

Is Bilateral Aid Responding to Good Governance in Africa?

Kwabena Gyimah-Brempong

Timothy Shaw

Val Samonis

“... the recipient knows, the donor knows and, in fact, everybody knows these are paper conditions – the outcome will be determined by the need for both sides to maintain normal relations and flow of aid.”

(Kanbur: 2000)

Introduction

- Importance of aid flows to Africa
- Controversy over aid effectiveness and emergence of poor governance as one of the causes
- Interest in improved governance and governance conditionality for aid flows

Objectives

- Investigate whether bilateral aid to Africa responds to improvements in governance
- Have bilateral donors consistently held African countries to the governance condition?
- How have African countries viewed this condition?
- How has the entry of new donors affected the governance agenda in Africa?
- Has the governance agenda improved governance in African countries?

Methodology

- Aggregate correlation analysis
- Case studies
- African responses

Summary

- Find positive correlation between aid flows and improved governance, although do not establish causality.
- No general agreement on the definition of governance.
- Donors generally focus on technocratic definition of governance.
- Donors do not generally enforce the governance conditionality so long as recipients provide services efficiently.

Results II

- Governance conditionality made more difficult by the entrance of new donors that do not insist on conditionality.
- African countries learnt to exploit efficiency and new entrants to avoid broader governance reforms.
- Partly because of the one size fits all approach, governance has, at best, improved slowly in Africa

Organization

II. Definition and Operationalization of Governance

III. Correlations of Governance and Aid Flows

IV. Case Studies:

Ghana

Ethiopia

V. Varieties of Aid and Its Delivery

VI. African Response to Governance Conditionality

VII. Case Study of Donor Policy: CIDA

VIII. The Road Ahead

Correlation Analysis

Aid Flows and Governance

$$\text{Aid} = \alpha_0 + \beta \text{Gov} + \mathbf{X}\gamma + \varepsilon_i$$

Where: Gov = Measures of Governance

Aid = Net Bilateral Aid Flows

\mathbf{X} = Control Variables

β is Coefficient of Interest

World Banks Measures of Governance

Results

- Aggregate: Positive correlation between aid flows and governance
- Different donors: Generally positive correlation with governance for all countries, but size differs across countries
- Post Cold War: Correlation governance generally stronger after Cold War
- Impressive that aid/governance link got stronger after donors brought attention to the subject

Table 1: Coefficient estimates of governance variables: aggregate data

	Fixed	Effect	DPD	
<i>governance</i>	<i>coefficient</i>	<i>t-statistic</i>	<i>coefficient</i>	<i>t-statistic</i>
<i>Goveffect</i>	0.2919*	1.83	0.3290***	14.75
<i>Polstab</i>	0.0630	0.54	0.7957***	25.49
<i>Regqual</i>	0.2519**	2.06	0.2869***	20.13
<i>Rulelaw</i>	0.3192**	2.09	1.3064***	24.00
<i>Voice</i>	0.1467	1.59	0.6459***	30.14
<i>corruptcont</i>	0.1709	0.55	0.3186***	13.23

*** significant at $\alpha = .01$; ** significant $\alpha = .05$, * significant at $\alpha = .10$.

Table 2: Coefficient Estimates of governance variables: individual donors

	Denmark	France	Japan	Netherlands	UK	US
<i>goveffect</i>	0.1025*** (5.94)	-.0618*** (5.20)	0.3319*** (4.75)	0.2657*** (12.73)	0.1833*** (7.46)	0.3776*** (3.60)
<i>polstab</i>	0.0432*** (2.82)	0.1896*** (6.92)	0.3533*** (6.31)	0.1542*** (3.87)	0.0058 (0.82)	0.2273*** (4.90)
<i>regqual</i>	0.0785*** (4.42)	-.0717*** (8.37)	0.4682*** (5.31)	0.3704*** (14.27)	0.3466*** (20.72)	0.2641*** (5.75)
<i>rulelaw</i>	0.2683*** (11.42)	0.3427*** (12.28)	0.9523*** (10.74)	0.4223*** (14.88)	0.3380*** (21.12)	0.08872 (1.14)
<i>voice</i>	0.0801*** (6.40)	0.1642*** (13.42)	0.1289*** (5.79)	0.1802*** (9.24)	0.1701*** (11.6)	0.2874*** (7.72)
<i>corruptco</i>	0.2507*** (11.27)	-.1425*** (12.43)	0.3621*** (6.54)	0.1086*** (2.70)	0.1003*** (5.65)	0.1163* (1.80)

*** significant at $\alpha = .01$; ** significant $\alpha = .05$; * significant $\alpha = .10$

Table 3: Coefficient estimates of governance variables: aggregate data

	DPD	
governance	coefficient	t-statistic
Goveffect	0.3556***	9.03
Polstab	0.8139***	22.46
Regqual	0.2605***	12.29
Rulelaw	1.898***	23.72
Voice	0.6488***	30.54
corruptcont	0.2818***	13.82
Govtefft*d	0.0086	0.60
Polstab*d	-0.0356***	2.83
Regqual*d	0.0434***	3.81
Rulelaw*d	0.0125	1.14
Voice*d	-0.0080	0.40
Corruptcont*d	-0.0272**	2.07

*** significant at $\alpha = .01$; ** significant $\alpha = .05$, * significant at $\alpha = .10$.

Case Studies

- A. Ghana:
 - Good governance, moderate increases in aid flows, especially U.K.
 - Most donors do not respond to good governance
 - Donors do not fund good governance programs
 - Good governance not the result of conditionality
- B. Ethiopia:
 - Efficient economic management, but poor democratic governance record
 - Large and fast growing aid inflows
 - Some evidence that aid has been used as instrument of repression
 - Continuous flow at best changed the mode of delivery
 - Use Chinese aid and strategic location as a threat to donors

New Sources of Aid & Governance

- ODA from “traditional sources not growing fast enough and declining with world
- “New” Sources of aid to Africa
 - Emerging Economies (THE BRICs)
 - Conditions and forms of Aid from BRICS new Sources
 - Large Private Foundations (Gates, Carter, Clinton, Ford)
 - Form and Conditions
 - Other Sources of Financing for African Development
 - Role of private Foundations in Global Governance (Dingwerth: 2008)
- Impact of New entrants on traditional Donor’s governance agenda: at best water it down.

COD: New Aid Delivery vehicle

- What is COD and how does it work in principle
- Advantages and Disadvantages
 - Incentives to achieve
 - Pays for outcome not for inputs
 - Recipient ownership and innovative production
 - Requires too much up-front resources
 - Too much managerial skills required: the most scarce resource
 - What to do about those who try but fail?
 - How do you measure outcomes and success?
- How will be implemented in Africa? Will the elite who may stand to lose implement its governance agenda?

African Response

- Know that donors will not push for serious and broad based governance: interested in showing results on economic outcomes---growth, poverty reduction and achieving MDGs
- Improve economic management and promise to reform governance broadly defined and aid will flow
- When in doubt, use the “China card” or the use strategic position

Donor Case Study: CIDA

- CIDA's Aid Strategy
 - Building Economic Foundations
 - Growing Businesses
 - Investing in People
- Strengths
- Weaknesses of the Strategy
- How have these strategies been implemented in Africa?

Summary & Road Ahead

- Governance conditionality has not been effective in improving governance in Africa
- Donors have not rewarded countries with improved governance with more aid; they have not punished those with poor governance records
- Governance conditions themselves may undermine the establishment of democracy in Africa
- African leaders have focused on improving economic governance rather than governance in broader sense in exchange for continued aid

The Road Ahead

- Aid from OECD dwindling
- Being replaced/supplemented with aid from BRICs and other sources
- The need innovative sources of financing development
- The need for donors to look at diverse ways of looking at governance based on each country's institutions and customs