Aid, Conditionality and Debt in Africa

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Published in Finn Tarp (ed), Foreign Aid and Development: Lessons Learnt and Directions for the Future, Routledge, 2000.

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Abstract

This paper presents a diagnosis of the current dysfunctionalities of the aid, conditionality and debt regime in Africa. It is argued that the key feature of the current system is that of aid dependence, which is characterized as an unhealthy process of interaction which afflicts donors and recipients alike. Until this dependence is addressed through institutional reforms, which may lead to or require lower volumes of aid, and which need to be framed in the context of deep debt relief, aid effectiveness will lag far behind expectations in Africa.

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1. Introduction

The last fifteen years have seen an exhaustive, and exhausting, debate on aid, conditionality and debt. The post war consensus on aid flows to fill investment-savings "gaps" in the less developed countries has collapsed, under attack from both the political right and the political left. Closely tied in to this debate were the disagreements on conditionality, and on debt. The Latin American debt crisis of the 1980s launched the arguments for and against debt relief with different degrees of conditionality--both for the debt relief and for subsequent new flows. But it is in Africa that the current debate finds its center of gravity. Despite massive aid, with inflows far exceeding debt servicing outflows, and despite much resented conditionality on this aid, Africa has failed to achieve significant progress in the well being of its population. Some lay the blame on Africa's debt burden. Others on conditionality. But on conditionality, there seems to be a three cornered fight--between those who believe that aid conditionality would work if only it were targeted towards the opening up of markets and rolling back the frontiers of the state, those who believe it would work if only it were targeted towards better allocation of public expenditure and programs towards the poor, and those who believe that the carrot and stick of aid is powerless in the medium term to shift the domestic political equilibrium in a direction other than the one in which it wants to go.

Africa is the test case. It is the last remaining region of the world where official aid inflows outstrip private capital inflows, and they do so by a large margin even after debt service outflows have been netted out. Africa is aid dependent, some African countries grotesquely so, not only in terms of the quantity of aid but in terms of the institutional mechanisms of this aid flow. And, at least for now, this massive quantity of aid does not seem to be helping African development. This paper argues that aid has failed in Africa, that aid conditionality has failed in Africa, and that there is very little chance of recovery from this failure under current institutional arrangements. It presents a diagnosis, and proposes in preliminary fashion a direction of movement which include simultaneous heavy debt relief and major institutional reforms which reduce African aid dependence and put the accountability for African performance not on outsiders but on the people and their governments, in Africa. One implication of such a shift might be a reduced volume of conventional development aid to Africa--it is argued that this a price worth paying for reduced aid dependence.

2. The Failure of Aid

It hardly bears repeating that development has not lived up to expectations in Africa. After the initial post-independence boost in per capita income growth, serious decline set in. An overview of African economic performance is provided by Collier and Gunning (1997), but the comparison of Ghana and Malaysia is emblematic. Both countries became independent in 1957, and both are countries of similar size and resource base. At independence, Ghana's per capita GDP was several times that of Malaysia--four decades later, the situation is reversed. While many social indicators have been on a long run trend improvement in Africa, the process has been much slower than in other parts of the developing world, and there may have been further slowing down in the last couple of decades.

This is a paper on aid in Africa and so, quite naturally, aid will be center stage in discussing development failures in Africa. But it should be said right at the outset that aid may, in fact, be quite a small part of the whole explanation of the development path of Africa. Sachs and Warner (1995) emphasize the burden of geography and poor policies. Basil Davidson (1992) points to the central role played by the Congress of Berlin and various post World War I adjustments, which drew and redrew the colonial map, and hence the post independence map, in a way that made no historic, geographic or ethnic sense. This, according to the title of Davidson's book, is "The Black Man's Burden"--the instability which it has bred has been a root cause of the failure of African development (the subtitle of Davidson's book is "Africa and the Curse of the Nation State"). In more standard econometric work, Easterly and Levine (1997) confirm the importance of ethnic fragmentation in explaining Africa's poor performance. Others, less convincingly (think again about the Ghana-Malaysia comparison), have blamed world markets and Africa's specialization in primary commodities at independence as structural features which have inhibited African development. And so on. Despite the natural tendency among those discussing aid--supporters and critics alike--to talk up aid as a key determinant of development, it is only a part, and perhaps a small part, of the overall picture of why development has failed in Africa so far.

This being said, the accounts of aid failure in Africa are legion. They range from journalistic reports to detailed academic studies. From Mobutu's money flowing to Swiss bank accounts to the rusting blue East German tractors in villages in Ghana, anecdotal accounts abound of the ineffectiveness of aid flows in achieving their objectives of helping development and growth. To be fair, these have to be set against many individual successes that all of us also know about. And this is why a higher level of aggregation and a broader perspective is needed in such analysis. This is provided by a whole slew of sector studies which evaluate past interventions in specific areas in the past. Rural credit is back in vogue today as an intervention sector. But it is forgotten that there were major interventions in this area in the 1960s and 1970s, when agencies attempted to channel credit to rural small holders through apex agencies which onlent to rural banks and then on to cooperatives and the like. There were individual successes, of course, but by and large these efforts have been judged to be failures. Take another example, infrastructure. Roads are back in fashion, but it should not be forgotten that billions of dollars in aid, and in local resources have been poured into African infrastructure--but it has all been washed away.

These sectoral experiences are confirmed by analysis at country level. It has been estimated that if all of the aid that flowed into Zambia between 1961 and 1993 had been invested at a normal rate of return, Zambia's per capita GDP would have been at least thirty times what it is today (Easterly, 1997). The failure of very high levels of aid in Mozambique is discussed quite openly now (Wuyts, 1996). More recently there have been exercises that have taken a cross-country perspective, and shown, essentially, that there is no association between aid flows and improvements in development indicators. These studies are typically for all countries in the world, and it may of course be that the results do not apply to Africa but, given the results and given ground level experience, this seems unlikely.

The most cited recent work in this cross country tradition is that of Burnside and Dollar (1997), which addresses some of the econometric problems with the earlier work., and produces more nuanced results (another often cited author is Boone, 1994 and 1996; see also Easterly, 1997). This work finds, like most of the earlier literature, no relationship between aid flows and growth in per capita gdp (or other indicators of development). But it goes on to look deeper into the issue by estimating three relationships--first, the relationship between growth, aid, "a good macroeconomic policy environment", and a number of standard other variables; second, an aid allocation equation giving the relationship between aid flows to a country and a number of country specific variables, especially the macroeconomic policy environment variable; and third, a relationship between the macroeconomic policy environment and aid flows. While much can be said about the details of the data and estimation techniques, the results are illuminating, and sobering. Burnside and Dollar (1997) find, from the first estimated relationship, that when aid flows into good policy environments it helps growth. However, the second relationship reveals why there is no simple correlation between aid and growth--the aid does not flow to countries with good policy environments. But, it might be argued, there need be no relationship between aid flow and policy environment if aid flows initially to bad policy environments as an inducement or support for them to improve. This is where the third realtionship comes in--it is found that aid does not induce good policy environments to emerge at all!

3. Aid Conditionality

The last two findings--that aid does not flow into good policy environments, and that when it flows into poor policy environments it does not induce them to change--are devastating, in view of the fact that the international community, led by the Bretton Woods Institutions, is meant to have been applying conditionality to its aid flows, specifically to direct aid towards good policy environments and to encourage (through the carrot of more aid, and the stick of reduced aid) these policy environments to emerge. And the debates of the last fifteen years have been about nothing if not conditionality! The discussion has been confusing, perhaps confused. There are those, like Burnside and Dollar (1997) who draw the inference from their work that if only aid were channeled to environments with sound macroeconomic policy, it would spur growth and development. But then there are those who reject at least some of the detail of "a good macroeconomic policy environment" but nevertheless believe that conditionality with a different set of conditions is what is needed. To quote one of the best known proponents of this view:

"Can and should aid be used to put pressure on governments to reform their spending policies in favor of the poor? Oxfam believes that new forms of conditionality could help to bring about positive policy reforms...Governments and donors could, in principle, agree incremental steps for raising investment in primary health care, basic education, and the provision of water and sanitation....Most donors reject such an approach on the grounds that it would undermine the national sovereignty of developing country governments. They have been considerably less reluctant about eroding sovereignty in other areas; through their structural adjustment programs, donors have obliged governments to impose fees for primary education and basic health facilities, to devalue their currencies, set interest rates at levels dictated by the IMF, privatize whole industries, and liberalize markets." (Oxfam 1995)

Thus the Oxfam view is that conditionality could work--but it should be based on the right sort of conditions. Of course, which conditions are right depends on one's view of alternative development paradigms—see Gwin and Nelson, 1997, for a discussion of emerging consensus on at least some aspects of the development paradigm. The Oxfam critique is that the wrong sorts of conditions have been "imposed". But, in fact, the Burnside-Dollar study shows that, whatever the terms of the formal aid agreements, even these conditions have simply not been implemented--and yet the aid has flowed. Oxfam itself gives an example of the failure of conditionality, this time on public expenditure, of the sort they support:

" Another problem is that the evaluation procedures [of the World Bank] confuse the terms of the adjustment agreements with their implementation. For example, the structural adjustment program in Zimbabwe is counted as poverty-focused, partly on the grounds that it provided for the restoration of current expenditures on health and education as a condition for releasing funds. In the event, even though expenditure under both budget heads fell sharply under the adjustment program, funds were released." (Oxfam, 1995).

In fact, the Operations Evaluation Department of the World Bank pointed to precisely this problem, only more generalized (World Bank, 1992). They concluded that although compliance rates on conditions were below 50%, tranche release rates were close to 100%. Mosley et. al. (1995) make precisely the same point in a more academic analysis. These studies, and Oxfam's own cautions above, suggest that the problem is not simply what the conditions are (although there is debate enough to be had on that score!)--it is that conditionality of whatever type has failed in Africa (for an overview of this failure, see Collier, 1997)

4. The Weakness of Strength

On the face of it, the suggestion that conditionality has failed in Africa is strange indeed. Is not the situation one of enormously unequal power between donors and recipients? Surely, Africa's aid dependence makes it a mere pawn in an international great game where every whim of donor agencies, especially those of the Bretton Woods Institutions, is immediately complied with? Certainly, the writings of some commentators suggest this:

"Virtually every external support to any African country, including debt rescheduling and relief, became dependent on the award of a certificate of good behavior by these institutions. Such an award was and is dependent upon adherence to SAP and their conditionalities. Consequently, independent policy making and national economic management were considerably diminished and narrowed in Africa." (Adedeji, 1995)

The above is representative of a major strand of thinking and writing on aid in Africa. I will presently argue that independence of policy making has indeed been undermined in Africa as the result of the aid nexus, but it should be clear from the empirical results of Burnside and Dollar (1997), the work of Mosley et. al (1995), and Oxfam's (1995) and other people's ground level experiences, that the issue is considerably more subtle than imposition of conditionality--in fact, the evidence is that aid flows continue even when conditionality is violated, which happens frequently. Rather, I will argue 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 characterized as the strength of the donors and the weakness of the recipients. In fact, there is strength in the weakness of the recipients and, above all, weakness in the strength of the donors.

How can the strong be weak? It is of course true that representatives of the aid agencies in Africa, those who “parachute in” for missions of a few days and those who are resident locally, are the symbols of the power of the donor agencies. They stay in the big hotels (or big houses), are driven around, and demand to see policy makers at the drop of a hat. As they travel in convoys of four wheel drives to inspect projects funded by their agencies, and as they mingle on the diplomatic cocktail circuit, the resentment they evoke in the local population should not be underestimated. But, when it comes to it, these symbols of strength hide fundamental weaknesses that arise from the inner logic and dynamic of the aid process and donor agency imperatives.

I want to illustrate this weakness of strength with events that unfolded in 1992/93 in Ghana. Up to 1992, Ghana had been called the “star pupil” of the Bretton Woods Institutions, with an adjustment program that was proclaimed by the IMF and the World Bank as perhaps the most successful in Africa (for a perspective on the program at this time, see Kanbur, 1995). But in 1992 Ghana consummated its transition to democracy and, in the process, the government gave in to pressures to grant enormous pay increases to civil servants and the military. In late 1992, in advance of the elections, an 80% across the board pay increase, backdated, was announced. As a result, the budgetary conditionality in the World Bank’s then current Structural Adjustment Credit was violated, and the impending tranche release was suspended. Through its own tranche, and through co-financing tied to it, the World Bank found itself holding up as much as one eighth of the annual import bill of the country.

One would think that holding one eighth of the annual import bill of a poor cash strapped economy would give enormous leverage to the World Bank and the donors to dictate terms to the Ghanaians. In fact, as the representative of the World Bank on the ground, I came under pressure from several sources, some of them quite surprising, to release the tranche with minimal attention to conditionality. There was a steady stream of private sector representatives, domestic and foreign, arguing for release of the tranche both because of fears of what macroeconomic disruption would do to the business climate in general, and also because some of them had specific contracts with the government which were unlikely to be paid on time if the government did not in turn get the money from the World Bank and other donors. Next in line, were the bilateral donors--even those who had tied themselves to the presumably greater discipline of the World Bank by co-financing. Some of these had “fiscal year” concerns--they feared the consequences within their agencies of not releasing the funds in the fiscal year for which they were slated. Others worried about a melt down of the economy if the tranche was not released. Yet others found their projects slowing up because government counterpart funds were not available, and many project agreements stipulate that donor money flows in a fixed relationship to government contributions. Rather like private sector contractors, these aid agency personnel were dependent upon the government releasing enough resources for the success of their specific projects, and this money would not come, or not come soon enough, if the tranche release was delayed. I include in this list of donors the World Bank itself--implementation of old projects, and development of new ones, would be severely affected so long as the impasse lasted.

In the end, the impasse lasted till early 1993, when a new budget was announced with at least some measures to counter the ballooning budget deficit, and the tranche was released. What is important about this episode are not the specifics but the generics--in the specific case the government argued, with good reason I believe, that the budget busting pay rise was essential to ensure a peaceful transition to democracy, and once the deficit was there it made sense not to compound the problem by too rapid a fiscal adjustment in the other direction. And what is important for this paper are the generics on conditionality and the pressures surrounding it--there are many other issues, to do with the design of adjustment programs, which are also important but are not discussed here (on these, see Kanbur, 1996).

The key point I want to illustrate is that of a fundamental time inconsistency. Conditionality can be introduced on paper with much pomp and circumstance, but when push comes to shove, all of the pressures, mostly from the donor side, are to look the other way when conditionality is violated. Some of these pressures are in the nature of the problem. They come, paradoxically, precisely from the fact that donors control so much in the way of funds that to stop these, at any rate to stop them sharply, would cause major chaos in the economy. In some instances, like the social sector expenditures case mentioned by Oxfam above, there is what has been called the Samaritan's Dilemma (see Coate, 1995, and Svensson, 1997)--the government didn't spend enough on the poor and thus violated conditionality, but imposing sanctions might well mean a double whammy for the poor.

But in other instances it is, again only apparently paradoxically, in the donor's direct self interest not to impose the sanction of aid withdrawal when conditionality is violated. The most obvious case of this is political clientelism. How else can one explain the repeated tranche releases to Zaire and Senegal in the 1980s and early 1990s for example, despite continued failure to comply with adjustment conditionality, except in terms of pressure from the US and the French? Other cases arise when heavy debt servicing (to the World Bank, the IMF, donor governments and private creditors) is involved--without the inflow, the outflow of debt servicing might be interrupted. Cote d'Ivoire is an example of a country where these forces have been in play.

Finally, there is the imperative in aid agencies to keep relations with recipients on a "normal" footing, since it is only in such circumstances that aid flows can continue. The incentives in aid agencies are ultimately driven by keeping aid flows going, and implementing sanctions when conditionality is violated not only stops the specific aid flows in question, but also puts in jeopardy the preparation of future aid projects and programs, on which depend the livelihoods and careers of agency staff as well as the image of the agency in the eyes of its political masters. Thus those who appear powerful as they are driven around African capitals, no matter what petty power they may exercise in their interaction with local functionaries, are in fact quite weak because of the systemic imperative to keep aid flowing--the best of the functionaries on the other side know this, and use the strength of their weakness. Of course, none of this is to deny that many individuals have noble motives and achieve impossible things in their interaction across the donor-recipient table--but it is the systemic forces which are the key. And, of course, sometimes donors do say enough is enough--they did stop giving aid to Mobutu, once the cold war was over. But more often than not there is an elaborate minuet that is danced over and over again:

"Over the past few years Kenya has performed a curious mating ritual with its aid donors. The steps are: one, Kenya wins its yearly pledges of foreign aid. Two, the government begins to misbehave, backtracking on reform and behaving in an authoritarian manner. Three, a new meeting of donor countries looms with exasperated foreign governments preparing their sharp rebukes. Four, Kenya pulls a placatory rabbit out of the hat. Five, the donors are mollified and the aid is pledged. The whole dance starts again." (The Economist, August 19, 1995; quoted in Svensson, 1997).

The basic point is that donors and recipients are so enmeshed, at the level of governments, agencies and individuals, that it is actually not clear where the strength and weaknesses lie. It is the system as a whole which is dysfunctional. Conditionality is no doubt "imposed" on unwilling recipients at the time of signing a document, but the recipients know, the donors know, and in fact everybody knows, that these are paper conditions--the outcome will be driven by the need of both sides to maintain normal relations and the flow of aid. It is not clear how else one can explain the results of Burnside and Dollar (1997), Mosley et.al (1995) , Killick (1995) etc, that not only have aid flows not helped in development of Africa, they have not even helped in the development of policies they were meant to be conditional on.

5. Principal-Agent Analysis

Perhaps not surprisingly, the theory of donor-recipient relationships, as developed in the economic literature deriving from principal-agent analysis, reflects the realities described above. The standard way in which the relationship is modeled is in terms of a Stackleberg leader-follower interaction. The donor is the leader, and decides on the level of aid. The recipient is the follower who, taking as given the level of aid, decides on actions (for example, public expenditure patterns, or tariff structures) which affect outcomes for the recipient (access of the poor to education, economic growth). But the donor also values these outcomes and chooses the aid level to influence the choice of actions by the recipient and hence the outcomes for the recipient. The level of aid is thus chosen to maximize the donor's preferences, subject to the reaction function of the recipient, which in turn comes out of the recipient's preferences and shows the actions the latter would choose for each level of aid.

The simplest versions of the theory assume the donor and the recipient to be unitary entities (governments, say), represented only by a set of preferences. In most models it is assumed that the donor is more concerned with the poor than is the recipient. But, in general, all that is needed is that the two sets of preferences are different. The donor can then induce different actions by offering different levels of unconditional aid. However, the donor can clearly do better by offering a schedule of different levels of aid for different actions undertaken by the recipient. In other words, the donor can do better by aid conditionality--by pricing out aid in terms of the actions taken. The recipient may prefer unconditional aid but there is no choice. Conditionality makes the donor better off as measured by the donor's preferences and if, as is assumed, the donor cares more for the poor than the poor's own government, conditionality will improve the lot of the poor--this is the Oxfam(1995) argument for conditionality quoted above.

But can the conditionality be enforced? Suppose, after the aid is released, the recipient goes back to pre-aid actions. What recourse does the donor have? Aid cut off is one option, but to model this we have to introduce a time structure into the simple model. I follow the interesting work of Svensson (1997) in this exposition. Consider the following timing structure. First, the donor calls out the aid-action conditionality schedule. Second, the recipient decides on the action given this schedule. Third, the action leads to an outcome, but with a stochastic component reflecting risks of various types. Fourth, the donor releases the aid. It should be clear that everything hinges on what happens at the fourth stage--whether the donor in fact sticks to the aid conditionality schedule and released aid according to the actions taken in the second stage, and is not tempted to make ex post adjustments either in the face of the stochastic shock or, irrespective of the action taken by the recipient, when the unpalatable outcome emerges. Because if that were the case, the recipient would know this and adjust action accordingly, so that the outcome for the donor would be worse than if the donor had stuck to the original schedule.

Conditionality is a "commitment technology" which overcomes the time inconsistency problem inherent in these problems, but only if it is strictly adhered to. The institutional question then is, what are the mechanisms that ensure that conditionality is adhered to? I have argued that, in fact, conditionality is not adhered to in practice, and the institutional dimension of the aid donor-recipient relationship is the key to this failure. One standard suggestion in the theoretical literature is for the donor to cede responsibility to an intermediary who is, and is known to be, "tougher" in the face of conditionality violations, and will not be prone to the influences of the Samaritan's Dilemma, or to other distractions. Paradoxically, by being tougher, the intermediary comes closer to achieving the donor's own objectives once all the repercussions of interaction with the recipient are played through. In the aid arena, the Bretton Woods Institutions are meant to have been such tough intermediaries, and certainly that is the image that they have probably succeeded in conveying. But, as we have seen, the reality is somewhat different. If anything, these institutions are liable to free riding by the great powers, seeking leniency on behalf of their clients, and thus weaken the resolve on conditionality.

In another part of the theoretical literature, the recipient is modeled not as a unitary government, but as a combination of interest groups interacting amongst themselves. The aid flow then influences this process of domestic political economy, strengthening the hand of one group against another, ensuring that some actions are more likely to be taken, and hence some outcomes are more likely. Adam and O'Connell (1997) and Coate and Morris (1996) are good examples of recent such work. One issue is on the sustainability of policies adopted in this way. If aid is needed to support an interest group which in turn supports a particular policy which the donor likes, then what happens when the aid is withdrawn? Will the policy reverse itself and thus be unsustainable? Coate and Morris (1996) show that to make sense of the political economy arguments ("strengthening the hand of the reformers", for example) we need, inter alia, a political economy model which allows for irreversibilities in equilibrium outcomes. While the model can be, and has been, developed theoretically, the issue is the extent to which in reality the aid tail can actually wag the domestic political economy dog--and do so irreversibly! Certainly the evidence to date in Africa is not encouraging, if the failure of attempted conditionality is anything to go by.

6. The Institution of Aid Dependence

I have argued that some of the standard critiques of donor-recipient relations in Africa capture only part of the truth. It is true that the donors have strength because they bring enormous resources. But I have argued that this is also a source of their weakness, explaining why resource flows continue despite widespread violations of conditionality. The relationship between recipient and donor is more subtle than this, with each needing the other, given the particular institutional structures and imperatives involved (for an argument in similar spirit, see van de Walle, 1998).

At the same time, there is no doubt in my mind that Africa suffers from aid dependence, by which I do not mean that Africans have to jump to every whim of the donors. While this is true, and obnoxiously so, in the small, I hope to have shown that in the large and overall, the “short leash” is one which pulls donors and recipients alike. No, what I mean by saying that Africa suffers from aid dependence is that far too much of the time of its policy making and implementation energies are devoted to interacting with external donor agencies--many times to use the “weakness of strength” ploy against the donors, more often simply doing routine business of reporting to donors, servicing donor consultants, and keeping things “normal” (just as on the donor side, where “normality” of relations is prized). Killick (1995) has documented how much time the leading policy makers spend negotiating with donors, on debt issues but also on the normal business of keeping aid flows going. Wuyts (1996) gives specifics for Mozambique, where there are 405 projects in the Ministry of Health alone and administrative costs run to 30 to 40% of project funds. Separate reporting requirements for each donor, and separate links between parts of different aid agencies and their counterparts in the various Ministries, mean that much of time, energy and political capital is spent in gaming with external actors.

In my view, the real cost to Africa of the current aid system is thus the fact that it wastes much national energy and political capital in interacting with donor agencies, and diverts attention from domestic debate and consensus building. As I have argued, donor conditionality is not, in the end, fully satisfied. And, in the end, the aid flows anyway. But the process leading up to this outcome is debilitating in the extreme. It is not so much that it undermines, ultimately, the logic of domestic political economy. It just represents a long and tedious distraction, and leaves the impression that the government dances to the tune of the donors, which in turn affects the domestic political economy--sensible policy measures are often opposed simply on the grounds that they were allegedly recommended by the donors, for example.

Is all of the above independent of the volume of aid? Hardly. The institution of aid dependence is linked very much to the need of donor agencies to disburse large volumes of funds while supposedly keeping accountability for these funds to donor country taxpayers--this is what leads to separate project units of the type seen in Mozambique, where foreign grants totalled around 35 % of GDP in the early 1990s, and it is what leads to pages of conditionality in adjustment programs, which will not be met anyway. It is a tautology to say that were the current volume of aid delivered more effectively, it would have a better impact on growth and development. But my hypothesis is that the volume of aid, in and of itself, is a key feature of the dysfunctional aid institutions and relationships we currently see in Africa. My arguments are to do with the institution of aid dependence, but there are also more standard arguments on the macroeconomic impact of high volumes of aid, as in Elbadawi (1998) or Younger (1992).

7. The Debt Question

In Africa, the debt question is intimately tied up with aid and conditionality. There has been much discussion of this topic lately, in the lead up to the World Bank/IMF debt relief proposal for the Heavily Indebted Poor Counrtries (HIPCs). The HIPCs are 41 countries, of which 34 are from sub-Saharan Africa. In what follows figures will be for the HIPCs as a whole (taken from Claessens et.al., 1997). For these countries, the median debt to exports ratio (after allowing for concessionality of debt) was 340%. Of the total debt, private creditors were owed 17%, official bilateral creditors 64%, and multilaterals 19%. This is very different from the Latin American debt crisis of the 1980s, where the bulk of the debt owed was to private creditors. Another big difference is that, unlike their Latin American counterparts in the 1980s, in the 1990s the HIPCs continued to receive large positive net transfers from the international donor/creditor community. The median net transfers to HIPCs were about 11% of GDP on average over the 1990-94 period. Notice that this is **net** , in other words, it is calculated **after** debt service payments. Compare this to the average net transfers **to** creditors by Mexico of 5% of GDP over the 1984-88 period.

What exactly is the debt problem in Africa? Many commentators have highlighted the debt service **outflows**:

“Between 1990 and 1993, the region transferred $13.4 bn annually to its external creditors. This is four times as much as governments in the region spent of health services. In fact, it is more than their combined spending on health and education. It is also substantially in excess of the $9 bn a year which UNICEF estimates as the total cost of meeting basic human needs for health, nutrition, education, and family planning.” (Oxfam, 1995).

Let us start by noting that, in fact, Africa receives large **net** inflows, even after allowing for debt servicing. Of course, if the debt servicing was not there, **and the inflows did not decrease**, then net aid to Africa would increase, quite substantially. This raises several issues. First, the assumption is that an increase in net aid inflows would be good for Africa. This is questionable, given the established difficulties of enforcing conditionality, and the argument in this paper that the volume of aid is a key determinant of the current dysfunctionality of the aid system. Second, the assumption is that the net inflows will remain unchanged when debt servicing ends. This is highly unlikely, since in fact, as argued above and in Claessens et.al. (1997) much of the aid inflows are motivated simply to ensure “normal relations” with regular debt servicing.

Of course, as has been argued by many analysts, African debt is a charade--it will not be repaid and, as the large net inflows to Africa demonstrate, it is not in fact being repaid. For their own reasons, to do with the institutional importance of avoiding certain types of balance sheet adjustments, the official donors, who are also the main creditors, are putting money in so that the debt can be serviced. It is important, however, to bring the appropriate perspective on the real nature of the debt problem. The debt problem is not, I would argue, a problem of too low a level of aid to Africa--if anything, the levels of aid are too high relative to the current institutional structures for absorbing them. Rather, the debt problem is three fold. First, the **stock** of debt does indeed act as a drag on private investment and on the political economy of policy reform, since it can be argued that the costs of reform will be borne by the local population but the benefits will accrue to foreign creditors (for a discussion of this and other analytical issues on debt and development, see the papers in Iqbal and Kanbur, 1997). Second, the merry go round of constant debt rescheduling, and the negotiations to keep gross inflows sufficient to fund debt servicing outflows, takes up the time, energy and political capital of key policy makers and technocrats. Third, and relatedly, large outflows and matching large inflows lead to the institution of aid dependence in the polity, in the sense this was defined in the last section.

For these reasons, I believe that deep debt relief is needed and appropriate for Africa, and I would support this independently of what might happen to net flows after debt relief. In fact, I believe that donor agencies will be better able to stand firm on conditionality (whether of the Burnside-Dollar, 1997, or of the Oxfam, 1995, variety), since worries on debt servicing have been one of the reasons for the failure to enforce conditionality. Thus worries on the “moral hazard” consequences of debt relief are misplaced--the moral hazard is as much on the donor as on the recipient side. The World Bank/IMF HIPC debt relief inititative (described in Boote et. al., 1997) was probably the best that could have been achieved politically at the time, given the concerns of major donor countries on moral hazard and on the possibilities of demands for debt relief from countries outside the HIPC net. But it was clearly too timid an attempt at resolving one of the key determinants of African aid dependence, and its current implementation leaves much to be desired. In any event, the problems of conditionality discussed here apply equally well to conditional debt relief.

8. Conclusion: What to do?

This paper has presented a somewhat pessimistic diagnosis of the current nexus of aid, conditionality and debt in Africa. It can, however, be argued that this diagnosis reflects a disastrous past rather than emerging realities. With the cold war gone, and the democratic transition beginning in Africa, surely the parameters are now different? While this is true, I believe that purposive reform, undertaken proactively, is what is needed to make the most of the favorable trends (I have restricted myself in this paper to conventional development aid--I have not addressed the issue of growing levels of humanitarian aid).

Based on the diagnosis presented here, I think that four related factors will be central in any reform process. First, it will be important for there to be more of an arms length relationship between donors and recipients--the current system's dysfunctionality arises in part from the fact that donors are involved too intrusively in a country, in the name of aid effectiveness. Second, and relatedly, donors (and recipients) will have to develop a new toughness in standing firm on conditionalities--the incentive systems in donor agencies and recipient countries will have to be modified. Third, deep debt relief will be an important step on the road to achieving greater toughness and more of an arms length relationship on aid flows. Fourth and finally, if the above reforms lead to a fall off in the volume of aid, or even require such a fall off, then so be it--donors and recipients should obsess less about the volume of aid and more about the consequences of aid dependence (in the sense characterized in this paper) for aid effectiveness.

Of course, these basic principles will need to be translated into pragmatic and workable steps. This is not the place to discuss these details. A start is made in this direction in Kanbur (1998), and some concrete steps for a specific agency (which may not necessarily agree in full with the diagnosis presented here) are discussed in World Bank (1998).

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