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

Aid, economic policies and policy space

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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?

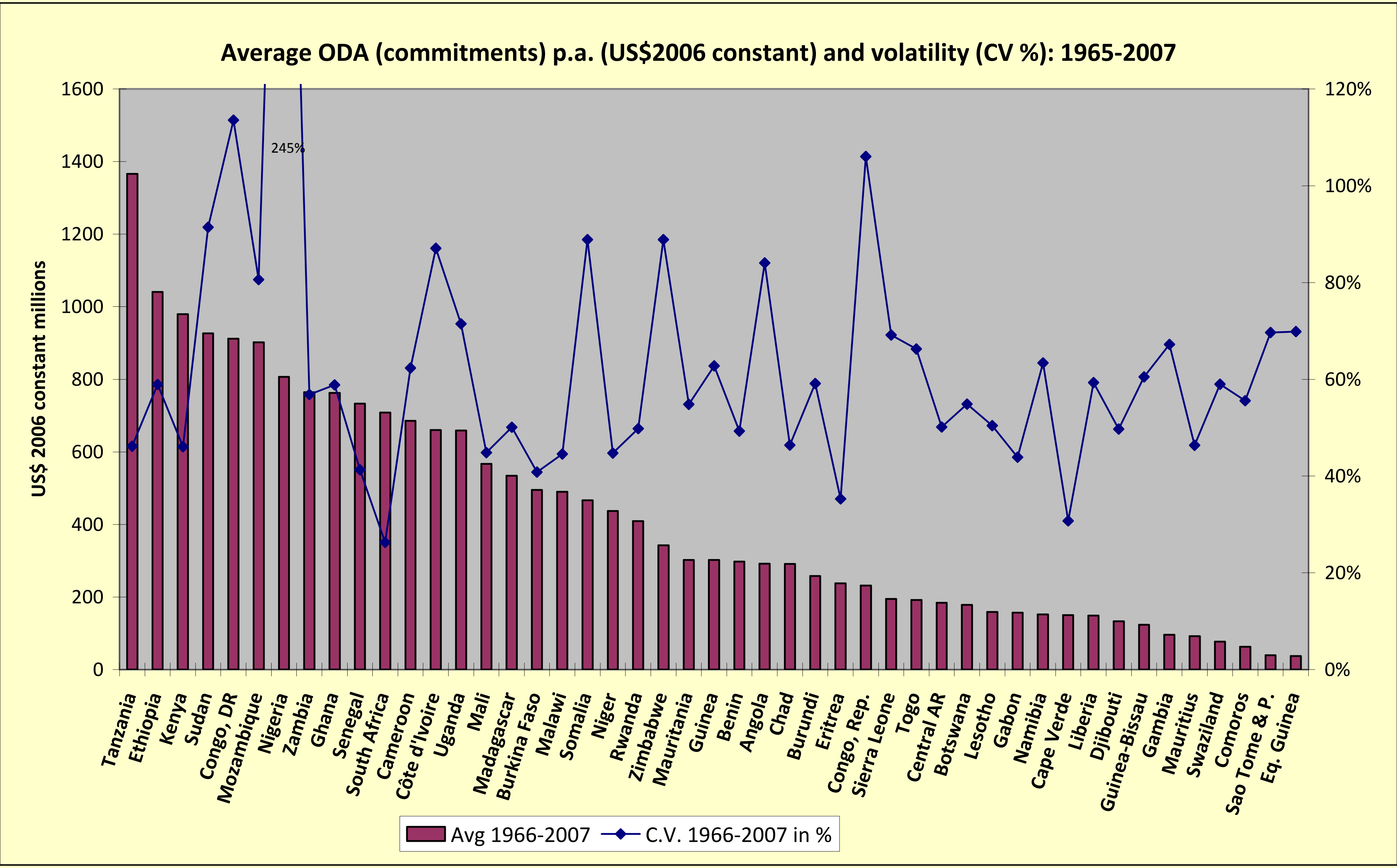
ODA flows: main trends and facts

- 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 → 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



Source: own elaboration from DAC database and World Bank Indicators database 2008

Perverse effects on <u>state capacity</u> (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* <u>loss of policy space</u> induced by aid flows (through conditions and policy 'advice')

<u>Areas of loss:</u>

- 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

<u>Channels of shrinkage</u>

1. Imposed conditions through 'forced consensus' → <u>self-censorship</u>
2. <u>Strong influence of 'blocs'</u> of few donors (dominated by WB/IMF, USA, UK and EC)
3. Gradual <u>ideological conversion</u> of politicians and bureaucrats (especially in Ministries of Finance and Planning)

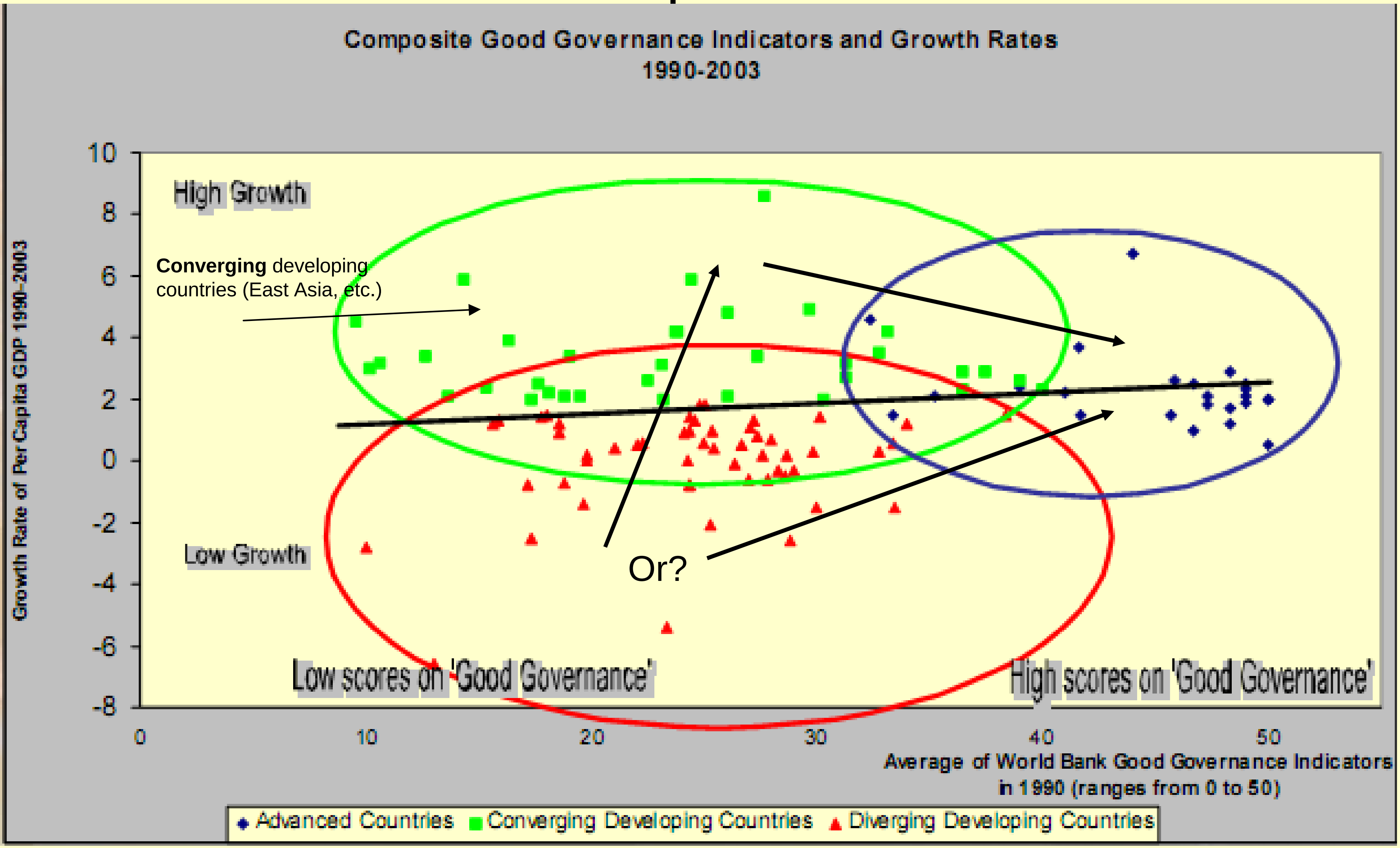
The new governance agenda: Washington confusion?

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

Source: Rodrik 2006

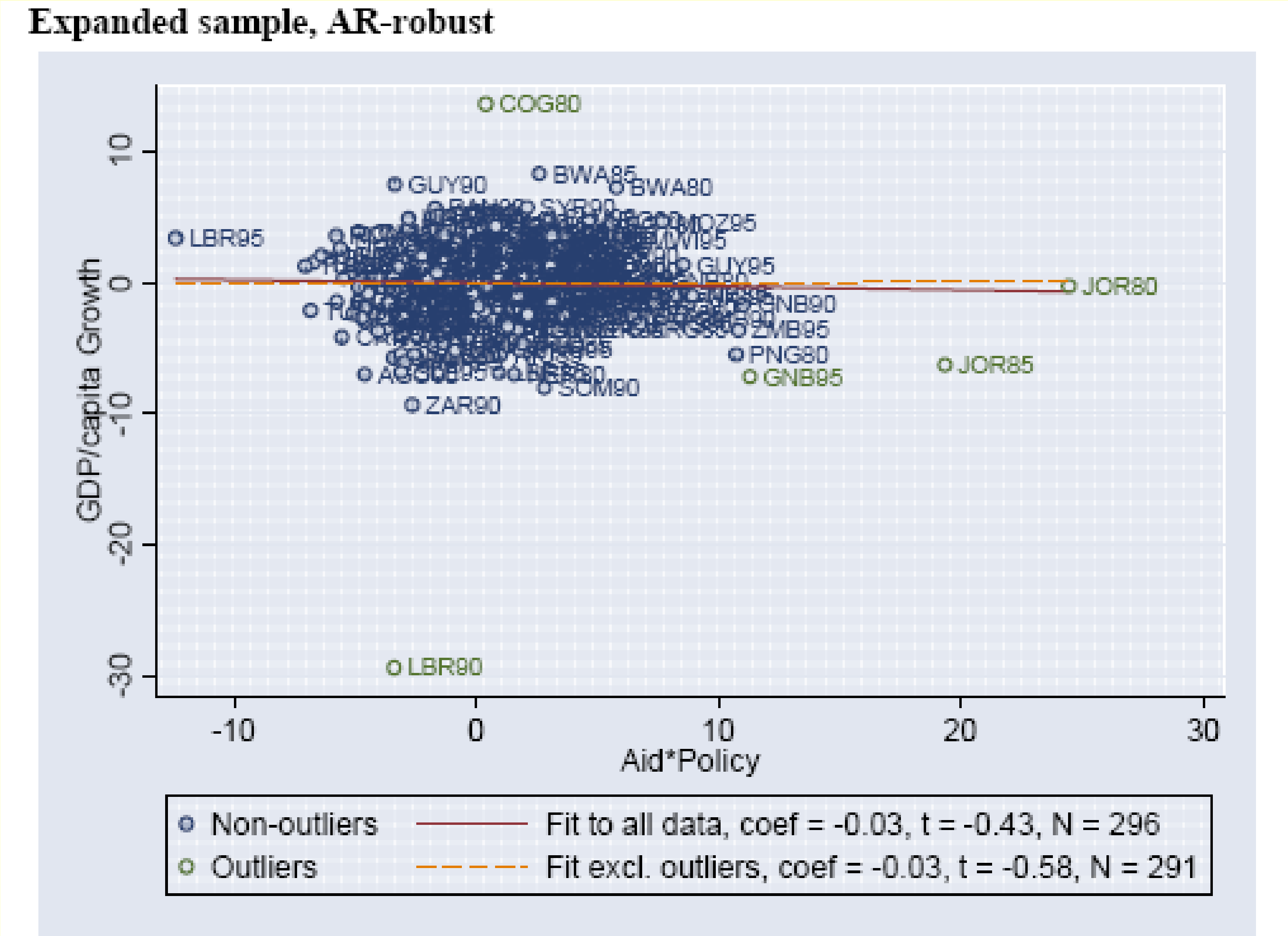
http://ksghome.harvard.edu/~drodrik/lessons%20of%20the%201990s%20review%20_jel_.pdf

The fallacy of the ‘good governance’ – development link



(Mushtaq Khan, various papers) watch his lecture on http://www.youtube.com/watch?v=EdZOltzT8OE&feature=related

…A lot of recent empirical research shows that the alleged 'aid-policy' econometric link is inexistent



Source: Roodman, D (2004). The Anarchy of Numbers: Aid, Development, and Cross-country Empirics, CGD Working Paper n. 32

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…?

Table 9. Senegal: Structural Conditionality, September 2007–March 2008

Policy Measures	Target date of Implementation	Implementation Status
Prior Actions		
1. Officially publish the government's decision on an adjustment of electricity prices in the final quarter as specified by decision of the regulatory commission.	Implemented on September 28, 2007	Completed
2. Publish on the MEF's website the amount of the airport tax [*redevance de développement des infrastructures aéroportuaires (RDIA)*] collected by IATA, deposited in an escrow account maintained with a commercial bank, and used to repay the loan for the construction of the airport.	Implemented on September 19, 2007	Completed
3. Complete the buyback by the government of the private investor's equity share of 55 percent in the airport project company (AIBD).	Implemented on September 14, 2007	Completed
Structural Assessment Criteria		
4. Expand the SIGFIP software to the payment stage of the expenditure chain, in order to allow a comprehensive monitoring of payment arrears.	End-December 2007	Completed
5. Amend or revoke Law 2007-13 to modify the status of APIX, as described in paragraph 35.	End-December 2007	Completed
6. Issue a Prime Minister's circular letter in order to implement the new legal framework for procurement with effect from January 1, 2008.	End-December 2007	Completed
Structural Benchmarks		
7. Complete the study on the impact of tax exemptions resulting from the probable relocation of Senegalese enterprises to the new integrated special economic zone, prior to the signing of the contract with the zone's investor and on the basis of a methodology agreed with Fund staff.	End-December 2007	Completed
8. Adopt the institutional framework for implementing and monitoring the Accelerated Growth Strategy and make this strategy operational by means of a decree implementing the framework law.	End-January 2008	Completed
9. Undertake a study on possible means to fight against illegal practices in the accounting profession, as described in paragraph 63.	End-March 2008	Completed

The persistence and deepening of 'structural conditionality' (IMF)

And list continues

Source: IMF website, country Senegal, letter of intent

Sources of aid for selected African countries (2004-6)

	Top five donors	*Joint %*	*% top 2*
Uganda	**WB (26%), USA (19%),** EC (9%), UK (9%), Netherlands (6%)	69	45
Mozamb.	**WB (16%), EC (12%), USA (10%),** AfDF (8%), Sweden (6%)	52	28
Tanzania	**WB (30%), UK (13%), EC (10%),** Netherlands (7%), USA (6%)	66	43
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

Source: own elaboration from DAC database

Forced consensus: From the Ministry to the IMF/WB and viceversa

- 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

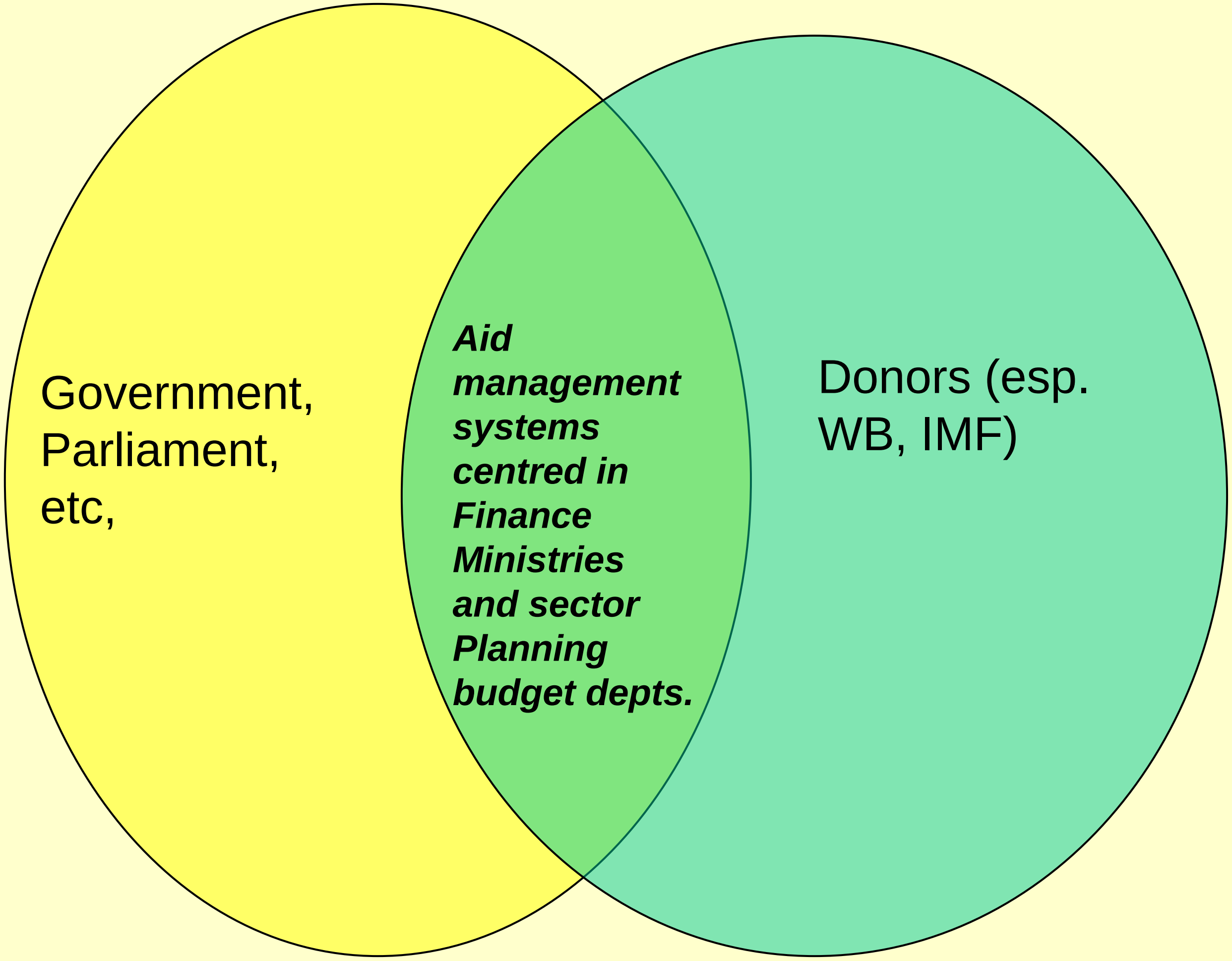
Table 2.3: Number of participants in WBI client training

	1956	1973	1982	1991	1996	1997	1999	2002	2004	2005	2006
Number of participants	20	496	1,700	2,900	7,000	20,000	28,000	48,000	79,000	110,000	80,000

Sources: WBI (2005); WB (2001c, p. 26) for 1996; WBI (2007) for 2006.

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?

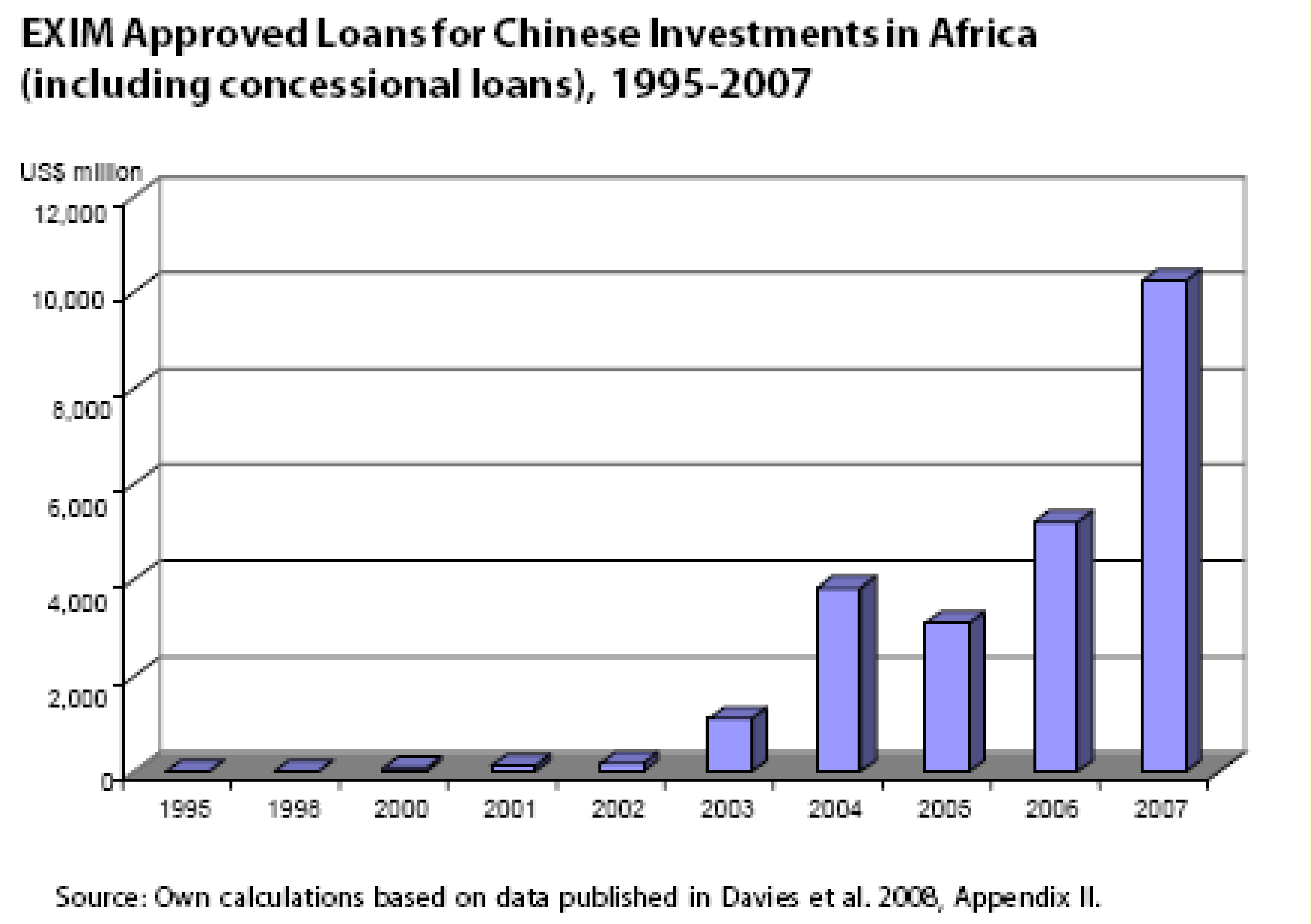
<u>**Alternatives to increase bargaining power**</u>: ‘emerging’ donors (China, India, Brazil, Venezuela…) Advantages *and* challenges of Chinese aid to Africa

- 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?)
- <u>Alternative funding</u> 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/transparent 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’

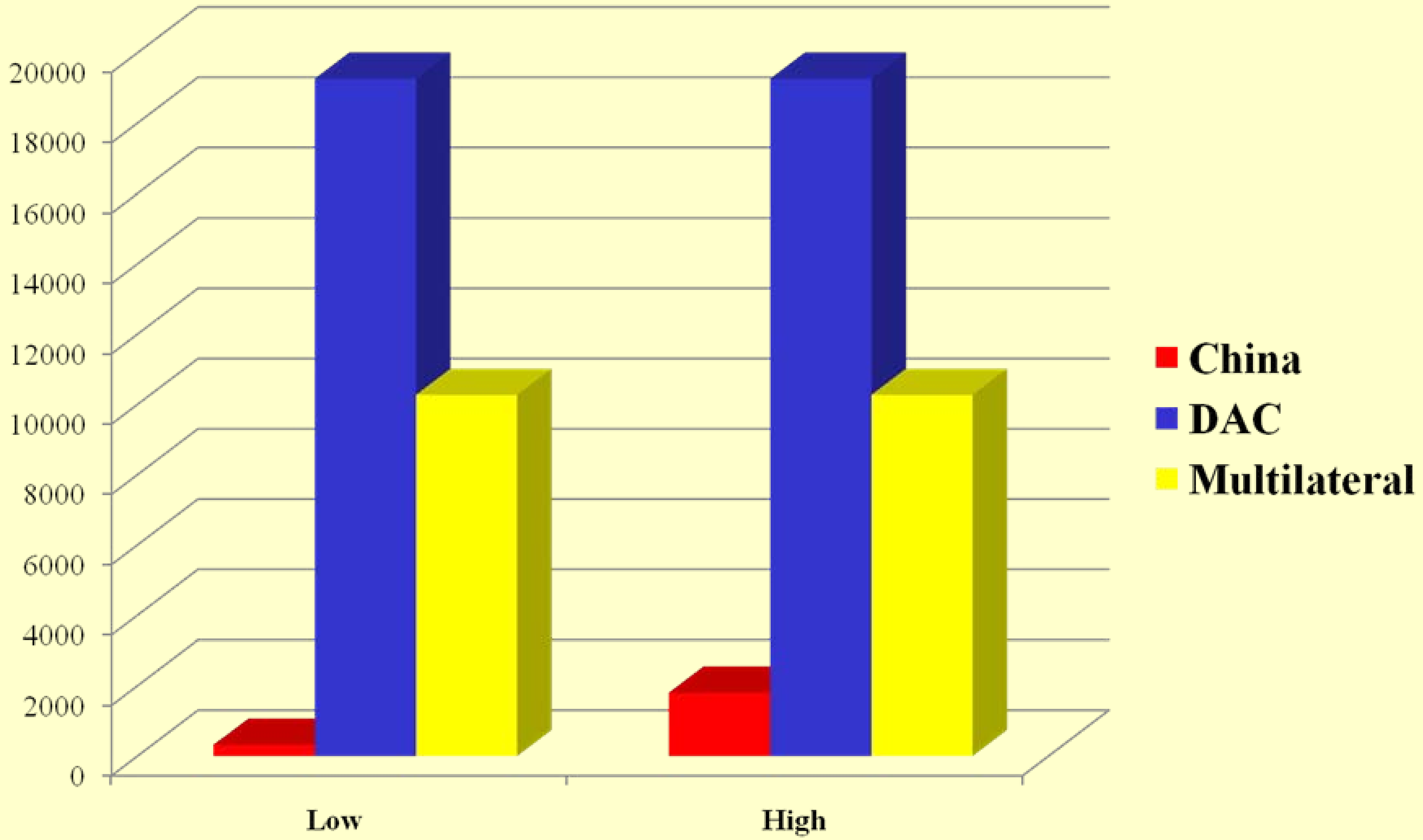
(official of Kenyan government cited in Alden et al. 2008, p.119)

Yes, spectacular growth…



Source: own elaboration in Oya (2008) at http://www.soas.ac.uk/cdpr/publications/dv/44011.pdf

But <u>relative</u> magnitude of Chinese aid: US$ million 2004



Source: own elaboration from DAC database and various sources on Chinese aid also cited in Oya (2008) at http://www.soas.ac.uk/cdpr/publications/dv/44011.pdf

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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Resources

New languages and challenges