From Post-Washington to ‘Beijing consensus’ in Africa?

Aid, economic policies and policy space

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Africa Asia Centre, 28 April 2009
Key points/questions

• OECD-DAC ‘traditional’ aid as instrument for reduction in policy space in Africa

• Long gradual process with contradictions and diverse outcomes

• Influence extends from economic policies to social and political transformation projects – ‘good governance’ agenda

• An understanding of the pitfalls with ‘traditional’ aid may help understand the current excitement about Chinese aid…

• ‘Emerging’ donors could reverse or attenuate this process but not yet

• Does China really threaten ‘good governance’ in Africa?
ODA flows: main trends and facts

• Trends:
  – From 1970s, steady increase, especially in the 1980s (emergency and ‘adjustment’ aid)
  – 1990s: aid ‘fatigue’ ➞ decline in real terms, especially hurting poorest countries (LLDCs)
  – Late 1990s-now: Push from New Aid Agenda,
  – Also, 2002 until now: new injections mainly driven by War on Terror, security concerns and the accounting of debt relief

• Despite these shifting trends, generally significant and systematic increase in number of official donors (around 200 now), NGOs (37,000?) and recipient countries (180 for 100 major official donors)

• Recently, over 35,000 annual official aid transactions (200 per country)
Aid delivery systems and perverse effects

- Complexity and fragmentation $\rightarrow$ high transaction costs
- Coordination failure and overlaps across donors
- New reforms (towards programme/sector assistance and budget support) introduce new layers, adding to existing TC and multiplication of tools
- Aid-dependent governments enter logic of ‘aid maximization’ at the expense of longer-term development
- Volatility reinforces short/medium term logic
Aid volatility in Africa

Average ODA (commitments) p.a. (US$2006 constant) and volatility (CV %): 1965-2007

Source: own elaboration from DAC database and World Bank Indicators database 2008
Perverse effects on state capacity (thus government ‘effectiveness’)

- Distortions in government pay structures (per diems, top-ups, etc.) → perverse incentive systems

- Distortions in budgeting system (off-budgets, investment/recurrent balance, duplication, etc.)

- Fragmented and complex aid delivery system → inefficient time management → Mozambican examples (Health Ministry with 400 official donor projects), on average, 200 separate (annual) aid missions/visits in each country (sample of 14 recipient countries) → new aid agenda poses unrealistic and highly demanding targets

- ‘Brain drain’ towards donor agencies and projects especially in countries with scarce skilled labour

- Reduction in revenue raising capacity through multiplication of efforts to manage aid and debt
But new aid agenda closely linked to ‘good governance’ agenda: the post-Washington consensus

• In light of SAP’s failure, focus on institutions → ‘getting institutions right’
• Aid effectiveness debate in 1990s → role of institutions and public sector reform
• Why ‘good governance’?
  – Fiduciary aspect (need for accountability and transparency)
  – Alleged positive correlation between ‘good governance’ and development
New Aid Agenda *deepens* loss of policy space induced by aid flows (through conditions and policy ‘advice’)

**Areas of loss:**
- Fiscal (deficit ceilings), Monetary (inflation targets), Exchange rate (mega devaluations and flexibility), Privatisation (all domains), Trade and industry (liberalisation and no industrial policy), Capital account liberalisation, Agricultural policies (no protection, market deregulation)
- …and now more on institutional development (Anglo-American governance model)
- List of conditions ↑: IMF avg 6 in 1970s, 10 in 1980s and 26 in 1990s

**Channels of shrinkage**
1. Imposed conditions through ‘forced consensus’ ➔ self-censorship
2. Strong influence of ‘blocs’ of few donors (dominated by WB/IMF, USA, UK and EC)
3. Gradual ideological conversion of politicians and bureaucrats (especially in Ministries of Finance and Planning)
The new governance agenda: Washington confusion?

<table>
<thead>
<tr>
<th>Original Washington Consensus</th>
<th>“Augmented” Washington Consensus</th>
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<tr>
<td>1. Fiscal discipline</td>
<td>11. Corporate governance</td>
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<td>2. Reorientation of public expenditures</td>
<td>12. Anti-corruption</td>
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<td>3. Tax reform</td>
<td>13. Flexible labor markets</td>
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<td>5. Unified and competitive exchange rates</td>
<td>15. Financial codes and standards</td>
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<td>7. Openness to DFI</td>
<td>17. Non-intermediate exchange rate regimes</td>
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<td>10. Secure Property Rights</td>
<td>20. Targeted poverty reduction</td>
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Source: Rodrik 2006
http://ksghome.harvard.edu/~drodrik/lessons%20of%20the%201990s%20review%20_jel_.pdf
The fallacy of the ‘good governance’ – development link

(Mushtaq Khan, various papers) watch his lecture on
http://www.youtube.com/watch?v=EdZOItzT8OE&feature=related
…A lot of recent empirical research shows that the alleged ‘aid-policy’ econometric link is inexistent

Ambiguities and contradictions in the incorporation of ‘good governance’

Definitions
– Lack of consensus on what is meant by ‘good governance’ / myriad indicators
– Tension between focus on corruption/politics or investment climate
– Lack of consensus on ‘good enough governance’ and associated priorities

Contradictions
• The starlets of DAC donors (Uganda, Mozambique) broadly characterised by slippage in fundamental aspects of the GG agenda
  – Evidence of criminalisation of the state (Mozambique)
  – Lack of progress in justice reform
  – Privatization as primitive accumulation
  – Limitations to pluralist politics (Uganda)
  – Military operations (Northern Uganda, DRC)
  – and Ethiopia, new darling of US aid…?
The persistence and deepening of ‘structural conditionality’ (IMF)

And list continues

Source: IMF website, country Senegal, letter of intent
<table>
<thead>
<tr>
<th>Country</th>
<th>Top five donors</th>
<th>Joint %</th>
<th>% top 2</th>
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<tbody>
<tr>
<td>Uganda</td>
<td><strong>WB (26%)</strong>, USA (19%), EC (9%), UK (9%), Netherlands (6%)</td>
<td>69</td>
<td>45</td>
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<td>Mozamb.</td>
<td><strong>WB (16%)</strong>, EC (12%), USA (10%), AfDF (8%), Sweden (6%)</td>
<td>52</td>
<td>28</td>
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<td>Tanzania</td>
<td><strong>WB (30%)</strong>, UK (13%), EC (10%), Netherlands (7%), USA (6%)</td>
<td>66</td>
<td>43</td>
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<td>Ethiopia</td>
<td><strong>WB (27%)</strong>, USA (24%), UK (7%), EC (6%), AfDF (4%)</td>
<td>68</td>
<td>51</td>
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<td>Senegal</td>
<td><strong>WB (25%)</strong>, France (22%), EC (8%), AfDF (8%), Japan (8%)</td>
<td>71</td>
<td>47</td>
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<tr>
<td>Niger</td>
<td>EC (23%), <strong>WB (19%)</strong>, France (12%), AfDF (8%), USA (6%)</td>
<td>68</td>
<td>42</td>
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Source: own elaboration from DAC database
Forced consensus:
From the Ministry to the IMF/WB and vice versa

- Growing ‘incest’ between BWI and African governments Some examples of top finance bureaucrats with employment history in BWI: Antoinette Sayeh (Liberia, BM), Goodall Gondwe (Malawi, FMI, ADB), Abou-Bakar Traore (Mali, FMI), Luisa Diogo (Mozambique, BM), Trevor Manuel (SA, FMI) and many more since 1980s

- More importantly, even greater number of upper-middle-level technocrats have attended training programmes offered or sponsored by BWI and like-minded donors (WB, USAID, DFID) through WBI, AERC, and Anglo-American academic institutions

- The WB has complemented this with ambitious support to research capacities and data collection at govt level

Table 2.3: Number of participants in WBI client training

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<tr>
<td>Number of participants</td>
<td>20</td>
<td>496</td>
<td>1,700</td>
<td>2,900</td>
<td>7,000</td>
<td>20,000</td>
<td>28,000</td>
<td>48,000</td>
<td>79,000</td>
<td>110,000</td>
<td>80,000</td>
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Source: Van Waeyenberge (2008)
http://www.soas.ac.uk/cdpr/seminars/43473.pdf
The ‘sovereign frontier’ (Harrison) and governance discourse

With the liberal governance agenda the ‘sovereign frontier’ space, where donors ‘participate’ in policy processes and decisions, has expanded.
Persistent Risks for African countries in the New Aid Agenda: further reducing bargaining power

- Confusing guide: PWC as ‘do as much as you can as soon as you can’
- Selectivity *ex-post* → reinforcing ‘forced consensus’ and self-fulfilling prophecies
- Donor ‘harmonization’ → ‘cartelization’ around SWAPs and budget support?
- From content to process → SWAPs and direct budget support come with strings that reinforce policy micro-management by DAC donors → less bargaining power for SSA governments?
Alternatives to increase bargaining power: ‘emerging’ donors (China, India, Brazil, Venezuela…)

Advantages and challenges of Chinese aid to Africa

- Chinese aid is hard to measure but still very small relative to OECD ($500 million p.a.? $1 bn p.a.? $4bn? $6.5bn over the last few years in 800 projects?)
- Alternative funding to programmes (and countries) otherwise neglected by Western-donor bloc – More focus on basic infrastructure and investment projects with long maturity (gap left by DAC donors)...building stadium?
- Less bureaucracy and transaction costs → more cost-effective and faster delivery
- Substantial aid tying (but cost effective) – fairly obvious (and not new) but at least open/translucent promotion of Chinese interests
- More policy space and bargaining power for African governments if additional aid reduces dependence on ‘Anglo-American’ like-minded donor bloc (see next slide)
- Potential for technical cooperation at level of long-term strategic planning – learning from Chinese experience? More suitable technical assistance?
- But...Issue of alleged support to ‘rogue’ states (e.g. Sudan, Zimbabwe, Chad): a threat to good governance ‘achievements’? Who defines ‘rogue’?
‘You never hear the Chinese saying that they will not finish a project because the government has not done enough to tackle corruption. If they are going to build a road, then it will be built’

(official of Kenyan government cited in Alden et al. 2008, p.119)
Yes, spectacular growth…

EXIM Approved Loans for Chinese Investments in Africa (including concessional loans), 1995-2007

Source: Own calculations based on data published in Davies et al. 2008, Appendix II.

But relative magnitude of Chinese aid: US$ million 2004

A Beijing consensus for Africa?

Aid modalities

1. Predictability – long-term focus
2. Infrastructure
3. No interference in ‘internal’ affairs
4. Package deal (aid + trade + investment)
5. Symbolic diplomacy

Chinese instructive example: a development model?

- Cooper Ramo’s triad (innovation, quality of life, nationalism)
- Importance of capital accumulation
- Large-scale infrastructure
- Coordination governance capabilities and centralisation
- Focus on (rural) industrialization and manufacturing skills
- Careful management of foreign capital and competition
- The contradictions of accelerated capitalist development (class-based inequality)
Can ‘emerging’ donors (China) make the difference?

1. Volume needs to increase massively relative to DAC aid
2. Co-optation by DAC blocs avoided? Moves towards coordination and ‘partnerships’ (World Bank-China)
3. Genuine interest in promoting ‘alternative’ economic policies? No applicable ‘Chinese model’…Chinese ‘exceptionalism’?
4. Perception of increasing bargaining power may reduce subservience to ‘traditional’ donors (a development bank in Mozambique?) even if ‘emerging aid’ is not voluminous
Diplomacy and business
Resources
New languages and challenges