Second Conference of
INTERNATIONAL FORUM ON COMPARATIVE POLITICAL ECONOMY OF GLOBALIZATION

"The Political Economy of Development Aid as Main Source of Foreign Finance for Poor African Countries: Loss of Policy Space and Possible Alternatives from East Asia"

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Paper presented at the Second Annual Conference of the International Forum on the Comparative Political Economy of Globalization, 1-3 September 2006, Renmin University of China, Beijing, China.

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To be held at Renmin University of China
Beijing, 1-3 September 2006

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August 2006

First Draft (unabridged version)

ABSTRACT

This paper discusses the political economy of development aid flows to poor countries in Sub-Saharan Africa and the potential role of China to generate opportunities for a recovery of policy space in these countries. We argue that the loss of policy space in many poor SSA countries is associated with donor-recipient relations in aid flows over the past two decades. The influential role of Western donor agencies and the growing marginalisation of SSA countries from international capital flows have left scarce policy space to their governments for more innovative trade, agricultural and industrial policies. The recent New Aid Agenda and the concomitant Western aid harmonization through budget support are likely enhance donors' influence on policy making and to exacerbate this process despite claims of greater 'ownership'. Learning from East Asian success stories has been hampered by the unequal bargaining power of SSA governments vis-à-vis their 'development partners'. More recently, China has started to become an increasingly important player for some SSA countries and Chinese FDI and aid flows are already s significant reality there. Typically these 'new' relations may be seen with suspicion by Western 'development' partners, but we argue that this (and the cooperation of other Asian governments in a South-South cooperation framework) may be a significant opportunity for some SSA countries to regain part of the policy space lost in the 1980s and 1990s.

I. Introduction

Foreign aid (overseas development assistance – ODA) is a very important source of foreign finance in many developing countries. Motivated by a mixture of alleged altruism, economic interests, historical ties and geo-strategic (imperialist) considerations, donors, mostly from the Western capitalist world, have offered foreign finance to developing countries in the form of grants and soft loans, especially after the emergence of dozens of states with the decolonisation processes.[1] The Marshall Plan in Europe constituted the most significant example of a coordinated form of massive official aid in the post-war context, before a significant group of new independent states became the main destinations of aid flows.

Today the 'aid business' has become a significant global 'industry', feeding a large number of national and supranational agencies, with staff, infrastructure, financial resources and knowledge, which wield enormous influence on a considerable number of independent states across the developing world. Aid flows, as will be shown below, increased dramatically since 1980 for several reasons. Sub-Saharan Africa (SSA hereafter)[2] became a major destination of Western aid. Most countries have received aid in one form or another but some countries much more than others in absolute and relative terms. Some countries have also become practically aid dependent, since very large proportions of their imports, investment, income and government expenditures are accounted for by aid. Aid to Africa has also been stimulated by the emergence of the Bretton Woods Institutions (BWI), i.e. the World Bank and the IMF, as the most influential players in the 'aid industry', most particularly in SSA. The increase in aid to Africa in the 1980s, particularly through multilateral institutions, was also associated with the BOP and fiscal crises that affected many SSA countries and the concomitant reliance on finance from multilateral institutions and bilateral donors. During this period, aid became also linked to the Structural Adjustment Programs (SAPs), which represented the practical experiment of the Washington Consensus (WC) in Africa. However, the Cold War and the battle for geopolitical control in Africa between the superpowers was perhaps the most important determinant of aid increases in the 1980s (Degnbol –Martinussen J. and P. Engberg-Pedersen 2003). Much of this, i.e. what came from the socialist bloc, has not been accurately and systematically estimated and official data produced by the OECD/DAC (main source of data on aid) mainly focus on Western aid at least until the late 1990s.

This paper brings together three debates, longstanding as well as emerging: the debate around the role, significance and effectiveness of aid in Africa, which has resulted in a New Aid Agenda; the debate on the loss of policy space in developing countries, especially in SSA; and the emerging debate over the growing presence of China in Africa and its implications. In this paper we argue that aid flows today are very important for many poor African economies, indeed absolutely necessary in the short- and medium term for some of the poorest countries in Africa. Nevertheless, there has been an endless debate over the effectiveness of aid to Africa and the linkages between aid, conditionality and economic policies in recipient countries. This debate has led some analysts to question the usefulness of aid at all and the need for alternatives. African countries, however, are unlikely to access private capital markets or to develop market-based financial systems capable of generating resources for industrialisation and long-term development. In this paper, we review some of the main problems with aid flows to Africa, especially those associated with: a) the aid delivery system and its effects on domestic government capacities; and b) the conditionality attached to aid, which has significantly reduced the policy space available to African governments. Finally, despite the lack of systematic and accurate evidence, we speculate over the potential and

[1] A large proportion of aid has been in the form of concessional loans which, in theory, apply below-market subsidised interest rates, long grace and payment periods. In reality concessional loans, which count as ODA, are more heterogeneous than usually assumed.
[2] 'Africa' in this paper also refers to Sub-Saharan Africa.

opportunities that the growing presence of China in Africa (in terms of trade, investment and aid) brings, particularly in terms of allowing for a broadening of existent policy space and enhancing the bargaining power of Africa governments vis-à-vis the Western aid industry, especially the one built around the ‘Anglo-saxon credo’.

In section II we briefly introduce a chronological breakdown of approaches to aid as they have affected African recipients, and we look at trends in flows and the political economy of aid increases and declines especially in the last 20 years. Section III presents evidence on the importance of aid in as source of foreign finance in developing countries and particularly in Africa. The following section IV is devoted to a discussion of the aid effectiveness debate and the main criticisms of aid relations in Africa and elsewhere. Section V discusses the New Aid Agenda emerging from this debate and whether this is likely to further shrink policy space or enhance Western donor interference in policy making in African recipient countries. Section VI and VII deal with the emergence of new players in aid relations in Africa, focusing on the recent surge of Chinese aid flows as part of the growing presence of China in Africa, their significance for African recipients, contradictions and opportunities in terms of broadening policy space for African countries. Finally we present some conclusions and policy implications.

II. Shifting approaches to aid and trends in aid flows

In order to understand the political economy of aid, it is useful to start by sketching its historical evolution since the end of WWII, in terms of trends in flows, and, more importantly, in terms of the underlying ideology and the delivery system (modalities and priorities). In fact, the ‘aid industry’ has gone through different stages with shifting ideological and technical approaches. Three distinct periods according to the dominant modalities in the aid delivery system can be highlighted (Thorbecke 2000; Degnbol –Martinussen J. and P. Engberg-Pedersen 2003; UNCTAD 2000):

A. 1950s-1970s: A ‘project approach’ to aid prevailed, particularly devoted to large investment plans, especially for infrastructure, post-war reconstruction, and links with long-term planning exercises common in many developing countries in their first decades after Independence. This was the time of the ‘trickle-down’ paradigm, characterised also by emphasis on the positive effects of modern technology and organizations on long-term development and by fewer levels of intervention, namely central state administration and target groups - individuals, households, organizations – (Degnbol-Martinussen and Engberg-Pedersen 2003). In the 1970s, the approach was gradually shifted towards a broadening of concerns and objectives – to basic needs, integrated frameworks on rural development, etc. - and expanding the range of interventions at more levels of recipient societies. During this period, Veltmeyer and Petras (2005) consider three distinct sub-periods in terms of the political economy of aid flows. First, the post-war decades (1940s and 50s), in which the minimum common denominator was the fight against communism and the post-war reconstruction. Second, between the 1960s and 1973, there was an increasing reliance on NGOs and their emphasis on basic needs, which initially seemed to reflect a continuum between reformist and more revolutionary stances. However, another interpretation is that many of the ‘new missionaries’ were in effect agents of US imperialism in the goal of avoiding another Cuba in Latin America and elsewhere. Third, a period between 1973 and 1983, which Veltmeyer and Petras interpret as a transitory phase in the shift from project-led assistance with less interference on domestic policies to the debt crisis-led conditional aid, which focused on economic reforms in the era of structural adjustment.

B. 1980s-mid 90s: the Washington consensus era for a strategy of aid-induced economic reforms, ex-ante conditionality and shift from projects to programme aid allocated to stabilisation and structural adjustment programmes, mostly in the domain of trade liberalization, internal deregulation, public sector reforms and privatisation. There is increasing 'multilateralization' of aid, i.e. growing dominance of multilateral organizations on the international development policy debate thus growing influence of these organizations on bilateral aid policies. These trends, which affected mostly Latin America and SSA, were especially marked in Africa, where the poorest countries became soon extremely dependent on multilateral aid agreements and grew increasingly indebted. According to Veltmeyer and Petras (2005), this is also a period in which aid flows were far from attenuating the increasing vulnerability of developing economies to the vagaries of highly deregulated hence volatile international financial markets. Development assistance then became more vulnerable to external critiques due to increasing evidence of its ineffectiveness, particularly in poor countries and wherever a tight and narrow conditionality framework was imposed, i.e. wherever the policy space was severely reduced. In fact, there was a stark contrast between the substantial increase in ODA funds for SSA countries and the 'lost decade' experienced in most of them during the 1980s.
C. 1995 to present: there has been broadened and enhanced conditionality, a sort of 'augmented Washington Consensus' (Rodrik 2004 and 2006), characterised by a combination of economic and political benchmarks, an obsessive focus on governance and institutional issues, increasing donor alignment and coordination around *ex-post* selectivity, which is allegedly based on evidence of 'good policy environments' and 'national ownership' (in the eyes of donors). This period witnesses a more determined push towards programme assistance, budget support and global funds (Mosley and Abrar 2005). Most literature on aid effectiveness and the questioning of aid from the Left and the Right was generated in this period, particularly from the mid-1990s when the evidence of 'lost decades' Sub-Saharan Africa had become more obvious. Indeed, Veltmeyer and Petras (2005: 125) go on to assert that, during the current era of globalisation and neoliberal conditionality, "aid can indeed be viewed as a catalyst of underdevelopment and regression rather than of growth and development". The problem in this respect is not so much ODA *per se* as the conditionalities attached to it. As it will be discussed later, negative views about the role of aid, both from the Left and the Right, may have underpinned the declining flows during the 1990s. However, another interpretation is that a conjunction of factors, namely the end of the cold war, the aid "fatigue" after the failures of the 1980s and tighter budgets in donor countries may together explain trends in the last 15 years.

Overall, Veltmeyer and Petras (2005) consider three strategic geopolitical and economic projects to account for aid flows to developing countries and especially Africa, namely, international development (and the concomitant expansion of capitalism), globalisation and imperialism. In different ways, the political economy of aid to Africa from the Western donor bloc has been shaped by complex interactions between the above-mentioned projects, which should not be interpreted in 'conspiracy theory' terms. Rather, these projects reflect the challenges, constraints and contradictions inherent to the international capitalist system and its globalised neoliberal transformation. The Western donor bloc, albeit increasingly convergent, is relatively heterogeneous and reflects different experiences and understandings of capitalism. A contrast between the aid priorities and practice of the 'Nordic bloc' (Netherlands and the Scandinavian countries) and those of the 'Anglo-saxon bloc' illustrates existing differences. Yet, the search for and 'aid consensus' has been a growing concern, especially since the end of the Cold War.

The shifting approaches discussed above have been consistent with trends in aid flows since 1980. During the period 1980-2004, ODA to all recipient countries followed generally three stages. During the 1980s there was a consistent increase in flows in real terms, which decelerated towards the end of the cold war (Figure 1). From 1990, ODA started a gradual decline that became more pronounced towards the mid 1990s (Chang and Gabrel 2004: 107; UNCTAD 2000). Between 1990 and 1997 net ODA disbursements had fallen from 0.35% of OECD donors' GDP to only 0.22% (O'Connell and Soludo 2001: 1528). Finally, a turning point is reached after September 11th 2001, when substantial increases are recorded, to a significant extent related to the global war on terror sponsored by the US and other OECD countries. These trends are particularly exacerbated in African countries as Figures 1, 2, 3 and 5 show for different indicators. In per capita terms, increases were dramatic between the 1970s and the early 1990s before the first peak, more marked than for the group of low-income countries (Figure 3). During the 1990s the drop is also evident as is the sudden boost after 2001. Hopkins (2000) posits six main reasons for declines in ODA flows over the 1990s, including: the end of the cold war; the attenuating effects of globalisation on aid tied to colonial interests; neoliberal arguments against aid gaining ground in donor countries; budget constraints among donors, and general disappointment with the perceived impact of aid.

In terms of shares, SSA became the most important aid recipient region from the mid-1970s. SSA's share of net aid (discounting also repayments of interest) doubled from around 15% of total net aid in the early 1970s to over 30% in the late 1980s (Figure 2). This trend in shares reflected in part the imperatives of the Cold War and its manifestations in Africa, the perception of increased impoverishment in this region (especially associated with the mass media representation of famines in Ethiopia and other parts of Africa) and the increase in the number of donors that had closer (historical or geopolitical) links with SSA. In the 1990s, there was a drop in SSA's share, as in most regions of the developing world, partly for the reasons cited above (Hopkins 2000), and also as a result of significant diversion of funds to the former socialist bloc in Europe.[3]

III. The role and significance of aid in Africa

In response to recent doubts over the effectiveness of aid to Africa and the corresponding 'aid fatigue', recently influential works and speeches from mainstream liberal instances, like United Nations' Millennium Project (2005), led by J. Sachs, the World Bank (2002) and the UK-sponsored Commission For Africa have given fresh impetus to the idea that aid can work and is absolutely necessary for the poorest (African) countries, insisting that a case for aid can still be made on very straightforward grounds from the point of view of donors. First, there is the ethical argument of the basic responsibilities of human beings vis-à-vis deprivation anywhere in the world. Secondly, the low cost of the extra effort needed for rich countries to channel substantial resources to very poor countries. Third, less altruistically, the growing security concerns and the costs that state failures, which are often related to poverty and desperation in a globalised context, and which have to be borne by intervening countries, particularly the US.[4] Politically, balancing the costs of costly military interventions with the costs of increasing aid provides a strong 'moral' case for aid and perhaps a quicker way of persuading the general public opinion in the West that may be more responsive to security concerns or 'compassionate politics'. The critical question, however, is who benefits from these two very different expenditure patterns (more aid or more military spending for protracted occupations). Cynically, one can argue that there is a battle between the military-energy complex and the aid-business in terms of key constituencies, reflecting the different

[3] The downward trend in shares was quite marked in Least Developed countries (LLDCs), many of which are African. In 1999, aid to LLDCs accounted for only 19% of OECD aid to developing countries, down from 27% in 1990.
[4] The mainstream arguments used to make the case for aid resonate particularly well in the US public opinion as they include two powerful elements that are often politically used and historically embedded: moralistic behaviour (compassion) and fear. They may also have, perhaps lesser, resonance in many other Western societies.

implications of 'compassion' and 'fear' as *leitmotifs*, but the reality is more complex than that. In a sense, SSA countries have become again a battleground for intellectual and ideological clashes, this time around the linkages between poverty, security and globalisation.

From the point of view of the recipient countries, especially the poorest ones, the case for aid may be more straightforward especially if, for once, one recovers from the historical amnesia that often affects the most vehement critics of aid. Figures 1-6 show the scale and significance of foreign aid in Africa in absolute and relative terms. There are other economic and historical grounds to support the idea that SSA countries may need even more aid unless alternative sources of foreign finance start to flow in.

First, most successful accumulation processes and late industrialization strategies have been historically associated with significant foreign capital inflows in a variety of forms, by economic or extra-economic means. Suffice it remember the economic recovery in post-war Europe and Japan, the East Asian catching-up (especially South Korea, Taiwan, Thailand, Malaysia from the 1960s onwards), some late industrialization experiences in part of Latin America, the 'imperialist' industrialization of Britain and France, and so on. Not all succeeded in the same way and there were some failures, like Russia's attempt to attract and manage foreign capital through state banks in the early 1900s in an economy dominated by backward agriculture and landlords, embedded in state structures and decision making positions (Schwartz 2000). In other experiences, debt was a virtuous vehicle for industrial deepening and facilitated the generation of venues of accumulation that would make debt flows sustainable.[5] The problem in most of these cases is the long gestation period between the inflows of foreign finance, particularly in the form of debt, technological catch-up and subsequently the building up of export competitiveness in manufactures with increasing technological sophistication (Schwartz 2000: 248). Some other countries, especially South Korea, Taiwan and other East Asian 'tigers' were however very successful and partly lucky in managing substantial capital inflows in the form of commercial debt, development assistance and foreign direct investment, which eventually served to fund Kaldorian accumulation strategies that paid off in the long term (Amsden 1989: 38-9; Schwartz 2000).

Secondly, most capitalist accumulation strategies require systematic real increases in imports that cannot be simply financed by current domestic resources, especially in low surplus contexts, because of the known savings, foreign exchange and fiscal gaps (McKinley 2005; Taylor 1993; Schwartz 2000). Thus one cannot escape the critical role played by external finance (either in the form of official aid or private capital flows) in the success of a late accumulation process in a highly and increasingly competitive world. The positive benefits can be distributed across several 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).

Easterly (2001) has, like many others, emphatically questioned the aid-investment-growth link, noting that what really matters is creating incentives to save so that the perverse effects of aid on savings are avoided and the quality of investment projects is enhanced. Also there is the caveat that there are not many examples of low-income countries 'taking off' mainly on the basis of *aid* (not generally on foreign capital) and that there has been *no* shortage of aid in SSA (Rodrik 2006: 15).[6] This, however, does not imply that the financing gap approach should be dismissed altogether in the African context. One can agree on the basic point that

[5] Examples are Mexico and especially Brazil during their ISI era until conditions changed and their economies did not adapt.

[6] Rodrik (2006) also rightly points out that there have been several examples of growth accelerations in Africa, especially before 1980 but these have not been sustained and eventually fizzled out.

aid is not a *sufficient* condition for investment and growth in developing countries. In many cases, especially for very poor and indeed SSA countries, it may be a *necessary* condition in the medium run.[7] As the experience of successful late industrialising countries shows, once sufficient foreign finance flows into the country, the management and selection of these flows by the state are critical, since aid, portfolio investments and FDI, *per se*, may not be developmentally effective and in some cases can be counterproductive if badly managed or totally unregulated (Eatwell and Taylor 2000; Chang and Gabrel 2004, etc.).

At present, what are the possible *realistic* sources of external finance for SSA countries in the short to medium term? Overall *long-term net* capital flows into developing countries declined in the 1990s by almost 25% in *nominal* terms, which means that the decline is more acute in real terms.[8] Moreover, foreign direct investment (FDI) flows have consistently concentrated in very *few* countries (among developing countries and *within* developing regions, e.g. China, Indonesia, Nigeria, Angola, etc.) and in recent years private capital flows to many developing countries have plummeted as a result of high volatility in international capital markets (and partly due to increasing lack of confidence after the 1997 Asian crisis). Private flows displayed consistent declines in real terms until the mid-1990s and poor countries in Sub-Saharan Africa attracted negligible proportions of FDI, which had a strong mining sector bias (UNCTAD 2000 and 2005). The most recent increase in FDI, which has also been recorded in SSA countries, seems very concentrated in few countries, largely accounted for by some individual massive investments (like the aluminium smelter in Mozambique), and largely associated with privatisation processes, mergers and acquisitions, thus not much 'Greenfield' investment (UNCTAD 2005: 32; see also figure 6). Moreover, until 1996 even the largest recipients of FDI in SSA, such as Angola, Nigeria, Cote 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). According to UNCTAD data, in the 1990s, the share of ODA flows in total capital flows was approximately 89% for Least Developed countries (LLDCs), many of which are in SSA. In other words, the empirical evidence casts serious doubts about the possibility of LLDCs relying on private capital flows or any form of non-concessional external finance, to solve the problem of development finance requirements. LLDCs find it very hard to get multilateral bank funds and sell bonds or attract portfolio equity flows. In the period 1980-98, on average, finance from FDI/long-term private capital flows accounted for barely 1% of GNP of LLDCs. 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 Gabrel 2004).

The search for surplus generated from domestic sources is also a major challenge in the short to medium-run for most African countries. There is often a vicious combination of weak capitalist classes and weak states. A structurally weak national capitalist bourgeoisie has been weakened by strong anti-capitalist government rhetoric in some countries (Tanzania, Mozambique among others before the 1990s), and by the spread of neoliberalism itself in others, which has exposed the vulnerabilities of domestic productive systems and capitalist classes, leading to ever increasing levels of informalisation of the economy and move towards bazaar economy-type of activities (Rapley 2002). The weakness of states, exacerbated in many countries by the consolidation of neoliberal policies, affects the capacity to solve Gerschenkronian collective action problems[9], in investment and resource distribution for productive purposes, thus hindering the development of productive forces in most poor SSA countries. As a result, saving rates are among the lowest in the world, and the tax base and tax

[7] One of the most recent econometric works on the issue (Karras 2006) again concludes that aid *does* have a positive, permanent, statistically significant, and sizable effect on economic growth.
[8] 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 privatisations in other countries.
[9] On the latter see Schwartz (2000: 85-90).

efforts are indeed very small to allow some independence of states from foreign capital flows. This makes the dependence on foreign finance structural and increasingly acute.

As a result of these domestic and global structural features, it is not surprising that *aid intensity* in poor SSA countries, in terms of shares of national income, fiscal space and investment, is usually very high (O'Connell and Soludo 2001). In fact, the current proportion of aid flows to GNI and investment in SSA and LLDCs is very significant, and typically about one third of imports are financed through aid. Figures 6, 8 and 9 and Tables 1 and 2, provide both an indication of the extreme dependence on aid of many African countries and the diversity of experiences, i.e. that some countries are far more dependent on aid than others. It is clear that sustained increases in imports (especially capital and intermediate imports, but even food in some cases) and long-term investment in many of the poorest SSA countries are not conceivable without large increases in aid flows in the foreseeable future. Some may reasonably argue that extreme aid dependence can be pernicious per se (Easterly 2001; Moss et al. 2005; Clemens and Radelet 2003). One reason is the alleged lack of absorptive capacities in poor countries and therefore the difficulties in scaling up aid flows targeted to the poorest economies (Clemens and Radelet 2003). However, there are grounds to believe that the 'weak absorptive capacity' argument has been often exaggerated and not much robust empirical evidence exists to support it robustly (McKinley 2005; Pincus and Winters 2002; IMF 2005).[10]

The concerns about the possible pernicious effects of the scaling-up of aid have also to do with an inherent and ideologically driven negative view of the state and its role in development processes in much of the 'aid industry', especially with respect to states in SSA.[11] However, contrary to the usual neo-liberal anti-state view that prevails in much of the aid 'industry' (including NGOs), historically the role of the state and public investment in poverty reduction and long-term development is decisive, both in the experiences of today's developed countries and the 'developmental states' of the post-WWII era (Gallagher 2005; Chang 2006). Indeed, several experiences of successful accumulation in developing countries bear the mark of 'developmental states',[12] which seldom applied the kind of policies defended by the New Aid Agenda and the post-Washington consensus (PWC), and which therefore should not be simply dismissed as options for other countries on the grounds of tautological arguments.[13] Learning seriously from these experiences and adapting the lessons to the new conditions should allow an opening and broadening of the policy space and more flexibility in the contingency of policy options and experimentation, just as most countries have done in the past. Rodrik (2004) clearly argues that most experiences of development in the post-WWII period have been based on creative and often heterodox policy innovations, usually in clear departure from the current neoliberal consensus.[14] Given the weakness of the private sector and its complementarities with public interventions in poor countries (government investment *crowding-in*), and given that government expenditures, especially public physical investment, disproportionately depend on concessional loans and grants, aid channelled to

[10] An indicator of weak absorptive capacity is low budget execution rates in many aid dependent countries. This, however, is often due to the proliferation of donors, excessive and complex bureaucracy in the aid delivery system and lack of harmonisation among donors. A reform in the aid delivery system would surely change the indicators of absorptive capacity in African governments.

[11] The political science literature that has so much focused on the description of 'neopatrimonialism', 'clientelistic politics' and corruption in Africa has provided a lot of ammunition to aid bureaucrats in this respect. See Bayart (1993) and van de Walle (2001) as examples.

[12] Note that there is much debate on the nature and definition of what a 'developmental state' really is. See Mkandawire (2001) for the case of SSA countries.

[13] See collection of essays in Gallagher (2005) and Rodrik (2006). See also Mkandawire (2001) for SSA.

[14] Quoted in Gallagher (2005: 8).

states with sufficient policy space can be indeed very effective (McKinley 2005; Chang 2006).[15]

In conclusion, given the current insertion of most poor SSA countries in the global political economy, and the known and inescapable financial requirements for successful capital accumulation, productivity increases, technological catching-up and ultimately poverty reduction, aid flows *can* still play a critical role for the poorest SSA countries. It is a myth of the Right that 'market forces' alone will eventually lift poor countries out of poverty because theoretical high returns to capital will *eventually* attract substantial private capital flows. It is a myth of the (populist) Left that the poorest countries can simply turn off the tap from external finance and attempt to domestically generate enough surplus to accumulate in the long run, under current world economic conditions. The political and economic sacrifices that this would require are realistically beyond the reach of most low-income African countries. Arguably, past historical experiences showing the importance of a combination of external finance with policy space, creativity and strengthened 'developmental states' are not myths but realities with valid lessons. LINK W BELOW

IV. The Aid Effectiveness Debate: Attacks from the Left and the Right

We have argued why aid plays a very significant role in development processes in poor countries, especially in SSA. Historical experience, current realities and political economic reasoning suggest that foreign development assistance, in its various forms, but especially for basic infrastructure, human resource development, productive investment and technological catching up, remains an essential ingredient in most of African countries today. However, much aid is wasted or used ineffectively, particularly because it is badly delivered and because it often responds to concerns that are far from the developmental and 'poverty reduction' purposes that past and current rhetoric claim. In this section we review the main problems with aid flows to poor African countries, most of which are common to many other aid recipients in the developing world. It is important to review these criticisms in order to understand the political economy of aid flows to Africa and at the same time discuss priorities about how the quality of development assistance could be improved to support the emergence of developmental states in the continent.

The debate on aid effectiveness and the necessity of conditionality has been particularly intense since the early 1990s.[16] After a few decades of aid and its disappointing results in many recipient countries - especially concerning the macro links between aid, economic growth and investment - several arguments were made, from the Left and the Right, to criticize ODA and its delivery in African countries. Right-wing opponents of aid have tended to focus more on the idea that aid has simply replaced domestic savings and investment instead of supplementing them, and that aid has been used by recipient countries to postpone reforms rather than implement them (Degnbol –Martinussen J. and P. Engberg-Pedersen 2003: 240). Some also highlight that trade, private investments and, in sum, 'incentives' are more effective developmental tools and that without them, aid is not useful (Easterly 2001). From the Left, the most important criticisms are that aid either falls into the hands of the relatively rich and powerful, i.e. is frequently subject to 'elite capture', or that aid with conditionality normally disempowers governments and their societies, and lets donors encroach their policy sovereignty.

There are six important and influential sets of critiques of aid and the international aid delivery system, which have often been used to generally discredit the benefits of aid in developing countries. Some of these criticisms, especially when abused to make unnecessary generalisations, can be partly or totally flawed. Nevertheless they can also be useful and

[15] Sometimes up to 80-90% of public investment is financed by ODA in aid dependent countries. See Table 2 for percentages of total government expenditures financed by ODA in selected poor countries.
[16] A hallmark in the debate was the WB critical report on aid (WB 1998).

constructive insofar as they unearth some of the features and complexities of the political economy of aid to poor countries (especially Africa), of its nature and to the extent that they may suggest possible improvements that are more realistic than normally assumed.

A. The destination of aid flows: targeting the 'needy'? Most evidence suggests that aid has not traditionally concentrated in the *poorest* countries, which are unlikely to attract other forms of foreign finance, meaning that the aid business is not simply a 'cartel of good intentions' as Easterly (2003). The literature shows that aid allocation patterns from OECD and non-OECD countries tend to follow various sets of political, military strategic, economic interests and other foreign policy imperatives.[17] These patterns are further exacerbated by the large concentration of total aid flows in few donors (70% of OECD bilateral flows being accounted for by Japan, US, France, and Germany) and the 'small country bias' in the aid industry, particularly in Africa.[18] Moreover, contrary to rhetoric, economic and political liberalization do not necessarily attract more aid from Western donors except for cases like Ghana in the 1980s or Uganda and Mozambique in the 1990s (Burnside and Dollar 2000). In general aid per capita figures show that there is not clear correlation between level of development, extent of poverty, governance indicators and per capita allocations of aid from OECD countries (see Figure 4).

B. Perverse macroeconomic effects. Some initial critiques of aid in developing countries, especially the poorest ones, came from like-minded mainstream economists, were on basic macroeconomic theory and cross-country regression analysis, and highlighted some of the dangers of 'excessive' aid in terms of perverse macroeconomic effects (Easterly 2001). Three issues stand out:
   a. '*Dutch disease*' problems, i.e. 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.[19] However, this problem has been exaggerated as substantial available evidence offers very rare instances of Dutch disease symptoms in SSA countries (IMF 2005). A critical issue is that "the composition of government expenditures and the composition of net imports do matter" (McKinley 2005: 11).
   b. Crowding out of domestic savings, by giving incentives to save less and consume more (especially in foreign traded goods). This is emphasised by people like Easterly (2001) in his criticism of the financing gap approach of international donors, and the expected virtuous chain of effects between aid, investment and future growth. Normally peculiar examples of extreme 'basket cases' like Zambia are used to support this argument, but generally the evidence to support this hypothesis in SSA is scarce and a large body of recent literature stresses that, in spite of this (often fragile) macroeconomic evidence, social indicators have consistently improved during the time aid flows increased to poor countries

[17] For example, Veltmeyer and Petras (2005) argue that US aid is just one instrument of US imperialism. France ODA is highly shaped by former colonial links, while Japan's is strongly moved commercial and investment interests (perhaps not so much in Africa). Arab agencies tend to target poorer, Arab, Islamic and sub-Saharan African countries but Arab and more populous countries receive the largest share of the pie, especially when they vote along Saudi lines in the UN (Neumayer 2003). See Figures 10, 11 and 12 for an illustration of current patterns for three major donors.

[18] As Radelet (2006: 3) notes, "some small countries receive very large amounts. For political reasons, donors generally want to influence as many countries as possible, which tends to lead to a disproportionate amount of aid going to small countries".

[19] 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 sterilised by restrictive macroeconomic policies), Dutch disease symptoms may be manageable and not worrying.

(World Bank 2002; Degnbol –Martinussen J. and P. Engberg-Pedersen, 2003). Private savings in poor African countries are structurally low and unlikely to be displaced by aid while McGillivray and Morrissey (2001) show that the fiscal effects of aid are complex and varied, therefore difficult to generalise, but that aid tends to be effective when associated with government spending increases *in excess* of the value of the aid, and, in some cases, can even have positive effects on tax effort and borrowing.

c. Growing indebtedness of aid-dependent countries. When aid is mainly obtained under the form of concessional loans, a vicious circle between aid and external debt is bound to be created if aid dependency is significant (Thirlwall 2003). Indeed, with the increase in aid flows from the 1970s, for SSA countries there was a matching debt rise, which created a more serious problem that has exacerbated foreign exchange and fiscal gaps in affected countries (Taylor 1993). 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. The debt crisis in SSA was somewhat different from that of Latin America since there less than 20% was owed to private creditors, so public bilateral and multilateral donors could link debt obligations with policy conditionality. Recession and stagnation driven by badly designed deflationary policies and loss of policy space in aid-dependent countries weakened their capacity to meet debt obligations until it became absolutely unsustainable and uncollectible.[20]

C. Unreliability and volatility. 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, where aid is most needed.[21] More alarming is the frequently perverse pro-cyclical character of aid flows. This pro-cyclical pattern also implies that aid cannot stabilize fluctuations in consumption (Fielding and Mavrotas 2005: 1). Aid volatility also affects the impact of aid flows on per capita GDP growth. Empirical research shows that aid volatility affects economic performance and the impact of aid *negatively*, but, 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).[22] The causal mechanism is related to both the impact of aid on investment (through project funding) and the effects on fiscal revenues and indirectly on fiscal discipline (Lensink and Morrissey 2000). 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 and IMF zeal for fiscal prudence 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. Underlying this volatility may be the inherent instability of donor-recipient relations, often driven by

[20] For some countries, such as Zambia, this vicious circle was much more severe than for others (Figure 13).

[21] See Figure 14, which shows very high variability of net aid flows (hovering around 100% C.V) in most SSA countries, despite significant differences in *average* net aid inflows per year across countries.

[22] The concept of *crowding-in* of public investment is crucial, as it implies that public investment can be complementary for private investment. Right-wing macroeconomics has usually adopted the crowding-out hypothesis, whereby public investment that creates public deficit is bad because it puts claims on the monetary/banking system at the expense of private investment. A large body of literature has shown that crowding-in effects prevail in many low-income countries and recently an IMF staff paper accepted this possibility "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, p. 25) quoted by McKinley (2005: 14).

weak trust, reflected in the imposition of conditionality and the dependence of programme aid on a large number of 'structural conditions' (Fielding and Mavrotas 2005). Despite continuous rhetorical calls from Western donors to make aid flows more predictable and long-term, the logic of the aid delivery system seems inimical to these proposals. The New Aid Agenda has indeed promised to render aid flows to SSA more predictable and long-term but so far the empirical evidence shows the contrary. In fact, Poverty Reduction Strategy Papers (PRSPs) and associated aid flows have generally not resulted in less volatility but, as and IMF report shows, have actually led to more volatility on average, especially in countries like Benin, Lesotho, and Uganda (Bulir and Hamann 2006).

D. State capacity 'de-building'.[23] From the point of view of recipient countries, one of the biggest pitfalls of current and past aid delivery systems is the erosion of the capacity of the state to design policies and ensure an adequate provision of services, due to a series of negative externalities of aid delivery systems (UNCTAD 2000: 182).[24] First, SAP-related fiscal squeeze has led in most countries to reductions in public sector real wages (via conditionality) and with introducing frequent distortions in government pay structures, thus eroding material incentives, and downsizing current expenditures. Moreover, in countries like Mozambique, donor projects 'steal' skilled labour from the civil service, which is critical for the rest of the public sector, given the extremely small supply of skilled labour (Wuyts 1996). Secondly, aid delivery systems have usually been complicated and fragmented, multiplying the expected efforts to ensure disbursements and requiring more time from public sector workers. This extra burden, often with unevenly distributed incentives, only demoralises and incapacitates state agencies (UNCTAD 2000). Many civil servants, often without material or 'moral' compensation, have to devote a lot of time working in un-coordinated and fragmented donor projects outside their offices and they are required to accomplish demanding reporting, conditionality and evaluation requirements from many donor agencies. Thirdly, in other cases, the share of developing country national budgets financed by donor-controlled aid funds, often called 'off-budget' increases at the expense of the share of the regular and recurrent budget controlled by the recipient government, thereby undermining the fiscal sovereignty of states and their 'ownership' of strategies and priorities. There is no doubt that in many cases the 'aid industry' has created a bureaucratic monster, with thousands of dispensable jobs or consultancy services. Easterly (2003: 2) emphatically illustrates the many processes and bureaucratic layers that have to be met in order for governments in poor countries to deliver basic services like maintaining a rural road. This is especially true in countries where there is a proliferation of donor agencies and reporting and accountability instruments are like a sea of bureaucracy that directly affects the quality of delivery.[25] In these contexts, the creation of 'elite' donor groups, with greater leverage on government decisions, has opened venues for greater interference in policy and budget processes through a series of periodical reviews and constant monitoring of Government activities and plans. This undermines Governments' capacities to design truly home-grown development strategies and propose measures that may concern the most influential donors in the country. Some authors from liberal political science tradition also argue that high aid intensity and dependence in Africa reaching 'saturation points' (between 15 and 45% of GDP), has allowed political regimes to sustain themselves

[23] This issue is extremely important but empirical work is so far insufficient and of dubious quality. Among others, Chang (2004) emphasised the biases and problems in definitions of 'state capacity' and, more specifically, 'high level bureaucracy'. See also Goldsmith (2003: 185-6) for a distinction between 'efficiency' and 'effectiveness' that is often confused and diluted in the overall 'good governance' definitions.
[24] A recent report by the WB (2005b) argues that state capacity declined from Independence to the 1990s, including during the structural adjustment decade of the 1980s.
[25] O'Connell and Soludo (2001) demonstrate that the management costs associated with each dollar of aid in Sub-Saharan Africa are especially high.

without improving public governance, accountability and domestic revenue collection, making policy making a business between aid agencies more concerned about disbursing and project-cycles and states more enmeshed in patrimonial politics and short-sighted survival strategies (Moss et al. 2005).[26] Kanbur (2000: 419) rather stresses what we argued before, i.e. that more dramatic is the excessive time that African policymakers and bureaucrats have to devote to interacting with external donor agencies within a clearly dysfunctional delivery system.[27]

E. Tied aid, bureaucracy of aid and donor accountability. Important components of ODA flows to Africa have traditionally been technical assistance and goods and services produced and offered by companies and agencies based in donor countries. This has been usually labelled ‘tied aid’, which represents an implicit form of subsidy by donor governments to donor country national companies. The main argument against tied aid is that, by shopping in the “open market”, recipient countries could get better deals i.e. cheaper and more appropriate imported goods and services (Action Aid 2005). Moreover, in some cases, the ‘value’ and results obtained by recipient countries from technical assistance (fees paid to big consultancy firms) may be very small and perhaps even negative (counterproductive). Tied aid is obviously often related to rent-seeking and lack of transparency in aid agencies, raising legitimate concerns over donor accountability and the governance of the aid delivery system, at a time when recipients governments are frequently accused of corruption by their donors.[28] There is also evidence that many donor agencies, from government bilateral offices to NGOs, are much more responsive to institutional politics, relationships and operational rules of practice than to policy models and shifting rhetoric (Mosse 2005a) and tend to define their practical objectives and output in terms of money disbursed rather than service delivered (Easterly 2003: 5). Generally the heavy bureaucracy of the aid system, often justified on the grounds of lack of ‘capacities’ in recipients government and ‘mistrust’, significantly adds costs to important infrastructure projects and cause enormous delays in their execution.[29]

F. Aid does not buy policy reforms: but does it work better with them? An overwhelming and influential body of critique of the aid experience from the 1980s stresses the failure of the conditionality framework (Degnbol –Martinussen J. and P. Engberg-Pedersen 2003). The mainstream pro-reform position in this respect, based on econometric work of dubious reliability, defends the hypothesis that, on average, ODA raised growth in countries with “good policy environments,” defined as low budget deficit, high trade openness, and low inflation, i.e. that there was a positive interaction between WC policies and aid flows. There is a vast literature criticizing this influential position on analytical and econometric grounds (Rodrik 2004; Lensink and White 2000; Hansen and Tarp 2000; Easterly et al., 2003; Burnside and Dollar 2004; Karras 2006). Roodman (2005a), in the discussion on criteria to rank donors (see above), finds that a selection of countries according to ‘good policies’ is negatively associated with most other indicators of ‘good donor performance’, making the use of the ‘good policy’ criterion rather problematic. Indeed, the concept of ‘good polices’, as it has been propelled by work such as Burnside and Dollar (2000; 2004) is of little use and rather arbitrary. This work has been highly influential on the current agenda of the Western ‘aid industry’ and in the establishment of a new delivery consensus based on ex-post selectivity as opposed to ex-ante conditionality (see below). Some organizations have also voiced their concerns about the

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[26] These analysts and other political scientists argue that public institutions in SSA are poorly suited to promote economic development because of neo-patrimonial tendencies. For convincing critiques of this ‘generalist’ position see Khan (2002) and Mkandawire (2001).

[27] See also Killick (1998) on this point.

[28] See Putzel (1998) and Wuyts (1996) with case studies of EU aid and ODA in Mozambique respectively.

[29] An EC aid official claimed in an interview that the time of building a road in Senegal could be 2-3 times more than in normal circumstances, because of the continuous checks, reporting needs and bureaucratic filters established to ensure the money is spent ‘appropriately’.

failure of conditionality in Africa and argued that the problem has been imposing the 'wrong conditions' (i.e. WC reforms) (Oxfam 1995). However, other conditions that have been less controversial (like increasing health and education expenditures in absolute and relative terms) have been only partially met, suggesting that the problem is that "*conditionality of whatever type has failed in Africa*" (Kanbur 2000: 413). Kanbur basically argues that the failure of conditionality is to a great extent due to the "*systemic imperative to keep aid flowing*" (Kanbur 2000: 416).

V. The New Aid Agenda and the loss of 'policy space'

V.1 Aid-induced loss of policy space

There is something that the most common critiques in the aid effectiveness debate have often neglected: the loss of policy space induced by unequal power relations between donors driven by a common ideological agenda and SSA governments constrained internally and externally to depend on aid flows. In other words, much aid from Western donors does not only come with high transaction costs and sometimes significant tying. It also comes with a strong ideological agenda, which may vary across donors in terms of emphasis, but that can ultimately shape policy decisions and processes.

Here policy space is understood as 'room for manoeuvre' in policy making and therefore the range of different types of policies and policy options effectively available to governments. The issue of 'policy space' has been brought to the fore especially in light of the effects of international agreements and rules (notably through WTO) on national policy making (Gallagher 2005). As UNCTAD XI consensus Declaration, under paragraph 8, states "*it is particularly important for developing countries, bearing in mind their development goals and objectives, that all countries take into account the need for appropriate balance between national policy space and international disciplines and commitments*".

Hoekman (2004), from the WB, and many other independent researchers argue that the 'adjustment burden' of new rules of the international economic order mostly fall on developing countries, as such rules will reflect the status quo in industrialized countries, i.e. 'best practice'. In many developing countries, but most particularly in Africa, aid flows have become a vehicle for the shrinkage of policy space. Chang (2006: 627) recently argued that:

> *Aid policies of the developed countries have also contributed to the shrinking of policy space. In the old days, the main conditions attached to aid by the donor countries was that the recipients buy (at least a certain portion of) the goods and the services needed for the aid-funded projects from the national companies of the donor countries. However, since the 1980s, the conditions have stretched to include policy recommendations similar to what the Bank and the Fund demand on their loans. This is not surprising, when we recall that after all the Bank and the Fund are controlled by the countries that are main providers of foreign aid to developing countries.*

In fact, aid flows to SSA since roughly 1980 have been closely linked to policy reforms geared towards liberalisation, deregulation, state disengagement and privatisation of assets, productive units and utilities. This aid agenda was thus influenced by the obsession with inflation control, international financial stability and the debt crisis, which provided the platform for the revival of Neoliberalism as a global political and economic project in the 1980s (Kiely 2005: 95). As Table 3 shows for a selected group of African countries that underwent long processes of neoliberal reforms, most were highly dependent on multilateral aid, many with the WB as the top donor. Moreover, the top five donors in each country typically account for almost two thirds to total aid to these countries, making bilateral donor alignment around WB/IMF recommendations more common. In these circumstances, it is not surprising the great capacity that the WB and the IMF have had in shaping SSA policy making compared to other developing countries.[30]

After more than two decades of neoliberal experiment in most SSA countries, especially those more closely dependent on WB funding, policy space has been lost through two main channels. First, the lack of feasible alternatives (including sources of finance) that have led many governments to accept a 'forced consensus', especially on macroeconomic policies. Secondly, the gradual conversion of many African technocrats and leaders to the ideology of the WC and the PWC both in rhetoric and action (Shafaeddin 2006). Evans (2005: 206), on industrial policy space, emphatically says that:

> *local officials may 'overconform' to the strictures of neoliberal ideology, failing to initiate efforts to stimulate transformative investments, not because they are prohibited from doing so, but because their own training and ideological presuppositions lead them to share the belief that any variety of industrial policy is not just ineffective but welfare reducing*.

These processes have been common in a majority of SSA countries, where policy space has been lost and policies proscribed in several domains:

1. <u>Fiscal policies</u>, which became dictated by the obsession of stabilisation and low inflation targets. In reality, a minority of SSA countries, in contrast with Latin America, had suffered from hyperinflation episodes but all IMF programmes in Africa included tight demand-restraint policies to keep inflation very low. A recent report concedes that "*several aid-receiving African countries have experienced long and repeated periods of deflation. This is also consistent with the fact that informal sectors where prices are flexible typically represent a large share of aid receiving countries*' (Prati and Tressel 2006: 3). Stiglitz (2005) and many others stress that fiscal stringency and wage bill ceilings do not ensure growth and not even macroeconomic stability, while countercyclical fiscal policies (widely used in developed countries) have been proscribed in most of SSA and remain a hindrance on investment and employment growth in African economies.
2. <u>Exchange rate policies</u>. Balance of payment crises were blamed on excessive foreign exchange controls and overvaluation. Rather than allowing for some space in competitively managing exchange rates to gradually build up on competitiveness, massive devaluations (notably in Nigeria, Ghana, and Uganda) were recommended and applied and floating exchange rates followed suit.
3. <u>Monetary policies</u>. Stringent monetary policies, sterilisation and pressures for the independence of central banks were essential features in most IMF agreements and often became a sine-qua non condition for the release of more funds, including those of other bilateral donors.
4. <u>Trade and industrial policies</u>. This is the area where most policy space has been lost (Chang 2006). Trade liberalisation, based on the fallacy of a 'level playing field' in international trade, became an all-encompassing mantra in most SSA reforming countries whereas industrial policies, especially of the kind, more selective, 'smart', bold and demanding implemented in East Asia (trade subsidies, licenses, management of credit and capital allocation, public investment, 'getting prices wrong', 'reciprocal control mechanisms', etc.) were deemed inapplicable to the SSA context.[31]

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[30] See also Sender (2002).

[31] Trade liberalization has been pursued vigorously in SSA. There are only few experiences of resistance and policy reversals for more protection, after the worst effects of trade liberalisation would be felt. This is the case of the sugar and cashew nut sectors in Mozambique, where temporary measures to stop pernicious liberalisation could finally been undertaken with the reluctant acceptance of the IMF and the WB. See McMillan et al. (2002) on this experience.

5. Capital account liberalisation. Excessive aid dependence and the supposed pull factor that SAP should constitute for foreign capital flows were the excuses. Moreover, capital account liberalisation became part of the 'market-friendly' policy mantra.
6. Privatisation of SOE. Whereas many of these enterprises are at the core of developmental processes in countries like China, the idea that SOE are inherently inefficient and vulnerable to political corruption was internalised in much of SSA, despite initial opposition from governments and interest groups. Much of recent surges in FDI are related to privatisation processes in SSA, where the possibility of reforming and upgrading SOE without privatising was simply ignored in most cases.
7. Agricultural policies. Production and input subsidies, substantial public investments, managed competition or regulation in marketing systems were usually proscribed in most reforming countries and, despite several instances of resistance in some countries, most agricultural reforms were partially or fully implemented with mixed or negative results (Kherallah et al. 2002).
8. Institutional change and development. The Anglo-saxon model is being imported to many SSA countries engaged in 'good governance' programs. Substantial funding is being given to develop a justice sector, commercial codes, public financial management, fiscal management, business regulations, etc. that mimic the reality of Anglo-saxon style capitalism, without due consideration to the realities of the political economy and historical processes of SSA recipients of such aid (Chang 2006).

After years of solid criticisms from various fronts and denial from the core of the BWI, some reports of these institutions have gradually started to acknowledge some of the 'mistakes' of the past and indeed conceded that there has been a damaging loss of policy space especially in fiscal policy. A recent report admits that:[32]

> *In many developing countries, however, the challenge of high deficits, rising debt and bouts of inflation in the 1980s and 1990s led to fiscal policy focusing largely on the goal of stabilization…Growth and poverty reduction objectives were under-emphasized… The evidence from countries that stabilized their economies by reducing their deficits indicates that countries often did so by cutting public capital formation significantly, despite its potential negative impact on growth and poverty reduction.* (Joint Development Committee IMF/WB 2006: i).

In addition, the growing constraints on policy space (options) associated with the growing power of development agencies on African governments and the tensions between the reforms pursued and domestic interests (including the interests of a strong bureaucratic class), have led to three types of problems with significant costs on African economies. First, SAP measures have been often inadequate to the material and historical conditions of reforming countries.[33] Secondly, there has frequently been bad sequencing of combinations of measures with contradictory objectives. Third, the 'forced consensus' has not always been able to bend the commitment of governments and bureaucracies sometimes opposed to the reforms they were supposed to implement, leading to frequent instances of policy reversals (Soludo and Ogbu 2004; Killick 1998). These reversals and the contradictions between parts of the same policy package have frequently led to a loss of policy *coherence* that has undermined options of devising long-term development strategies in the continent. To an extent this is also reflection of the fact that policy processes in much of SSA are more complex than often assumed and do not necessarily conform to the simplistic image of powerless governments being imposed policies by international financial institutions. Many authors have shown some of the complexities of the political economy of policy processes and reforms in Africa and the inter play of interest-group (rent seeking) politics, identity (ethnicity) factors, class politics

[32] See also WB (2005a).
[33] There is very vast literature on this. See for example Engberg-Pedersen et al. (1996).

and intra-state tensions and contradictions, which, taken in isolation, fail to account for a diversity of experiences in different African countries.[34]

These contradictions lead Kanbur (2000) to suggest that the loss of policy space and policy sovereignty due to the aid nexus coupled with the failure of conditionality to effectively 'buy' reforms imply that the real issue is "*one of an unhealthy interaction between donor and recipient processes which propagate aid dependence but are not so simple as to be characterised as the strength of the donors and the weakness of the recipients*" (Kanbur 2000: 414). In fact, with an illustration of his experience in Ghana, which would not be difficult to find elsewhere, Kanbur shows that donor agencies are also subject to pressures from different fronts, including other donor agencies and domestic and foreign business sectors, so as to avoid aid suspension in cases of conditionality slippage.[35] Indeed, sometimes African governments have been able to get away with conditionality slippage by taking advantage of divisions and conflict of interests among donors and other parties (Killick 1998). However, in our view, the main problem is that the erratic combination of compliance (more frequent) and slippage (less common) has resulted in growing policy incoherence and an increasing lack of long-term strategic vision on the part of African bureaucracies. This is precisely one of the situations that most successful 'developmental states' have avoided.

V.2 The New Aid Agenda and the Post-Washington Consensus

Since the institutional review of aid in Africa towards the 1990s (WB 1998), a New Aid Agenda has been emerging, particularly for Africa. As Mosse puts it, "today international development policy is characterised by the convergence of ideas of neoliberal reform, democratisation and poverty reduction within a framework of 'global governance'" (Mosse, 2005b: 1). This quote refers to the four pillars of the current New Aid Agenda (NAA). First, the maintenance of the core acceptance of the advantages of pro-market reforms. Second, the importance of political reforms in the context of a 'good governance' paradigm that places emphasis not only on democratisation but also on various forms of public sector reforms. Third, the emphasis, even if mainly rhetorical, on poverty reduction and the need to justify everything in the name of poverty reduction (from eradication to alleviation to reduction). Fourth, the reform of the aid delivery system within a 'global governance' framework, implying greater coordination, harmonisation of practice and ideology, among donors and more accountability of both recipients and donors.

The New Aid Agenda is part and parcel of the Post-Washington Consensus (PWC), which, without questioning the basic tenets of the WC in terms of fiscal and monetary policies and the importance of macroeconomic stability and low fiscal deficits, adds new elements such as the introduction of social safety nets to counter the 'temporary' social costs of adjustment policies, and, more importantly, the emphasis on institutional reforms to make WC policies more effective, i.e. the 'good governance' agenda. Two features stand out in this new consensus. First, the definition of 'good governance' is closely linked to the idea that institutions of the Anglo-Saxon capitalist model are more efficient for a better 'business environment' (another new buzzword of the PWC). Second, this new consensus can be read as an 'augmented-Washington Consensus', in which a longer list of recommendations and conditions is introduced by Western donors in their agreements with recipient countries and a 'do as much as you can' agenda prevails for the disbursement of funds, adding more

[34] See Soludo and Ogbu (2004) and Mkandawire (2001).

[35] Indeed most donor agencies, whether governmental or NGOs, are often captive of the "*inner logic and dynamic of the aid process and donor agency imperatives*" (Kanbur 2000: 414). This means being often concerned with achieving their targets in terms of disbursements within the fiscal year, maximising fundraising or expanding the portfolio of concesional loans and projects. See also Pincus and Winters (2002) on the clash between operational imperatives and donor rhetoric in the WB.

incoherence and less focus to development strategies in poor aid dependent countries (Rodrik 2006).[36]

The evidence suggests that added conditions are still ineffective in their own terms. Thus more governance conditions and the democratisation processes from the 1990s have not resulted in a reported incidence of corruption.[37] Furthermore, the PWC 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 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*". Moreover, Chang (2004) also rightly shows that many of the fashionable PWC recommendations designed to replicate 'Anglo-Saxon' institutional features (e.g. good contract law or functioning court system) require institutional capacities that may exceed what is required to emulate East-Asian-type selective industrial policy measures. Damaging solid criticisms of the PWC and the 'good governance' agenda abound and are difficult to ignore.[38] Despite these criticisms, the 'Western donor bloc' is aggressively pursuing this agenda and implementing an ex-post selectivity framework, whereby recipient countries will be assessed and selected before new aid disbursements are approved.[39]

The most recent institutional agreement in this respect is the Paris Declaration of 2005 (following the Monterrey Consensus of 2002), which sets out principles and targets to make the new consensus a reality.[40] Ownership, harmonisation, alignment, results and mutual accountability represent the guiding principles and conditions for scaling up aid. However, even these general principles were not easy to agree upon and, most importantly, there were significant difficulties in reaching agreement on targets as a result of the complex political economy of collective action in these negotiations (Wood 2006). This begs the question of where interests of different donors differ and why, especially between 'like-minded' donors (Northern European and Britain) and US/Japan.[41] Wood argues that there are some important political constraints for this new consensus in donor countries: the model lacks voter appeal, i.e. people want to see tangible and quick results; by pooling actions and providing general support donors would find it more difficult to be 'visible' as making a difference; country-led development is a slow process if compared with the typical tenure in an aid ministry.

Another issue is that the search for donors' consensus and alignment eschews the analysis of the political imperatives of aid relationships. Without taking these into account, it is futile to keep working on the procedures and mechanisms of a consensus that in reality does not exist. A consensus could be reached, for example, on the need to focus on infrastructure and the

[36] See Table 4 for a list of recommendations under WC and PWC according to Rodrik (2006).
[37] Alesina and Weder (2002) show a positive correlation between high levels of corruption within recipient countries and aid flows throughout the 1990s.
[38] The most useful in this respect can be found in Fine (2001), Pincus and Winters (2002) and Chang (2002). See also Cling et al. (2002) for an NGO perspective.
[39] The US Millennium Challenge Account is a clear example of this new delivery system (Moss et al. 2006).
[40] See Paris Declaration on Aid Effectiveness at http://www.oecd.org/dataoecd/11/41/34428351.pdf and http://www.oecd.org/dataoecd/45/45/35230673.pdf
[41] As Degnbol –Martinussen J. and P. Engberg-Pedersen (2003) suggest, despite the growing convergence among donors, different styles and 'aid models' exist (Nordic, American, East Asian, etc.), which reflect different combinations of the following elements: aid goals, choice of cooperation partners in and among developing countries, financing forms; aid forms and strategies (budget support, project, humanitarian assistance, policy advice, donor-managed sector programmes, etc.).

conversion of the World Bank into a genuinely development bank (not a 'knowledge' bank) so that poor countries can have access to finance that would otherwise be unavailable, in order to solve Gerschenkronian-type collective action problems. For this, it is *not* necessary to reach an *ideological* consensus on, for example, the policy priorities for poverty reduction in all contexts. Different institutions like the WB, DFID, DANIDA, USAID and China's government can inject resources to the creation of much needed infrastructure without sharing the same ideological principles of policy priorities in poor countries.

Our main point here is that an *ideological* consensus on policies and conditionality is very dangerous as shown in the previous section. The main feature of the Paris Declaration on aid effectiveness is the reaffirmation of 'commitments to harmonise and align aid delivery'. At first glance, this may sound sensible in terms of improving processes and procedures, but the implications are significant as the practice of these principles is beginning to show. While the new consensus in practice presents mechanisms to reduce the high transaction costs of aid delivery, there is no acknowledgement of the policy and political costs associated with them. Two issues stand out as especially troubling in SSA countries.

First, there is a tendency towards greater interference as the alignment with recipient countries' national development strategies, systems and procedures calls for greater interference by donors in how these are designed and established. The Poverty Reduction Strategy Papers (PRSPs), which have become the main framework of donor-recipient relations in Africa, and their macroeconomic content are one example.[42] Fiscal transparency, public management reforms and accountability measures are another one. In other words, behind the curtain of country 'ownership' and donor alignment with recipients' priorities and frameworks lies a willingness to enhance control on how the latter are defined, designed and implemented. This can amount to enhancing the power of developed (donor) countries to reduce the policy space available to developing (recipient) countries, resulting in other agendas, such as the WTO and regional trade agreements, evolving in the favour of the former (Chang 2006).

Second, greater harmonisation and donors' alignment is likely to create a stronger donor block (cartelization) that is capable of making this kind of interference more effective, hence greater 'aid effectiveness' if by such one understands efficacy with respect to dominant donor priorities and interests. Therefore, coordination among donors around semi-informal institutions like 'budget-support donor groups' (like the one currently working in Mozambique) may seem good in the sense of increasing coordination and avoiding duplication, but carry another danger: by aligning increasing number of donors around core priorities and issues, often proposed and set by a handful of more influential donor agencies (World Bank, DFID, USA, etc.), recipient countries, with already weakened bureaucracies, lose the advantage of bargaining with different donors and having a choice in terms of which agency offers better deals. In a sense, donor proliferation, with various interests, could be good in so far as recipient governments could use it as a tool to broaden their policy space. Obviously, this could be used productively or not. However, being able to decide which donors are better partners may be more interesting for developmental purposes than facing a consensual strong block of donors who are likely to exert enormous influence on the policy space, priorities and systems of the recipient country.[43]

In this respect, the move towards general budget support (GBS), although positive at first glance and highly welcome by most recipient governments, as it makes the management of

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[42] See Gottschalk (2004). PRSPs provide further evidence of how the loss of policy space remains and how key trade and industrial policy decisions appear diluted in strategic documents that centre on non-controversial issues like education, health and governance.

[43] India is one example of a recipient country that *chooses* a limited set of partners among several possible candidates.

aid flows less cumbersome and more efficient, is not devoid of risks of consolidating the current shrinkage of policy space that threatens developing countries' ability to draw their own developmental destiny. Risks will obviously depend on the pool of donors and the reasons underlying their adoption of budget support. There is not much empirical research on the factors behind budget support implementation and its implications but some experiences offer examples of attempts by donors to micromanage policy processes in recipient countries through newly established GBS-related institutional mechanisms (IDD and Associates 2006: 97).

In some countries, as noted in the previous section, and despite donor proliferation, only a small group of very large like-minded donors accounts for a disproportionately large proportion of total flows. The New Aid Agenda seems geared towards creating forms of donor cartelization in SSA, whereby fallout with one major donor (indeed with the IMF and/or the WB) may mean suspension of aid from other donors, a process similar to the cartelization of creditors in the 1980s debt crisis.[44] Besides, new Pan-African initiatives like NEPAD have established mechanisms like the African Peer-Review Mechanism, which essentially sanction the cartelization of Western donors around a set of governance conditions.[45] This means that the policy agendas of the few most influential donors may be imposed even if other donors do not agree. In this situation, SSA governments are constrained to avoid *ex-ante* controversial plans or measures vis-à-vis the agendas of the 'elite' donor agencies in a form of self-censorship, which in the long-term may be even more damaging for policy space and autonomy.

VI. China's relations with Africa and Chinese aid: challenges and opportunities

A possible alternative to the OECD-led New Aid Agenda may come from unexpected sources. While South-South cooperation was much in vogue in the rhetoric of developing countries in the 1980s and 1990s albeit seldom effectively applied, more recently there are important instances of this kind of cooperation, albeit driven by pragmatism and economic interests rather than ideological rhetoric. In this regard, the presence of China in Sub-Saharan Africa is very significant and growing at a very fast pace.[46] Kaplinsky et al. (2006: 22) summarise the current impression in the 'aid industry' and Western academic circles about Chinese aid in Africa: "*Chinese aid to SSA, of which little is known, appears to be very closely linked to strategic and political objectives, perhaps even more so than the aid offered by some European countries and the US*".

Whatever the true interests lying behind China's intentions in 'helping' SSA countries with grants, extremely concessional loans and technical assistance in relevant domains, the fact is that its presence is providing an alternative to governments currently locked in tight conditionality frameworks with an enhanced aligned donor front of developed countries. By way of illustration, the *Financial Times* correspondents report that "*in a war-ruined Angola, the Chinese have leapt into one of the world's most inhospitable investment environments,*

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[44] In many countries where policy space significantly shrunk in the last 20 years, DFID (UK), USAID (US), and multilateral donors like the World Bank and the European Commission, appear as major donors by far (see table 3). These agencies tend to impose their agendas and policy recommendations over other donors' perspectives by taking advantage of their 'comparative advantage' in development cooperation in Africa, built up after a long tradition of direct or indirect intervention in the continent. The technical level of their staff and training on African issues is typically more sophisticated than many other donors, especially those not belonging to the Nordic Club. Thus in these countries other donor agencies find it convenient to buy into the agendas of the most powerful donor agencies.

[45] See core framework document at http://www.nepad.org/2005/files/documents/2.pdf

[46] As a result, China's presence in Africa (through investment, trade, diplomacy and aid) has also very recently become a growth industry for academics and consultants. Empirical evidence is still inadequate and the phenomenon is fairly recent, so the quality of the research/information produced on the subject so far is very variable and quite speculative.

offering a $2bn oil-backed credit at a time when western banks and international institutions have been cautious about lending" and a policy analyst is quoted saying "*the Chinese are offering the loan as an alternative to working with the IMF*".[47] China and other sources of assistance from the G-22, like Brazil and India, may potentially help other, poorer countries, regain part of the policy space lost after years of dependence on aid and advice from OECD countries and the most influential supranational institutions, the WB, IMF and WTO. In this section we focus on China's presence and its development assistance.

It is hard to get accurate and systematic figures of total aid from China to SSA countries. Only in 2002 it has been reported that China offered $1.8b to a number of SSA countries. Since that year there is no comparable information that is publicly available (Alden 2005). However, it would seem that current aid flows are still far well below the amounts provided by OECD agencies. China's relations and aid flows with African countries are longstanding and have evolved significantly over the past 30 years. After the 1955 Bandung Conference China pledged to support Liberation Movements and to gather support to isolate Taiwan (Taylor 1998). It is indeed extraordinary that China, being a developing country, had been able to offer substantial amounts of aid since 1960 and before the more recent surge of Chinese cooperation (Brautigam 1997). Overall, as of mid-2005 SSA countries had received financial assistance from the Chinese government for over 800 individual projects of key investments, such as the famous 1,860 km TAZARA railway linking Zambia and Tanzania in the early 1970s (Kaplinsky et al. 2006). Over the last few years, when China's economic and diplomatic presence in SSA has been significantly strengthened, its development assistance to African countries has become also more sophisticated and developmental even if "*China's growing aid programme appears to be closely related to its need for traded commodities*" (Kaplinsky et al. 2006: 23).

Much of what has been recently written on Chinese aid to SSA focuses on the nature of such flows and the underlying political and economic motivations, writing off any possible 'altruistic' logic or solidarity between China and some Africa countries. Apart from the accusation of helping 'rogue states', some authors have highlighted the tendency of Chinese aid to fund 'large prestige projects linked to institutional interests in these [African] states' (Alden 2005: 150), e.g. stadiums, administrative buildings and parliaments.[48] One interpretation is that these projects would be difficult to fund with Western aid. Another is that this preference relates to the supposed effects of these large visible projects on the image of governments vis-à-vis their societies (Alden 2005).

However, now Chinese aid is highly focused on infrastructure development[49] and technical assistance, involving large numbers of professionals. Infrastructure development, apart from the obvious direct impact on the recipient countries, indirectly facilitates China-Africa migration through the inflow of construction workers and other professionals. More importantly, "*over several decades, China has sent 15,000-20,000 medical personnel to Africa*" (Sautman 2006: 21) and " more than 600 teachers…have worked in 52 SSA countries" with funding from the China's African Human Resources Development Fund,

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[47] See *Financial Times*, February 23 2006, p. 15

[48] This is the case more recently in Mozambique, a country already flooded by Western donors and NGOs, and where China's aid was used to build: Mozambique Parliament buildings (1999), the building for the Ministry of Foreign Affairs (2004), the Chissano Conference Centre (2003) and the new military quarter (Kaplinsky et al. 2006).

[49] For example, Kaplinsky et al. (2006: 18) report that "*Chinese firms are involved in the repair of more than 600 kms of Mozambique's roads (two-thirds of the total being rehabilitated), and the rehabilitation of a large bridge between Mozambique and Tanzania*". In Zambia, an agreement of US$800 million was signed in 2003 between the Zambian Government and the Chinese Government-owned Sino-Hydro Company for the development of Zambia's Kafue Gorge Hydro Power Station, with 85% of the funding provided by Sino-Hydro.

which has also financed training in China for 9400 Africans by the end of 2004 (Kaplinsky et al. 2006: 22).[50] China has also significantly engaged in debt reduction, and in 2003 up to $1.27bn (or RMB10.5bn) were forgiven to 31 African states, providing an example also for Western donors that claim to be champions of debt reduction in Africa (Alden 2005: 151). Besides, China has not eschewed multilateral channels as the $22m given to the UN Trust Fund for African Development in the 1980s show (Alden 2005: 152). According to Brautingam (1997) Chinese aid had also been very significant in agricultural development until the mid 1990s, especially in the form of technical assistance for irrigation and development of rice production, among other things. This form assistance is likely to receive a boost now that Chinese cooperation is also targeting food production in light of the projected food import needs associated with the extremely rapid pace of industrialisation and urbanisation of the last decade (Alden 2005).

There is no doubt that countries like China, Brazil and India are moved by their own national developmental and political interests in their progress to enhance cooperation and links with poor aid-dependent countries. Resource needs and the search for markets and investment opportunities have been important driving forces for their recent development assistance in SSA (Xu 2006; Muekalia 2004; Sautman 2006). However, history shows that the same applies to most aid flows from Western donors to Africa in the last 30 years, although the latter also inherit the political imperatives of their imperialist past in Africa as motivations underlying aid. According to Alden (2005: 148) and other authors (Sautman 2006; Xu 2006) China's growing presence in Africa is shaped by four main factors that reflect a mixture of narrow economic interests and geopolitical considerations: the resource (especially energy) security; new markets and investment opportunities (commercial interests); symbolic diplomacy and the counter-hegemonic aims of China's foreign policy; and forging strategic partnerships that can enhance China's influence in major multilateral forums (UN, WTO). In that respect, Chinese aid may not be, in terms of drivers and motivations, so different from other sources of aid. However, there may be two important differences. First, there are good grounds to believe that cooperation with 'new' partners like China is likely to be more flexible, more cost-effective and less ideologically and politically constraining than OECD assistance. Another advantage is that contact and cooperation with these 'emergent' donors can provide some SSA countries with more *relevant* development policy references, given the historical and current experience of these countries. Thus, this should be an opportunity for some recipient countries to put brakes on the OECD-donor club-led New Aid Agenda process reflected in the Paris Declaration.

Some analysts, especially those linked to right wing politics in the US and Europe, raise concerns about China's preference for 'rogue or fragile states' in Africa, their supposed lack of scruples in selling arms and the possibility that Chinese aid may hamper efforts to improve 'governance' in Africa.[51] The focus of attention is China's presence and support to political regimes in Sudan, Angola, DRC and Zimbabwe.[52] In this vein, Kaplinsky et al. (2006: 30) note that "*much of Chinese FDI and investment in SSA has run against attempts by the global aid-community to promote better governance in SSA*". However, this position can be hypocritical if one considers that "China has military missions in or sells weapons to seven African states" while "US military aid and arms go to 47 African states" (Sautman 2006: 20)

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[50] In 2005 alone 15,600 scholarships were offered to 52 SSA countries (Kaplinsky et al. 2006: 22).
[51] See article in SCMP (2006) for a rebuttal of this critique from a Chinese official perspective.
[52] Western donors claim that ineffective international intervention in Darfur, the suspension a conference on 'transparency' in Angola and the survival of Mugabe's regime in Zimbabwe are partly results of China's foreign policy in these countries. China's support to Zimbabwe has been exaggerated partly because of the rhetoric of Mugabe's regime in this respect. In reality, China has offered much less than Zimbabwe requested (Kaplinsky et al. 2006: 31). In the case of Angola a soft-loan of $2bn, linked to a significant oil concession, was much a more substantial aid from China. Note that many OECD donors are willing to support post-conflict Angola but face more challenges in imposing an 'augmented Washington consensus' agenda.

and that Western donors, notably USAID, continue to give support to many states that could easily be regarded as 'rogue' by the same standards cited by these same agencies. Moreover, many other African states that are far from being considered 'rogue' and in which Western donors have a massive presence are also benefiting from growing Chinese presence and aid. It is the case of Zambia and Mozambique. The evidence also suggests that Chinese aid is spread and growing throughout the continent (Kaplinsky et al. 2006). Apart from the countries mentioned above, more recently China has initiated investments and cooperation agreements with very poor countries like Chad and Niger. The former is in a difficult situation as a result of its tension with Sudan and the standoff with the World Bank regarding use of oil proceeds. The latter, which is one of the poorest countries in Africa, is typically destination of food aid and NGO projects. Other countries like Senegal, which benefit from longstanding substantial support from OECD donors, have also taken bold steps to attract Chinese aid and investments by breaking relations with Taiwan.

Another question that has occupied sceptics of China's aid is the extent of aid tying, which is now highly prominent in aid effectiveness debates. Indeed, it seems that much of China's aid to Africa is tied to contracts with Chinese corporations, especially for infrastructural development. Aid specialists note that tied aid is problematic especially because it has raised project costs substantially for African recipients, which have lost the opportunity of finding better deals in a public market. It is estimated that costs are up to 30% higher with tied aid, therefore benefiting Western enterprises that would not have otherwise won the bids (Action Aid 2005). This argument may not be very valid in the case of Chinese aid. In fact there is already compelling evidence that Chinese business frequently outbid other companies, suggesting that, in spite of the tying of aid, African recipients of Chinese funds are getting good deals and surely better off with Chinese than with Western counterparts.[53]

Obviously current China-Africa links, especially in terms of aid, cooperation and partnerships are not devoid of contradictions and challenges. There is still scant accurate and systematic evidence about Chinese aid flows to African countries that would allow a more serious comparison with the Western aid bloc (which is already heterogeneous per se). The information at the moment is patchy and highly anecdotal. However, as noted above, what is available seems to suggest that the nature of recent Chinese aid (especially the flows linked to its pursuit of more secure energy (oil) and raw material sources in countries like Angola, Sudan and DR Congo) is not *fundamentally* different, in terms of self-interest and political economic considerations, from the cooperation historically offered by other major Western donors in different parts of the developing world. In the current context, the main difference between Chinese and Western development assistance lies in the lack of attachment of Chinese aid to any form of 'political interference'[54] and especially to the 'liberal governance' model, which is being pushed in most of SSA by most Western donors, led by the Anglo-Saxon bloc. There is no solid evidence whatsoever that Chinese assistance is *deteriorating* governance or corruption in SSA. While China has offered aid to governments that currently have internal conflict or political tension (e.g, Sudan and Zimbabwe), most Western donors, especially the USA, have done and still do the same when it is in their interest. Moreover, this

[53] Many factors explain the competitive advantage of Chinese firms in bids (being 25-50% cheaper than Western and South African firms according to some estimates), especially for large construction projects: lower margins, greater control over the labour process through more Chinese contract labour and strict organisation (which also minimises theft), low labour costs and other fringe benefits, no local outsourcing, standard designs, and FDI-related subsidies from the Chinese government (Kaplinsky et al. 2006: 19).

[54] This is clearly stated by the assistant Chinese Foreign minister quoted as saying "we never say any irresponsible things about their internal affairs", which reflects the official line of the PRC's government in these matters. Some argue that the obvious condition of not recognising Taiwan is a form of 'political conditionality' since it affects the foreign policy options of a sovereign country (Alden 2005). However, this is a rather obvious condition that has little to do with the wide range of political and governance conditions currently pursued by Western donor governments in Africa.

does not mean that Chinese development assistance may not be affected by instances of weak administrative capacities, corruption and disruptions in some recipient African governments, as other development agencies are (Brautigam 1997: 204). However, China does not make of these problems the kind of obsession that is often ideologically driven by the advocates of the 'liberal governance' agenda.

In a sense, Chinese aid today is more similar to Western aid some decades ago, where commercial, economic and geo-strategic considerations prevailed in its inception, design and implementation mechanisms. Obviously, there is room for improvements in Chinese aid without undermining the underlying economic interests. There is, for example, a potential for bolder technical cooperation at the level of *development strategic planning*, which can be of great benefit for African governments politically committed to a route that departs from the WC and the PWC. This does not mean replicating a 'Chinese model' if the Chinese experience of the last 25 years can be reduced to a model at all.[55] Rather it would imply extracting specific lessons from the Chinese experience that may be relevant to the common and at the same time diverse circumstances of many African countries. These lessons can range from institutional changes, to specific industrial and trade policy measures, to mechanisms of attracting and disciplining FDI with greater development potential, to devising more effective 'reciprocal control mechanisms' between states and business, to enhancing bargaining power vis-à-vis other major donors.[56] As Sautman (2006: 21) concludes:

> The BC [Beijing Consensus] appears as an alternative to obviously neo-liberal "consensuses" because PRC aid comes without the strings attached by AGOA and other programs and because China approves African states concentrating investment in infrastructure and human capital, rather than primary products, and addressing development problems not being solved through market fundamentalism's favoured corporate initiatives.

In general, the *one-size-fits-all* model applied to SSA over the past 25 years (and partly before albeit with a different set of policies) contrasts sharply with the "wishy-washy, step-by-step, case-by-case approach that has governed China's philosophy of 'reform and opening up' since the late 1970s" (Nolan 2004: 105) and this is where SSA-China partnerships can be innovative.

In sum, there are four main potential advantages with Chinese aid: 1) aid that is more targeted to important infrastructure projects with long maturity and long-term potential (no hurry for disbursements); 2) less bureaucracy and transaction costs; 3) more efficient low cost and faster; 4) more policy space (low conditionality) and increase in bargaining power vis-à-vis other donors. More importantly, here we argue that enhanced aid from China, and eventually other countries like India and Brazil, may provide opportunities for broadening policy space for those governments that aim to redirect their policy frameworks towards the gradual establishment of developmental states or simply look for room for manoeuvre to design and implement policies that would not be supported by the Western Aid Consensus.

VII. Conclusions

In this paper, we have brought together three debates, longstanding as well as emerging: the debate around the role, significance and effectiveness of aid in Africa, which has resulted in a New Aid Agenda; the debate on the loss of policy space in developing countries, especially in SSA; and the emerging debate over the growing presence of China in Africa and its implications. On the basis of current aid dependence in much of Africa, the importance of foreign capital flows in many historical development experiences of low-income countries

[55] See Nolan (2004).

[56] Only those who believe in some 'essentialist' nature of African states (being *naturally* patrimonial and clientelistic) would argue that these lessons cannot be (gradually) learnt and adapted by SSA states.

and the structural lack of access to private capital flows, it has been argued that many of the poorer SSA countries still need substantial aid flows at the same time as significant reforms in the aid delivery system. Thus, by no means is the 'simple' case for aid (presented in section III) abstracted from the serious issues surrounding aid effectiveness and policy conditionality discussed in section IV. However, it has also been argued that, apart from the usual critiques of aid in SSA, its supposed ineffectiveness and its perverse logic, the loss of policy space associated with the advent of *global Neoliberalism* has been the highest price paid by SSA countries to have access to OECD development assistance. It has been emphasised, therefore, that the critical issue is attaining much more substantial and more stable flows of aid while allowing for greater policy space in recipient countries. In other words, there is urgent need to improve *quality* while increasing *quantity* significantly, and broadening *policy space*'. This includes revising the role of multilateral organizations like the WB, the IMF, EC and the AfDB. These institutions should stick to their original mandates. The development banks should concentrate and focus precisely on what they have been designed for: providing long-term finance for large-scale developmental projects like any development bank. As Pincus and Winters (2002: 226) conclude in their book, "*unbundled, streamlined, and more transparent, the World Bank as development bank would undertake a much narrower range of lending activities while maintaining a strong commitment to public capital flows for development across a broad range of countries*" while "*policy advice, research, and evaluation would be carried out by a range of independent agencies to minimize moral hazard and conflict-of-interest problems*". Whether this is politically realistic now or in the foreseeable future is another matter.

Following the arguments on the significance of foreign aid for poor African countries and the importance of policy space there, the potential direct and indirect effects of enhanced Chinese development assistance on the development prospects of SSA countries cannot be overlooked or misrepresented. Arguably, the growing presence of China and its development assistance in Africa, can serve some SSA governments to extract useful *lessons* from past China's development experience. This obviously would not mean replicating or transporting into a SSA context a Chinese model of development, indeed if there is really *one*. But extracting specific lessons and trying concrete policy measures and mechanisms that have been successful in China, and other successful late industrializers not conforming to the WC and PWC, would surely entail the need for an opening of policy space in SSA, since many of these lessons remain off the PWC and New Aid Agenda radar. Thus despite obvious contradictions and challenges, which apply as much and sometimes even more in the case of Western aid, many African countries and their governments have potentially much to gain from these developments. However, this can only be *one* of many ingredients in their future development processes; one ingredient that can also be missed, misused and wasted if not managed with vision and adequate strategic considerations.

We can conclude with three main general remarks. First, reliance on foreign aid for a majority of the poorest countries in Africa is inescapable at least in the medium run, given current aid dependence and bleak prospects for attracting alternative sources of saving or generating them domestically. Second, the aid delivery system can and should be significantly modified, by going back to basics (funding basic infrastructure, including irrigation, finance for medium-size business, development banks,) and leaving the emphasis on 'knowledge' and 'governance' to a subordinate plane. This is complex and maybe unlikely mainly because of the logic and dynamic of interests dominating the system, but growing pressure for more success stories and increasingly divergent ideas within the donor community may trigger change. Third, the emergence of new players like China, with *some* different ideas and methods of cooperation, may bring positive direct and indirect benefits, especially if as a result the policy space and bargaining power of aid recipients is broadened. At the moment, however, the latter conclusion remains a bit speculative since it is a recent phenomenon, not devoid of challenges and contradictions.

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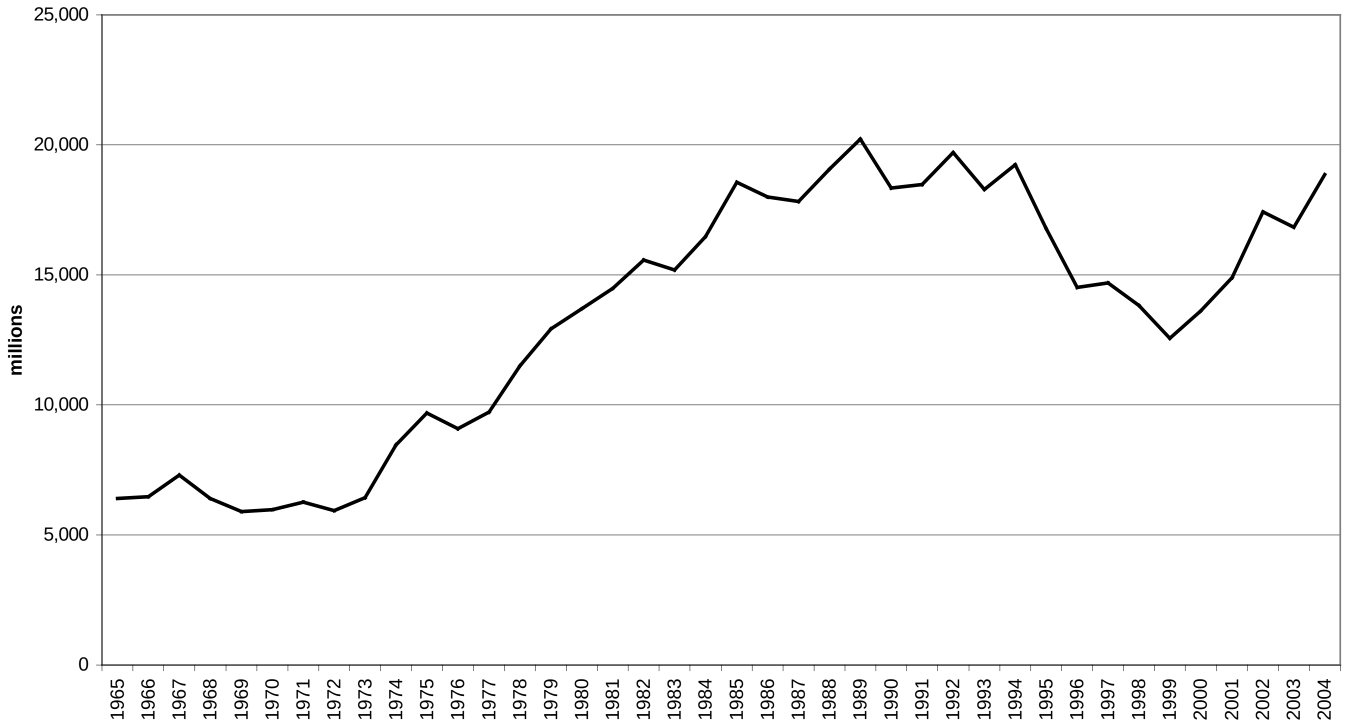
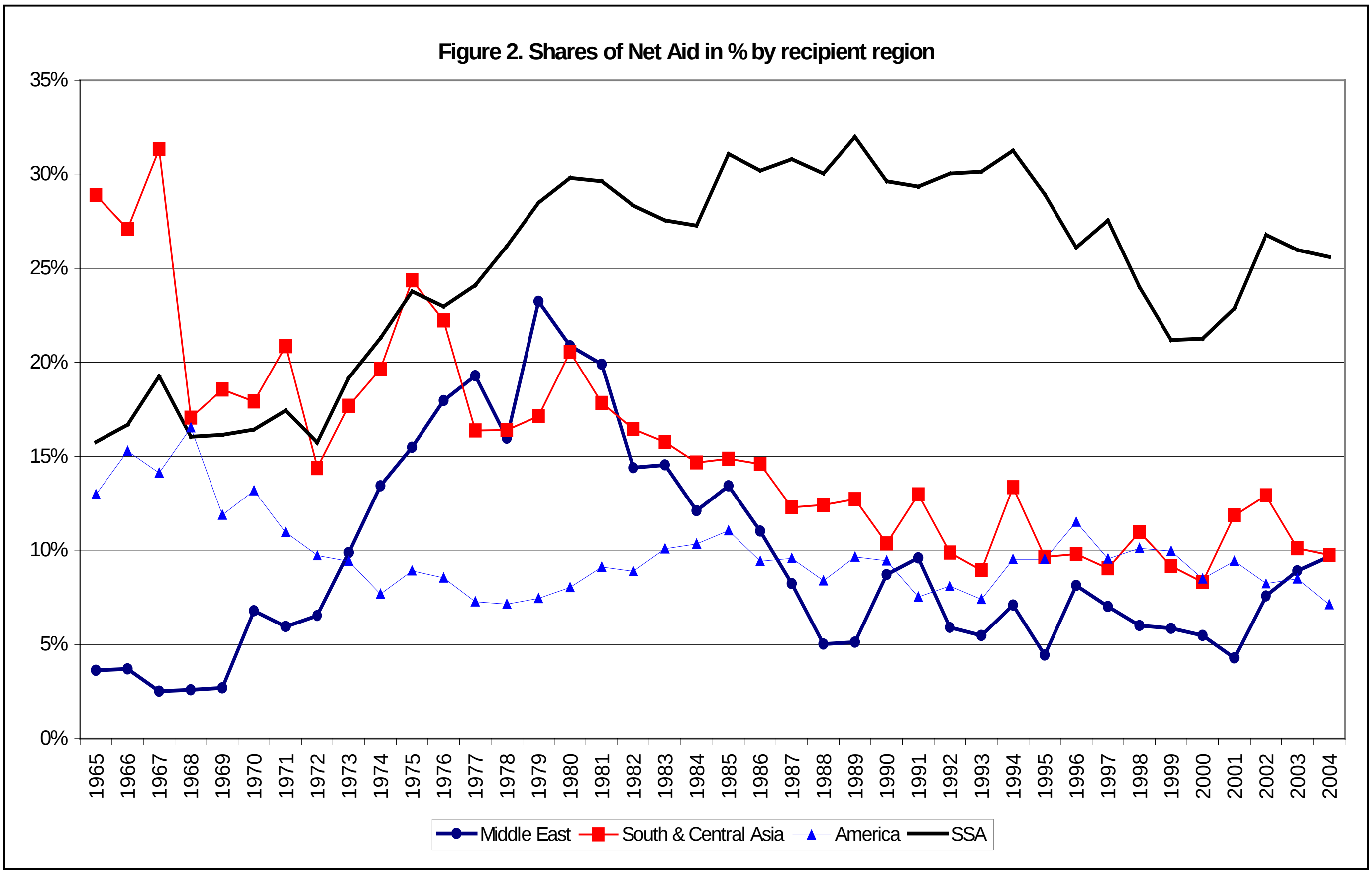
Statistical Appendix

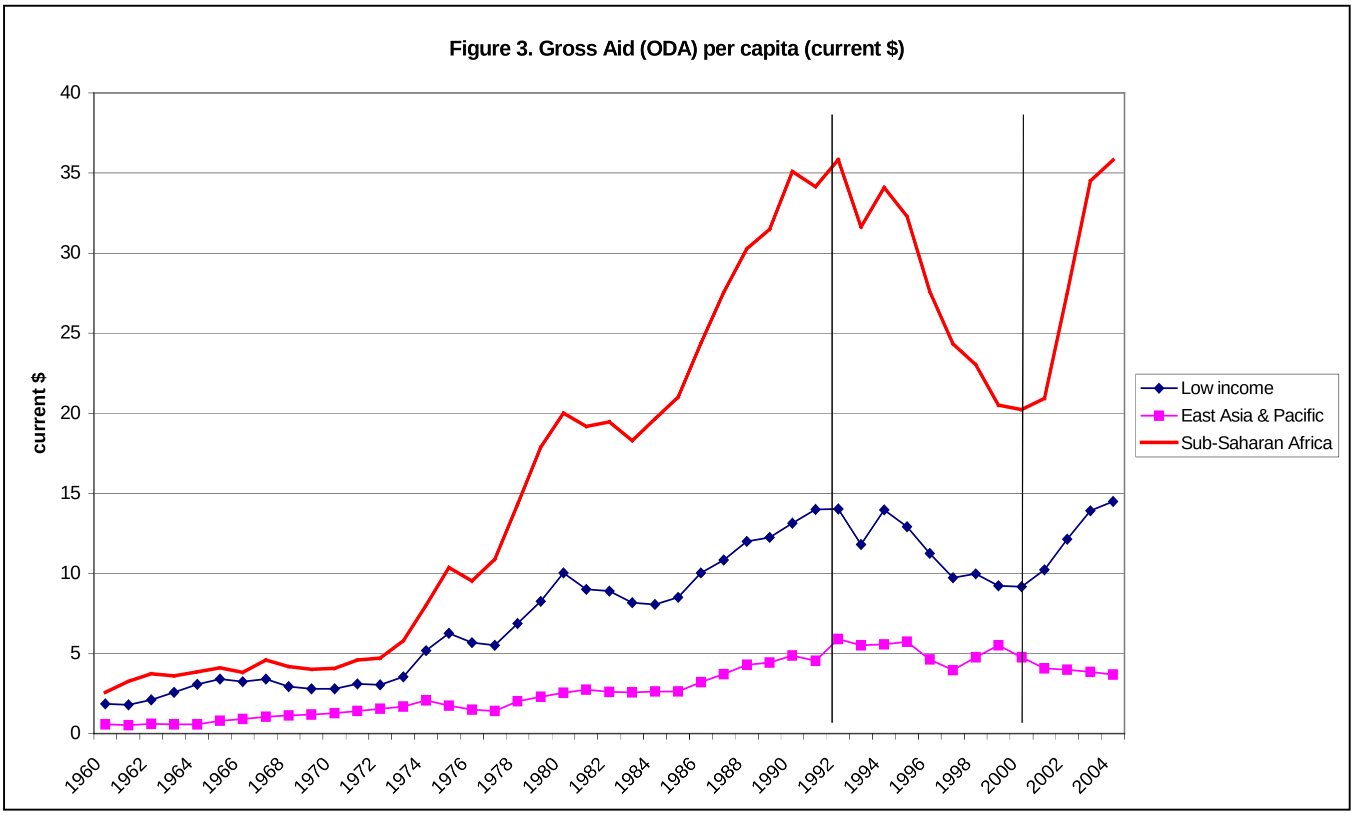
Figure 1. Net Aid transfers (net of debt payments) to SSA in constant US dollars (millions)



Source: World Development Indicators 2006 and Roodman (2005b)



Source: World Development Indicators 2006 and Roodman (2005b)



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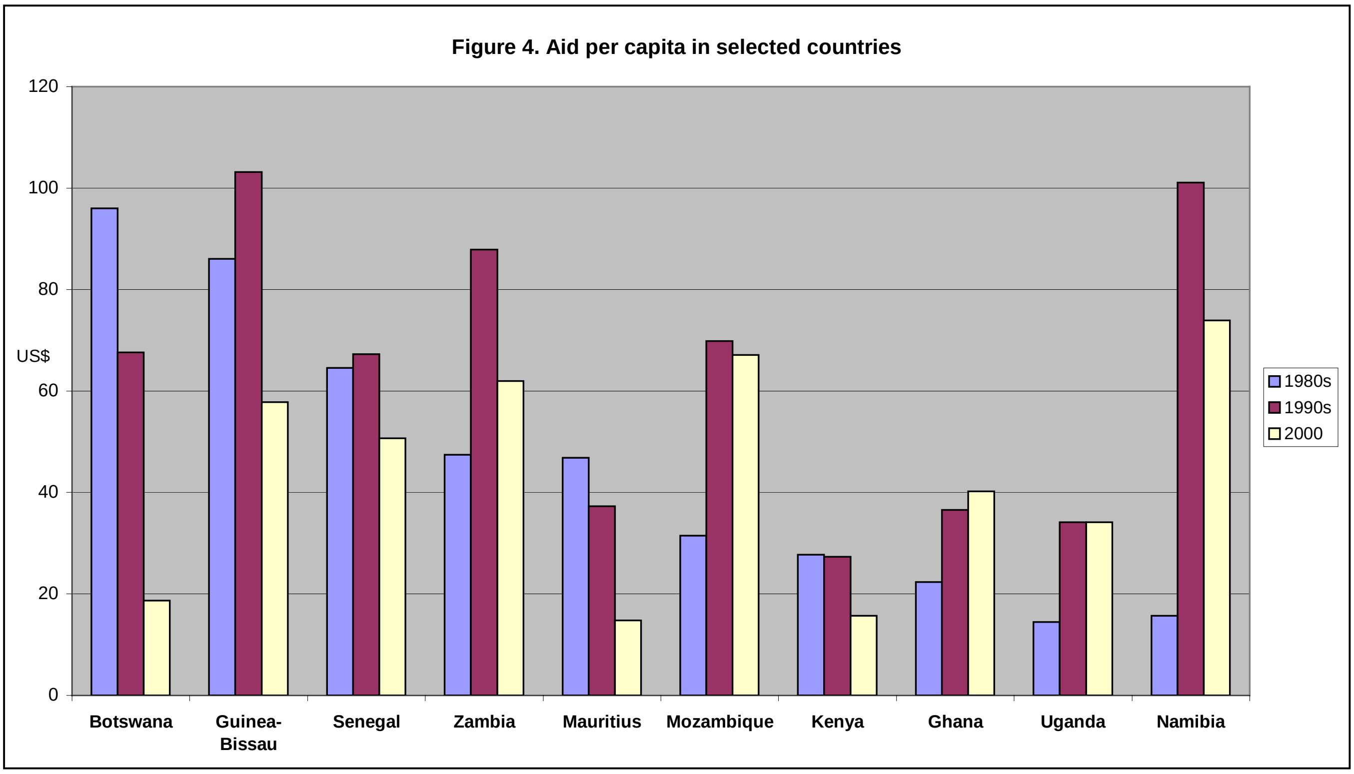


Figure 4. Aid per capita in selected countries

Source: World Development Indicators 2006 and Roodman (2005b)

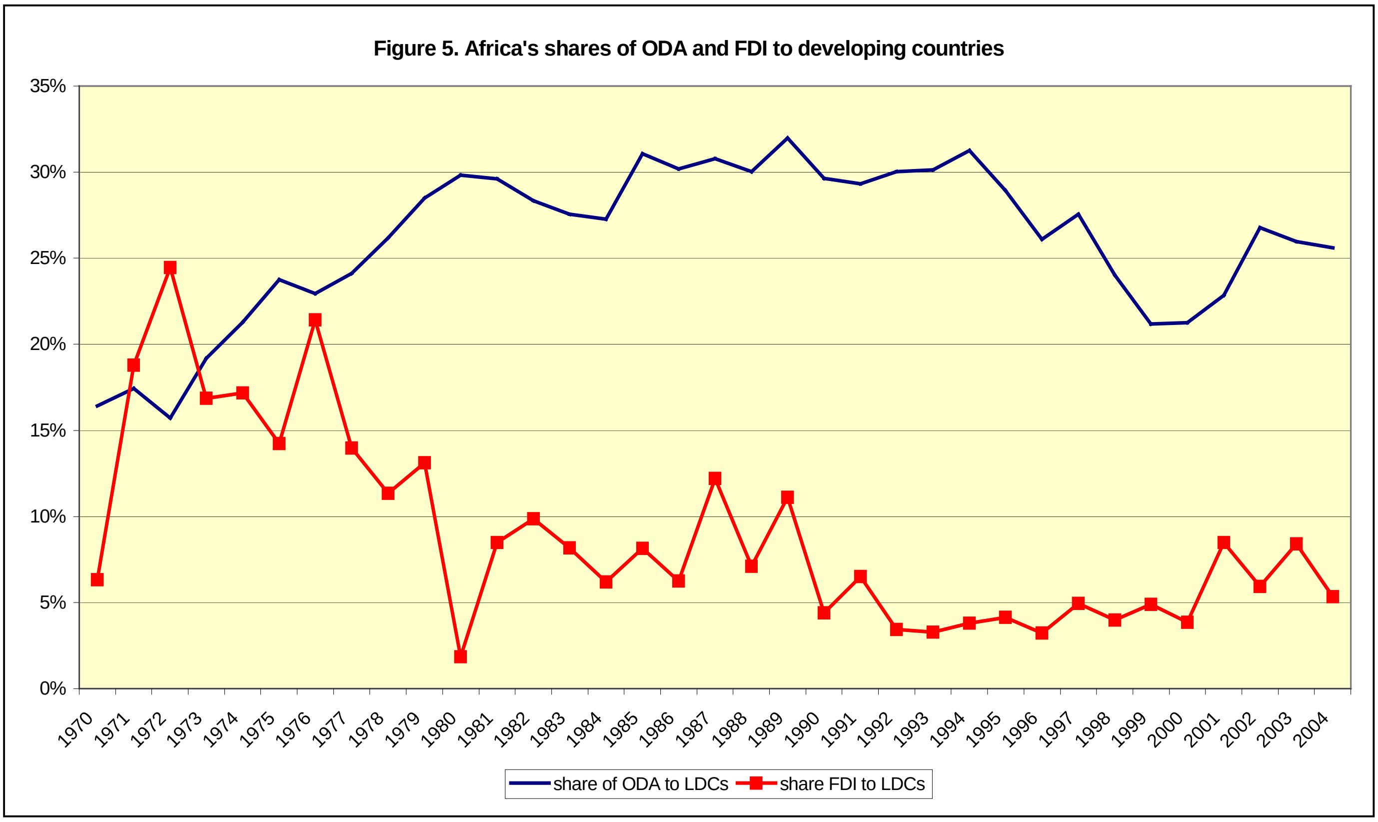
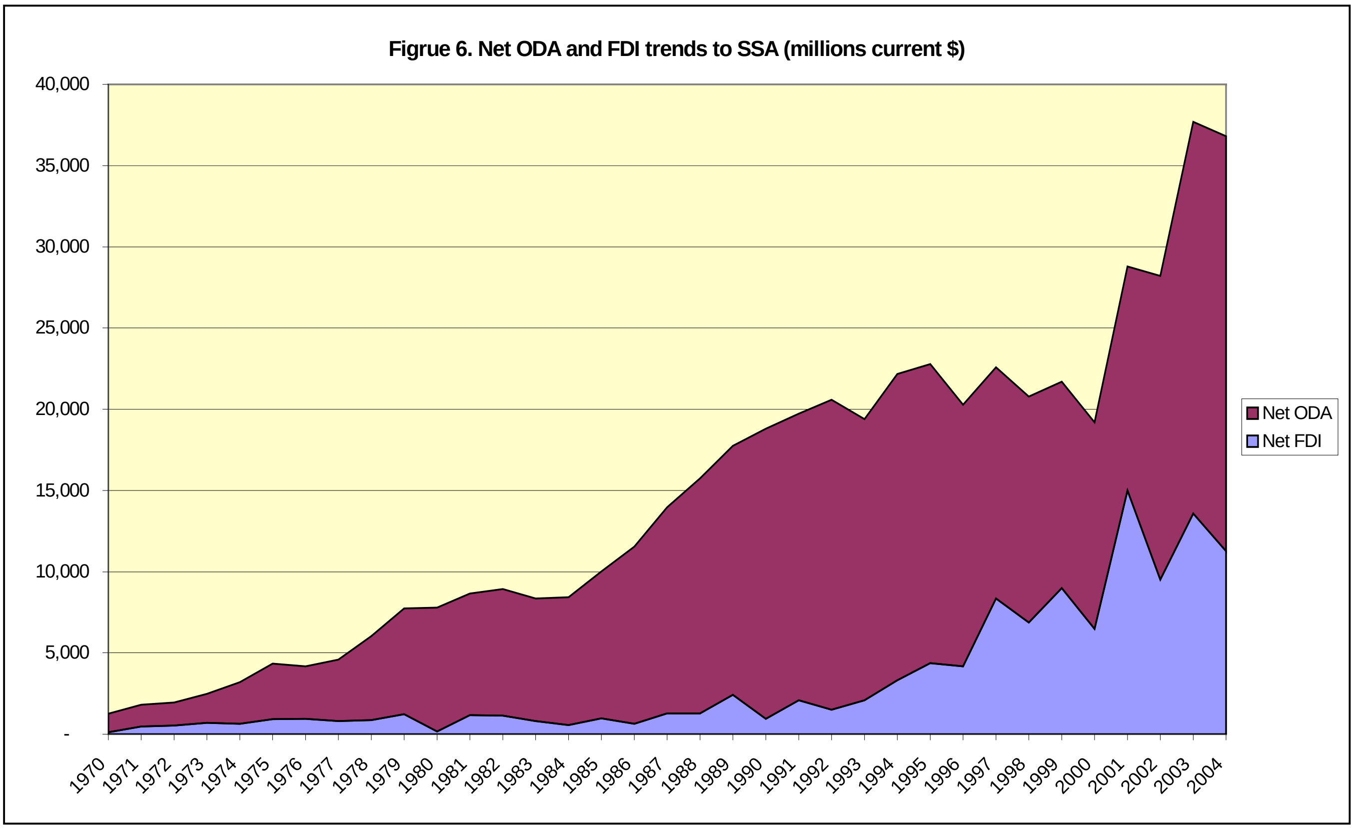


Figure 5. Africa's shares of ODA and FDI to developing countries

Source: World Development Indicators 2006 and Roodman (2005b)



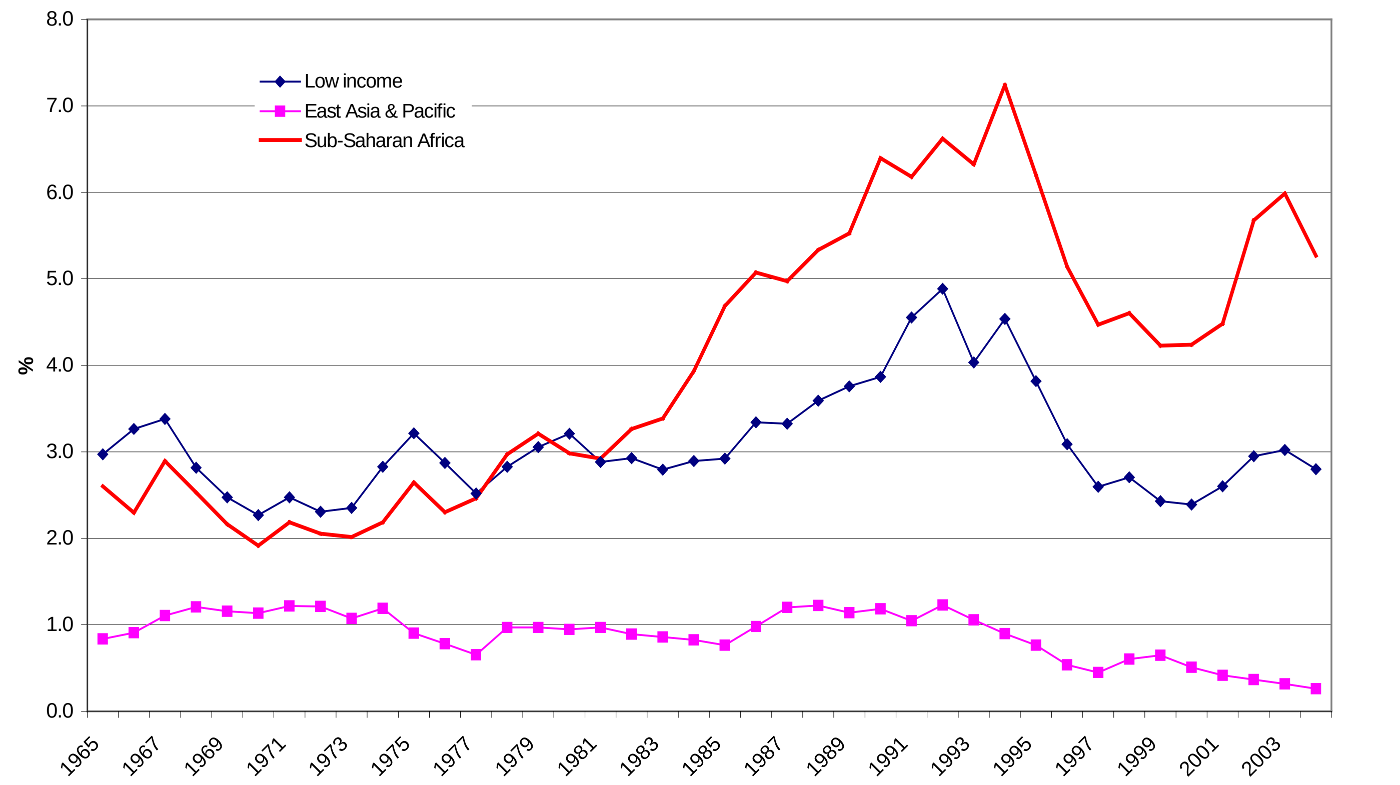
Source: World Development Indicators 2006 and Roodman (2005b)

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

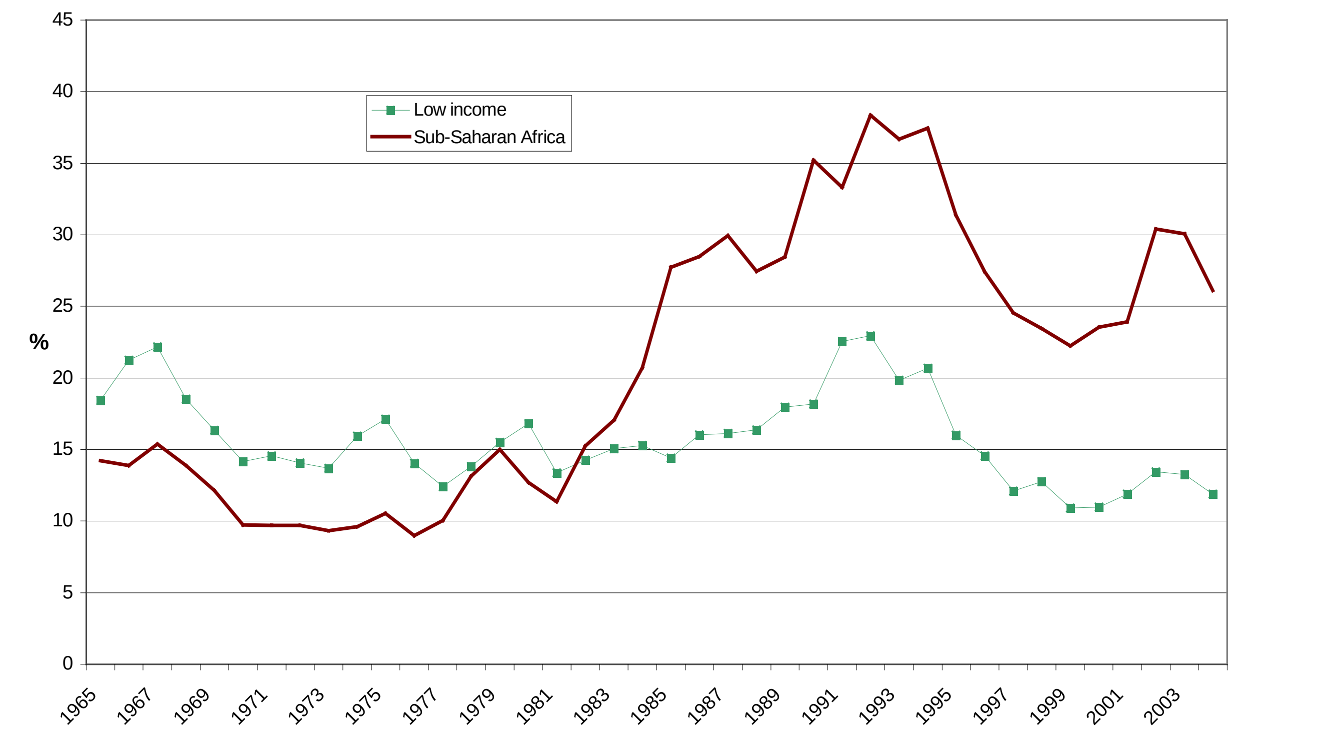
Source: World Development Indicators 2006

Figure 7. Gross Aid (ODA) as % of GNI



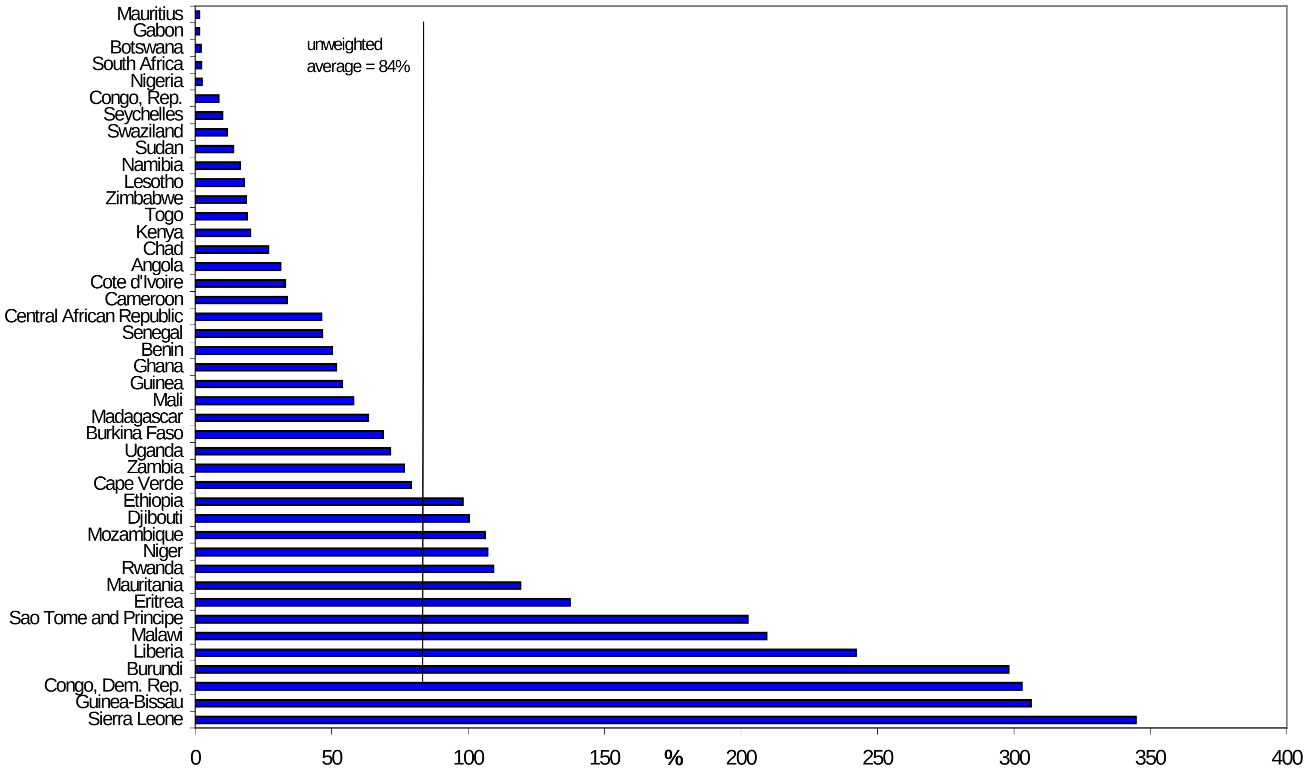
Source: World Development Indicators 2006

Figure 8. Aid (gross ODA) as % of Investment (GCF)



Source: World Development Indicators 2006

Figure 9. Aid (gross ODA) as % of Investment (GCF) by country: average 2000-2004



Source: World Development Indicators 2006

Table 2 - Aid as % of government expenditures

	1990 or early 1990s	*2000 or latest*
Gambia	182	..
Rwanda	90	..
Chad	83	..
Burkina Faso	80	..
Congo, DR	58	48
Ethiopia	52	..
Zambia	..	114
Uganda	..	71
Senegal	..	58
Cote d'Ivoire	26	18
Burundi	96	45
Ghana	..	73
Kenya	62	14

Source: World Development Indicators 2005

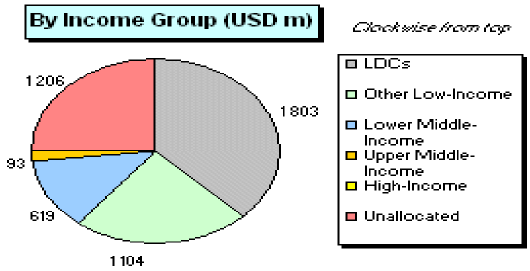
Figure 10– UK current ODA allocation pattern

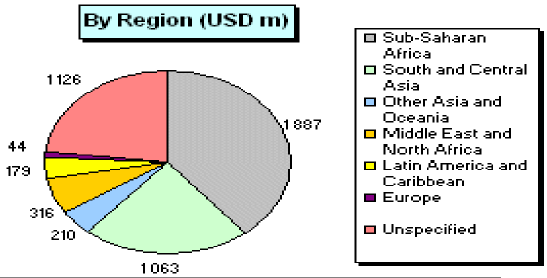
UNITED KINGDOM

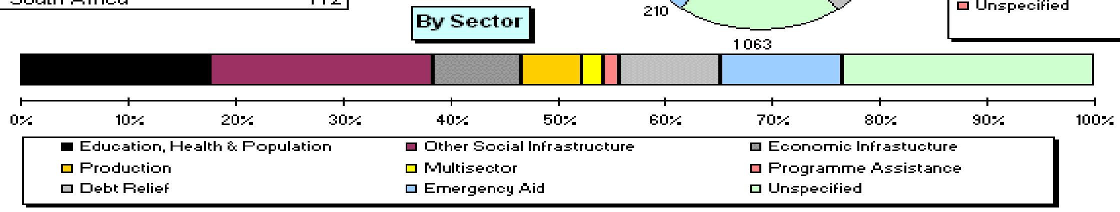
Gross Bilateral ODA, 2003-04 average, unless otherwise shown

Net ODA	2003	2004	Change 2003/04
Current (USD m)	6 282	7 883	25.5%
Constant (2003 USD m)	6 282	6 879	9.5%
In Pounds Sterling (million)	3 847	4 302	11.8%
ODA/GNI	0.34%	0.36%	
Bilateral share	61%	68%	
Net Official Aid (OA)			
Current (USD m)	698	834	19.5%

Top Ten Recipients of gross ODA/OA (USD million)		
1	India	419
2	Bangladesh	267
3	Tanzania	265
4	Iraq	228
5	Ghana	200
6	Zambia	174
7	Congo, Dem. Rep.	162
8	Afghanistan	161
9	Malawi	115
10	South Africa	112

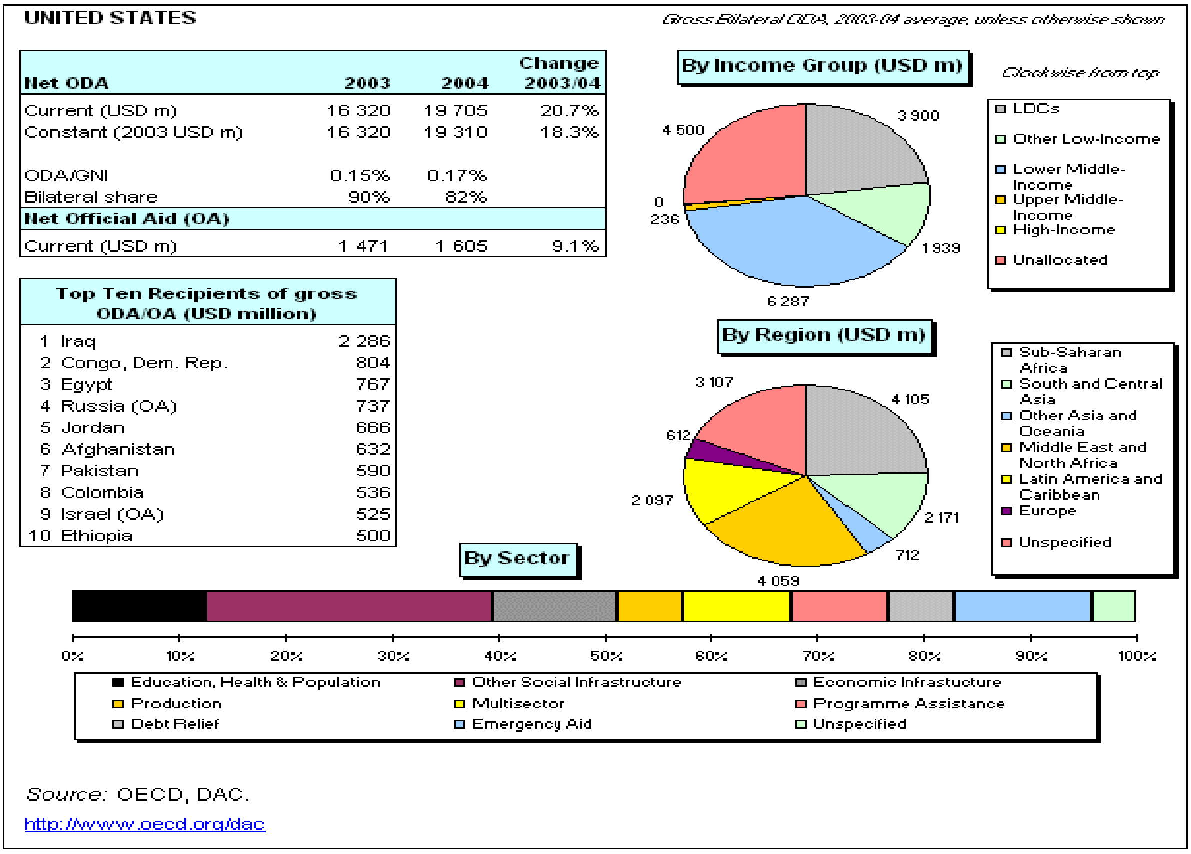






Source: OECD, DAC.
http://www.oecd.org/dac

Figure 11 – US's current ODA allocation pattern



Net ODA	2003	2004	Change 2003/04
Current (USD m)	16 320	19 705	20.7%
Constant (2003 USD m)	16 320	19 310	18.3%
ODA/GNI	0.15%	0.17%	
Bilateral share	90%	82%	
Net Official Aid (OA)			
Current (USD m)	1 471	1 605	9.1%

Top Ten Recipients of gross ODA/OA (USD million)	
1 Iraq	2 286
2 Congo, Dem. Rep.	804
3 Egypt	767
4 Russia (OA)	737
5 Jordan	666
6 Afghanistan	632
7 Pakistan	590
8 Colombia	536
9 Israel (OA)	525
10 Ethiopia	500

Source: OECD, DAC.
http://www.oecd.org/dac

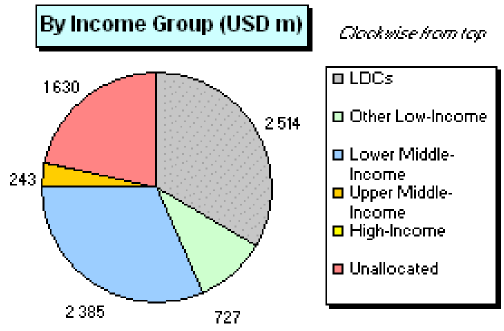
Figure 12 – EC's current ODA allocation pattern

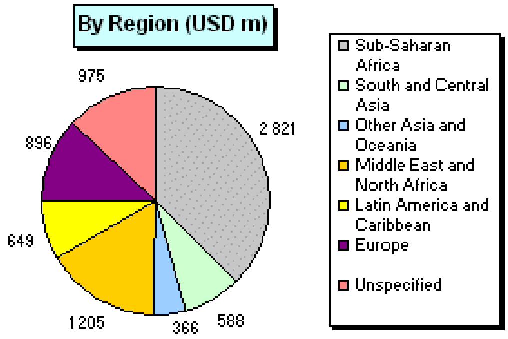
EC

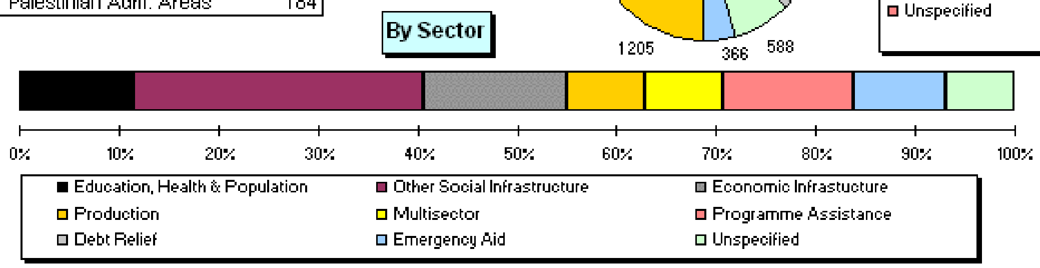
Gross Bilateral ODA, 2003-04 average, unless otherwise shown

Net ODA	2003	2004	Change 2003/04
Current (USD m)	7 173	8 704	21.3%
Constant (2003 USD m)	7 173	7 769	8.3%
In Euro (million)	6 349	7 006	10.3%
Net Official Aid (OA)			
Current (USD m)	3 179	4 244	33.5%

Top Ten Recipients of gross ODA/OA (USD million)	
1 Poland (OA)	920
2 Romania (OA)	512
3 Serbia & Montenegro	354
4 Lithuania (OA)	274
5 Bulgaria (OA)	267
6 Turkey	232
7 Czech Republic (OA)	226
8 Hungary (OA)	214
9 Afghanistan	210
10 Palestinian Adm. Areas	184







Source: OECD, DAC.

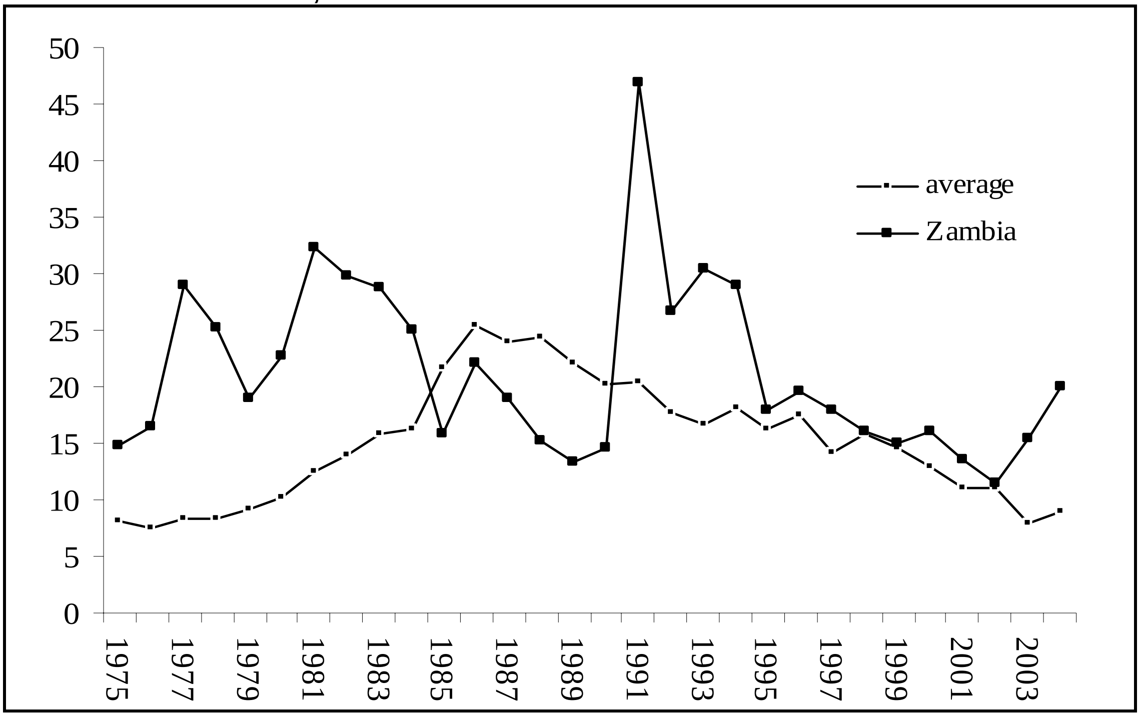
http://www.oecd.org/dac

Table 3 – Sources of aid for selected SSA countries

	Top five donors	*Joint %*	*% top 2*
Uganda	WB (26%), USA (19%), EC (9%), UK (9%), Netherlands (6%)	69	44
Mozambique	WB (16%), EC (12%), USA (10%), AfDF (8%), Sweden (6%)	51	28
Tanzania	WB (30%), UK (13%), EC (10%), Netherlands (7%), USA (6%)	65	42
Ethiopia	WB (27%), USA (24%), UK (7%), EC (6%), AfDF (4%)	68	51
Senegal	WB (25%), France (22%), EC (8%), AfDF (8%), Japan (8%)	71	47
Niger	EC (23%), WB (19%), France (12%), AfDF (8%), USA (6%)	68	42
Botswana	USA (63%), Germany (10%), UNHCR (6%), EC (5%), France (5%)	89	73

Source: Roodman (2005b)

Figure 13: External Debt Service as Percentage of Exports, Zambia and Other Sub-Saharan Countries, 1975-2004



Source: Weeks et al. (2006)

Figure 14. Average Net Aid p.a. and Volatility 1965-2004

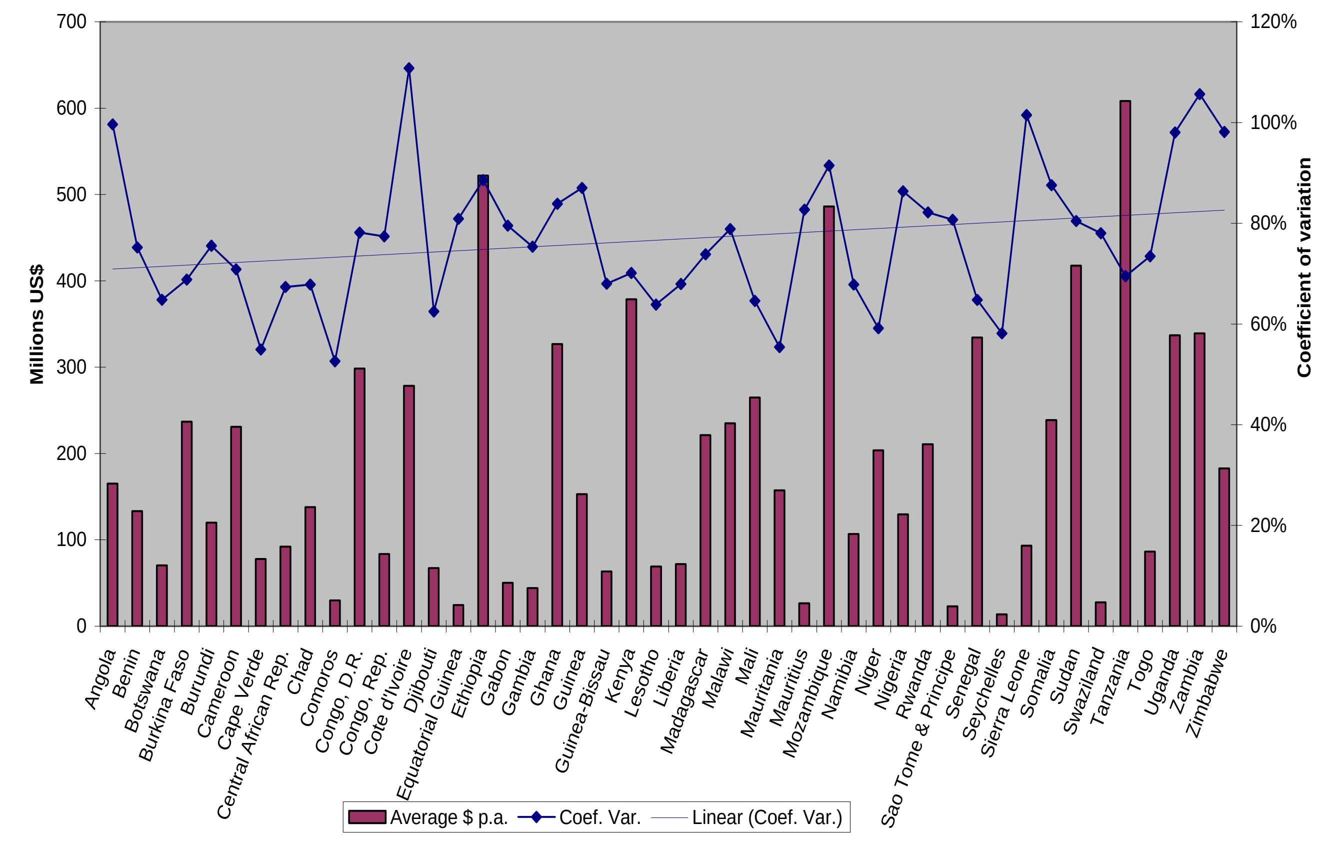


Table 4. Washington Consensus and "Augmented" Washington Consensus

Original Washington Consensus:	"Augmented" Washington Consensus: … the previous 10 items, plus:
1. Fiscal discipline	11. Corporate governance
2. Reorientation of public expenditures	12. Anti-corruption
3. Tax reform	13. Flexible labor markets
4. Interest rate liberalization	14. Adherence to WTO disciplines
5. Unified and competitive exchange rates	15. Adherence to international financial codes and standards
6. Trade liberalization	16. "Prudent" capital-account opening
7. Openness to DFI	17. Non-intermediate exchange rate regimes
8. Privatization	18. Independent central banks/inflation targeting
9. Deregulation	19. Social safety nets
10.Secure Property Rights	20. Targeted poverty reduction

Source: Rodrik (2004)