for geopolitical reasons after the end of the Cold War; first, as a battlefield of the War on Terror driven by the US; second, as a focus of immigration-limiting measures, particularly in Europe; and, third, as an arena of scramble for mineral and oil resources, spearheaded by the fast increasing presence of China in the continent (Alden et al. 2008). The War on Terror – based on a very flexible definition of terror and terrorism – is directing US aid flows to Eastern parts of Africa, to the Sahel and to Muslim areas in general. As security (of the Western world) becomes a key concern informing foreign and aid policy, it also becomes a criterion for the selection of recipient countries and accounts for the increased amounts invested in post-conflict reconstruction programmes, in order to prevent fragile states emerging from conflicts from becoming havens for terrorist activities. Post conflict reconstruction in poor countries is, as shown by Cramer (2006), very reminiscent of the Morgenthau plan, which aimed to make Germany harmless by turning it into a pastoral country. Programmes aimed at fragile, failed or ghost states are, as we will discuss in the subsequent sections, not geared towards putting these countries on a developmental path (as the Marshall plan did with Europe); they rather aim to minimize the risks associated with them.

Growing flows of African immigrants associated with persistent underdevelopment and an acceleration of population growth on the continent are another major preoccupation of European donors. The European Union and several of its key member states, especially those situated on the Mediterranean zone (France, Italy and Spain), are outsourcing immigration control to African countries. This has taken the form of the creation of buffer zones (from Morocco to Turkey to Guinea-Bissau), with formal 'aid for increased migration control' deals, as well as of a growth in a new form of tied aid, namely aid tied to keeping would-be immigrants in their own countries. In France, Nicolas Sarkozy created upon his election in 2007 a Ministry of National Identity, Immigration and '*Co-développement*' (joint development) with this very purpose in mind.

Geopolitical issues have thus played a central role in the allocation of Western aid to Africa, although the issues informing it have varied over time. They have also probably reduced effectiveness, by introducing biases in aid allocation across countries, its sector composition and the extent to which it has been used to further particular political projects.

Geopolitics also seems to characterize the recent emergence of 'new' donors in Africa, notably China, which primarily aims at securing access to natural resources for its expanding manufacturing sector and establishing diplomatic allies to support its rise as a power in multilateral institutions (Alden et al. 2008). As some growing evidence suggests, China, devoid of the superiority complex of formal colonizers, and of any preoccupation with governance or other noble aims, takes a very pragmatic approach to aid and investment and brings new, less cumbersome, and more effective modalities of aid delivery[7] (Davies et al. 2008). For example, in a war-torn country like the Democratic Republic of the Congo, Sinohydro Corp and China Railway Engineering Corp, supported by EXIM bank and the Chinese government, have acquired a 68 per cent stake in a joint venture with Congolese state copper miner Gecamines, with rights to two large copper and cobalt concessions, in exchange for a $9 billion investment plan for refurbishing mines and massive infrastructure projects, expected to build and upgrade the DRC's road (4,000 kilometres) and rail (3,200 km) systems.[8]

Debates on aid effectiveness and shifting aid agendas: towards a new aid agenda?

The ‘aid fatigue’ of the late 1990s was partly informed by pessimism emerging from debates on aid effectiveness in general and in Africa in particular, mostly based on cross-country growth regression analysis. Despite an illusion of false econometric precision, the fact is that the empirics of aid-growth relations is marred by biases, spuriousness and data controversy (particularly reverse causality). In fact, the vast literature based on cross-country regressions over large heterogeneous samples of countries has provided a wide range of contradictory results:

- that aid does not cause or barely affects growth (see Roodman 2008 for a good review of this literature);
- that aid is good for growth (Sachs 2005);
- that aid only works in ‘good-policy’ environments (Burnside and Dollar 2000);
- that ‘developmental’ aid (as opposed to ‘geopolitical’ aid) does positively affect growth in the long term (Karras 2006; Minoiu and Reddy 2006).

Perhaps more interesting than the *average* correlation (rather than causality) between aid and growth across several countries, are specific aspects of aid relations and the dynamics of aid flows which may significantly reduce its positive impact on national economies and states and even result in perverse effects. In this chapter we focus on some of the most significant problems.

The perverse macroeconomic effects of aid

Despite the compelling macroeconomic rationale for aid based on the need to close savings, fiscal or foreign exchange gaps, there is also a risk of perverse macroeconomic effects that has often been mentioned by critics of aid-giving to Africa. ‘Dutch disease’ is often mentioned as one of these problems, particularly in the case of aid surges, and now quite popular among the sceptics with regards to aid ‘scaling up’ in Africa (cf. Collier 2006; Easterly 2002). The danger is that large inflows of foreign grants and credits could keep foreign exchange rates above levels that would prevail in the absence of foreign aid, resulting in an appreciation of the exchange rate, with pernicious effects on the international competitiveness of the economy.[9] However, a substantial body of evidence fails to corroborate this hypothesis as instances of aid-related Dutch disease symptoms in SSA are very rare (IMF 2005). A critical issue is that to understand the implications of scaling up aid ‘the composition of government expenditures and the composition of net imports do matter’ (McKinley 2005: 11).

Much more serious for aid effectiveness is the volatility of aid flows (see Figure 3). UNCTAD (2000) shows that foreign aid receipts are more volatile than export revenues and more volatile than government revenues (excluding grants) in most of the least developed countries, especially in Africa.[10] Even more alarming is the frequently perverse pro-cyclical character of aid flows, particularly in a context of country selectivity in which better performers receive more aid *ex-post*. This pro-cyclical pattern also implies that aid cannot stabilize fluctuations in consumption (Fielding and Mavrotas 2005: 1).

Empirical research also shows that aid volatility affects economic performance and the impact of aid *negatively*, so much that after controlling for uncertainty, aid volumes have a significant positive effect on growth, through its effects on domestic investment - private and public - via *crowding-in* (Fielding and Mavrotas 2005, Lensink and Morrisey 2000).[11] In practice, especially in aid-dependent countries, fiscal planners in SSA governments prepare their medium-term expenditure projections on the basis of assumptions on future aid flows and expected revenues to calculate the 'resource envelope', invariably conservative due to the IMF's zeal for fiscal prudence and tight inflation targeting, which leads them to factor in only part of all aid commitments. Aid volatility, in countries with binding fiscal constraints, also has prevented more effective public investment with long maturity and the design long-term strategies. The reality is that, despite continuous rhetorical calls from Western donors to make aid flows more predictable and long-term (as in the 2005 Paris Declaration), the logic and incentives of the aid delivery system seem inimical to these proposals (Riddell 2007, see more below). In fact, Poverty Reduction Strategy Papers (PRSPs) and associated aid flows have generally *not* resulted in less volatility but, as an IMF report shows, have actually exacerbated volatility on average, especially in countries like Benin, Lesotho, and Uganda (Bulir and Hamann 2006).

Even advocates of aid to SSA suggest that there is also a potential risk of negative impact on long-term domestic savings rates, which are already too low in most SSA (McKinley 2005). In other words, aid may simply not be absorbed and spent in long-term investment while in some circumstances it may instead create a disincentive to mobilize domestic resources through various forms of taxation (including more taxation on transnational business in extractive industries, for instance). This may indeed significantly reduce the long-term impact of foreign aid on growth. The problem is compounded by debt-creating aid, i.e. flowing in the form of concessional loans, like most multilateral aid. A vicious circle between low savings, aid dependence and indebtedness may set out and some African countries have found themselves in such traps during the 1980s and 1990s. In fact, a significant proportion of 'new' aid being disbursed to African governments from the mid-1980s onwards was earmarked or directed to meeting international debt obligations, which were particularly stringent in the case of debt with the IMF and the WB.[12] Even mainstream economists (and former WB employees) like Easterly (2002 and 2005) have shown that engagement with policy-conditioned loans over protracted periods is associated with a lower or negative impact of aid on growth.

Aid, the 'good governance' agenda and loss of policy space

Conditionality is indeed a contentious issue. With the more recent New Aid Agenda, reflecting the post-Washington Consensus, African countries have been subject to the 'good governance' conditionality framework. To understand the emergence (and importance for aid) of the focus on promoting good governance, it is useful to briefly look at the emergence of this idea. Following Khan (2006), one can identify three phases in the evolution of the link between governance and development in the discourse and practice of aid donors. Essentially, in the 1950s-60s and into the 1970s, governance was seen (cynically) as instrumental in promoting growth; the idea that an enlightened autocrat could play a decisive role in development take-off was more or less explicitly accepted in different versions of modernization theory, since growth would derive from a strategic selection of sectors to support. Under what Amsden (2007) calls the 'First American Empire', the nature of the regime and its economic policies, as long as it stayed away from Communist temptations, was not a central concern of donors. With the emergence of a Second American Empire, much more preoccupied with the content of development policies, with the power of ideology, and epitomized by IFI-sponsored programmes of macroeconomic stabilization and structural adjustment, the idea of state intervention or even regulation became synonymous with ineffective resource allocation and rent-seeking. Following the radical 'rent seeking' argument of the Public choice school, all the economic woes associated with (and following) the debt crisis were seen as a result of 'government failure' (as opposed to market failure) – and the only objective became to 'roll back' the state.[13]

While the results of aid-induced WC policies in the 1980s and early 1990s were clearly disappointing, particularly in Africa, a new (post-Washington) consensus emerged in the mid-90s around the idea that in order to make markets work (for growth, for poverty reduction and so on) the 'right' institutions should be put in place. This way the substance and rationale of WC policies was never seriously questioned and the focus was placed on the conditions for their applicability in Africa and elsewhere.[14] The central feature of the good governance agenda, intellectually underpinned by the emergence of New Institutional Economics, is, first, its belief that institutions *currently* in place in developed countries, particularly the 'Anglo-American model', are the most appropriate for economic development and that they should be created in poor countries to allow economic take-off. Second, the new agenda adds the principle that states should be instruments of 'pro-poor' service delivery. In this picture of 'institutional and technical fixes', history, structural relations of inequality and political (class) conditions are largely out.

The resulting New Aid Agenda is clearly reflected in the PRSPs, which have become the new benchmark for most African countries to access external finance through bilateral and multilateral sources.[15] PRSPs exemplify the double preoccupation with institutional change and 'pro-poor' focus in public service delivery, and show that, while geopolitical considerations play an important part in aid allocation (see above), the importance of adhering to the good governance agenda remains now essential. The World Bank, by far the largest donor in Sub-Saharan Africa, thus relies on Country Policy and Institutional Assessments (CPIAs) to allocate its funds according to the principles of this new agenda. These assessments are a way of giving countries scores which reflect their adherence to a large set of predefined 'good' policies (Van Waeyenberge, 2008). It is important to note here that, like the WC of the 1980s, the good governance agenda is not preoccupied with drawing lessons from successful episodes of economic development, whether past or contemporary, for instance in China or Vietnam[16]. Rather it represents a refined version of the neoliberal agenda which is incredibly more pervasive than the WC, since it directly engages with 'civil society' to advance a broad project of social, political and institutional transformations (Harrison 2004).

Therefore, aid conditionality in Africa has evolved from a clear set of economic policies primarily concerned with macroeconomic stability and the obsession with 'getting prices right' through deregulation (i.e. the 'old' WC) to a far-reaching agenda of institutional, political and economic reforms, whose outreach and implications are more wide-ranging. In fact, the ample gamut of 'new' reforms, 'benchmarks' and performance criteria amounts to a transformation of states (via 'governance states') and societies (through social engineering as 'embedding neoliberalism') into an 'ideal' and stable type conforming the basic fantasies and values of neoliberal ideology in general and the World Bank's current development model in particular (Harrison 2004: 128; see also essays in Pincus and Winters 2002, especially Sender 2002). The practical result of this process of expanding conditionality and increasing selectivity is obviously a deepened shrinkage of policy space. As Chang (2006) notes 'these days, there is virtually no area on which the Bank and the Fund do not have (often very strong) influence – democracy, judicial reform, corporate governance, health, education, and what not'.[17] The other outcome is confusion and lack of strategic prioritization (Rodrik 2006). In fact, 'good governance' is so encompassing and vague at the same time that there is no real consensus among donors on (a) definitions and (b) what constitutes a concrete set of 'good enough governance' reforms to promote.[18]

Furthermore, by imposing a never-ending list of technical recommendations and programmes aimed at correcting some of the disasters caused by the curtailing of African civil services, it makes it effectively impossible for African states to (re)build any real capacity to resume a much-needed path of economic development. Darbon (2003) highlights that all of these quick-fixes stay clear of any engagement with the political nature of the state, as well as from an attempt to understand what is really happening in African states. The accommodation of imported norms has produced a political and administrative reality which, if it is not understood, cannot be oriented towards developmental policies (Mkandawire 2001).

This apparently clear trajectory towards a new (good governance) aid agenda is not devoid of contradictions on the ground. In fact, the 'good governance' agenda appears to clash with the effective reality of donor-government relations in showcases, such as Uganda, Tanzania and Mozambique. These countries, whose embrace of neoliberalism and substantive economic reforms have placed them at the top of the ranking of World Bank 'starlets', have shown signs of governance deterioration, particularly with regards to corruption, pluralism and political accountability (Harrison 2004; Hanlon and Smart 2008). Taking the 'good governance' agenda seriously in these successful countries may in fact 'disrupt the post-conditionality regime, with its image of partnership, progress and powerful claim to showcase status' (Harrison 2004: 94). Instead, donors prefer to cherry-pick aspects of the agenda that are politically feasible and turn a blind eye on the more serious slippages so that the showcase is preserved.[19]

Aid dependency and State erosion

Aid dependency: a case of 'resource curse'?

It is clear from the previous sections that little attention has been given by aid agencies to understanding the political economy of development and underdevelopment in recipient countries. This may account for the emergence, since the early 2000s, of a series of mainstream analyses of African economic development claiming to draw on 'political economy'. In lieu of political economy, one finds rather an amalgamation of political science and mainstream economic theory, or rational choice applied to political 'agents'.

An important argument warning of the possible ill effects of aid has thus been developed, in particular by Collier (2006) and Auty (2007). This argument likens aid to a 'rent' and sees recipient countries as likely to fall prey to Dutch disease (i.e., the inability to diversify beyond 'easy' sources of income).[20] Auty (2007) thus writes that '(a)id shares with natural resource rent and contrived (i.e., government monopoly) rent the property of being a large revenue stream that is detached from the economic activity that generates it, and elicits political contests for its capture'. Both papers draw on econometric studies highlighting the alleged 'retarding' effects of aid on development (with some level of distinction between different forms of aid) but fail to capture the causal relationship and mechanisms between aid and underdevelopment. Results are analyzed through a conservative 'political economy' of poor countries which dubs aid recipients 'immature political economies'[21]. In line with the Post-WC, the problem is seen as being a result of underdevelopment of recipients, and related inadequacy of their institutions, rather than of aid or aid relations themselves. Unsurprisingly, it is suggested to condition aid to 'good' policies to avoid rent seeking; moreover, in line with the claim to a political economy approach, Auty makes the following statement: '(t)he political economy (*sic*) should inform reform policies and reformers should ensure they build political constituencies to back such policies' (p.15).[22]

This qualification of African countries as 'immature' reveals a problematic lack of understanding of their actual functioning. The fact that aid attracts interest and can generate corruption is hardly debatable; what is on the contrary very important is that this does not imply a deterministic impossibility of development: there was plenty of corruption associated with American aid in South Korea, which nonetheless performed remarkably well. Rather than understanding rents within a rigid neoclassical framework, it seems more useful to follow Khan and Jomo (2000) in their attempt to identify under which political conditions (i.e. political settlements and class structures/alliances) rents can be reinvested in the domestic economy and mobilized to support a process of long-term economic development, rather than accumulated without any productive linkage, for instance in foreign accounts.[23] Instead, Auty and Collier's approaches do not help to understand how aid can work, because they do not consider political economies from a structural perspective; they only draw on a schematic (and remarkably loose) typology of regimes.[24] Uganda and Mozambique, both purportedly immature countries, thus received a lot of aid, yet did not suffer any resource curse, and are normally used as showcases by Western donors. In the following section, we will argue that the problem with aid is not so much that it is a 'free flow', but has to do with the modalities of and conditions attached to its disbursement and the perverse incentive systems that it trends to create both on donor and government sides.

Aid delivery systems and state capacity 'de-building'

The abundant literature on aid in Africa has not taken issues of perverse incentives and failures in aid delivery systems seriously enough, although there are important exceptions (see review of relevant studies in Riddell 2007: 361-66, Wuyts 1996 and Hanlon and Smart 2008: 120-34). Despite growing emphasis on 'capacity building' by donor agencies, there is some irony in this discourse for several reasons that suggest that aid flows have been associated with what we could call instead state capacity 'de-building'.

First, many years of structural adjustment and macroeconomic stabilization policies drove the fiscal squeeze that led to public sector downsizing, reductions in real salaries in the public sector and increasing dependence on project-funding for normal operations, including recurrent expenditure. This process resulted in diminished material incentives for public employment at a time when public sector reform and the management of aid posed fresh and *greater* demands on civil servants, especially those at the middle-high level of public management.

Second, IMF-related fiscal targets have often created blocks for the necessary expansion of government services, especially in education and health (Action Aid 2005). The IMF argument has often been that donor-funded service expansion cannot always be trusted and that the fiscal implications in terms of hiring of more civil servants (teachers, nurses and so on) may be serious in the long-term. Thus, the IMF has somewhat cynically used the argument of bilateral aid volatility in its favour. As a result, either the expansion of education and health provision has not proceeded with the required speed, or workers have been contracted on a temporary basis without becoming civil servants and therefore unprotected by employment law.

Third, the proliferation of projects, and project units within state bureaucracies, has created different layers of bureaucrats either excluded or included in the management of such projects, which often offer additional compensation in the form of top-up salaries, daily allowances and other perks of great appeal to poorly paid civil servants.

Fourth, the fragmentation of aid as well as complex (and multiple) delivery and reporting mechanisms have created a massive burden on increasingly demoralized public sector workers and shifted attention away from work routines necessary for a good day-to-day management of public finances, not least to improve domestic tax mobilization.[25] In this context it is not surprising that an increasing number of highly paid international consultants are hired to fill gaps and 'assist' governments to carry out their normal duties (what often counts as 'capacity building').

More significantly, these mechanisms of state capacity 'de-building' alter the system of incentives in African bureaucracies and align them with those of donor agencies in many ways. As Castel-Branco (2008) argues on Mozambique, today one of the government's primary goals is to maximize aid. Thus policy processes and institutions are shaped to meet this goal. By mistaking the outcomes of development with its means, the Post-WC in fact pushes African countries – the weakest states, hence the least challenging guinea pigs of aid fads in the world – to adapt continuously to changing recommendations. As Bergamaschi (2008) notes in the case of Mali, the focus of government policy, stripped of most its capacity by previous (WC) reforms, is now entirely on attracting aid and pleasing donors: 'Aid is not a mere financial and technical tool to support national initiatives, but rather it has replaced national political reflections on development' (p. 224).[26]

Moreover, the persistent erosion of 'old' sources of state of power and rents such as public employment, salaries, parastatals, credit, among others, provoked by years of fiscal austerity and public sector reforms, has also had two further effects in terms of the consolidation of neoliberal agendas, affecting policy space and the legitimacy of state intervention in Africa. First, a larger pool of qualified and semi-skilled workers have had to find work in the expanding informal business, NGOs or donor agencies, thereby facing different constraints and articulating new interests (Rapley 2007).[27] Whereas public sector employees would tend to be more unionized and advocates of state interventions in the economy, informal sector operators are mostly interested in the removal of obstacles to their activities, which often amounts to a defence of a market deregulation agenda. Public sector retrenchments and freezing of state salaries have therefore pushed a significant workforce towards alternative non-state mediated livelihoods. The second effect is related to the increasing retreat of the state from a number of public services hitherto provided to the population. Thus the elimination of rural development agencies and the progressive NGOization of some social services, including education and health, have in many cases diminished the expectations of the population from the government.[28] The lack of trust in what states have to offer inevitably strengthens anti-state discourses and the articulation of demands from those who provide services, either NGOs or the private sector.

In such context of declining material and 'moral' incentives within African bureaucracies, donor efforts to introduce 'state-of-the-art public management practice' may compound the problem. Darbon (2003) highlights that the attempted implementation of the prescriptions of New Public Management in Africa is an essentially technical approach to state functions which has on purpose ignored the *political* dimensions and choices.[29] The failure of technical quick fixes is hardly surprising given the essentially political nature of economic development, which implies the emergence of new classes of interests and the demise of others. Perhaps most representative of the neoliberal onslaught against the state is the suggestion that tax collection should be carried out by 'autonomous revenue authorities', insulated from the possible predatory intentions of the state apparatus. It is the most obvious contradiction of the external attempts to reform African states because tax collection is at the very core of building state capacity and legitimacy, as shown by Di John (2006). The failure of the state in Africa, a subject of much discussion in political science and economics, may have less to do with Africa's 'cultural differences' (or natural tendencies towards 'neo-patrimonialism')[30] than with the way in which development aid has attempted to impose some of the features of what it saw as efficient states while weakening the structural conditions which actually allow states to emerge and consolidate themselves.

The process of state capacity erosion, both in material and non-material terms, has indeed contributed to the erosion of policy space discussed above. This has been in the form of accommodating 'subservience' to donor demands and ideological principles (Hanlon and Smart 2008). One important source of 'consent construction' is the production of knowledge and the creation and reproduction of a new kind of intelligentsia that is 'neoliberal-friendly'. The role of the World Bank (through funding, the World Bank Institute and consultancy contracts), private foundations providing scholarships and Western academic institutions has been crucial in this respect.[31] There are of course instances of 'forced consensus' (i.e. the new technocrats cynically articulating a convenient way of policy making that matches donor's preferences), but our hypothesis is that much of the 'new intelligentsia', especially younger African economists with no experience of liberation struggles or nationalist development programmes of the 1960s and 1970s, is indeed neoliberal in ideology and practice and has in many countries managed to occupy spaces of significant responsibility.[32]

Donor agencies have devoted significant funding to the production of knowledge in the form of consultancies and grey reports to which the members of the 'new intelligentsia' (including frustrated academics) have significantly contributed (thereby also making good additional money). Indeed, this additional source of funding attracts not only qualified civil servants, but also the 'intellectuals' hitherto busier in providing alternative discourses (often 'anti-structural adjustment'). This way the sources of 'alternative views' and intellectual resistance from within have probably shrunk in a large majority of African countries.[33] Interestingly, connivance with broadly 'market-friendly' policies and principles may be perfectly compatible with instances of increasing corruption in open 'liberal democratic' regimes. Indeed there seems to be a trade-off that donors are prepared to accept so that the neoliberal cum 'good governance' project remains intact.[34]

Under the conditions described above, recent calls to move towards direct general budget support (GBS) are generally welcome, especially by officials in Ministries of Finance who have to bear the burden of managing fragmented aid. The problem is that this commitment may come at a price. Despite the dearth of empirical research on the factors behind budget support implementation and its implications, an evaluation of recent experiences reports concerns about attempts by donors to micromanage policy processes in recipient countries through newly established GBS-related institutional mechanisms (IDD and Associates 2006: 97; Booth 2008). Hanlon and Smart (2008) elucidate this trend with reference to GBS in Mozambique and how this new 'technical fix' has provided further space to enhance donor power in domestic policy processes, thereby expanding donors' influence from policy *content* to policy *process*.

Conclusions

Africa has had a long relationship with foreign aid, and as this chapter shows, partly contradictory and tortuous, but not unique. As Amsden puts it, '(f)oreign aid was like the hallucinogen called angel dust – it felt good, but it had a lot of bad side effects. Most developing countries never got hooked on it and, thanks to the First American Empire [which allowed them to conduct their policies freely], could go their own way' (2007: 71). However, most African countries *did* get hooked on aid, as shown in table 1 and Figure 1. Aid intensity varies from country to country but aid dependence is a phenomenon more typical of SSA than anywhere else. Critics of aid to Africa abound and reasons for pessimism are plentiful, but this chapter has begun to argue that the economic and developmental case for aid remains compelling. Many SSA countries do need aid, as alternative sources of finance are hard to come by and may be at least as problematic as aid. And history shows that aid *can* work and pay off in the long-term.

Nevertheless, we have also highlighted a series of common problems with foreign aid in Africa, which are widely documented. Specifically, we have placed particular emphasis on two types of negative effects. First, the steady weakening of states, which years of aid-induced conditionality and perverse incentive systems in aid relations have brought about, has rendered the possibility of genuinely home-grown long-term development strategies unlikely for now. Second, the loss of policy space associated with the neoliberal project, which remains embedded in the 'good governance' discourse of the New Aid Agenda in Africa, has probably been the highest price paid by SSA countries to access Western development assistance. Associated with these two effects is a state-adverse agenda (in theory and practice and, of late, mostly in practice) which maintains faith in institutional and technical fixes. The Post-WC (good governance) and New Aid Agenda, despite an apparent greater openness to the role of the state in development, place strong emphasis on inadequate or weak state capacity in Africa, which has become a justification for a limited range of state interventions and the denial of any possibility of replicating lessons from East Asia, especially on trade and industrial policies. However, as Sender (2002: 194) points out: 'Inadequate state capacity in Sub-Saharan Africa has been a self-fulfilling prophecy; the outcome of a bet rigged by those in a strong position to influence results. The Washington institutions have consistently demanded initiatives that impair governments' capacity for policy formulation and implementation'.

From a long-term perspective, aid in SSA should be seen as a temporary push. Therefore, the political economy of domestic resource mobilization requires urgent attention. Meanwhile, Western donors should seriously consider 'going back to basics' (e.g. basic infrastructure) and avoid social and institutional engineering excesses. Development banks, such as the World Bank, should concentrate and focus precisely on what they have been designed for and where their comparative advantage lies: providing long-term finance for large-scale developmental projects like any development bank (Pincus and Winters 2002). At least China, an emerging donor in Africa with obvious geopolitical and national interests, seems to be partly following this principle of 'back to basics'.

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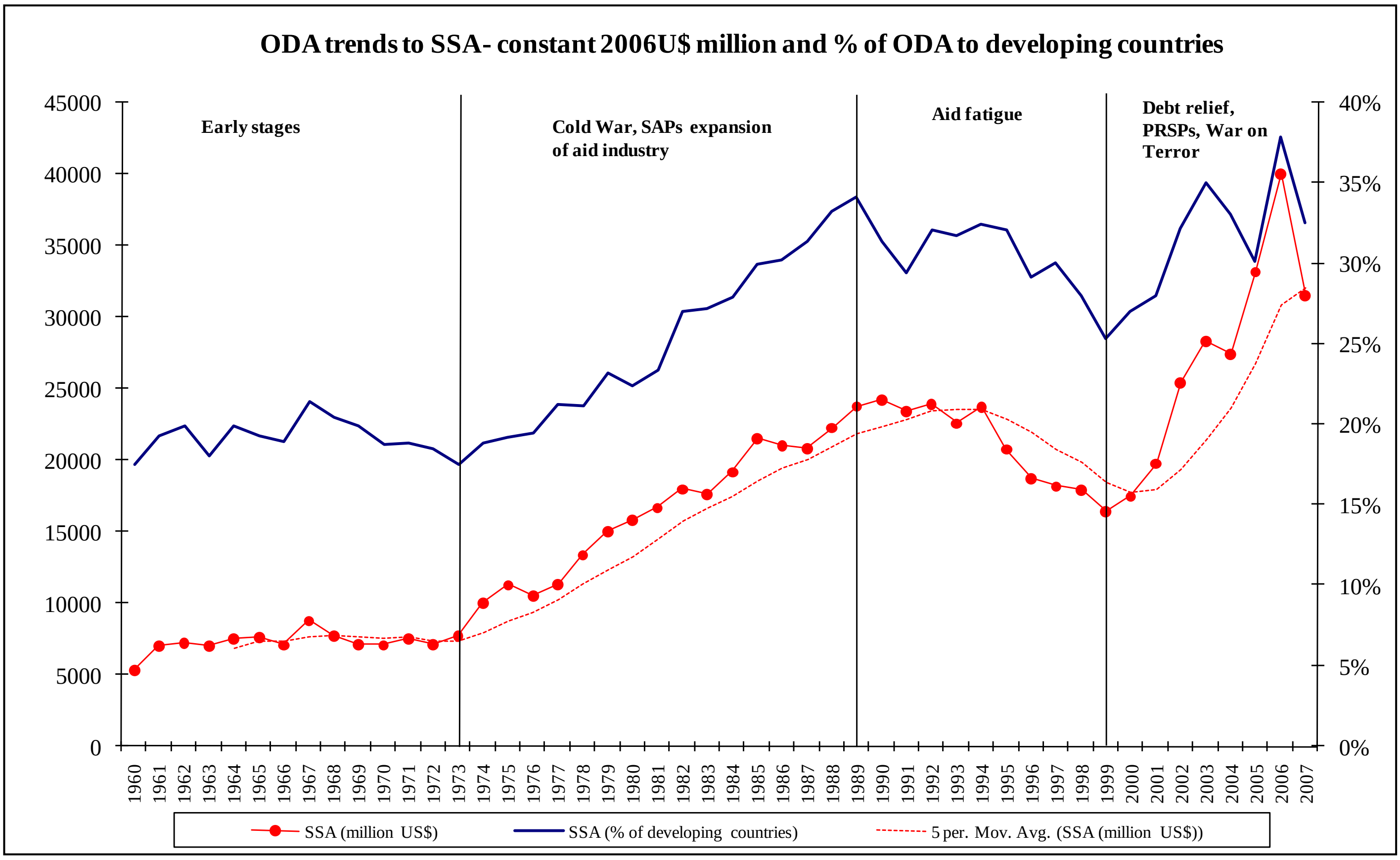
Statistical annex

Table 1. Aid dependence in % of GNI 2004

Highest dependence	*% of GNI*	*Lowest dependence*	*% of GNI*
Sao Tome and Principe	70	Kenya	3.6
Guinea-Bissau	39	Sudan	2.9
Sierra Leone	36	Congo, Rep.	2.8
Eritrea	36	Swaziland	2.3
Congo, Dem. Rep.	32	Zimbabwe	2.2
Burundi	31	Seychelles	1.9
Mozambique	30	Nigeria	0.7
Malawi	25	Botswana	0.6
Liberia	24	Gabon	0.5
Rwanda	20	South Africa	0.4
Mauritania	20	Mauritius	0.4

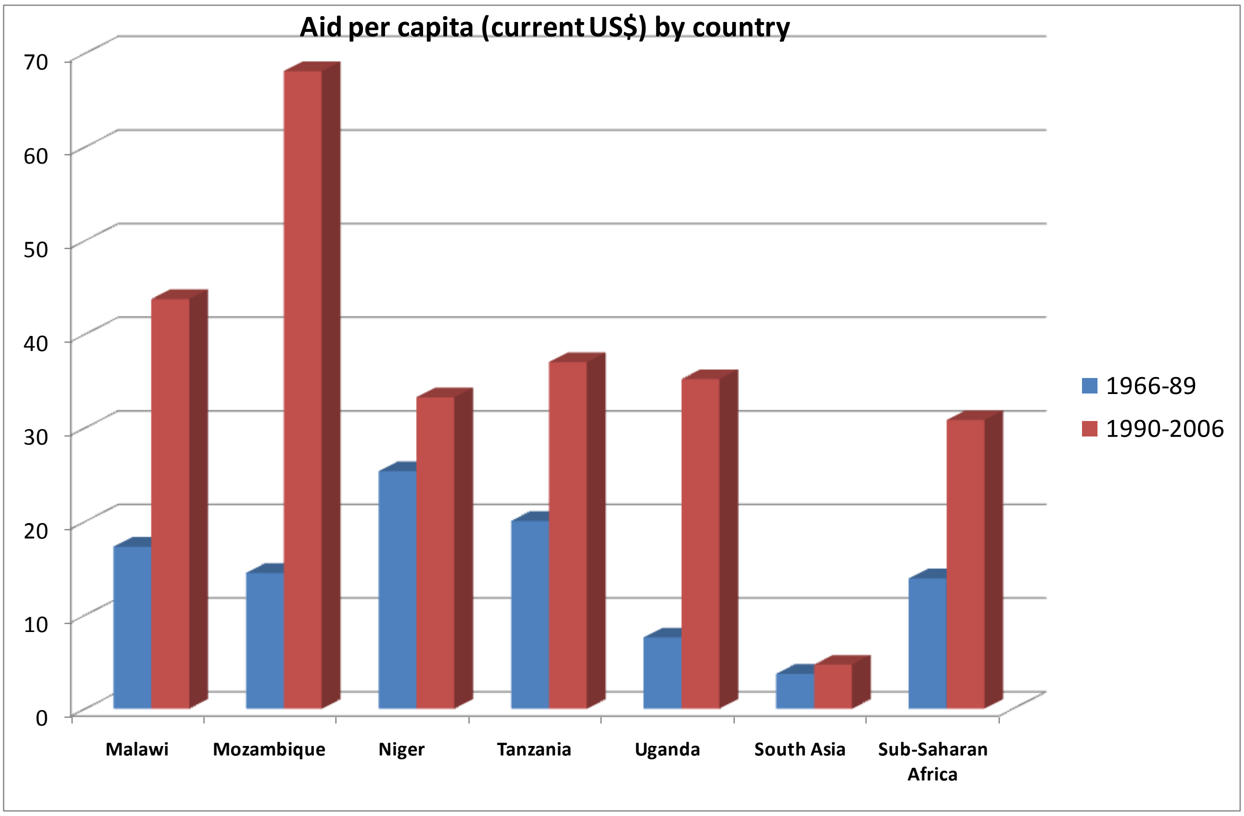
Source: World Development Indicators 2006

Figure 1. Foreign Aid to Africa: Broad Trends and Periodization 1960-2007



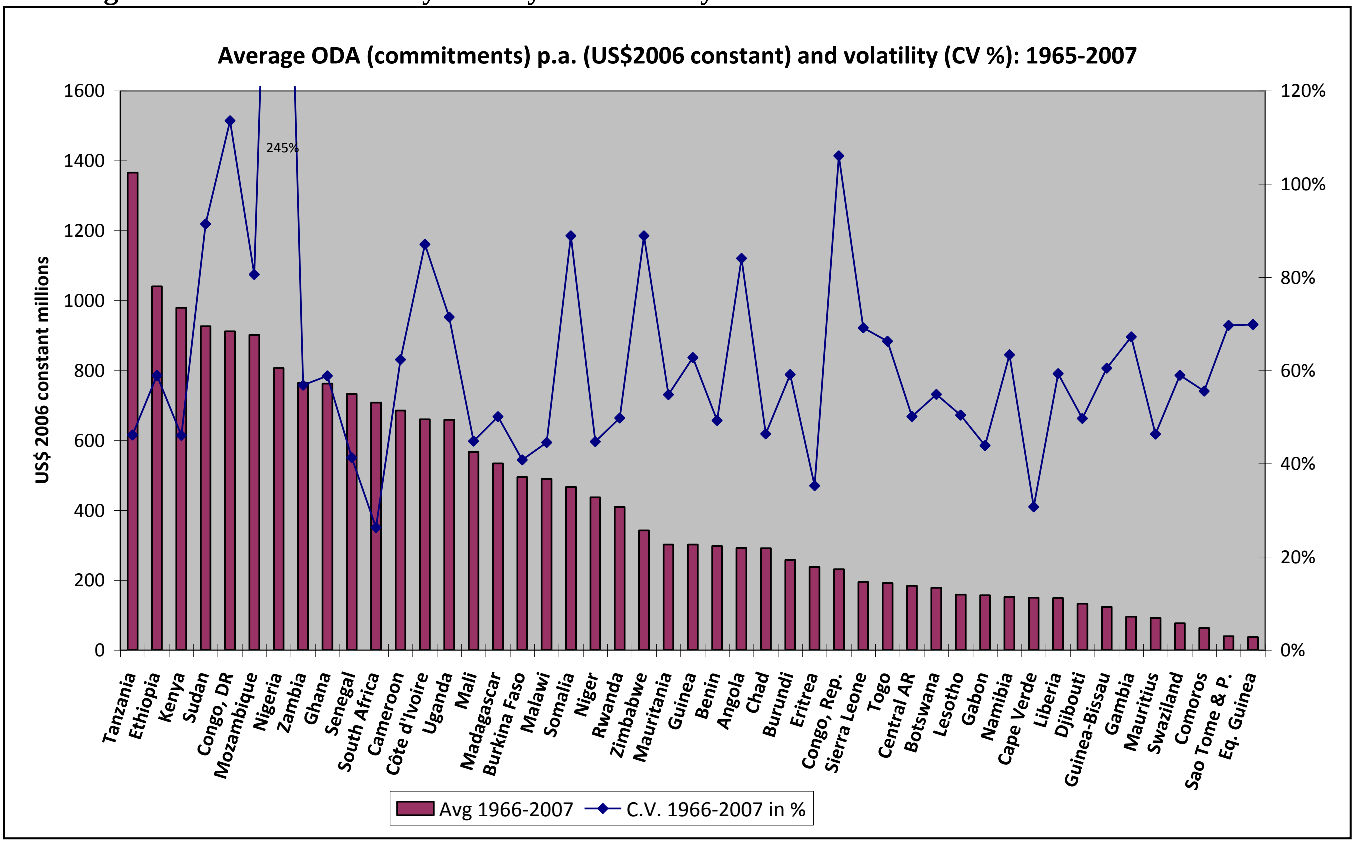
Source: Own elaboration from OECD/DAC2008 database.

Figure 2. Aid per capita: a comparison of selected recipients



Source: Own elaboration from WDI 2008 database.

Figure 3. Aid distribution by country and volatility: 1965-2007



Source: Own elaboration from OECD /DAC 2008 database.

[1] We will use the terms 'Africa' or 'SSA' interchangeably throughout the text.
[2] On various important aspects, contradictions and problems with the New Aid Agenda see Killick (2004).
[3] The 'policy space' can be seen as the space or room for manoeuvre that African states should have to design and implement 'an appropriate 'policy mix' or 'diversity of policies' tailored to the specific situation of each country, rather than a one-size-fits-all approach' (UNCTAD 2007: 4). It also refers to the space 'to use the very instruments and tools that many industrialized nations took advantage of to reach their current levels of development' (Gallagher 2005: 1).
[4] The econometric evidence on aid-growth linkages is increasingly contradictory, partly as a result of endogeneity problems (reverse causality) (Roodman 2008). See also section below on aid effectiveness debates.
[5] Since the late 1990s, FDI flows to developing countries have increased substantially, partly as a result of the pull from China and India and partly in response to sweeping privatizations in other countries, but these trends are easily reversible in a recession context.
[6] Quoted in Amsden (2007: 56).
[7] More effective in terms of cost effectiveness, speed of delivery, absence of excessive strings, and generally as in-kind support, i.e. without involving actual money transfers (see Davies et al. 2008)
[8] See Jiang (2009) for more details.
[9] See McKinley (2005) who argues that the 'Dutch disease' symptoms may simply be a reflection that real foreign exchange resources are being transferred into the country. If both increasing government expenditures and boosting net imports are allowed so that ODA is spent and absorbed (rather than sterilized by restrictive macroeconomic policies), Dutch disease symptoms may be manageable and not worrying.
[10] Figure 3 shows very high variability of aid commitments (hovering around 70 per cent coefficient of variation) in most SSA countries, despite significant differences in *average* aid inflows per year across countries.
[11] Even an IMF study concedes that 'public investment can crowd-in private investment in [sub-Saharan Africa]. Crowding-in likely reflects the complementarity of private investment with some components of public investment, especially infrastructure' (Gupta et al. 2005: 25) quoted by McKinley (2005: 14).
[12] Likewise a significant proportion of 'new' aid flows in the post-1999 period merely reflected the accounting of the savings from debt relief and cancellations, even though some countries were not actually repaying much of this debt. See also Killick (2004).
[13] Despite donor proliferation, the increasing dominance of the World Bank, the IMF and like-minded bilateral donors as main sources of external finance in Africa from the 1980s helped quickly introduce the WC agenda in most African aid recipients (Sender 2002).
[14] See Pincus and Winters (2002) and Fine et al. (2001) for comprehensive and substantive critiques of the intellectual and empirical basis of the Post-Washington consensus.
[15] PRSPs were initially required to reach the completion point for the HIPC initiative and consolidated afterwards as the main policy framework to inform government-donor relations. By September 2008, 30 African countries had completed 30 PRSPs and 20 had also approved a second PRSP (the strategies normally have a 5-year span). SSA is therefore the main 'laboratory' of PRSPs.
[16] For a discussion of how aid donors, in particular the World Bank, attempted to convince the Vietnamese government to adopt more orthodox economic policies in the wake of the East Asian crisis, denying the positive impact of the policies it was following, see Masina (2002).
[17] See also Rodrik (2006).
[18] See Riddell (2008: 370-4) for an illustration of this lack of consensus and clarity.
[19] Showcases are particularly important since donors, notably the World Bank, prefer to base recommendations on crafted notions of 'best practice' and require relevant showcases (therefore countries from the same region or similar characteristics) to make their case more credible.
[20] See section on macroeconomic effects above.
[21] Auty thus writes of Africa's fastest growth period (the immediate post-independence period) that it created the conditions for idle rent accumulation because '*fashionable* policies to override markets [were followed] that inadvertently increased the risk that rent-seeking groups would capture natural resource rent and contrived rent to the detriment of sustained long-term wealth creation' (p.14). (emphasis added)
[22] This also resonates the PWC call for 'ownership' largely defined in terms of buying into donors' agendas (Killick et al 2005, Hanlon 2008).

[23] For a convincing discussion of Bangladesh's development impasse using this perspective, see Khan (2004), as well as the chapter by Gray and Khan on Tanzania in this volume for an application to an African country.
[24] See also Allen (1995) for a more useful account of the variety of political trajectories in Africa and more historically-informed typologies.
[25] See Riddell (2007) on the existence of perverse incentive systems and substantial loss of institutional memory in donor agencies, which affect the logic and practice of aid giving.
[26] Bergamaschi thus shows that much of the scarce state capacity in Mali has been mobilized in recent years to design and implement a decentralization programme, for the sole reason that it is an important item on the donors' wish list. Of the aid-induced institutional reforms which have been pushed since the 1990s, decentralization has been one of the most destructive, forcing states to surrender power and resources while leaving poor populations at the mercy of local political power holders.
[27] This has also been reflected in the severe deterioration of public universities, which has probably had two significant effects. First, a generation of young graduates has either migrated to further training in mainstream academic institutions or found jobs in the very agencies advancing the neoliberal agenda across Africa. Secondly, a large pool of academic staff, partly frustrated by developments in the 1980s and 1990s, has gradually 'abandoned' core duties in universities to tap the more lucrative niches of donor-driven consultancy business.
[28] See Ferguson (2006) for a lucid discussion and examples. See also Sinha (2005) for a more general overview of this process.
[29] See also Booth (2008) and research project referred to there on governance, aid modalities and politics.
[30] See Mkandawire (2001) for a discussion and critique of the 'neo-patrimonial' thesis in African politics.
[31] An example of this process may be the African Capacity Building Foundation.
[32] There is no systematic empirical research on this aspect, but an account of the life stories of Ministers of Finance, governors of Central Banks and other high-level bureaucrats in Ministries of Finance from the 1990s onwards would surely confirm this process.
[33] See Harrison (2004) and Hanlon and Smart (2008) for illustrations of these processes.
[34] See Harrison (2004: 93-4) on various cases and Hanlon and Smart (2008: 101-137) for a very provocative yet well documented account of Mozambique's case, one of the 'darlings' of donors in Africa.