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IS BILATERAL AID RESPONDING TO GOOD GOVERNANCE IN AFRICA?

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This paper investigates whether aid flows from traditional donor countries to African countries have responded to improved governance in African countries. It is observed that at the aggregate level, aid flows to African countries respond positively to improved governance. However it is noted that while all donor countries purport to increase aid flows in response to improved governance, donors generally tend to follow aspects of governance consistent with their national and foreign policy interests. The paper also finds that there are diverse, alternative and additional funding sources of development financing available especially from the Global South. Finally, the paper finds that a new mode of aid delivery---cash on delivery---may not be easily implantable in African countries.

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IS BILATERAL AID RESPONDING TO GOOD GOVERNANCE IN AFRICA?[1]

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THE AFRICAN CAPACITY BUILDING FOUNDATION

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The Foundation is currently present in 45 African countries and has committed over US$500 million to capacity development interventions since its inception.

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LIST OF ACRONYMS

APRM	African Peer Review Mechanism
ART	Anti-Retroviral Therapy
BRICs	Brazil, Russia, India, and China
CIA	Central Intelligence Agency
CIDA	Canadian International Development Agency
COD	Cash on Delivery
CTT	Currency Transaction Tax
DfID	Department for International Development (UK)
DPD	Dynamic Panel Data (estimator)
DRC	Democratic Republic of Congo
DRM	Domestic Resource Mobilization
DSF	Digital Solidarity Fund
EC	European Commission
EITI	Ethical Trade and Extractive Industries Initiative
EU	European Union
FATF	Financial Action Task Force on Money Laundering
FBOs	Faith Based Organizations
FDI	Foreign Direct Investment
FE	Fixed Effects (estimator)
FOCAC	Forum on China-Africa Cooperation
GAVI	Global Alliance for Vaccines and Immunization
GDP	Gross Domestic Product
GEF	Global Environmental Facility
GNI	Gross National Income
GSF	Global Solidarity Fund
HDR	Human Development Report
HIPC	Heavily Indebted Poor Country
IBRD	International Bank for Reconstruction and Development
ICANN	Internet Corporation for Assigned Names and Numbers
IFFIm	International Finance Facility for Immunization
IFIs	International Financial Institutions
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
KM	Knowledge Management
LDCs	Less Developed Countries
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MCGs	Millennium Challenge Grants
MDGs	Millennium Development Goals
MeTA	Medicines and Transparency Alliance
NEPAD	New Partnership for Africa's Development
NGOs	Non-Governmental Organizations
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OECD-DAC	Organization for Economic Co-operation and Development-Development Aid Committee

OFCs	Offshore Financial Centers
PBS	Protection of Basic Services
TICAD	Tokyo International Conference on African Development
UK	United Kingdom
UNDP	United Nations Development Program
UNEP	United Nations Environmental Program
UNFCCC	United Nations Framework Convention for Climate Change
UNU-WIDER	United Nations-World Institute for Development Research
USAID	United States' Agency for International Development
USD	United States Dollar
SWFs	Sovereign Wealth Funds
WEF	World Economic Forum

ABSTRACT

This paper investigates whether aid flows from traditional donor countries to African countries have responded to improved governance in African countries, whether aid has been used by donors to improve the quality of governance in the last two decades; it also investigates alternative sources of development financing, especially from the Global South, as well as researches new modalities of aid delivery. Using the insights provided by several alternative approaches, the paper finds that at the aggregate level, aid flows to African countries respond positively to improved governance. However, there are wide variations in country experiences–while aid flows to some countries respond positively to improved governance, aid flows to other countries are not in any way related to changes in governance.

The paper finds that while all donor countries purport to increase aid flows in response to improved governance, donors generally tend to follow their national interests and focus on aspects of governance that are consistent with their foreign policy interests but not necessarily the governance as more broadly conceived. Although some donors respond positively to improved governance and may withhold aid for egregious violations of human rights, most donors give aid to further their strategic interests even in the face of poor governance records of recipient countries. While some donors provide aid to support activities that improve governance, donors have generally not used increased resources to support activities to improve governance. Africa countries on the other hand have learnt to take advantage of the ambivalence of donors towards governance reforms by promising to reform governance in exchange for aid without following through with the promises.

The paper also finds that there are several sources of alternative development financing, available especially from the Global South. While these sources provide relatively small amounts of financing, they are rapidly increasing in importance and it behooves African countries to seek these sources not only as additional sources of development financing but also as a way of diversifying funding sources. In addition, the delivery mode of development financing from these sources is different from those of the traditional sources and may be more suitable to African needs. Finally, the paper finds that a new mode of aid delivery–cash on delivery–may not be easily implantable in African countries.

Key words: donors, bilateral aid, governance, cash-on-delivery, Africa

"good governance is perhaps the single most important factor in the eradication of poverty and promotion of development."
Kofi Annan

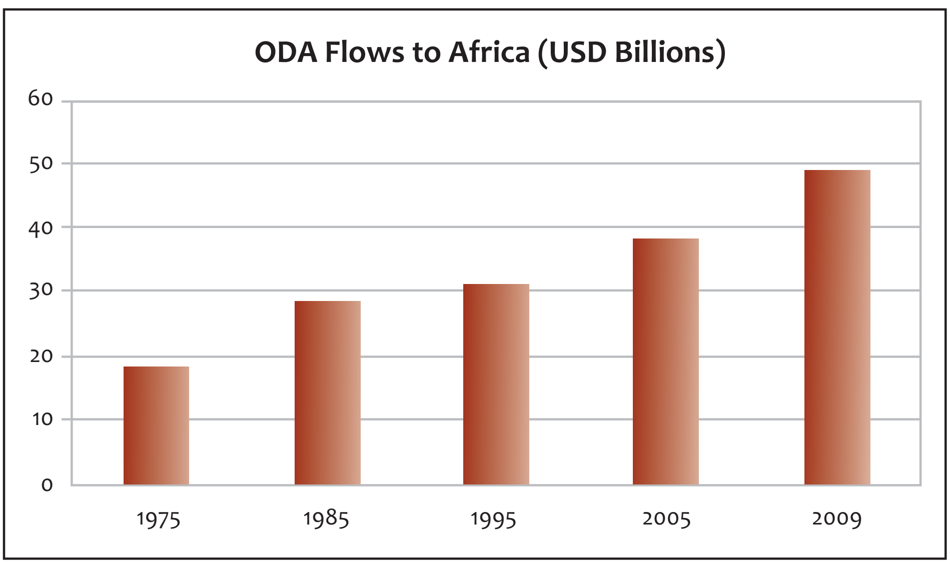
1. INTRODUCTION

Bilateral aid has been an important instrument through which donors support as well as influence development in Less Developed Countries (LDCs). Developed countries (DCs) have pledged to substantially increase aid to LDCs in order to achieve the Millennium Development Goals (MDGs). As a result, bilateral aid flows from Development Aid Committee (DAC) countries to LDCs is expected to reach 120billion US dollars (USD) in 2010. For African countries, net bilateral aid flows from DAC countries was expected to reach anywhere between 42 to 50 billion USD in 2010. Indeed as table 1 and figure 1show, net aggregate aid flows to Africa increased annually in the 1990s reaching49.08 billionUSD in 2009, the last year for which data is fully available.[1]

Table 1: ODA Flows to Africa: 1975-2009

Year		1975	1985	1995	2005	2009
ODA Flows	(billion USD)	18.587	29.033	31.292	38.415	49.081

Figure 1: ODA Flows to Africa: 1975-2009



Source: Calculated from OECD-DAC, ODA to Africa by recipient country, OECD-DAC, 2010. Figures are in 2008 USD.

Table A1 in the appendix shows in detail the trend in decade average flows of net ODA in 2008 real USD to Africa over the 1970 to 2009 by country. The data shows a gradual increase in real net ODA flows to Africa over the period. The data shows that in the first decade of the 21st century, the 10 largest recipients of ODA in Africa are Ethiopia, Tanzania, Sudan, Mozambique, Congo DRC, Uganda, Nigeria, Kenya, Ghana, and Zambia. These countries receive an average of 44% of ODA that goes to Africa. With the possible exception of Ghana and Tanzania, these leading recipients have not been shown to demonstrate "good governance" in their policies. Indeed Human Rights Watch suggests that some countries use aid as instrument of repressing their citizens.[2] The 10 leading bilateral donors to Africa over the period are the United States, France, United Kingdom, Germany, Japan, Netherlands, Canada, Spain, Sweden, and Norway. A relatively large part of ODA flows in recent years has gone to fund the social sector, followed by general program aid and production aid in that order. There has been a gradual shift towards general program and multi sector aid as donors increasingly stress the importance of country "ownership" of development programs.

Tables A1-A2 and Figures A1-A2 present the average total ODA flows to African countries over the 1980 to 2009 period, the sectoral composition of these flows and the composition of ODA flows to the social sector in 2009 respectively. Table A1 and figure A1 show that the largest share of ODA flows to African countries is allocated to the social sector and that this share has been growing over time. In 2008, for example, about 47% of ODA flows to African countries was allocated to the social sector. An economic activity was a distant second with 18% of ODA in that year. Within the social sector, education, health, and other social services, in that order are the leading recipients of ODA in African countries. These patterns are repeated for 2009 as Table A2 and Figure A2 indicates.

While donors have increased the flow of aid to African countries and LDCs generally, they have also stressed the need for improved governance as a condition for allocating aid[3]. It also appears that the increased aid flows to Africa coincided with the period of increased attention by donors to issues of governance in African countries. To what extent is this relationship between aid flows and governance causal or just mere coincidence? Have donors followed the rhetoric on improved governance by rewarding countries that have good/ improving governance and how have they increased the funding of interventions that lead to improved governance? Within the African context, there has not been an evaluation of whether bilateral aid flow responds positively to good (improved) governance.

Aid effectiveness studies conclude that aid is effective in fostering development (economic growth) only if the institutional environment (governance generally) is appropriate. Following the publication of the World Bank's 1998 Report, *Assessing Aid: What Works, What Doesn't, and Why?* and the 2002 Monterey Declaration, several bilateral and multilateral aid donors adopted the idea that aid should be conditioned on good governance in recipient countries. The European Commission (EC) for example, in 2006 established the *Governance Incentive Tranche* in its aid program to reward countries with better (or improving) governance with more or additional aid. Similarly, the US Millennium Challenge Account (MCA) has set up specific governance criteria that countries must meet before they qualify to apply for Millennium Challenge Grants (MCGs). African countries have embraced the concept of improving governance as the basis for Africa's development. The New Partnership for Africa's Development's (NEPAD) first principle states that African leaders recognize that there cannot be sustainable development without good leadership and democratic, participatory governance. The African Peer Review Mechanism (APRM) that monitors and encourages good governance as a pre-requisite for sustained development is a manifestation of NEPAD's commitment to good governance.

The adoption of good governance as a conditioning factor by donors and the acceptance of African countries of this condition should suggest that countries with better or improving governance should receive more (or increased) aid than those that do not improve governance. This pattern of allocation is efficient because it allocates aid to where it is most productive; it also provides incentives for recipients to improve the quality of governance assuming that is one of the objectives of donors. Despite the pronouncements of donors and recipients as taking governance seriously in aid allocation, the limited evidence available suggests that donors have generally not followed through by allocating more aid to countries with better or improved governance. For example, many studies find no relationship between good governance and aid allocation (Alesina and Weber: 2002, Berthelemy and Tichit: 2004, Molenaers and Nijs: 2009, and Gani: 2009, among others). Busse and Gronin (2009) suggest that increased aid leads to poor governance in recipient countries although they do not investigate the mechanisms through which this occurs. On the other hand, Presbito (2009) concludes that while debt forgiveness does not generally lead to increased economic growth, there is evidence that donors are rewarding countries that improve their institutions with debt forgiveness.

There are a few inconclusive and contradictory studies on the relationship between aid flows and governance in the world generally. However, there are no studies that focus on Africa. The few studies mentioned above are cross country international studies or limited to parts of the developing world other than Africa. Given the high reliance of most African countries on aid (reaching 10% of GDP for some African countries) to finance development or recurrent expenditures, it may be important to investigate how conditioning aid on (or conditions) governance affects aid flows, hence development generally. Another reason for this study is the heterogeneity of the experiences of African countries that need support on account of governance. African countries can generally be classified into three categories: Countries that have always had relatively good governance that need to be rewarded, there are countries that previously had bad governance and are reforming that need to be encouraged and supported, and finally, there are countries emerging from conflict or failed (fragile) state status that needs support to establish their governance institutions. Certainly, a one size fits all approach will not work for such a diverse group. A study that recognizes these differences is therefore called for.

1.1 Conceptual Issues

The role of governance in the allocation of aid began to emerge in the early 1990s at the end of the cold war. The process was given added impetus with the publication of the World Bank's 1998 Report and the influential paper by Burnside and Dollar (2000). Although different donors have had variations of governance as a condition for aid flows, bilateral aid donors put emphasis on improved governance and harmonized aid policies at the end of the 20th century and at the beginning of the 21st century. For example, the EU policy stance on governance was approved by the EU Council, the EU Commission, and the EU Parliament in 2005. EU development assistance was to be conditioned on the quality of governance, human rights, and the support for institutional reforms. Each Country Strategic Paper (CSP) should include an analysis of political development. The political development should consist of a set of political indicators that are similar to the World Bank's Governance Indicators. While countries are to be "punished" for poor governance, the EU policy also looks at factors that impede governance in recipient countries and develop packages to overcome them. In the special case of fragile states, the policy emphasis should be on national stability rather than democratic governance in the allocation of aid.

In a lot of ways, the EU policy on governance is contradictory. While it seeks to punish countries for not improving governance, it also seems to use aid as a mechanism for building institutions for governance, thus making governance a goal to be achieved with aid. In a special issue of the *Third World Quarterly* that analyzes EU policies, Taylor (2010) argue that the technocratic approach to governance adopted by the EU essentially validates and perpetuates the personalized governing style of African leaders rather than encourage the development of genuine democracy. Second, despite the EU rhetoric on governance as a condition for aid allocation, actual aid allocation by the EU contradicts the stated good governance policy.

Two conceptual problems arise in the study of the relationship between aid flows and good governance. Conceptually donors can treat aid in one of two ways: (i) as a condition for providing aid or (ii) as an outcome to be pursued with aid. If good governance is treated as a condition for receiving aid, then it stands to reason that countries with good (improving) governance should get more aid. On the other hand, if governance is considered an objective outcome for aid giving, then countries with poor governance that promise to improve governance should be given more aid to improve governance and countries with good governance will have less need for aid to reform governance. These objectives are illustrated by the aid/governance relationships chosen by MCA and the DFID's Drivers of Development (DD) strategy. While the former insists on recipients achieving a given level of governance before getting aid, the latter provides increased aid even if governance is poor so long as the objective is to improve governance. There is an inherent tension between these two treatments of governance in aid allocation, even from the same donor.

A second problem with the study of the relationship between aid and governance is how one defines and measures governance. There are different conceptions of governance partly because governance is a broad concept with multiple components. It means different things to different organizations, nations, and may mean different things to different actors in the same organization. In addition, even governance experts focus on different aspects of governance---global governance, corporate governance, participatory governance, among others. Good governance is steeped in a country's history and culture, making it difficult for a universal definition and measurement of good governance. We discuss the concepts of good governance below. Different countries may emphasize different components of governance. Often donor countries and recipient countries may disagree on what constitute good governance and this may lead to a misunderstanding between the two parties.

Governance is a multi-faceted concept and different donors have tended to focus on different aspects of governance. For example, multi-lateral donors, such as the World Bank define and focus on the *efficiency* of the government as the relevant measure of governance, US tends to focus on *electoral democracy* and the protection of *private property rights* as its measure of governance, while most European countries focus on *human rights, democracy broadly defined* and *poverty reduction* generally as their measure of governance. Such freedom to choose from the broad definition of governance makes the evaluation of the relationship between governance and aid flows based on a much narrower definition of governance very difficult. While a country might have ``good governance" on account of government efficiency, it may fail on account of human rights and voice and accountability. A study of the response of aid to governance should therefore take a broader view of the definition of governance. Unfortunately, the few studies conducted on the subject have adopted one of the more restricted definitions of governance. This study intends to use a much broader definition of governance than has been used in the literature.

In addition to not specifically addressing how aid flows respond to governance in Africa, previous studies have focused on cross country analysis which may be incapable of detecting how donors react to *changes in governance* in a particular country. We address this by including a number of detailed country studies on how aid flows have responded to changes in governance in these countries over time.

1.2 Objectives of the Study

This paper investigates how the flow of bilateral aid to Africa has responded to the level and changes in governance in African countries since 1980. This paper investigates whether bilateral aid to African countries has responded positively to good (or improved) governance. Specifically, the paper investigates whether African countries that improve their governance are rewarded with more and better quality aid; it also looks at the other alternative. Our study focuses on bilateral aid because we believe that bilateral donors have greater latitude in setting their own aid agenda and modalities to suit their preferences as opposed to the policies of multi-lateral aid donors whose policies are likely to the results of negotiations which might result in an outcome that does not reflect the preferences of any party to the negotiation. A study of how aid responds to changes in governance should exclude *emergency humanitarian aid* since by definition this type of aid is given in response to emergencies without any condition.[2] Issues the study will attempt to answer include, but not limited to, the following:

- Does aid respond to improved governance in Africa? What has been the record of linking aid to improved governance in Africa at the aggregate level?
- Do donors view governance as a condition of giving aid or they view governance as an objective to be achieved with the help of aid? How do different donors treat governance in aid allocation? Which donors have responded to improved governance in African countries by increasing the quantity and quality of aid flows?
- Do donors agree on the definition and operationalization of governance? Which aspects of governance do different donors stress? How does the definition of governance affect the aid policies of donors as well as the reception of African countries?
- How have bilateral aid donors changed, if at all, their governance conditionalities in the presence of the current global financial crisis?
- Case Study of donor policies and how these policies and practices have changed with the adoption of governance as an aid allocation condition (Canada).
- Are there new entrants into the "aid market" in Africa and what is the effect of the entry of these

Emerging donors (Brazil, China, India, the Gulf States, major private Foundations [Gates, Clinton, Carter, Ford, etc.]) on the governance agenda of traditional bilateral donors?

- Case Studies: Africa (Ghana, Ethiopia). These countries are major recipients of aid in Africa with representing a case of good or improving governance and the other not so well in terms of governance.
- Major Lessons for Africa and the donor countries.

We have chosen 1980 as the start date in order to give us enough lead time to assess changes in aid flows in response to changes in governance in Africa.

1.3 Methodology

The approach we take in this study is a combination of both cross-national panel regressions and country case studies. We will use panel regression analysis to investigate the overall response of aid flows to Africa to changes in governance. We will also look at how governance in Africa has responded to aid flows since donors made governance a priority area. In this analysis, we will adopt the World Bank's 6 point measure of governance---rule of law, control of corruption, voice and accountability, government effectiveness, regulatory quality, and political stability and lack of violence.

Besides, the cross country study, the paper will also include time series analyses of aid flows to specific group of African countries to see how donors have responded to changes in governance with changes in aid flows to these countries over time. This allows us to trace the *dynamics* of the relationship between aid flows and governance in Africa over time in specific institutional and cultural environments than will be possible in the cross-country panel analysis. We will choose the countries to represent those with good or improving governance, those with not so good governance or governance structures that are not improving, and the countries in special circumstances of emerging from conflict. This part of the study will be less of a statistical analysis but verbal in exposition.

The paper will also examine how the aid policies and *practices* of a sample of donor countries change in response to the emergence of governance as an important variable in aid allocation. In particular, we will be interested in the definition and measure of governance adopted by different donors and how the policies on governance are implemented by these donors and how the policy implementation has affected aid flows to Africa over time. .

The rest of the paper is organized as follows. Section 2, following this introductory section, discusses how donors define and measure governance and whether donors agree on a common measure of governance, Section 3 is devoted to an empirical analysis how aid flows to African countries have responded to changes in governance and whether African countries have responded to donor policies on governance, while section 4 presents two African case studies. Section 5 discusses varieties of aid and forms of governance for development needs of Africa in the 21st century as well as discussesa new vehicle of aid delivery (Cash on delivery) and how it will work in African countries; section 6 discusses the response of African countries to governance conditionalities imposed by donors, Section 7 discusses Canada's bilateral aid policy and how it has evolved over time. Section 8 concludes the paper and discusses the road ahead.

While this paper does not discuss policies for improved governance *per se*, it is hoped that lessons for improving governance for both donors and recipients in Africa, and a better utilization of aid could be derived from this paper.

II. DEFINITION AND OPERATIONALIZATION OF GOVERNANCE

Donors have focused on "good" or improved governance as a condition for giving aid or increasing aid flows to African countries in recent years. However, it is not clear what "good" governance means. Indeed there is no agreement on what governance mean in the development literature as several different conceptualizations of the term are used in the literature without much attempt to reconcile them. Here we discuss how various donors have defined and operationalized the concept of governance. We do not take a stand on what the term means but only discuss how it has been defined and used by various donors and the implication of a particular definition for aid flows to African countries.

Discussions of good governance increased in the development literature out of concern about the ineffectiveness of aid to generate rapid economic growth in generally poorly governed developing countries. As a result, the initial conception of governance and what constitutes "good governance" was a technocratic one; good governance was equated to governments that provided services effectively and efficiently and one that has the ability to formulate and implement policies effectively to facilitate rapid economic growth. This conception of governance was less concerned with democracy, human rights, rule of law, voice and accountability that are not directly related to the economic growth. To the extent that fighting corruption and other vices are considered part of good governance in this conception, they are only considered elements of good governance because they contribute to efficiency in the provision of public services, hence improve economic efficiency. This conception of governance, adopted by the World Bank and other international financial institutions (IFIs), partly reflect the mandates of these institutions; mandates that require them to be "apolitical" in their activities. The technocratic conception of governance ignores large aspects of human wellbeing such as institution building, all important aspects of development. In recent periods, the conception of governance has broadened to encompass several aspects of human development including human rights, poverty reduction, and political, legal, and institutional development.

According to Smith (2007), the broader conception of governance combines ideas about political authority, management of economic and social resources and the capability of governments to formulate sound policies and perform their functions effectively, efficiently, and equitably (Smith: 2007). This conception of governance has been adopted by the United Nations Development Program's *Human Development Report* (UNDP: 1993). This conception of governance does not only look at efficiency but also human rights, broader participation in decision making, gender and racial equity in economic activity, as well as political freedoms. In a sense this broader conception of governance makes governance a multifaceted concept with many component parts.

This broader conception of governance has led countries to emphasize different aspects that suit their political philosophies or national aspirations, partly because they may not be able to emphasize all aspects equally. For example, while the IFIs have emphasized government efficiency, the US, through both the MCA and U.S. Agency for International Development (USAID), emphasizes electoral democracy, market economies and private property rights in its conception of governance for the purposes of giving aid. Poverty reduction and human rights are secondary for its aid allocation considerations. The MCA for example sets strict universal standards to be achieved by recipient countries before a country can apply for an MCA grant. A country signs a compact agreement with MCC if a country scores high on a selection of these indicators. A recipient country is required to set up a special purpose legal entity that will be accountable for implementing the compact programs. If a country does not qualify for a compact based on performance on these criteria but shows a positive trend on these indicators, it can be eligible for a small grant called the threshold program.[5]

Box 1. Selection Indicators for Millenium Challenge Account (MCA)

The MCA has 17 indicators which are used to judge a country's eligibility for a grant. These are civil liberties, political rights, voice and accountability, government effectiveness, rule of law, control of corruption, immunization rate, public expenditure on h health, girls' primary education completion rate, public expenditure on health, natural resource management, inflation rate, trade policy, land rights and access index, regulatory quality, fiscal policy, and business start-up. It is clear from the list that the indicators are the expanded versions of the World Banks governance indicators. It is also clear that most of the indicators focus on efficiency and economic growth rather than on human rights, poverty reduction and other manifestations of the broader conception of governance.

For the US therefore, governance is more synonymous with the World Bank's conception as one of providing the capacity to efficiently and effectively provide services and formulate and implement economic policies rather than the broader conception of governance that includes both legal, political and institutional development as well as concern with human rights.

On the other hand, European countries emphasize poverty reduction, human rights, broader participation in decision making as well as the benefits of economic growth, and efficiency in their conception of governance. They also recognize that African countries may not have the governance system of developed countries such as Switzerland or Sweden before allocating aid but rather look at governance as part of the development process; hence they are willing to fund the development of governance as part of the development aid package. As a result, they offer positive reinforcement for improvement in governance as evidenced by the EU's enthusiastic support of the NEPAD initiative on governance as well as the African Peer Review Mechanism (APRM) and the EU's Tranche system.

However, even within the EU, there are subtle differences in the conception of governance as member countries tend to put different emphasis on different aspects of the subset of components the EU focuses on. For example, the UK emphasizes poverty reduction more than anything else in its aid allocation hence its governance criterion for aid allocation is to what extend governments follow policies that decrease poverty. In this connection, it looks to understand the peculiarities of a country and who (what) the agents of change are and use those agents to develop its programs of change for that country. DfID understands that governance is shaped by the history and customs of a country hence there is no universal standard of good governance. Norway on the other hand puts more emphasis on measures to promote peace and stability, human rights, support for political elections, and establishment of legal processes. For example in the 1990s, it supported multiparty elections in Zambia, Ethiopia, and Uganda as well military demobilization in Mali.

The implication of the differing conception of governance by donors is that African countries are faced with a bewildering array of conception of governance as they receive aid from several countries with different conceptions of good governance at the same time. This makes it difficult for African countries to respond to the various governance conditions from different donors. They choose elements of good governance that will maximize their aid receipts.

III. DONORS' TREATMENT OF BILATERAL AID

This section discusses two inter-related issues: (i) whether donors insist on governance as a condition for giving aid and if so, how has aid flows to Africa responded to changes in governance across countries and through time? (ii) If donors consider governance in giving aid, which aspect of governance do different donors emphasize in giving aid to African countries? The discussion will be both theoretical and empirical. The first sub-section focuses on how donors incorporate governance in their aid polices and how this has changed over time while the second sub-section presents empirical evidence of how aid flows to Africa has responded to governance. The first part of this section uses a descriptive analysis to evaluate the policy position taken by various donors on the use of governance as a condition for aid allocation. The second part then uses panel data on bilateral aid flows to Africa from 1980 to 2009 to investigate to what extent aid flows to Africa respond to changes in governance across countries and through time.

3.1 Theoretical Conception of Aid

The theoretical conception of good governance by various donors has been discussed in section 2 above. This subsection only mentions how donor's emphasis on governance in aid giving has evolved over time. Prior to the 1980s, and to some extent up to the end of the cold war, the major determinants of bilateral aid flow to African countries were colonial heritage and geo-strategic importance of the recipient country. Good governance featured very little in the allocation of aid and this allowed African countries with poor governance records, such as Zaire under Mobutu to obtain large volumes of bilateral aid while relatively well governed countries like Tanzania and Senegal got little bilateral aid. Egregious human rights abuses and corruption in high places were ignored in aid allocation so long as the dictator promised to fight communism and voted with the benefactor at the United Nations (UN). The Eastern bloc countries treated their clients similarly.

Concern with the ineffectiveness of aid led to the search for the determinants of aid effectiveness. This body of research led to the "discovery" of governance as an important determinant of aid effectiveness; the highlights of this research being the publication of the World Bank's 1998 Report and Burnside and Dollars 2000 paper. Governance emerged out of this research as an important determinant of aid effectiveness. In this strand of the literature, the conception of governance was one of a government that efficiently and effectively provides public services, formulated and end implemented economic policies. Essentially governance in this conception referred to government effectiveness so long as it leads to economic growth. Governance became synonymous with the technocratic conception view.

Over time, this conception of governance did not lead to increased effectiveness of aid. Donors not only felt that aid effectiveness will require recipients to "own" the development agenda. This implied broader participation in the decision making. In addition, concern with persistent poverty led to the adoption of specific development goals, Millennium Development Goals (MDGs) to be achieved by 2015. At the same time the conception of development was broadened to include basic freedoms. These forces combined to bring about a broader conception of governance as discussed above. The end of the cold war made it easier for donors to pay attention to this broader conception of governance without fear that African countries would be driven to the "enemy's" camp. This suggests a possibility that the effects of governance on aid flows may be stronger post-cold war than pre-cold war. Whether this is the case or not is an empirical question.

3.2 Empirical Evidence

This subsection investigates to what extent bilateral aid to Africa has responded to governance. To do so we estimate determinants of aid equation using panel data from 53 African countries over the 1990 to 2009 period. We estimate a simple equation of aid determinant similar to the one estimated by Alesina and Dollar (2000) with different measures of governance as added regressors.[6] The principal measures of governance we use are the six governance indices in the World Bank's *Governance Matters VIII*, government effectiveness (*goveffect*), political stability (*polstab*), regulatory quality (*regqual*), rule of law (*rulelaw*), voice and accountability (*voice*), and control of corruption (*corruptcont*).[7]Data for these variables are obtained from Kauffman, D., A. Kraay, and M. Mastruzzi, *Governance Matters: VIII*, (World Bank: 2009). The equation is estimated for each governance indicator using both aggregate bilateral aid data as well as bilateral aid from each of the major donors. We first present estimates of the relationship between aggregate bilateral aid flows to Africa and governance indicators followed by estimates of the relationship between bilateral aid to African from selected donors and governance.

In this simple model, aid flows are seen as dependent on governance, initial income, lagged growth rate of per capita income, population size, and years of colonization. We expect initial income (y_o), lagged real per capita GDP growth rate (*gdpcapgro*), and population (*pop*) to be negatively related to aid inflows on the assumption that aid is generally given to countries in need, conditional on other variables. On the other hand, years of colonization (*colonial*) and good governance are expected to be positively related to aid inflows. The data for estimating the equation comes from various sources. The aid data is obtained from OECD-DAC, while the colonization and ethno-linguistic fractionalization data comes from the data compiled by Alesina *et al* (2003) as updated and downloaded from the Centre for the Study of Civil Wars at PRIO. Data for the rest of the variables for estimating the equations are from the World Bank, *World Development Indicators on Line*, 2011.

Before we present the estimates, we offer a note of caution. The estimates presented in this section should be treated as suggestive at best. The problem of data adequacy and reliability in Africa is well known. Second, the data used for these estimates come from DAC sources; certainly DAC is not the only source of bilateral aid flows to Africa. Given the increasing flows of aid from non DAC countries as well as private foundations, such as Gates, Ford, Carter, combined with the relative decrease in aid flows from traditional sources, it is possible that the data used for these estimates may measure aid flows with errors hence may impart biases to the estimated relationship between aid flows and governance. We note however, that we are more interested in the direction of the relationship between aid flows and governance than in the magnitude of the coefficients of the estimates. We feel therefore that the estimates presented below provide an indication of the nature of the relationship between bilateral aid flows to African countries and governance. We use the Systems dynamic panel data (DPD) estimator to estimate the aid equation. Estimates for the two-step systems DPD estimator are presented in table 2 below.

Table 2: Coefficient estimates of governance variables: aggregate data

	Fixed Effect		DPD	
governance	***coefficient***	***t-statistic***	***Coefficient***	***t-statistic***
Goveffect	0.2919*	1.83	0.3290***	14.7 5
Polstab	0.0630	0.54	0.7957***	25.49
Regqual	0.2519**	2.06	0.2869***	20.13
Rulelaw	0.3192**	2.09	1.3064***	24.00
Voice	0.1467	1.59	0.6459***	30.14
corruptcont	0.1709	0.55	0.3186***	13.23

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

Table 2 presents the estimates for the various governance indices using aggregate bilateral aid data. Column 2 and 3 present the coefficients from the fixed effects (FE) estimator while column 4 and 5 presents the estimates from the dynamic panel data (DPD) estimator. In the presence of dynamics and possible endogenous regressors, the FE estimator is not appropriate but we present it for the purposes of comparison. In general, the DPD estimates suggest that at the margin, aid flows to African countries are positively related to all measures of governance, all things equal. The elasticity of aid flows with respect to governance ranges from a low of 0.28 for regulatory quality to a high of 1.3 for rule of law.

The estimates are consistent with the results obtained by Alesina and Dollar (2000) and Lewis (2003) and Bandyopadhyay and Wall (2007) who find that, at the margins, bilateral aid flow to developing countries responds positively to improvements in governance. We note that with the exception of the rule of law, the elasticity of aggregate bilateral aid flows to Africa with respect to governance is low. The results are also consistent with the results of Diarra and Plane (2011) who find positive correlations between all types of aid flows to the developing world and the World Bank's governance measures.

The estimates presented in table 2 are based on aggregate bilateral aid from all donors. It is possible that each donor puts different emphasis on governance generally in aid allocation and those different donors emphasize different aspects of governance. Under these circumstances, the use of aggregate bilateral aid as our dependent variable may lead to biased estimates of the importance donors put on governance when making aid decisions. To test the possibility that different donors put different emphasis on governance when making bilateral aid allocations, we re-estimate the bilateral aid with bilateral aid from each country as the dependent variable for selected bilateral donors (Denmark, France, Japan, The Netherlands, U.K., and the U.S.) for all measures of governance.[8]

Table 3: Coefficient Estimates of governance variables: individual donors

	Denmark	***France***	***Japan***	***Netherlands***	***UK***	***US***
goveffect	0.1025*** (5.94)	-.0618*** (5.20)	0.3319*** (4.75)	0.2657*** (12.73)	0.1833*** (7.46)	0.3776*** (3.60)
polstab	0.0432*** (2.82)	0.1896*** (6.92)	0.3533*** (6.31)	0.1542*** (3.87)	0.0058 (0.82)	0.2273*** (4.90)
regqual	0.0785*** (4.42)	-.0717*** (8.37)	0.4682*** (5.31)	0.3704*** (14.27)	0.3466*** (20.72)	0.2641*** (5.75)
rulelaw	0.2683*** (11.42)	0.3427*** (12.28)	0.9523*** (10.74)	0.4223*** (14.88)	0.3380*** (21.12)	0.08872 (1.14)
voice	0.0801*** (6.40)	0.1642*** (13.42)	0.1289*** (5.79)	0.1802*** (9.24)	0.1701*** (11.6)	0.2874*** (7.72)
corruptcont	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 α = .01; ** significant α = .05; * significant α = .10

The estimated results are from these specific donor equations are presented in table 3. Two general conclusions emerge from the estimates presented in table 3. Generally, there is a positive relationship between governance indicators and aid flows from the bilateral donors to African countries. With a few exceptions, there tends to be a positive and statistically significant relationship between bilateral aid flows from these donors and improved governance, at the margin. The other observation is that each donor emphasizes different aspects of governance in its aid giving. For example, while bilateral aid from Denmark responds more to improvements in the rule of law and corruption control than to political stability or regulatory quality, bilateral aid from Japan responds more to improvements in rule of law. On the other hand US bilateral aid flows to Africa responds more to government effectiveness than to the rule of law or corruption control. Surprisingly, French bilateral aid is negatively correlated with government effectiveness, regulatory quality and corruption control. This may stem from the fact that French bilateral aid is allocated mainly to former French colonies which tend to be among the poorest, institutionally least developed, and the most fragile countries in Africa.

3.3 Governance and Aid after Cold War:

Donors started to seriously emphasize governance as a condition for giving aid at the end of the century after the cold war. If donors truly implement their governance policies, it implies that aid flows to African countries will be more sensitive to governance post adoption of this policy than before the adoption of this policy. Since implementation of the governance took force at the beginning of the century, we created a dummy variable that equal 1 if the period under consideration was 2000 or later, zero otherwise and interacted these dummy variables with the governance variables. We added these interaction terms to the aid equation in our estimation. These estimates are presented in table 4. The coefficients of the governance variables remain positive and statistically significant at conventional levels. However, as the estimates at the bottom of table 4 show, the interaction term for regulatory quality and corruption control are positive and significant, the estimates for rule of law, voice and accountability and government effectiveness are insignificant while that of political stability is negative and significant.

The negative coefficient on the dummy interaction for political stability may suggest that bilateral aid donors may have been less sensitive to political stability in aid allocation after the cold war ended. On the other hand, they have marginally increased their sensitivity to corruption control and regulatory quality in aid allocation. The estimates indicate that aid flows to Africa from DAC countries became less sensitive to corruption control and political stability but more sensitive to regulatory quality. We note that these sensitivity changes are so small as to be economically significant. The general conclusion that emerges from this discussion is that aid flows to Africa has not responded to this policy change.

Table 4: 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
*Goveffect*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 $\alpha = .10$.

The estimates presented in tables 2-4 indicate that in general, aid flow to African countries is positively related to good governance as measured by the World Banks indices of good governance. The results also show that with with the exception of regulatory quality, the correlation between aid flows to Africa and all indices of governance either stayed the same or decreased after the cold war. This may suggest that donors did not put any more emphasis on governance in aid giving after the cold war compared to the pre-cold war period in spite of the rhetoric of increased emphasis on improved governance as a condition of giving aid. The results also suggest that to the extent that donors were interested in improved governance, their interest went as far as governance affected the efficiency of economic policy formulation and implementation, hence economic growth.

IV. IMPLEMENTATION OF GOVERNANCE-AID CONDITIONALITY IN AFRICA: CASE STUDIES

As argued above, bilateral aid donors have made improved governance in recipient countries either a condition for receiving increased aid or as an objective to be achieved with increased aid flows. How have bilateral aid donors implemented this policy change in Africa? One can only get a better understanding by looking at country case studies. In this section we look at the cases of two countries ---Ghana and Ethiopia. These case studies will highlight two things: (a) the seriousness with which donors implemented governance conditionality or governance aid, and (b) how African countries responded or adapted to these governance conditionalities.

4.1 Ghana

Ghana provides an interesting case study of the relationship between good governance and aid inflows to recipient countries. Since the establishment of constitutional rule in 1992, Ghana has had five highly competitive, peaceful and fair elections with the executive and legislature changing hands to the opposition party on two occasions. The country is generally peaceful with little ethnic conflicts, a vibrant free press and civil society, as well as attempts at decentralizing government functions. It also has a relatively good human rights record with sharply decreasing poverty rates and there are attempts to promote gender equality. Indeed the EU report notes:

> *The democratic process has made impressive gains in Ghana over the past decade. ... Ghana's gains in press freedoms are unmatched by other countries in the region or by countries with a similar income per capita. Equally impressive are Ghana's gains in civil liberties and its continued progress on political rights and the protection of human rights.*
>
> *As a result, Ghana's political rights, civil liberties and freedom of the press rankings are not only amongst the best in Africa but are also as good or better than solidly middle-income countries such as Argentina, Brazil, Mexico or South Korea. Democracy has become a strong comparative advantage.* (Ghana-EC, 2007: 6)

In 1992 Ghana promulgated a new democratic constitution on which the then military dictatorship stood and won elections to return Ghana to democratic rule. In addition to participatory democracy, Ghana has also taken steps to protect fundamental human rights. For example, Ghana established the Commission for Human Rights and Administrative Justice (CHRAJ) in 1993 with the enactment of the CHRAJ Act (Act 456). The Commission was charged to (i) investigate violations of fundamental human rights and injustices, corruption, abuse of power and unfair treatment of any person by a public officer in executing official duties, (ii) investigate complaints covering the functioning of Public Services, Administrative organs of the state, (iii) investigate charges of corruption, and (iv) educate the public on human rights among others. Since its establishment, CHRAJ has investigated high profile cases and found some high government officials, including some in the executive and legislative branches to be culpable.

Ghana also established the Women and Juvenile (WAJU) of the Ghana Police Force, later changed to the Domestic Violence and Victim Support Unit (DOVVSU) to deal with issues of domestic violence mainly against women and minors and also to support women in cases of property settlement in divorce cases. This is an area where women had needed legal protection. Often working in concert with CHRAJ, Legal Aid, and the Association of Women Lawyers, DOVVSU has been effective in protecting women and children against domestic violence and success in property settlements. In addition, Ghana established a new Ministry of Women's Affairs that is responsible for ensuring women are treated equally in society.

However, democracy and other manifestations of good governance need improvements and consolidation. If donors care about good governance and its improvement in aid allocation, Ghana should provide a test case in which not only more aid will be given on account of good governance *achieved* but also more aid will be given to encourage further improvements and consolidation of good governance. In this sub-section, we look at how bilateral aid from the EU, four members of the EU---Denmark, Germany, Holland, and UK---as well from the US has responded to good governance in Ghana in the 1990s and 2000s.

Between 1992 and 2009, the latest date for which data is available, total bilateral aid from DAC countries to Ghana increased from 343 million US dollars (USD) to 856 million USD (see data appendix and figure 2). Total net aid flows from all sources to Ghana reached a high of 1.586 billion USD in 2009. The increased aid suggests a substantial increase in bilateral aid to Ghana during the period under consideration. The increase in aid flow was by no means uniform. Bilateral aid decreased from 343 million USD in 1992 to about a little over 200 million USD in 2001, it rebounded sharply from 2002 after the first successful and peaceful transfer of political power in 2002 reaching a high of 856 million USD in 1999 after another peaceful transfer of political power in 2008. Total net official aid flows to Ghana follow a similar pattern as the flow of bilateral aid. Ghana also received 3.5 billion US dollars in debt forgiveness under the Heavily Indebted Poor Country (HIPC) program beginning in 2007. In addition, Ghana received 500 million US Dollars from the US Millennium Challenge Grant to support agricultural and rural development programs beginning in 2007. On the surface then, it appears that both bilateral donors and multilateral donors have rewarded Ghana because of good governance.

Table 5: Total and Sources of Aid to Ghana: 1988-2009 (in millions)

year	Total aid	Denmark	EU	France	Germany	Netherlands	UK	US	DAC
1988	966	10,6	20,4	16	26,4	20,7	49,9	6	256
1989	1210	3,7	19,6	10,4	47,2	20,7	71,9	23	371
1990	851	3,19	20,1	11,7	66	24,8	22,3	13	285
1991	1290	3,46	27,1	23,6	125	15,1	53,8	25	476
1992	861	6,14	62,1	43,9	24	41,5	55,5	27	397
1993	882	13,2	60,9	23,6	51,2	17,8	36,9	46	380
1994	721	16,7	42,4	27	23,9	21,8	28,9	53	376
1995	793	35,3	53,8	23,4	43,7	29,5	20,9	54	403
1996	833	42,3	73,7	15,9	37,1	22,7	33,6	30	424
1997	678	39	24,6	12,5	42,4	17,3	38,1	44	321
1998	972	35,3	32,5	4,57	32,1	21,8	64,6	34,3	407
1999	825	38	25,6	3,76	37,6	11,8	91,8	40,9	381
2000	843	37,2	16,4	3,28	32	27,6	79,9	63,3	392
2001	985	39,7	18,1	4,45	23,8	11,4	97,8	53,5	405
2002	997	51,5	42,4	10,2	34	59,6	122	68,9	447
2003	124	56,7	71,2	18,2	46,8	65,8	124	83,9	555
2004	1610	59,7	63,5	74,5	65,6	153	280	80,4	992
2005	1300	56,1	77,4	37,9	66,4	70,5	120	66,9	693
2006	1330	64,3	61,9	23,2	59,8	97	167	68,4	657
2007	1180	72,1	85,2	41,6	52,7	142	152	70,7	795
2008	1260	77,9	11,8	43	71,7	120	151	79,5	844
2009	1580	88,1	167	49,7	61,2	98,3	154	151	987

Source: OECD-DAC, *Development Aid at a Glance: Statistics by Region, Africa, 2011 edition*

Table 5 shows total and bilateral aid flows from a sample of donors to Ghana from 1988 to 2009. On average, the leading bilateral donors to Ghana during the period under consideration in terms of absolute volume of aid flows were the United Kingdom, EU Institutions, the United States, Netherlands, Canada, Denmark, Germany, and France in that order. In 2009, Ghana received 3% of net ODA flows to Africa compared to Ethiopia's8% and Sudan's 5%. Ghana was the 10th largest recipient of ODA in Africa in 2009. Of this amount only about 13.1% or 197 million USD went to fund "government and civil society" of which governance programs are very small part (see a discussion of governance funding below).This pattern is repeated across individual donors. For example only 5.9 million of UK's 154 million USD or 3.83% of aid to Ghana went to finance "government and civil society". As discussed elsewhere in this paper, most of this aid went to finance governance decentralization as well as to strengthen the legislature but not to develop governance as broadly conceived.[9]This suggests that bilateral aid donors do not emphasize the development of governance in aid funding as the rhetoric on the importance of governance in the development process will suggest.

By far, the EU, as a group and individually, has been and continues to be the largest provider of external assistance to Ghana. EU aid to Ghana has been guided by the general objectives of EU external policy of (i) sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them. (ii) the smooth and gradual integration of the developing countries into the world economy, and (iii) the campaign against poverty in the developing countries. However, what is important is not the general principle of aid policy but how these general principles are implemented in recipient countries as revealed by what donors fund. As the data shows, it appears that EU aid to Ghana has focused mainly on economic development and governance come in only to the extent that it improves economic efficiency.

As the data in table 5 shows, aid flows to Ghana from both EU institutions through the EC Common Fund and from individual member countries increased consistently after the restoration of democratic governance in 1992. Similarly aid flows from the US increased sharply during this period following the trajectory charted by aid from EU sources. While aid flows to Ghana slowed in the 1990s, it increased sharply after the peaceful transfer of power from one political party to another in 2002. It appears that bilateral aid flows to Ghana sharply increased when it became clear that democracy was taking hold, human rights and civil liberties were being protected and that press freedom was guaranteed. In this regard, it appears that donors were generally honoring their rhetoric on the connection between aid flows and improved governance.

While bilateral donors appear to have rewarded Ghana with more aid on account of good governance, there is evidence that donors did not actively support the continuation and consolidation of good governance by funding governance programs. It appears that the focus of increased bilateral aid to Ghana was on increased economic growth rather than improved governance. According to Country Strategy paper and National Indicative Program for 2008-2013 EC focal sectors of the 10th EDP for Ghana were: (i) Transport and Regional Cooperation, (ii) Governance, (iii) General Budget Support, and (iv) Other programs. It must be noted that governance was defined to include decentralization including the construction of rural infrastructure. Of the 367 million Euros EU aid devoted to these programs over the period, 26% or 95 million Euros are budgeted for governance.

Out of the 95 million Euros devoted to governance, 83 million Euros is earmarked for the construction of rural infrastructure with only 12 million Euros or 3% of the entire development budget devoted to governance (civil society capacity building (2%) and improving the capacity of the Ghanaian Parliament (1%)). This reinforces the belief that EU aid is mainly given for purposes of increasing economic developement. It is interesting to note that the 2007 EC-Ghana report noted that "… have identified a number of structural weaknesses that militate against accountability and undermine the oversight of the legislature. In addition, some kind of patron-client relations in the civil service has made it difficult to reform the executive." Given these observations, one would have expected bilateral donors to give more attention to improve and strengthen governance in their aid giving than has so far been given.

Besides aid from EU Institutions which is administered from the European Common Fund, each EU member country has its own aid program for Ghana. The major EU bilateral donors to Ghana have been Denmark, Germany, the Netherlands and the UK. As can be seen from fig 2 and the table on which it is based, aid from these countries followed the same trajectories of total aid to Ghana. Net aid flows to Ghana from these countries, at best, stagnated through the 1990s and rose sharply after 2002 when democracy, human rights, and freedom of the press were strengthened. Of particular note is the sharp increase in aid from the UK aid to Ghana after 1992. US aid to Ghana also rose gradually or held steady over the period from 1988 but, as with aid from other major donors, rose sharply after 2002 and indeed continues to grow relatively fast even at the end of the first decade of the 21st century.

As with aggregate aid to Ghana, it does not appear that any of the major donors to Ghana actively funded governance programs in any meaningful way as the funding for governance programs were almost nonexistent with the little amount of governance funding devoted to either decentralization or improving the functions of the ministries and departments. Even for EU member countries that generally tend to adopt a broader conception of governance, the data suggests that governance received little funding compared to aid funding for economic projects. This is certainly true of aid from the US and the major EU donors–Denmark, Germany, Netherlands and UK.

This perception of underfunding governance programs is confirmed by Akwetey (2007). Indeed the Danish minister of Development when asked about funding for governance in Ghana is reported to have retorted that Ghana was doing so well in governance that she will not talk about governance since it need not be supported in that area. It is also clear from the MCA selection criteria that governance as broadly conceived has never been a priority of US aid giving; its focus has been on the technocratic conception of governance. This suggests that donors used aid to reward Ghana for establishing relatively good governance; however, they did not provide resources to broaden and consolidate good governance in the broader sense of the concept.

One can only hazard an explanation as to why bilateral donors have not increased funding for the expansion or consolidation of governance in Ghana after establishing such an impressive governance record in such a relatively short period, even though Ghanaian consider this record as very fragile. A possible explanation is that bilateral donors think that Ghana is doing fine in governance without their help or Ghana's governance has passed an irreversible threshold so there is no need to put more resources to support a structure that can stand and grow on its own. This may be consistent with the comments made by the Norwegian minister of international development to the effect that Ghana does not need support for governance. A more sinister interpretation is that bilateral donors do not want to fund improved governance but use good governance as a condition for giving aid and that they define good governance as something that is consistent with their objectives.

4.2 Ethiopia

While Ghana presents a case of improved or improving governance with relatively good growth record in recent times, Ethiopia represents a case of rapid economic progress with government led structural transformation in recent decades although there are concerns about its governance record. After years of stagnation, Ethiopia's economy has grown rapidly since the introduction of electoral politics in the late 1990s. Indeed aggregate GDP has grown at the rate of about 8.2% since 2000 while per capita GDP has grown at an average rate of 5.53 during the same period. This compares to a GDP growth rate of 2.38% and per capita growth rate of -0.76% the 1990-1999 decade.[10]The former period coincides with the period of "multi-party democratic" governance in the Ethiopia while the latter period coincided with either the transition or the "non- democratic" period of governance. In addition to rapid economic growth, Ethiopia has also dramatically decreased the incidence of poverty, especially among the rural population.[11]

Unlike Ghana which has been hailed as a leader in improving governance in the African region, Ethiopia has not been noted for improved governance, equitable distribution and improved human rights. While there have been open and fair elections in the last two to three election cycles (with the ruling party winning all), there is not much evidence of improved human rights, growth and development of civil society, nor is there evidence of a growing, vibrant, independent free press or a strong opposition movement. Indeed there is anecdotal evidence that aid has been used as an instrument of suppression in Ethiopia by the government.[12]The combination of increased inflows of aid and rapid economic growth in Ethiopia in recent decades may suggest that the government of Ethiopia has found a way to allocate aid resources efficiently to increase economic growth. The increased flow of aid to Ethiopia may therefore be consistent with the technocratic view of governance as the ability to provide government services and formulate and implement economic policies effectively without regard to other aspects of governance.

Ethiopia, with an estimated population of about 90 million in 2011 (*CIA World Factbook*) is the largest recipient of ODA in Africa and the third largest recipient in the world (OECD-DAC: Development Aid at a Glance, 2011). In 2009, the latest year for which data is available, Ethiopia received a total net ODA inflow of 4.049 billion USD of which 2.057 billion USD was bilateral aid from DAC countries. This represents about 8% of net ODA flows to Africa in 2009.ODA flow per capita to Ethiopia in 2009 was about 49 USD. As a ratio of income, ODA inflows represented 13.2% of GNI and about 33% of per capita GDP in 2009. ODA flows to Ethiopia is not only large in comparison to flows to other African countries, it has grown very rapidly, especially after the advent of multiparty electoral democracy. Between 1999 and 2009, total net ODA flows to Ethiopia as well as bilateral ODA inflows to Ethiopia increased six-fold from 656.18 million USD to 4048.99 million USD and 349.94 million USD to 2057.2 million USD respectively). In per capita terms, ODA inflow increased by 4.7 times during the same period (from 10.20 USD to 49 USD). In comparison, ODA flows to the whole of Africa increased by a mere 28% (from 38.415 billion USD to 49.081 billion USD over the period under consideration). By all accounts, Ethiopia is one of the "aid darlings" in Africa. As in the case of Ghana, there is not a separate line item in the aid statistics of Ethiopia that shows how much aid is devoted exclusively to building or improving governance institutions.

By far the leading donor to Ethiopia is the United States of America, accounting for an average of 600 million USD annually over the last five years, followed by the United Kingdom, Canada, Italy, Germany, Netherlands, Ireland, Japan, Sweden, and Norway in that order. While the annual amounts of ODA flows from these sources may vary from year to year, it appears that the relative rankings of these donors have not changed over along period of time. About 20% of aggregate ODA is devoted to the education sector, 17.9 to other social services, 17.3% to economic infrastructure, 16.2% to humanitarian aid, 9.5% to education,7.7% to program assistance, 7.0% to production sectors, and 4.4% to other sectors. Each donor emphasizes different sectors in its aid allocation. As in the case of Ghana, the largest bilateral donor to Ethiopia, the U.S. focuses its aid on the social sectors, economic infrastructure, and productive sectors of the economy. Similarly the UK focuses its aid giving on programs to reduce poverty without regard to the quality of the broader measures of governance. The EC has budgeted about 644 million Euros in aid to Ethiopia during the 10th EDF. Out of this, 49 million Euros or 8% is supposed to be devoted to strengthening government and governance institutions. However this part of the aid program was not initiated until 2009. In general, there is no evidence that donors have substantially increased resources to promote good governance in the broader sense.

How has aid affected governance and how has the quality of governance affected the flow of ODA to Ethiopia? On the first question, it does not appear that aid flows have improved or expanded the quality of governance in Ethiopia. As indicated above, it appears that the Ethiopian government has improved its ability to provide government services and formulate and implement economic policies effectively since the introduction of electoral democracy in the 1990s. In this technocratic sense, governance in Ethiopia has improved with the introduction of electoral democracy. On the other hand, there is no evidence that governance, broadly defined to include human rights, an independent and vibrant press, as well as the growth and development of civil society organizations, has improved much in Ethiopia since the establishment of electoral politics in the 1990s. For example, while civil society organizations participate in discussions involving the EU and the Ethiopian government, these organizations do not engage in any discussions with the government. In addition, the government passed laws in 2009 that restrict the space for civil society operations; in particular the law barring these organizations from receiving funding from external sources is seen as extremely restrictive. However, bilateral aid flows to Ethiopia continues its upward trend.

If aid is given in response to improved governance, as broadly defined to include human rights, democracy, voice and accountability as well as the development of civil society, one would expect that bilateral aid to Ethiopia would not increase as much as it has over the last decade and half. Alternatively, if aid is used as a mechanism to build improved governance institutions, one would observe a relatively large or an increasing proportion of ODA devoted to governance in Ethiopia, a phenomenon that is not observed. In this sense one may argue that donors are rewarding Ethiopia with increased ODA flows for improved governance in the technocratic sense. Even when there are instances of gross lapses in the broader conception of governance by the Ethiopian government, donors do not cut bilateral aid to Ethiopia, they only change the modalities of aid delivery to Ethiopia. For example following the post-election violence in Ethiopia, European countries and the EU suspended direct budget support to the Federal government of Ethiopia and diverted tie aid into the Protection of Basic Services (PBS) program run by state governments. However, the state governments were all run by the ruling party in power and it is alleged PBS program was used for further repression of political opponents.

The two case studies, illustrating cases of relatively good and improving governance in the broader sense and not so well developed and expanding governance also in the broader sense, combined with increased aid flows may suggest that while donors seem to talk about conditioning aid on improved governance in the broader sense, in reality they have not practiced it in Africa. Where they are concerned with governance, it has to do with reducing corruption and improving the capacity of governments to formulate and implement economic policy and reducing poverty. Concerns about human rights, deepening democracy, freedom of the press, strengthening civil society, and other governance institutions are not made requirements for increased aid nor is much aid provided to develop these aspects of governance.

V. VARIETIES OF AID AND FORMS OF GOVERNANCE FOR DEVELOPMENT IN AFRICA IN 2010?

> *As a direct consequence of the 'Global Recession' of 2008-2009 and the continuing financial instability left in its wake, the G20 has moved into the putative position of premier forum for global economic governance... Between the first two G20 summits nations raised their commitment to spending up to a combined 1.8 percent of GDP. London added the largest pledge in history, over $1 trillion.* (Cooper, 2010: 741)

> *Africa is addicted to aid. For the past sixty years it has been fed aid. Like any addict it needs and depends on its regular fix, finding it hard, if not impossible, to contemplate existence on an aid-less world. In Africa, the West has found its perfect client to deal with.* (Moyo, 2010: 75)

> *We have offered an array of financing alternatives: trade, FDI, the capital markets, remittances, micro-finance and savings. It should come as no surprise that the Dead Aid prescriptions are market-based, since no economic ideology other than one rooted in the movement of capital and competition has succeeded in getting the greatest numbers of people out of poverty, in the fastest time.* (Moyo, 2010: 145).

Reflective of a changing global political economy and in response to contemporary Anglo-American and EU Eurozone financial crises, we need to identify and develop increasing varieties of aid beyond established ODA from the DAC. Such diversity reflects the shift away from a dominant dichotomous North-South axis towards the recognition of an emerging 'second world' (Khanna: 2009) in which South-East relations are increasingly central. The varieties stretch from new conditionalities out of the OECD like limitations on military expenditures and peace-keeping costs qualifying as part of ODA to both capturing domestic resources and innovative global sources. They are amongst the correlates of proliferating varieties of capitalism, companies, civil societies etc. Increasingly non-OECD sources and terms are influential: what are implications for 'good' governance in the second decade of the 21st century?

Exacerbated by the global crisis and spreading deficits, the North-South funding gap is expected to grow: over $300bn per annum between 2012 and 2017, approximately 50% each for climate change and ODA. As the prospect of realizing the MDGs seemed to be receding, a 'Leading Group' animated by France sought to conceive of alternative sources of finance to achieve important global public goods (www.leadinggroup.org). In turn, this Group was encouraged by a 'Forum on the Future of Aid' which brought major INGOs to bear (www.futureofaid.net). Together they constitute an informal global coalition for innovative financing for development (NSI: 2010), advancing 'the concept of taxes for the governing of globalization' (Commonwealth Foundation: 2008).

As traditional ODA, bi- and multi-lateral, from OECD states declines, exacerbated by the financial crisis and its consequences, the marginal importance of alternative sources grows. Such a direction is compatible with the call by Dambisa Moyo (2010: 74) for 'a radical rethink of the aid-dependency model'.

Such novel sources often involve partnerships amongst heterogeneous actors, including Diasporas in the North from Africa and elsewhere, so advancing novel forms of 'new multilateralism' or 'transnationalism' as suggested in f) below is consistent with finding alternative sources of funding to finance Africa's development. These are in addition to Sovereign Wealth Funds (SWFs) which typically facilitate FDI (Xu and Bahgat: 2010).

Here we discuss half-dozen sources at the start of the second decade of the 21st century, although others might be identified, especially franchises and pension funds as well as remittances and SWFs. The top 300 pension funds based overwhelmingly in the OECD countrieshold some $12 trillion in resources, raising profound issues of ethics, environmentalism, CSR etc. They are increasingly diversifying their new investments away from Europe and North America into Asia, Latin America and Africa. The largest pension funds are based in Japan, Norway, Netherlands, Korea, Singapore, Canada, South Africa and now China. By contrast, SWFs are relatively small still ($3 trillion) and primarily extra-OECD: other than Norway and Australia, they are concentrated in the Middle East, especially the Gulf, Russia and China, Hong Kong and Singapore (Xu and Bahgat: 2010). In response to global presence, especially US, concerns, an International Working Group of SWFs has defined and adopted a code of conduct: the Santiago Principles (www.iwg-swf.org).

5.1 Shrinkage in traditional OECD DAC ODA from old North

Of 33 members in the OECD, the DAC of 24 members includes South Korea (www.oecd.org/dac) and now recognizes support for peace-building involving new actors like national armies and private security companies. The Monterrey Consensus on aid effectiveness of ODA sought to advance the MDGs: a decade-long process at the start of new century leading to Busan before the end of 2012. Despite endless effort, it was not enough to meet growing demands and needs, so innovative sources needed to be identified as in e) below. Ironically, the Monterrey Consensus has been articulated as the erstwhile Washington Consensus fades, possibly to be superseded by a Beijing Consensus? Significantly it focuses on ODA quality rather than quantity, reflective of donors' priorities in an era of economic difficulty and contraction.

a) Emerging/Rising Donors

Aside from the BRICs, in the post-bipolar world, several new sources of ODA have appeared, in part as the EU of 27 has insisted on new members like Bulgaria and Romania becoming extra-regional donors. Such donors bring their own histories and identities with them in terms of policy emphases in ODA. Aside from the BRICs, now BRICS, most of this subset are identified in Goldman Sach's Next-11, other than South Africa (www.idrc.ca).

b) Expansion in ODA from 'emerging' economies/powers in 'second world'

The four BRICs (now five BRICS including South Africa), especially China and India (Alexandroff and Cooper: 2010, Cheru and Obi: 2010), are the core of the new 'second world' (Khanna: 2009). Their emerging role is reflected in competing inter-regional conferences outside the traditional EU and North Atlantic: trend-setting annual Forum on China-Africa Cooperation (FOCAC) (Taylor: 2010) and more modest India-Africa Forum both echoing the established Japanese summits – already four Tokyo International Conferences on African Development (TICAD) (www.ticad.net) – and anticipating the September 2010 Korea-Africa Ministerial ahead of the G20 in Seoul: 'Rising Africa, together with Korea' (KOAFEC), itself a curtain-raiser for Busan deliberations on ODA effectiveness at the end of 2011.

c) Burgeoning roles of new private foundations/FBOs/partnerships

In addition to a range of increasingly established Arab/Islamic/Middle East funds such as Gulf/Kuwait,etc., a set of non-traditional private foundations, novel faith-based organizations (FBOs) and myriad, heterogeneous partnerships are increasingly salient, especially in the public health sector. The new foundations include Clinton (www.clintonfoundation.org) and Gates (www.gatesfoundation,org) from the North and in the South, AKF (www.akdn.org), BRAC (www.brac.net) and BRAC University (www.bracuniversity.net),Grameen (www.grameen foundation, org), Mandela (www.nelsonmandela,org), Mo Ibrahim and related African governance index (www.moibrahimfoundation.org) and Tata Trust (www.tata.com).

FBOs likewise tend to be contemporary although some established faith communities have gone through major metamorphoses or rebranding (e.g. Progressio (www.progressio.org.uk). Previously the Catholic Institute for International Relations), Catholic Overseas Development Agency (www.cafod.org.uk), Christian Aid (www.christianaid.org.uk), Catholic Relief Services (www.crs.org), Islamic Relief (www.islamic-relief.com), Lutheran World Relief (www.lwr.org), Mennonites (www.mcc.org), World Vision (www.worldvision.org) etc. (Belshaw, Calderisi and Sugden: 2001; Clarke and Jennings; 2008: 1-45).

Public-private partnerships (PPP) for development span a broad spectrum of issues and agencies, reflective of varieties of capitalism/companies and civil societies in Africa, concentrated in health such as health systems strengthening/global health initiative; e.g. Global Alliance for Vaccines and Immunization (GAVI) (www.gavialliance.org) advancing inexpensive drugs for ATM, Global Fund to fight ATM, the International Finance Facility for Immunization (IFFIm) (www.iff-immunisation.org) and Medicines Transparency Alliance (MeTA) (www.medicinestransparency.org) (Rushton and Williams: 2011).

d) Innovative sources of financing development

> *Global problems require bold solutions and the Currency Transaction Tax is one such innovative idea. It proposes a small levy on foreign exchange transactions using the money raised to finance development for the global public good.* (NSI, 2010: 1)

At the start of the 21st century, mid-decade global consultations led to the establishment of a 'Taskforce on International Financial Transactions for Development' which reported in 2010 on 'Globalizing Solidarity: the case for financial levies' It focused on the global financial sector as the most feasible and 'appropriate point to levy such an innovative financing mechanism' as it 'is uniquely placed as a channel to redistribute some of the wealth of globalization towards the provision of global public goods.' (Leading Group, 2010: 4).

In addition to

i) a Global Solidarity Fund (GSF) for global public goods and

ii) a Currency Transaction Tax (CTT), other innovative sources suggested for financing development include:

iii) airline ticket levy advocated by Spain and South Korea for delivering ATM vaccines with support from the Clinton and Gates Foundations: US$390 million collected in 2008;

iv) carbon taxes/trading, but which catalyst(s)/criteria? Market/state/civil society-driven? How to relate to UN Intergovernmental Panel on Climate Change (IPCC) (www.ipcc.ch) and UN Framework Convention on Climate Change (UNFCCC) Clean Development Mechanism (www.cdm.unfsss.int) *etcetera*?

v) climate change funds such as UN collaborative program (FAO, UNDP and UNEP) on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (REDD) (www.un-redd.org) and World Bank Global Environmental Facility (GEF) (www.thegef.org) with/out civil society dimensions? From Kyoto to Marrakesh and from Copenhagen COP 15 and Cancun COP16 to Durban COP 17 before year's end?

vi) controls on money-laundering (PWYP/EITI) including Financial Action Task Force on Money Laundering (FATF) ex-G8 and -OECD now over two decades (www.fatf-gafi.org) including Caribbean regional FATF (www.cfatf-gafic.org) to regulate regional Offshore Financial Centers (OFCs) (Vlcek, 2008). This field now includes the analytic and advocacy work of the International Task Force on Illicit Financial Flows and Capital Flight in the first decade of the 21st century. Capital flight has now reached some US$500billion per annum, so trade is neither free nor fair and such outward leakages are considerably greater than resource inflows:

The problem is not new, but the liberalization of trade and finance, the growth of multinational corporations and cross-border banking, all facilitated by technological innovation, have increased the scale, scope and momentum of illicit flows and capital flight. Tackling illicit flows and capital flight to help maximize domestic resource retention for developing countries will help kick-start a new era in development and reduce corruption, crime and terrorism. (Commonwealth Foundation, 2008: 23)

vii) digital solidarity fund (DSF), established in Geneva (www.dsf.fsn.org)

viii) remittance taxes as advanced in a debate animated by Spain and the UK to facilitate flows to maximize efficiencies and minimize costs, with a couple of international conferences in London between DfID and IBRD (www.dfid.gov.uk). Dambisa Moyo (2010: 133) notes that although remittances to Africa are lower than flows to Latin America and Asia, at some $20 billion in 2006 they are by no means insignificant. And the HDR 2009 on migration suggests that the inflow may have grown to over $30 billion (UNDP, 2009: 162) with such flows being much larger than ODA for states like Nigeria (450% higher) and Lesotho (340%) whereas lower for, say, Ghana (just 10%) or Uganda (50%) (UNDP, 2009: 161). Remit Aid is an NGO advocating remittance tax relief (RTR) along with remittance taxation for international development (www.remitaid.org). The World Bank only 'discovered' remittances from migrations/diasporas as a significant form of North-South financial flows in the new century: over US$300 billion per annum (www.ibrd.org).

ix) Finally and not the least, UNITAID is an international drug purchase facility to advance access to ATMs, originally established by Brazil, Chile, France, Norway and the UK but now an extensive collaborative coalition of contributing and beneficiary countries, NGOs, affected communities, foundations and the pharmaceutical industry (www.unitaid.eu).

e) Prospects for enhanced 'domestic resource mobilization' (DRM)

DRM will probably be the most and important, long lasting and stable source of funding for Africa's development. In Canada, a NSI project at end of the last decade advanced domestic resource mobilization as a source in five case studies in Sub-Saharan Africa – Burundi, Cameroon, Ethiopia, Tanzania and Uganda - with a focus on taxation and savings to reinforce the Monterrey Consensus for the MDGs (www.nsi-ins.ca/english/research/progress/58.asp)

f) Towards private/transnational forms of 'global governance'?

While private authority beyond the state has become a popular theme of academic writing, the role of stakeholders in the Southern hemisphere as objects and subjects of private transnational governance has rarely been addressed in the literature. To fill this gap, this article examines three private transnational governance (PTG) schemes in the field of global sustainability politics and their relation to the South (Dingwerth, 2008: 607).

Dingwerth treats the turn-of-the-century World Commission on Dams as one of his cases from the global South: the Cape Town-based Commission which Sanjeev Khagram (2004) analyses as the first and only thus far such Commission which brought together private companies as well as states and civil societies. Other contributions to such an inclusive 'governance' perspective include Sanjeev Khagram and Peggy Levitt on 'transnational studies', Klaus Dingwerth (2008) on 'private transnational governance' and Stuart Brown (2009 and 2012) on 'non-state transnational transfers'. These hold relevance for innovative sources/varieties of aid and other flows beyond ODA, and they provide a conceptual frame for non-traditional assistance and governance.

The 'transnational' perspective juxtaposes several disciplines, genres or strands: capital, civil society, class, culture, informal sectors including crime/drugs/guns, logistics, migration/diasporas, sports, supply chains etc. But *The Transnational Studies Reader*does not stretch to ODA (Khagram and Levitt: 2007). Khagram and Levitt (2006: 3-4) identify five distinctive foundations or varieties of 'transnational studies': empirical, methodological, theoretical, philosophical and public transnationalism. We suggest taking the transnational dimension of old and new ODA (e.g. states subcontracting delivery to NGOs or MNCs) to extract from several of these traditions to bring them to bear on contemporary transnational governance for development.

So the Internet Corporation for Assigned Names and Numbers (ICANN) (www.icann.org) despite its sometime controversial debates and decisions, along with the World Summit on the Information Society (WSIS) (www.itu.int/wsis) (Mathiason: 2009, www.internetgovernance.org) may be a model of PTG with relevance for assistance to the global South in the second decade of the 21st century:

> *The process of determining how to govern the Internet is a new frontier for international institutions…*
>
> *In key respects the Internet Governance Forum (IGF) is not like any other current international institution. It represents a new form of global organization…*
>
> *Unlike other areas where civil society, the private sector and governments interact, and where one or another stakeholder tries to achieve primacy, the IGF started with early recognition that internet governance, because of its borderless nature and the fact that the governance issues centered on conflicts of different international regimes, was everyone's concern but without a single actor's power. Thus a multi-stakeholder approach has had to evolve…* (Mathiason, 2009: 146-147).

Likewise, North-South, especially East-South, transfers are likely to be increasingly heterogeneous in the second decade of the new century, symptomatic of an evolving era beyond the simple inherited dichotomy which was ubiquitous before the emergence of a new middle or second world.

5.2 Effects of New Entrants on Traditional Donors' Governance Agenda

New sources of aid to Africa, especially those from the global south that do not impose strict conditionalities on recipient countries, are bound to have an impact on the governance agenda of OECD-DAC donors that have traditionally provided aid to Africa. In what ways have the entry of these new donors affected the governance agenda of traditional donors? It has been argued that Chinese aid to African countries poses the greatest challenge to the governance agenda of traditional donors. Chinese aid to African countries is generally provided through direct production of goods and services in areas that African countries are much in need of and for which the Chinese have expertise (e.g. infrastructure construction). Chinese aid processes provide a one-stop shop in the sense that it provides the financing, technical support and in most cases the construction of the projects directly. Unlike aid from OECD countries which focuses on coordination among donors, China's aid is strictly bilateral in the sense that the relationship is strictly between China and the African country involved; regional and multilateral considerations take a backseat. More important, Chinese aid to Africa is provided without conditionalities, especially the need for improved governance, imposed by OECD donors.

Chinese aid to Africa has often been criticized on several grounds by many commentators for the lack of concern for human rights and other manifestations of good governance by the recipient countries, that it is given as a way of gaining control over Africa's considerable natural resources, and that it is given for political interest of China rather than for the interest of the African recipient. However, there is no empirical evidence to support these accusations. Dreher and Fuchs (2011), using aid data from a large sample of developing countries over the 1956-2006 period, rejects the notion that Chinese aid is "rogue aid". Indeed they conclude that while Chinese aid is influenced by political considerations, it is given for projects and causes that promote both the recipient and Chinese interest and that Chinese aid allocation is no different from the way Western aid is allocated.

Development aid from the global South, especially China, and other sources challenge the current paradigm (OECD-DAC) of aid giving in four distinct ways. First, aid from the global South, replaces the current donor-recipient relationship in which donor funds only the projects and programs it is interested in (i.e. donor determines what is important for the recipient country), with a partnership of equals. In this model of aid, the donor does not determine what is important to the recipient, and does not dictate how and in what form aid is given. Indeed China sees the African recipient as a business partner rather than as an aid recipient. Both donor and recipient negotiate on equal footing without the donor in a superior position on account of historical relationships. More important, the recipient, by determining priorities, truly ***owns*** the development agenda.

Second, the mode of provision is challenged by mutually beneficial aid. Current paradigm in aid giving is that donors do not directly provide the services and goods that African countries need; financing the provision of these goods and services instead. For example, in the area of infrastructure, OECD-DAC donors rarely engage in the direct construction of infrastructure projects. In addition to financing, African countries may lack the technical capacities to construct these projects. Chinese aid not only finance these infrastructural programs, but also engage in the tender, design, and construction of the projects by Chinese firms. This way, complex infrastructural projects such as railroads and hydroelectric projects can be easily implemented with Chinese aid. This approach allows African countries to acquire basic physical and economic infrastructure efficiently through Chinese aid while at the same time providing markets and employment for Chinese firms and skilled labor.

Perhaps the major challenge to OECD-DAC governance posed by aid from the global south is that while the former uses good governance as a condition for receiving/continuing aid, the latter argues for the sovereignty of, and non-interference in the domestic affairs of the recipient country. As Hackenesch (2010) points out, this could negatively affect the global North's governance agenda in several ways.It could negatively impact the effectiveness of the governance conditionality since the global south now provides a *condition free alternative* to aid from the north which is conditioned on improved governance. The North's political dialogue with African countries may also be weakened by engagement from donors from the global south because authoritarian regimes might be less willing to engage is a dialogue on governance of there is an alternative source of aid that does not require such dialogue. At best, African governments could use the existence of such sources of aid as a bargaining chip on governance issues. This is likely to be the case in countries where improving governance might have high adaptation cost to those in political power.

Finally, increased aid flows from the global south challenges the current paradigm on multilateralism and aid coordination. The current paradigm requires coordination and harmonization among various donors often leading to time, effort, and human capital wasted on many conferences delaying aid delivery. Add to this the reporting requirements to several donors with different requirements and one recognizes that the prevailing aid paradigm may require more resources to manage than needed to govern the country. In contrast, aid from the global south generally shuns such multilateralism and focuses on go alone basis. This not only saves time for African countries but also resources in managing aid flows from a large number of countries, each with different governance requirements. In addition, it allows for flexibility so that African countries can easily incorporate aid into their development plans without having to worry about how aid impacts internal political coalitions and structures.

How has aid from the global south in practice affected the governance agenda of the global north in practice? Because aid from the global south is still relatively small, its impact on the governance agenda of the developed world through their aid giving may not be as strong as its potential suggest. However, some African countries have used the existence of this source of aid as leverage to extract concessions from the developed world. For example, Ethiopia has used the existence of Chinese aid and technical assistance to extract concessions from European donors on its governance record. Similarly, Angola has used Chinese aid and technical assistance as a bulwark against governance reforms by the elites in power (Hackenesch: 2011).

5.3 A New Vehicle for Aid Delivery: Cash on Delivery

It has been argued by many observers that aid, whether bilateral or multilateral, has been ineffective in generating development in the developing world generally and Africa in particular (see for example Easterly: 2003). Several reasons have been offered for the ineffectiveness of aid; among these are the usual principal-agent problems, lack of incentives on the part of recipients to produce the expected outcomes, weak institutions and policy environments, to downright corruption on the part of recipient governments. It has been argued that one reason for failure of aid to generate the necessary outcome is the form in which aid is given. Recipient countries have often criticized donors as being inflexible and paternalistic in terms of how to use aid as well as determining what approaches to use to achieve agreed- upon outcomes. As a result of these criticisms, donors have begun to shift the emphasis to results based financing---where the amount of financing is related to the outcome achieved. Among these are the World Bank's Global Program for Output-Based Aid, the EU's tranche systems, and the U.S. Millennium Challenge Account.

Birdsall and Savedoff (2010) have proposed a variant of the performance based foreign aid called Cash on Delivery (COD) aid, that will deliver aid only when an agreed upon outcome has been achieved and independently verified by a third party. Essentially, a donor and recipient negotiate and agree on a development outcome and how to measure that outcome. The donor agrees to pay a specified amount upon the verification of the completion of the agreed upon outcome. A third party verifies the successful completion or otherwise, after which the recipient receives the aid agreed upon earlier. What are the advantages and disadvantages of this mode of aid delivery? What are the practical problems in its implementation? How will this implemented in African countries and what are the possible effects and difficulties of implementation in Africa. This section of the paper discusses these issues. The first subsection discusses the advantages and disadvantages of COD, the next subsection discusses the practical issues involved in its implementation, while the last subsection discusses the problems and realities of its implementation in Africa, especially as it relates to the goal of improved governance. COD aid has been endorsed by the conservative government of UK and forms the basis of their foreign policy. COD aid has also been adopted by the Global Alliance for Vaccines and Immunization (GAVI) through its vaccine fund for some of its programs to ensure the strengthening of immunization systems in low income countries.

5.4 Advantages and Disadvantages of COD Aid

The central elements of COD aid are that a donor and a recipient nation negotiate an aid agreement in which the donor pays for a amount (agreed upon at the time of negotiation) for a unit of an agreed upon outcome. For example, $100.00 for each child that completes primary school and acquires a given level of cognitive skills. The amount of output and how it is to be measured are negotiated upfront as part of the initial negotiation. The outcome is independently evaluated by a third party, possibly paid for by the donor, and upon the certification of completion (or part thereof), the donor pays the recipient the amount due.

There are several potential advantages to the COD approach to aid giving. One advantage is its simplicity and its relevance to the ultimate outcome of interest. The donor pays for the outcome (e.g. children education) rather than for inputs (teacher's salary or the number of schools built) as the traditional approach to aid giving does. In this way, aid is contingent on producing the ultimate outcome thus ensuring accountability on the part of both the recipient and donor. It does not involve the donor monitoring whether and how the aid is sed. The donor does not determine how these outputs are to be produced thus ensuring local ownership and capacity development through learning by doing. COD is also likely to promote innovation and local capacity building since local policy makers are free to use the best possible way to produce these outcomes. It also allows recipient countries to seek private sector involvement in achieving these objectives. This approach promotes transparency through public dissemination of the agreement as well as of the results.

In addition, this approach is likely to encourage the collection of appropriate data for the purposes of evaluation. Recipient countries can borrow against future aid receipts thus being able to capitalize aid flows. This capitalization of aid allows countries to raise funds from the private sector to either speed up the process of achieving the outcomes or to expand the scale of the project. Finally, it strengthens domestic accountability for success compared to traditional aid programs that tend to hide failure by blaming it on donor control, lateness in disbursing aid, or failure of coordination between donor and recipient. COD aid also encourages country ownership as recipient countries have the responsibilities to design and implement polices to achieve the desired outcomes with no interference or oversight from donors.

While COD aid has several potential advantages, its implementation may not be easy. One major problem is how to measure the outcome of interest and whether the agreed upon outcome is an accurate representation of the desired outcome. While both parties may agree on an outcome, e.g. good governance, the problem is how to get a quantifiable generally accepted measure of governance. Is it one that measures electoral democracy, ability to deliver public goods and services effectively, or one that focuses on human rights? Some metrics may be measured precisely but may not be broad enough to capture the appropriate outcome others may be broad but may not be measured precisely. In general, a good metric for measuring the outcome should have the following characteristics: (i) broad enough to be acceptable, (ii) good proxy for the outcome variables (iii) responsive to policy changes, and (iv) should be quantifiable with sufficient precision. A broad measure, such as under-five mortality may be a good measure of child health. Not all measures of output will meet these criteria.

The beauty of COD aid is that evaluation is supposed to be done by an independent third party with the expertise to evaluate the outcome. There is a question as to whether the third party will be truly independent. Either the donor or the recipient will pay the evaluator so there is a sense in which the third party may have an interest in the outcome of the evaluation. Put simply, the third party evaluator may not be completely independent of who pays for the evaluation.

Even if the criteria used to measure outcomes meets all the four criteria mentioned above, there is the issue of how to measure these outputs–total output, average output or marginal product. Theoretically, the appropriate measure of output is additional output. While it is generally accepted that marginal product is the appropriate way of measuring the contribution of policy changes resulting from COD aid, the problem is how to measure such marginal changes. The problem is how to measure the appropriate counterfactual–what the outcome would be without the policy intervention. It is also likely that outcomes may be influenced by outside forces that may be beyond the control of policy makers in the recipient countries. The focus on specific outcomes may also lead to unintended consequences. For example, de Walque, Kazianga, and Over (2011) find that young people who have been exposed to the availability of anti-retroviral therapy(ART) for HIV infections engage in risky behavior.

In addition to the above mentioned problems, there are other issues that may hamper the implementation of COD aid. Among these is the possibility that policy makers may shift resources away from other equally important areas in order to meet the targets set in COD aid programs, thus creating distortions in the allocation of resources. There is the issue of whether COD aid programs are big enough relative to other aid programs to entice policy makers to shift their modus operandi to one that is consistent with cash on delivery aid programs. Development policy and its implementation are greatly influenced by domestic politics. One question that needs to be answered for the implementation of COD aid is whether form of aid delivery can change domestic politics in such a way that will generate the accountability required for aid effectiveness. Finally, one of the major short-comings of low income countries is lack of capacity to formulate and implement policy changes. COD aid assumes that the recipient countries have the capacity to implement the necessary policy changes. Is this the case in many developing countries?

A major problem with COD aid is what to do with countries that are not able to achieve the necessary outcomes. The cornerstone of COD aid is that recipients are only paid for achieving certain outcomes. This means that if countries do not achieve the agreed upon outcomes, they receive no aid. However, it is possible that the countries that may not be able to achieve the objectives are the ones that may need the most aid. It is also most likely that this aid could lead to the achievement of the objectives; hence this mode of delivering aid may defeat the purpose of aid. Alternatively, donors could give partial payment or pay recipients that fall short of the objective since they are poor enough to need the aid. This, however, destroys all incentives inherent in the COD aid approach.

The lesson is that although COD may theoretically be a superior way of delivering aid to recipient countries because it conditions payment on the attainment of results and does not involve the donor in unnecessary administration of aid, its practical implementation may be fraught with several difficulties that may make it difficult to implement. For one thing, it assumes that recipients have the institutional and policy framework to implement policy changes that aid might require, yet these capacity constraints may be the reason why the country is less developed. How might COD aid be applied to achieving effective governance in Africa work? In the following section, we discuss the possible advantages, disadvantages, and problems of implementing COD aid as applied to the achievement of good governance in Africa.

5.5 Implementation of COD Aid for Good Governance in Africa

The beauty of COD aid is its simplicity and direct link it makes to the outcome on interest. Donors agree to pay a given amount for production of an independently verifiable given outcome by the recipient and gets out of the way. The donor does not care about the input combination used to produce the outcome and instead of concerns with whether the aid purchases inputs or not, the donor is only concerned with the ultimate outcomes. For example the donor pays for how many people have access to safe and clean drinking water rather than how many wells are dug or how many miles of pipes are laid.

There is currently no evidence of implementation of a full blown COD aid programs in African countries although elements of outcomes based aid exist on the continent. However, Liberia, Malawi, and Ethiopia are exploring the possibilities of implementing COD aid in the provision of primary education. So far, no COD aid program in governance has been planned for implementation in Africa. This, in spite of the fact that bilateral donors have made the achievement of good governance as a condition for aid flows. One suspects that this is in part because it is not easy to measure the outcome and evaluate performance of the recipient.

How might COD aid be implemented in Africa to achieve better governance as donors argue? Theoretically, it is easy to implement; donors and recipient countries negotiate over the level and quality of governance to be achieved by the recipient country. The recipient country then develops and implements policies without any monitoring and evaluation or annual conferences with the donor. After the contract period, an independent evaluator (presumably one that had been agreed upon at the negotiating stage, perhaps the Carter Center) evaluates the outcomes and certifies that the recipient country has indeed achieved the objective agreed upon. The donor then pays up and everybody is happy–the African country has better governance, the donor country and its tax payers see that their tax money has "bought" good governance in Africa: aid is effective.

Instead of the elaborate system of checks and balances designed by the donor to ensure accountability as is currently done, the open system of negotiating the outcome and payment is a simple and open way of ensuring accountability–success and payment at the end of the period suggests that the policy changes designed to bring about the necessary changes has been successful. More important, it links aid receipts directly to outcomes not on some inputs. For governance, COD aid will link payments directly to true effective governance rather than some intermediate inputs such as the number of people registering for elections or the ability to carry on fair multi-party elections. Because donors will not be involved in the design and implementation of policies to achieve good governance, each African country will be left to design and develop its own form of governance based on its culture, history, and institutions. Governance systems so developed will be appropriate and efficient, and likely to last. The process will also make it possible for each African country to improve the system and make it better since it was designed by them based on their culture.

There are several problems associated with the implementation of the COD aid as applied to governance especially in Africa. To begin with, there is likely to be strong differences of opinion between donor and recipient on what constitutes good governance, let alone on how to measure it. Good governance is a multifaceted concept and that different donors and recipients have different conceptions of what it is. As argued above, while some donors, such as the U.S. view good governance in terms of electoral democracy, other donors view good governance as synonymous with ability to provide public services efficiently and effectively; still other donors' conception of good governance is one of ensuring basic human rights for the majority of citizens.

Even if all elements of governance are deemed important by a donor, what relative weights does the donor put on various components? Even if donors agree on what constitutes good governance, is it likely that the recipient African country will see good governance in the same way? What happens if an African country receives aid from two or more donors with different conceptions of good governance? Would the donor's conception of good governance be necessarily consistent with the conception of good governance in all recipient African countries that receive aid from this donor?

The general discussion is that COD is aid is aid delivery mechanism for governments and therefore set the incentives to change the behavior of central government. However, it is most unlikely that central governments may be swayed by the incentives embodied in COD aid. Simply put, the aid associated with COD conditions may not be worth the hard work needed to bring success. It is possible that the incentive system may work better at the local or individual level than at the national level. For example, the ministry of education or the government of a country may be less responsive to a promised payment for student success than incentivizing the principal of a school or classroom teacher to improve student outcome. The incentive of additional pay, conditional on student success will encourage the teacher to put in more effort or cut absenteeism.

Even if African countries and bilateral donors can agree on what constitutes good governance, the issue is how to measure and evaluate good governance may be the stumbling block in its implementation. The measure should be broad enough to be acceptable, related to the ultimate outcome, not inputs, precisely measurable, and should respond to policy changes. It is unlikely that one can come up with one metric that measures the final outcome of governance that is also responsive to policy changes. Presumably, an independent third party with the necessary expertise may be contracted to evaluate whether a country has achieved an agreed-upon measure of good governance. Will this independent expert see and measure good governance the way African countries view good governance? It is likely that the third party's conception of good governance may be colored by their cultural background as concepts like democracy are rooted in history and culture.

As argued above, the optimal way of measuring development outcomes is to look at marginal changes in an outcome: in the case of governance, one has to measure the marginal improvements in good governance. How does one measure marginal improvements in a broad indicator of good governance? It may also be difficult to measure marginal improvements in governance when there are several environmental variables affecting good governance. For the cases of conflict countries, good governance may mean the ability to preserve the country rather than democracy or increased human rights.

One of the major assumptions behind COD aid is that the recipient country has the institutional and technical capacity and willingness to carry out the appropriate reforms. It is most likely the current system of governance favors those in government and they are likely to be the losers in any reforms in governance. Since the likely losers of reforms are those in power and will carry on the reforms, they will have no incentives to carry on the reforms. For example, the large number of incumbent African leaders who have lost elections but refuse to relinquish power suggests that it is unlikely that these leaders will implement any reforms to improve electoral democracy that may lead to their loss of power. Under these circumstances, no amount of COD aid will be enough incentives to entice policy makers to implement reforms.

Even if policy makers have the incentives to implement reforms, it is most likely that the recipient country does not have the capacity to derive and implement appropriate policies to achieve the desired results. Under these circumstances, it is most likely that the reforms are not likely to be fully implemented and the desired outcomes achieved. Under COD aid, countries that do not fully achieve the agreed upon outcomes should not receive any aid. On the other hand a good faith effort on the part of an African country that devotes part of its meager resources to improved governance should be encouraged with aid. Providing aid under these circumstances destroys the incentives to achieve the agreed upon outcomes; if any effort will elicit aid, why should countries make the effort to achieve the outcomes agreed upon? On the other hand, if failure to fully achieve the outcomes agreed upon at negotiation does not yield any aid, then African countries with their severe resource constraints are not likely to participate in such COD aid.

African countries receive aid from several bilateral donors, most of which do not have the performance requirements that COD aid requires. This means that COD aid may be in competition with these aid sources; it is unlikely that African leaders will devote their managerial time to COD aid rather than a focus on bilateral aid programs that do not require completion before the aid is delivered. Given that these aid sources do not require performance before delivery, policy makers are less likely to embrace COD aid programs. Even if recipient countries do embrace COD aid, it is likely to lead to unintended outcomes: countries are likely to shift resources to COD aid programs from other programs in order to achieve the targets. It is possible that in order to get the aid countries may deny access to the poor and vulnerable people in order to achieve the objectives.

A second problem with the implementation of COD aid in Africa is how might African countries finance the projects up-front, given the severe resource constraints they face? This may be overcome by making some up-front payments but this has the potential pitfall that policy makers may overestimate the benefits from initial results and use the up-front money for something else as happened to the GAVI funding projects in Kenya (Hsi, N. and R. Fields, "Evaluation of GAVI Immunization Services Support Funding," http://www.changeproject.org/ pubs/GAVI_ Kenya_final.pdf). COD aid may not provide the incentive to commit to program sustainability beyond the contracted period, unless the contract is renewed each time it comes due. It is most likely that COD aid will flow only to countries that can afford to fund the projects upfront and implement them effectively. These may be countries that may have less need for aid while countries with severe need but cannot raise funds up-front are left behind. Third, COD aid may distort incentives in another way: policy makers may deny access to the poor and most vulnerable if such a strategy helps to achieve the target outcome much quicker.

The bottom line is that COD aid is a great idea with several potential advantages but may have implementation problems, especially in Africa where resources are extremely scarce and capacity to formulate and implement policies need to be strengthened. In the area of governance, it may be extremely hard to implement in the African context where entrenched governments are expected to implement reforms that are likely to reduce their power and privileges; there are no incentives for these policy makers to be interested in such aid. Perhaps, there is the need to shift the incentives from central governments to individuals and groups directly involved in the provision of the desired outcomes. Perhaps there need to be a lot of piloting to see how it will work in Africa. Perhaps piloting in COD aid relating to good governance in Africa should begin just as the discussion on COD aid in education had been initiated in a few countries.

VI. AFRICAN RESPONSE TO DONOR POLICIES ON GOVERNANCE

How have African countries responded to the use of improved governance as a criterion for aid allocation by bilateral donors? There is no doubt that the governance reform/aid agenda has brought attention to the issue of improved governance in African countries. At best, African countries have responded with ambivalence, at worst with some hostility and worsening governance records. Although there may be differences in response across countries depending on the bargaining power of particular countries, there are some common characteristics of African countries' response to governance conditionalities of aid imposed by donors. While African countries recognize the need to obtain aid from donors, they resent governance reforms imposed on them by external actors, especially when these conditionalities do not consider local customs and cultural mores. Luckily, these governance reform efforts leave African countries a way out: promise to reform governance in exchange for more aid. More important, there is little attempt at enforcing these promises at reforms by donors.

African countries have responded to the governance reform conditions predictably: they have generally promised to reform their governance in order to receive more aid without the desire or will to reform, especially if reforms will threaten the interest of those in power. They have achieved this by writing vague governance plans that are not actionable or whose results may not be measurable. In some cases, countries provide time schedule to achieve some governance targets without concrete proposals to achieve those targets. African countries cannot get away with these vague plans without the complicity of donors who accept these non-credible governance plans. For example, 70% of all African countries ended up in the middle high tranche of the EU's tranche system even though most of them presented governance plans there were not credible.

Second, African countries have learnt to use aid from new entrants, especially from the BRICs (Brazil, Russia, India, and China), as a bargaining chip in negotiating and dealing with the global north on governance issues. African countries, such as Ethiopia, with strategic importance to OECD-DAC countries in their global fight against terrorism, use the threat of going to the Chinese, who ask no questions about governance for their needs. The greater the need for aid and the more strategic the country, the more credible this threat is for OECD countries. In effect, African political leaders have learnt to bargain better with OECD countries on governance issues in exchange for more aid without increase commitment to improving governance or broadening its scope in their respective countries. Any improvement in governance achieved so far may be more of a coincidence rather than the results of the of governance condition for aid flows.

VII. CASE STUDY: CANADIAN AID POLICY

For a number of decades, Canada has been known globally for its rather prominent role in foreign aid efforts. Statistically, however, Canada ranked in the middle of the DAC/OECD countries, with some $5 billion annual foreign aid budget, capped in 2011 after doubling in the last 5 years. However, global aid flows and donors' generosities are changing rapidly in response to economic problems in the West, especially during this Global Recession; for example, some Republican candidates for 2012 US Presidential Election promise zero dollars for foreign aid, sic!

As in most other core donor countries, the earlier practices of supporting big and flashy projects of high political visibility in developing countries (and also in donor countries) seem to have tired the Canadian taxpayer a bit (donor fatigue). These shiny engineering projects also contributed to a great deal to "wayward governance" and related corruption in developing countries. Hence, some thinkers called for a radical revamp or abolition of foreign aid (including to Africa), e.g. as in Dambisa Moyo's outright rejection of these so called aid dependency models. In particular, aid dependency models stress the negative impact of weakly conditioned aid on the development of proper governance in developing countries.

Canada's bilateral aid represents some 53 percent of its total foreign aid budget. With 80 percent of Canada's bilateral assistance focused on 20 countries (including those in Sub-Saharan Africa: Ethiopia, Ghana, Mali, Mozambique, Senegal, Sudan, Tanzania) and improving how Canada works in partner countries. Canadians are likely to see better results and more resources getting to those in need. "Our government promised to make Canada's international assistance more effective," said the Canadian Minister of International Cooperation, Beverley ODA. While continuing to provide assistance to the people in greatest need (humanitarian aid), Canada is trying to focus its bilateral assistance so the aid dollars go further and make a greater difference for the recipients. In general, Canadian bilateral aid efforts are changing rather quickly in lockstep with a certain donor fatigue and with the accelerated evolution of our global understanding of what the foreign aid was, and/or should be, and what are the broader implications of foreign aid on the beneficiaries of aid and on the donors. Most of Canadian efforts are channeled through the specialized government agency called the Canadian International Development Agency (CIDA). All CIDA activities have to comply with the Official Development Assistance Accountability Act, Canada.

Canada's own experience of sustainable economic growth for decades, but especially since the start of Global Recession in September 2008, underscores the importance of open and fair trade/investment and free markets with efficient economic governance as the necessary element. This tends to be the overall guiding message in bilateral aid, according to published CIDA materials. Canada's record in managing this Global Recession earned it the first prize in the World Economic Forum (WEF) and G20 rankings of financial-economic systems since the fall of 2008. The crux of Canada's acknowledged success has deeper and longer-term roots than just the policies of the current governments. Those roots go back to the early foundations of the Canadian financial-economic system, e.g. as exemplified by the Scotia McLeod case in early banking institutions. They were based on conservative capitalism ideas prudentially regulated/governed by the state; the state's role came about due to the very nature of Canada as a country: a pretty harsh climate and the need for mediated collaboration and knowledge accumulation to build the necessary infrastructure in the vast expanses of the rugged land. Quite radically simplifying this complex matter for the benefit of this analysis, Canada's experience points to the importance of trying to avoid the extremes of statism/protectionism on the one hand or the totally ungoverned, wildly gyrating markets on the other. This paradigm tends to underwrite Canadian bilateral aid efforts for at least half a decade now. Such kind of aid (including bilateral aid) is gradually developing into Canada's comparative advantage niche, as the very understanding and best practices of foreign aid are rapidly changing globally and new donors are emerging with new comparative advantages and new aid paradigms (e.g. China, India, Brazil) that are controversial sometimes. An additional element of the Canadian comparative advantage in the aid efforts includes emphasis on helping usually underprivileged economic actors, e.g. women and youth in developing countries.

7.1 Canada's Bilateral Aid: A New Comparative Advantage Paradigm?

Modern sustainable growth/development has been a very important goal for most Canadian bilateral aid efforts. There is substantial evidence in the Canadian aid history that points to the importance of the appreciation by the recipients of economic governance issues in the kind of sustainable growth promoted by Canada globally.

According to CIDA, Canada, as a globally trading nation, provides a working example of better practices. Specifically, the Canadian aid experience suggests that when the aid recipient creates the right economic conditions (via proper governance efforts), they can spur investment (including FDI) and innovation, and stimulate a mutually beneficial trade with Canada and other donors. They can produce a fair, open and equitable marketplace in which the enterprises that drive the economy can grow and succeed in international competition via improving productivity levels, esp. now with the benefits of the new information and communication technologies.

In keeping with the Canadian government's commitment to deliver international aid that is an ever improving value for the taxpayer's dollar (more efficient, focused, and accountable as well as innovative, etc.), CIDA has developed a sustainable economic growth strategy that aims to help developing countries like those of Africa:

- Build the modern enabling framework needed for sustainable economic growth/development;
- Support the growth of a productive and competitive private sector;
- Help their people to see and benefit from economic opportunities.

7.2 Why Does Canada Need the New Aid Strategy?

For developing countries, the barriers that prevent sustainable economic growth are difficult to overcome. This is well known in the literature under various names including Rostow stages of growth, initial development trap, vicious circle, need for the initial push in development, middle income trap, etc.

These barriers can include:

- Workforces that lack (or are short of) necessary skills;
- Financing that is difficult to obtain at reasonable rates or at all;
- Economies that are very vulnerable to external shocks;
- Social and/or cultural restrictions that prevent people from reaching their full productive potential.

With accountable governments, open and effective markets, quality infrastructure, capable human capital, equal opportunities for women and men, and natural resources that are managed sustainably and responsibly, economies that flounder can turn into economies that flourish. This is Canada's overall message.

Through the Sustainable Economic Growth Strategy, CIDA will support development efforts to ensure the essential elements for growth/development are in place and that they function together (synergy effects) to reduce poverty in developing countries like those of Africa.

CIDA will implement the strategy while recognizing that all countries face different challenges, with their own unique barriers to growing their economies. CIDA will work with development partners, including those in developing countries, other donors, and Canada's civil society and private sector to understand better what prevents economic progress in each situation and to identify and apply the measures that will best generate sustainable economic growth.

7.3 From Flounder to Flourish: Sustainable Economic Growth Strategy to Make a Difference

Through the Sustainable Economic Growth Strategy, CIDA will focus its main targeted investments to support sustainable economic growth that:
Fosters a stable foundation for viable businesses and industries to thrive; Increases opportunities for meaningful employment, particularly in the formal (taxpaying) economy;
Maximizes the contribution of growth to the public resources available for investment in the welfare of the population.

The strategy also integrates environmental sustainability, equality between women and men, and governance as essential considerations to achieve sustainable economic growth.

Within the strategy, CIDA will focus on three paths:
- Building economic foundations;
- Growing businesses;
- Investing in people.

7.4 Building Economic Foundations

Growth happens best where governments provide a framework to encourage investment, innovation, and transparency, and where fair regulations let entrepreneurs grow their businesses without the burden of excessive red tape.

In too many developing countries, obstacles like bad fiscal management, endemic corruption, and political-economic instability overshadow opportunities of investment, innovation, and fair competition.

For economies to flourish, countries must ensure sound financial and economic management (governance) that encourages private investment and reduces corruption.

Developing countries must also build up modern institutions, laws, and regulations that govern their economies in order for growth and success to happen much more broadly; this is subsumed under the modern proposal of inclusive growth. This proposal includes credible government policies that open markets to trade and attract infrastructure investment to deepen integration into local, regional, and global economies. It also includes promoting policies that improve natural resource management (very important for Africa) and environmental sustainability, including corporate social responsibility or good corporate citizenship.

To help build economic foundations, CIDA will:
- Strengthen public financial and economic management capacity and institutions (governance capacities) at the local, regional, or national levels;
- Improve legal and regulatory frameworks and systems, and their implementation, all of which are key to stable national and local economies;
- Support governments, businesses, and industries in widening their business base and

integration into regional and global markets;
- Build national and local capacities in prudentially managing natural resources and the environment in a sustainable and socially responsible way to support economic growth.

These measures will translate into an economy that is an attractive place to invest, is much more resilient to instability and external shocks, such as financial crises, natural disasters, or climate change realities, and that can identify effective longer-term options to reduce poverty.

7.5 Growing Businesses

The private sector is the driving force behind sustainable economic growth; yet in the developing world many people—especially women and youth—face quite rigid constraints in establishing and growing their businesses and fully contributing to the economy.

Given that developing countries with diverse and healthy private sectors typically have higher levels of growth and poverty reduction, it is crucial that, to stimulate economic growth, businesses in the developing world be more sustainable, more productive, and more competitive.

Businesses, especially micro, small and medium-sized enterprises, need support to integrate into local and global value chains, and to move from the informal to the formal (taxpaying) sector. They also need greater access to innovations and new and emerging technologies that increase productivity and sustainability of growth. Entrepreneurs also require the financial means to launch their business or grow it once it gets off the ground. They therefore need support to access credit, insurance and other financial services, including microfinance products, and to bridge the gap between microfinance and mainstream financial services.

To help grow businesses, CIDA will:
- Strengthen support for the development and growth of micro, small, and medium-sized private sector businesses, with a special emphasis on women and youth;
- Aim to increase the productivity and sustainability of businesses, based on realistic market potential to fill value chain gaps, which will result in increased long-term formal employment opportunities for the poor;
- Strengthen and increase the availability of modern and tested financial institutional products and services, including microfinance, which will result in greater job creation for the poor.
- Make increased access to global and local value chains, technology, and modern financial services, by more enterprises, especially those led by women and youth, to be viable and productive.

7.6 Investing in People

At its core, sustainable economic growth revolves primarily around people. People create and seize economic opportunities for themselves. People fill jobs, found and own businesses, and invest in local economies.

Developing countries need to create opportunities that allow the poor, particularly women and youth (in Canada's emphasis), to reach their potential by developing new skills, expanding knowledge, and breaking down the societal barriers that limit opportunity.

Because many workers lack the skills required to find and keep a good job or to take on the risks of running their own business, they need demand-driven skills training programs to acquire the skills they need to meet changing labor market opportunities. They also need support to strengthen their essential employability skills, such as the ability to read and write, count, and compute, search the web, collaborate digitally.

To help invest in people, CIDA will:

- Increase access to essential, demand-driven skills training and knowledge needed for formal labor market participation, including literacy, numeracy, digital collaboration, etc.;
- Increase the availability of appropriate, meaningful, and structured workplace learning opportunities, including in the agricultural sector;
- Support relevant, results-based learning initiatives, which will stimulate business growth, market expansion, and productivity growth.

As CIDA works with African and other countries to help them better invest in their people, more working-age adults will gain marketable employment skills, women and youth will be better equipped to take advantage of economic opportunities, and workers will have acquired new knowledge and skills that increase their productivity and revenue-generating potential.

7.7 Donor Canada: In Lieu of Conclusions

a) Strengths

For developing countries, like those of Africa, to significantly reduce poverty, they must stimulate long-term, sustainable economic growth and structural transformation (modern economic development). The Canadian International Development Agency's (CIDA's) Sustainable Economic Growth Strategy, with its emphasis on building economic foundations and modern governance, growing businesses, and investing in people, does provide a viable and quite modern tool for foreign including bilateral aid that aims for concrete and measurable results that will make a significant and sustainable difference in reducing global poverty incl. in Africa, as argued above.

b) Weaknesses

Canada's foreign aid weaknesses seem to stem from some of its purported strengths; a not too infrequent situation in all modern complex systems. First of all, while Canada has embarked on the innovation journey with regard to its foreign aid, a lot more innovation is called for in the 21st Century global environment. With that in mind, CIDA needs to speed up and simplify the road from foreign aid conception to inception. As a result of the taxpayer doubts about the efficiency of the foreign aid processes in general and Canada's foreign aid in particular, the rather "natural" bureaucratic response by CIDA has been to cover its activities with what amounts to be rather excessive compliance requirements, e.g. results-based metrics that are so static in nature that they hamper dynamism and innovation. The corollary is not only simply too many documents required in the aid process (and related waste of the taxpayer's dollar) but also a certain degree of confusion and the shortage of the necessary transparency, esp. in seeing the bigger picture of foreign aid. But the worst aspect is a creeping risk-averse culture in CIDA; it stifles further necessary innovations in foreign aid. Indeed, this seems to happen at a time when Canada definitely can offer a lot in terms of the most important aspects of bilateral aid, e.g. modern economic governance tested by very positive practical results as confirmed by global authorities in recent years. Next, policy reforms are needed to introduce globally accepted measures of transparency like joining the International Aid Transparency Initiative and adopting best practices in digital asset management (knowledge management) that are more open and facilitate the innovations as they provide the globally accepted and transparent structure at the same time. A good example to follow is the World Bank's website, especially the section devoted to Africa.

This innovation versus bureaucratic "stability and strict accountability" dilemma is perhaps the central leitmotiv of policy reforms needed to modernize CIDA. There are other problems, like the needed separation of the strictly humanitarian aid (e.g. Horn of Africa) from the true development aid (e.g. Ghana's transformation to a middle income economy) whether in the form of grants or loans, etc. The selection of the mode (grants or loans) will be increasingly affected by the ongoing collaboration with the aid recipients themselves and any lessons that can be drawn from such a collaborative approach. Knowledge management (KM) is a management of an organization from a modern knowledge perspective. KM should be more extensively used in designing and supervision/governance of potentially fruitful public-private partnerships (with donor and/or recipient country economic actors) and other collaboration in designing and delivering aid. Such collaboration should be constructed in the light of new economic thinking, e.g. based on the real agent-based models.

Also, a far better use needs to be made of African Diaspora human and other resources in Canada and elsewhere in the world. In particular, the authors' proposal is that CIDA come up with and support the initiative of the virtual interactive think tanks tailored to African needs; these virtual think tanks would piggyback (in very cost effective and flexible modern ways) on the existing institutional infrastructure and would much more fully leverage the potential of global African Diasporas and other globally dispersed experts on Africa or its particular problems. A more detailed working proposal is to be developed.

These challenges have to be solved if Canada is to effectively address the emerging foreign aid problems, like those "springing up" from the Arab Spring 2011. Africa's economic development is third fastest in the world, after China and India; and that is an opportunity in itself for Canada and other donors. And in its foreign aid models Canada needs to compete with China, India, Brazil, and other emerging powers in the G20 Group that seem to have replaced G7 as the global governance mechanism.

According to official reports, CIDA is determined to review its progress against the Sustainable Economic Growth Strategy and report this progress and any lessons learned on a regular basis; so more research is needed (and now feasible as well) to draw deeper conclusions from the aid practice of Donor Canada that is ever more representative of foreign aid problems and opportunities in the 21^{st} Century.

VIII. LESSONS AND THE ROAD AHEAD

What has been the success of the improved governance conditionality imposed by donors in African countries? Has this condition led to improved governance and if not, what has been the reaction of donors? The result of the governance initiative has been a mixed story at best, at worse it has not resulted in improved governance in African countries that have received and continue to receive aid from bilateral donors that insist on improved governance as a condition for aid. On average, aid flows to African countries have increased over the last decade and half, a period in which donors emphasized governance in aid giving. At the same, there have been general improvements in governance on the continent during this period.

Though African countries that have improved governance have received increased aid allocations, African countries receiving the most, or rapidly increasing amounts of bilateral aid are not ones reforming governance or reforming at a fast pace and on a broad front. In general the effort to link aid to improved governance has brought attention to the issues of governance in Africa, but it has not succeeded in transforming governance in African countries. Whether aid has been the source of the progress made in improving governance in Africa or whether donors have systematically rewarded improvements in governance in Africa is difficult to say.

At the technocratic level, UNU-WIDER project on the effects of aid in democratic transitions in Africa suggest a modest success with the main transmission mechanism being the governance conditionality in aid allocation. Indeed one can point to countries that have developed the capacity to effectively deliver public services, formulate and implement policies, as well as reduce corruption, such as Ethiopia and Uganda, as countries receiving increased aid. However, these countries are not necessarily the countries that are developing broader governance reforms that include broader participation in decision making, improved human rights, development of civil society organizations, and press freedoms. The same UNU-WIDER study finds that direct governance aid to African countries has been too small to have any significant impact on governance. In some cases these governance aid are provided to African countries to help them qualify for aid (for example the MCC aid to Zambia to help it qualify to apply for MCA funding). On the other hand, there are critics who argue that aid actually slows the process of democratic transitions.

Several factors may account for the limited success of the improved governance conditionality for aid in Africa. First and foremost, African leaders who need to improve governance may be unwilling to do so do because they see this governance campaign as an imposition from outsiders. This is especially the case when the developed world's approach to improved governance is a one-size-fits all designed to mimic governance structures in the developed world without taking account of local conditions including history, customs and institutions. These leaders who are likely to lose their positions are likely to use what they see as external interference in internal affairs as an excuse not to pursue governance reforms. In addition, given the way the governance conditionality has been implemented, the benefit of compliance is too small while the cost of reform is too high for the would-be reformer. The incentive to reform governance is therefore too small.

Second, donors have, at best, only made halfhearted attempts at enforcing the governance conditionality in bilateral aid allocation. The manner in which this conditionality is imposed makes it difficult to enforce. Instead of recipients showing evidence of improved governance before they are rewarded with increased aid; all what they have to do is to promise or show a plan to improve governance in order to get aid. In most cases when countries fail to carry out the promised reforms, aid is not cut off or even reduced. In several instances where countries have seriously violated their promise to improve governance (EU's additional conditions on Tanzania in 2008, Netherland's late disbursement of aid to Benin in 2004 for low Country Policy and Institutional Assessment score, EU and UK freezing direct budget support for Ethiopia following election violence in 2005, pull back of budget support for Uganda after 2006 crack down on opposition, and Netherlands and Sweden's freezing of budget support for Rwanda in 2008 following its activities in DRC), aid is not withdrawn or decreased; it is the modality of aid delivery that is changed. Under these circumstances, there is no cost of noncompliance and there are no extra benefits for compliance.

One of the reasons for non-enforcementof governance conditionality imposed by donors may be that donors put a higher priority on achieving the Millennium Development Goals (MDGs) over one of improving governance, broadly defined, in African countries. In poor countries, such as those in Africa, the need for rapid economic growth and poverty reduction may be of paramount importance. Donors are therefore likely to put a higher priority in achieving these goals than on improving broadly defined governance. When African governments prove to be efficient in providing public services, formulate and implement policies that lead to faster economic growth but make no progress on governance improvements (e.g. Ethiopia), they are given a pass by donors on account of their progress towards the achievement of the MDGs.

Governance conditionality imposed on aid recipients by donors may by itself undermine the development of democratic and inclusive governance. Good governance requires that governments be held accountable to their citizens. Sovereignty, defined as control over the formulation and implementation of development policy, is necessary if governments are to be held accountable to their citizens. Governance conditionality imposed by donor take away this sovereignty, making governments responsible to external donors rather than to their citizens, an accountability to the citizenry that is a necessary condition for the development of truly democratic, inclusive and effective governance.

In effect the governance conditionality has not fared any better than other conditionalities. Their effect can be summed up by how Ravi Kanbur described earlier conditionalities a decade ago–"... the recipient knows, the donors know 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). In effect, governance conditionality for aid allocation has not been rigorously enforced by donors and African countries have learnt to capitalize on this non-enforcement by pretending to reform governance. Meanwhile, aid continues to flow to African countries and governance reforms in Africa continues to move forward at a *glacial* speed.

8.1 Road Ahead

How can donors cooperate with African countries to ensure that bilateral aid will not only be effective in accelerating economic development and decrease poverty but also improve governance in the broader that include respecting human rights, broader participation in decision making, better legislation, and the establishment of rule of law? There is no simple answer and there cannot be one model that will fit all African countries.

Governance conditionalities imposed from outside by donors but rigorously enforced have not led to rapid improvements in governance in African countries although theses conditionalities have brought attention to the issue. To improve governance in Africa, donors perhaps may do well to work individual countries for them to craft their own brand governance that respects some universal principles. After all, human rights, participatory governance as well as poverty reduction are deemed as universal rights everywhere. *How* to achieve these is what differs across countries. The English brand of governance differs in some respects from the Dutch brand which in turn differs from the US brand; why should African countries conform to a particular brand of good governance imposed by donors?

A second way donor may help improve governance in Africa without being overly intrusive is to encourage and fund civil society groups and the media to act as watch dogs. In addition, donors may improve governance by funding and strengthening other institutions of governance, such as the judiciary, rather than continue to finance the executive through the ministry of finance. Financing the ministry of finance at the expense of other institutions of governance, as currently done, only serves to strengthen the dictator.

However, taking into account the continuing reverberations of the global crisis, especially trans-Atlantic and EU euro zone, and the parallel rise and resilience of the BRICS, together leading towards considerable divergence and possibly rebalancing, we conclude by suggesting a half-dozen possible scenarios for the future, shorter and longer-term. These are not mutually exclusive so one or two may coexist. They are informed by collaboration on an ACBF collection on development challenges and public policy in Africa (Hanson, Kararach and Shaw: 2012).

a) G20/OECD and North-South continuities

Reflecting the tradition of the Blair Commission on Africa of the mid-2000s, along with celebrity diplomacy and Band Aid, this scenario assumes that the OECD DAC centered on the US and including the EU's EPAs can continue to dominate if not monopolize Africa's development governance, with a moderated Washington Consensus augmented by the Monterrey Consensus with North-South relations the dominant axis. And both US and EU may have to come to recognize that the Arab Spring's demand for greater democracy may lead to a range of 'Islamic' regimes with which they will have to come to terms;

b) BRICS and East-South cooperation

The five BRICS, especially China but also India and Brazil will come to challenge the established dominance of the OECD, especially the US, facilitated by their new member, Republic of South Africa, the regional power if not emerging economy. Africa's resource boom may lead to more 'developmental states' like Botswana and Mauritius. And North-South will be superceded by an East-South or South-South axis (Modi: 2011) as an embryonic Beijing Consensus comes into effect. New inter-state donors may be joined by a variety of non-state sources of assistance in myriad 'new multilateralisms' as below;

c) Innovative sources of policies and finances

Both the 'Leading Group' and the Gates Foundation 'Innovation with Impact' (2011) point to new, continuing sources of finance such as taxes on carbon emissions, financial flows, remittances, etc., typically involving combinations or coalitions with new private foundations, pension/hedge funds and SWFs. These along with novel forms of certification/regulation would require enhanced forms of private or transnational governance as below;

d) Transnational governance

In response to burgeoning 'global' issues, a variety of heterogeneous global coalitions have developed, from ICBL, IANSA and PWYP leading to Ottawa and Kimberley Processes on landmines and blood diamonds, Fisheries and Forestry Certification (MSC/FSC), Ethical Trade and Extractive Industries Initiatives (ETI/EITI), UNSecurity Council Resolutions 1325 and 1540, ATT etc, all of which advance novel forms of international law/organization in the 21st century. In combination with INGO accountability/transparency initiatives, including ISO 26 000 on Corporate Social Responsibilty, these may come to redefine patterns of governance around the continent;

e) Fragile/post-conflict states

Africa still has more fragile and post-conflict states than any other continent so their needs will impact financial flows and related conditionalities to advance human/citizen security. In turn, their continuing violence will spill-over into their regions. So innovative forms of regional confidence-building/peace-keeping will be required such as in the ICGLR. And their struggles may exacerbate fundamentalisms leading towards more isolation, securitization, etc.;

f) Diverse directions

As Africa continues to be a very diverse region, so no single cookie-cutter framework can be applied to all 54 states, including the new Southern Sudan. Rather, state and non-state actors should come to define their own desiderata appropriate to ecologies, economies, histories, polities, etc. Such accountability could be recognized through initiatives such as the Mo Ibrahim Prize etc.

NOTES

1. See *World Development Indicators, On-line Edition*, 2011, Washington DC, World Bank and Development Co-operation Directorate-DAC (2011), *Development Aid at a Glance: Statistics by Region*, http://www.oecd.org/40/27/42139250. While official data for 2010 is not yet available, it is most likely that the 50 billion USD target may have been achieved in 2010. On the other hand, it is also likely that this target may not have been achieved because of the current global economic crisis.
2. See Human Rights Watch, "Ethiopia: Donor Aid Supports Repression", Human Rights Watch Press Release, October 19, 2010.
3. See the Paris and Accra Declarations on Aid Effectiveness.
4. The equation and the estimated methods are presented in the Appendices.
5. It must be noted that the MCA is not the only conduit for US aid to the developing world. Indeed a large part of US aid is administered by the US Agency for International Development (USAID) which may have different eligibility criteria from those used by the MCA.
6. Details of the regression equation, estimation method, and regression statistics are presented in Appendix B.
7. There are other measures of governance. However, we focus on the World Bank's measures in order to give us coverage of as many African countries as possible.
8. See OECD-DAC, *Development Database on Aid Activities: CRS online, 2011*
9. These countries were chosen partly at random but also partly because of their importance in the relative size of bilateral as well as their insistence on improved governance as a condition for aid allocation
10. See *African Development Indicators, 2011*, on line Edition, World Bank
11. See Country Case Studies on Structural Transformation: the Case of Ethiopia
12. See note 2 above and Love, 2011.

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Table A1: Average ODA Flows by Decade

ODA to Africa by recipient country

USD million, 2008 prices and exchange rates, net ODA receipts

	2000-09	1970-79	1980-89	1990-99	2000-09	2006	2007	2008	2009
	Share(%)	Annual averages				Annual amounts			
Algeria	0.9	588	393	395	352	253	420	319	328
Angola	1.4	50	236	549	525	195	259	369	251
Benin	1.3	171	272	373	481	443	507	641	697
Botswana	0.4	177	269	161	149	78	113	720	280
Burkina Faso	2.1	335	529	621	822	1 021	1 017	1 001	1 111
Burundi	1.0	175	367	289	394	494	506	509	565
Cameroon	2.7	457	538	789	1 043	1 989	2 056	549	666
Cape Verde	0.5	39	165	177	178	164	177	222	198
Central African Rep.	0.4	159	312	231	148	154	188	256	243
Chad	1.0	258	325	348	379	334	379	419	570
Comoros	0.1	72	107	60	39	37	48	37	51
Congo, Dem. Rep.	5.8	793	1 028	428	2 231	2 455	1 425	1 769	2 441
Congo, Rep.	0.9	186	236	301	348	307	126	485	290
Cote d'Ivoire	1.8	373	492	1 246	689	292	188	623	2 422
Djibouti	0.3	124	198	164	113	135	120	121	163
Egypt	3.7	4 477	3 105	4 112	1 404	1 008	1 161	1 344	951
Equatorial Guinea	0.1	9	57	63	35	32	34	32	33
Eritrea	0.7	-	-	146	284	146	168	144	150
Ethiopia	6.1	389	1 142	1 329	2 348	2 245	2 686	3 328	3 946
Gabon	0.1	153	184	157	49	35	55	62	80
Gambia	0.2	50	157	96	85	82	78	94	131
Ghana	3.3	315	637	885	1 277	1 377	1 220	1 305	1 640
Guinea	0.8	80	353	516	294	193	242	328	217
Guinea-Bissau	0.3	60	174	179	125	103	131	132	149
Kenya	2.6	576	1 213	997	1 001	1 049	1 382	1 363	1 827
Lesotho	0.3	110	231	159	106	80	135	144	127
Liberia	1.0	89	202	161	370	293	738	1 249	522
Libya	0.0	35	17	7	19	41	21	60	40
Madagascar	2.1	306	577	615	816	875	958	843	454
Malawi	1.9	260	447	683	715	785	773	924	809
Mali	2.1	371	751	638	808	964	1 089	964	1 014
Mauritania	0.9	351	459	343	343	241	370	320	294
Mauritius	0.1	84	110	63	54	23	74	110	162
Mayotte	0.9	11	60	146	327	407	440	476	558
Morocco	2.3	879	1 395	1 119	896	1 241	1 154	1 063	924
Mozambique	4.9	129	910	1 630	1 899	1 851	1 878	1 996	2 085
Namibia	0.6	0	23	247	218	171	230	210	327
Niger	1.4	403	583	467	542	612	578	607	479
Nigeria	7.2	325	157	320	2 751	12 914	2 044	1 290	1 715
Rwanda	1.7	266	435	614	660	665	753	933	966
Sao Tome & Principe	0.1	8	35	74	45	27	39	47	32
Senegal	2.3	493	996	870	889	978	928	1 064	1 043
Seychelles	0.0	52	48	29	17	16	9	13	23
Sierra Leone	1.2	72	179	214	449	392	573	367	455
Somalia	1.0	402	991	492	375	446	406	758	683
South Africa	2.3	-	-	428	867	834	858	1 125	1 098
St. Helena	0.1	16	39	25	32	30	42	66	40
Sudan	3.8	695	1 855	619	1 448	2 297	2 207	2 384	2 358
Swaziland	0.1	74	76	65	46	40	54	70	59
Tanzania	5.8	827	1 689	1 518	2 230	2 106	3 010	2 331	3 049
Togo	0.4	184	283	229	158	94	129	330	503
Tunisia	1.1	698	541	352	430	517	348	332	486
Uganda	3.9	141	482	1 031	1 505	1 761	1 816	1 641	1 848
Zambia	3.2	318	763	1 177	1 234	1 660	1 066	1 116	1 313
Zimbabwe	1.0	18	546	626	391	315	493	612	768
North of Sahara, regional	0.4	21	34	56	170	173	303	258	207
South of Sahara, regional	4.4	652	900	894	1 695	1 787	1 791	2 733	2 654
Africa, regional	2.9	231	729	773	1 117	985	1 530	1 321	2 588
Africa total	100.0	18 587	29 033	31 292	38 415	50 243	41 521	43 926	49 081

Source: Development Aid at a Glance, Statistics by Region, 2. Africa, 2011

Table A2: ODA by Sector and Recipient - 2009

ODA to Africa by sector and recipient in 2009
USD million, commitments

	SOCIAL	ECONOMIC	PRODUCTION	MULTI-SECTOR	GEN.PROG. AID	DEBT	HUMANI-TARIAN	OTHERS	TOTAL
Algeria	213	7	6	35	2	0	29	5	296
Angola	151	9	9	30	4	-	2	5	211
Benin	285	192	40	49	124	1	0	6	698
Botswana	195	1	4	11	-	0	1	2	214
Burkina Faso	726	329	249	44	348	2	20	9	1 727
Burundi	320	78	54	26	98	7	88	3	675
Cameroon	359	243	93	63	149	147	11	4	1 070
Cape Verde	89	113	14	29	19	1	1	5	269
Central African Rep.	130	75	14	45	81	5	38	1	388
Chad	103	57	41	69	20	1	341	4	637
Comoros	25	31	0	4	25	0	0	2	88
Congo, Dem. Rep.	1 156	602	123	68	404	13	580	7	2 952
Congo, Rep.	109	40	6	8	7	222	3	2	397
Cote d'Ivoire	386	161	99	14	316	1 572	38	4	2 592
Djibouti	34	22	1	5	42	8	9	2	123
Egypt	490	112	161	88	76	113	15	5	1 059
Equatorial Guinea	25	0	1	1	-	0	-	1	28
Eritrea	67	0	65	31	7	-	38	1	210
Ethiopia	2 331	572	308	106	369	0	687	12	4 385
Gabon	59	0	21	5	-	26	0	3	113
Gambia	49	8	25	8	34	0	1	0	124
Ghana	701	599	98	66	405	54	3	8	1 934
Guinea	81	33	6	12	15	47	5	4	201
Guinea-Bissau	67	6	11	6	37	0	1	1	130
Kenya	1 177	690	272	225	303	2	398	15	3 082
Lesotho	161	20	1	9	7	1	2	2	203
Liberia	287	236	61	20	60	117	35	2	818
Libya	9	7	1	4	-	-	0	0	22
Madagascar	125	18	38	35	23	8	12	5	263
Malawi	668	64	127	30	147	1	8	6	1 051
Mali	666	287	316	62	96	3	6	15	1 450
Mauritania	56	6	13	14	12	0	10	2	113
Mauritius	115	77	33	5	149	-	0	1	380
Mayotte	415	11	11	97	-	-	-	-	534
Morocco	620	579	269	35	-	0	2	9	1 515
Mozambique	927	246	182	50	716	7	65	15	2 210
Namibia	286	8	123	8	0	-	4	4	433
Niger	162	32	109	35	59	2	29	7	434
Nigeria	1 658	817	515	57	0	-	5	6	3 058
Rwanda	538	249	160	43	287	0	17	9	1 302
Sao Tome & Principe	20	22	2	2	1	0	0	2	48
Senegal	593	244	150	133	127	2	13	26	1 287
Seychelles	6	0	2	35	26	-	-	0	69
Sierra Leone	214	11	25	10	114	0	4	1	380
Somalia	113	0	39	11	13	0	411	2	589
South Africa	1 119	120	23	54	0	-	7	8	1 331
St. Helena	84	22	0	1	20	-	4	-	130
Sudan	887	169	58	93	30	2	1 260	8	2 508
Swaziland	41	0	24	11	0	-	5	1	81
Tanzania	1 786	496	383	140	1 603	30	55	19	4 512
Togo	130	73	8	29	84	267	1	1	594
Tunisia	516	176	75	27	0	-	1	5	801
Uganda	1 084	680	337	73	107	2	135	9	2 427
Zambia	494	200	85	28	349	7	18	11	1 191
Zimbabwe	326	3	106	32	20	1	366	3	857
North of Sahara, regional	122	45	50	153	6	-	21	23	420
South of Sahara, regional	989	443	394	452	163	-	203	140	2 783
Africa, regional	552	1 347	288	333	221	-	70	108	2 920
Africa total	25 096	10 691	5 728	3 169	7 326	2 672	5 078	561	60 320

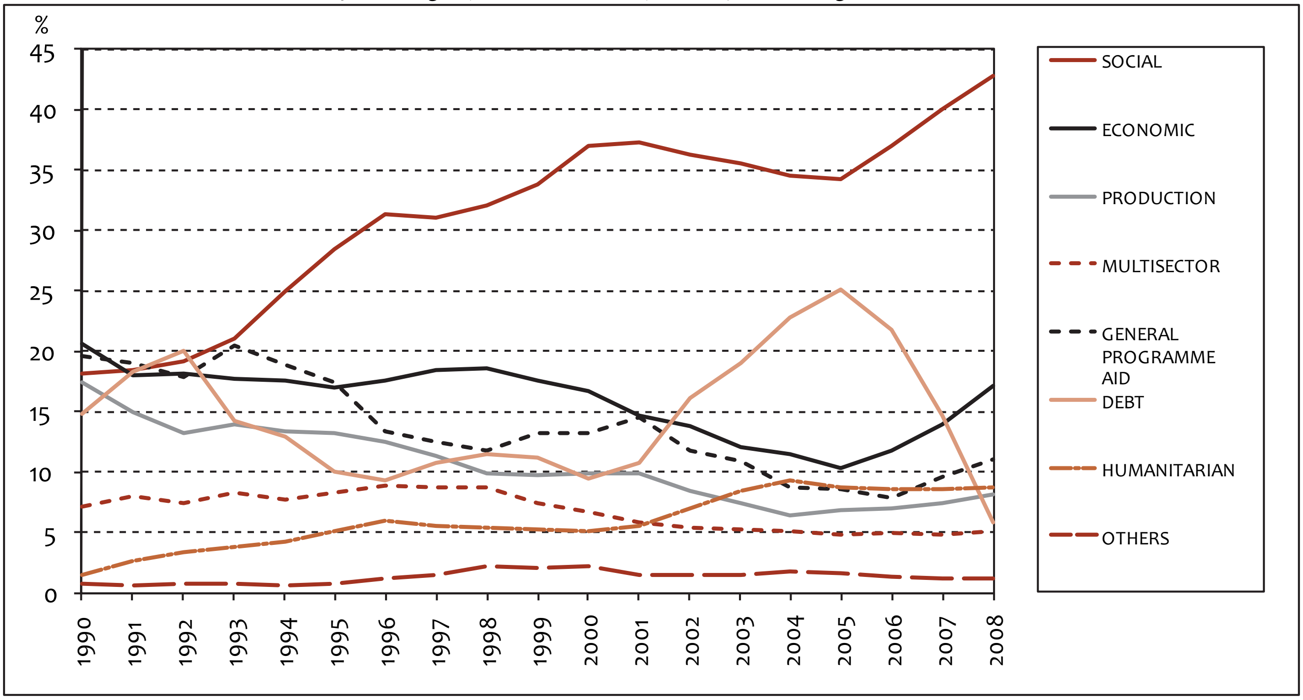
Source: Development Aid at a Glance, Statistics by Region, 2. Africa, 2011

Figure A1: ODA Flows to Africa by Sector

ODA TO AFRICA BY SECTOR

ODA to Africa by sector since 1990

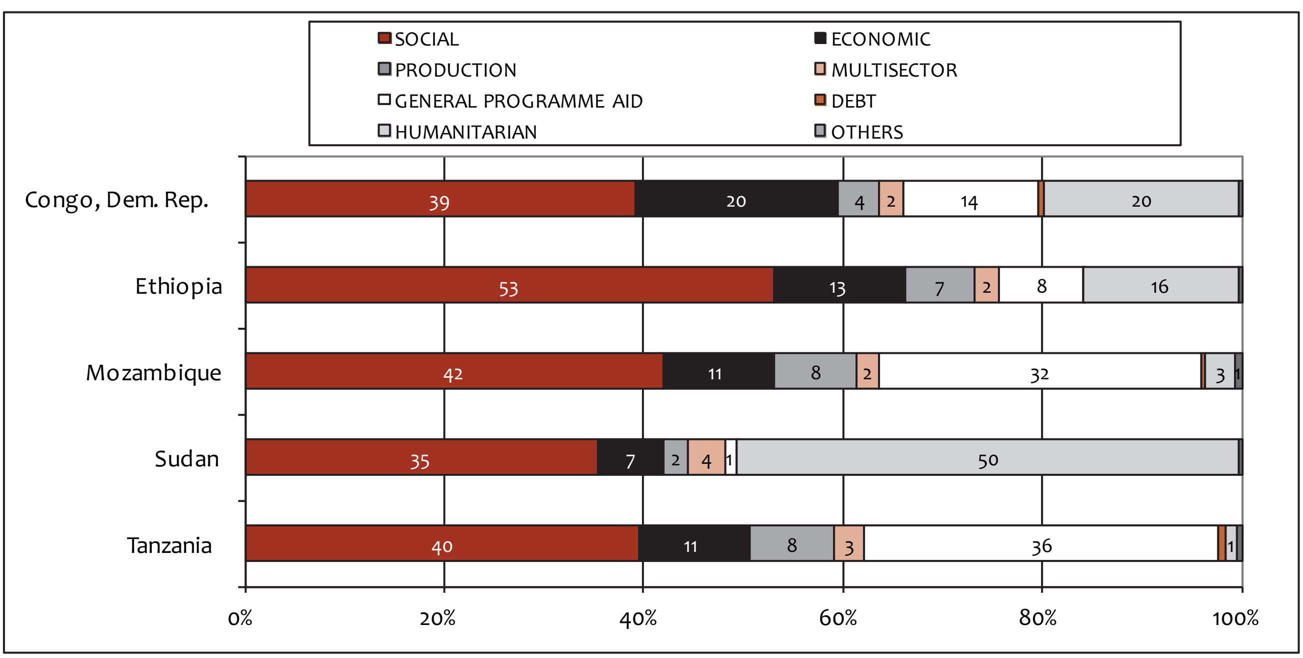
As a percentage of total ODA to Africa, 3-year average commitments



Source: Development Aid at a Glance, Statistics by Region, 2. Africa, 2011

ODA to 5 largest recipients in Africa by sector in 2009

As a percentage of total ODA committed for each country

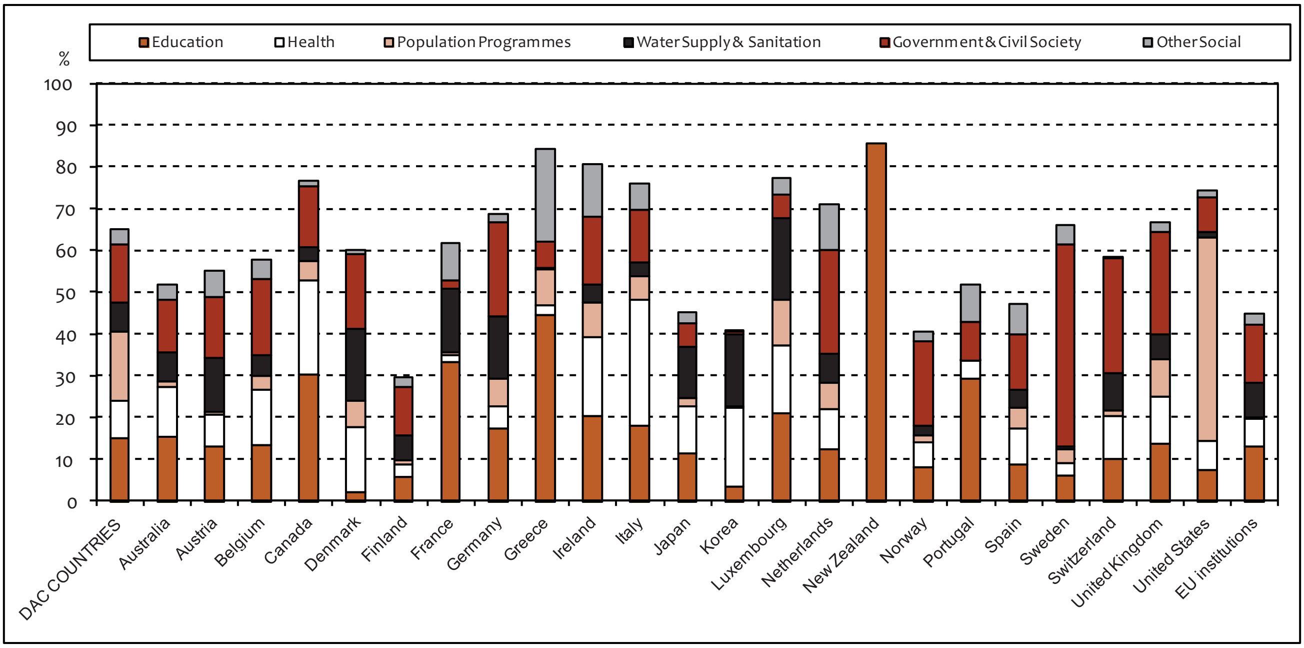


Source: Development Aid at a Glance, Statistics by Region, 2. Africa, 2011

Figure A2: Social Sector ODA Flows to Africa - 2009

Analysis of social sector ODA to Africa by donor

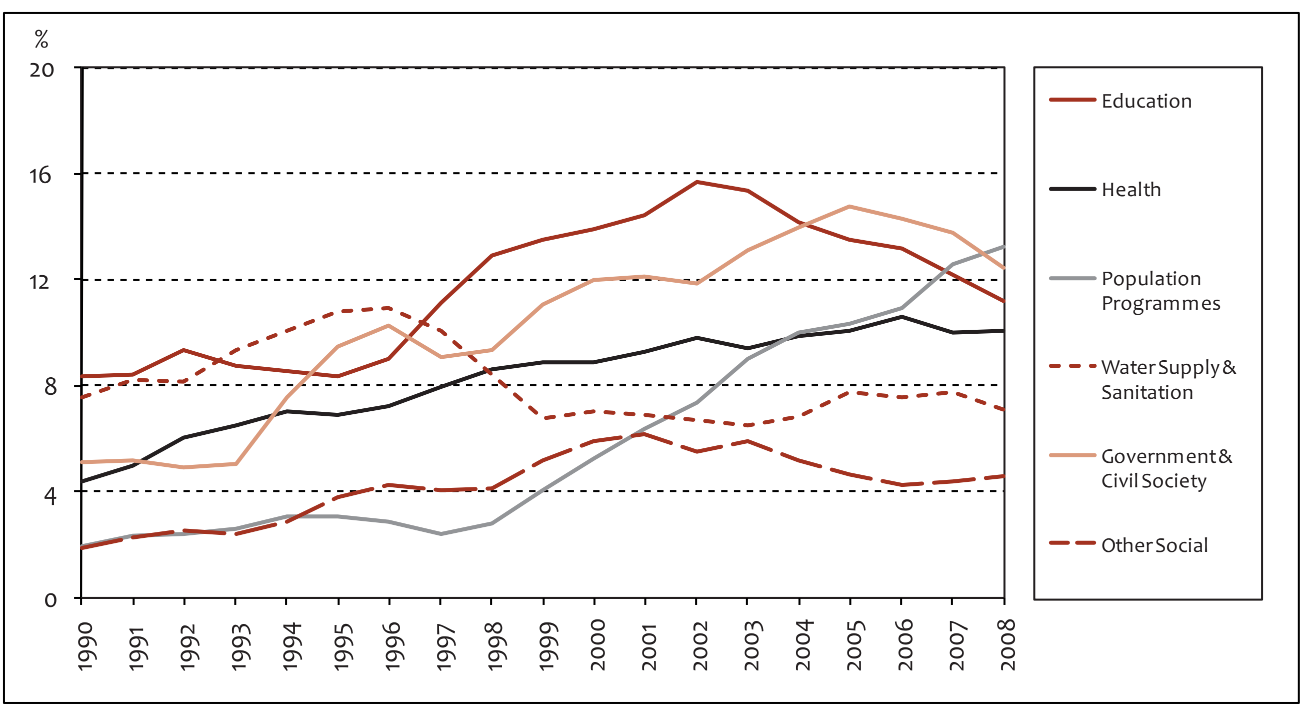
As a percentage of total sector-allocable commitments for each donor in 2009



Source: Development Aid at a Glance, Statistics by Region, 2. Africa, 2011

Analysis of social sector ODA to Africa since 1990

As a percentage of total sector-allocable ODA, 3-year average commitments



Source: Development Aid at a Glance, Statistics by Region, 2. Africa, 2011

APPENDIX A: UNDERPINNING GOVERNANCE: INTELLECTUAL TRADITIONS

Introduction

Economic and socio-political governance issues seem to be moving to the top of modern foreign aid efforts, at least since the onset of this Global Recession in the Fall of 2008. However, the first and foremost problem is that donors do not agree on a single definition and operationalization of governance, not even those within the OECD DAC/ODA, the core group of donor countries, let alone China, India, Brazil (BRICs) or other emerging donors. There are at least several narrower and broader definitions of governance in the literature and it is hard to see which one is more important for the African practice since the continent is so diverse. In general, the aid and governance discussion tends to go in parallel to discussions regarding the overall effectiveness of aid; aid versus trade/investment for example. There is the well-known intellectual positions of Jeffrey Sachs (aid is good) and William Easterly (aid is no good) and Dambisa Moyo (aid is bad, dependency creating, corruption promoting, governance retarding). Probably, the common leitmotiv of all those discussions and definitions is the capacity or the likelihood of the governance mode to increase the wellbeing of the people supported by aid. This amounts to tautology or sophism, as even the wellbeing notion is rather controversial, witness the happiness versus (GDP discussion of development metrics e.g. the case of Bhutan).

Intellectual Traditions of Governance

On one hand, there is the intellectual tradition defined by Adam Smith's theory of social order (invisible hand). Smith and his intellectual descendants focused on the pattern of order and the positive consequences emerging out of the independent actions of individuals pursuing their own interests and trying to maximize their own welfare within a given system of rules. That was the 'spontaneous order' tradition within which the study of the markets - preeminent was the competition among producers and consumers of pure private goods, leading to a better allocation of resources. On the other hand, there was the tradition rooted in Thomas Hobbes' theory of social order (visible hand). From that perspective, individual actors pursuing their own interests and trying to maximize their welfare lead inevitably to chaos and conflict. From there was derived the necessity of a single center of power imposing order. Social order is thus the creation of the socially and politically unique "Leviathan", a monopoly over the authority to make law and the legitimate use of coercion, and not the outcome of the actions of self-organized and independent individuals.

Governance and order in the world is largely dependent upon the theories used to understand the world. Fortunately, we are not limited to only the conceptions of order derived from the work of Smith and Hobbes (visible and invisible hands). Polycentric theory offers an alternative that can be used to analyze and prescribe a variety of governance modes or institutional arrangements to match the extensive variety of collective goods in the world. While polycentricism, inspired by Michael Polanyi's work, is a good starting point for articulating this alternative approach, it is not sufficient. Entirely new paradigms are needed to elaborate on it in the current multi-polar world.

The Nature of Global Recession Since 2008: Governance Aspects

The essence of this Global Recession has its roots in the innovations versus risk dilemma in financial economics. A Schumpeterian "creative destruction" of the old ways of doing business is part and parcel of innovation and progress in general. Financial derivative products, like collateralized debt obligations (CDO), were developed with the above goals in mind. These "financial engineering" products were, on the surface, designed to reduce risks in investment transactions through the normal processes of risk diversification in portfolios of investment assets. However, knowledge of the unintended consequences of any such more radical move in disruptive innovation is so far inadequate. Consequently, what happened was a dramatic increase in global risks due to the inability of rating agencies and other regulating institutions to adequately assess the impact of more or less free global trading of financial derivatives. Hence the gap between intended consequences and the unintended is overlooked in economic sciences. It resulted in the collapse of confidence in banking/international financial flows and the resultant severe credit crunch since September 2008. These problems developed via global linkages into the global crisis of confidence and the resultant sudden, deep drop in economic activity globally. The basic behavioral economics aspects of this Global Recession can be simplified in a model as below.

Prospective Governance Implications of the Global Recession

The Keynesian and neo-Keynesian intellectual legacies partly inspired internationally coordinated policy responses to the Global Recession by the USA and other major players of the global economy, notably China. These policy responses have temporarily stopped the rapid decline of the global economy and restored an uncertain and anemic growth; however, the second dip in growth looms very large. The Keynesian "animal spirits" in the global economy have not been fully revived and are still not working. The Global Recession has since 2009 largely morphed and spread from banking crises into sovereign debt crises (e.g. in Europe and the USA) but still has a lot to do with the great confidence shortage dilemma. However, we are still far from the definite diagnosis of the systemic and governance problems that caused the Global Recession. Some analytical insights can be advanced here, however. They would be relevant for the aid and governance linkages in Africa. A brief discussion of them follows.

The systemic and governance change trends that are developing are largely centered on the paradigm of macro-prudential regulation (MPR). MPR is a way of regulating the economy that minimizes the probabilities of the systemic failure that results in the collapse of confidence, as it has been the case since the onset of the Global Recession in 2008. Of necessity, MPR should take care of not just individual institutional vulnerabilities, but also of their interactions that are problem-ridden from the point of view of the larger risk pictures of the national or regional economies (systemic risks). While the specific mechanisms for MPR are yet to be developed for particular countries and/or integration groupings, it is now clearer that government/governance roles in the economy will be substantially redefined for the 21st Century. As one line of thinking, national or regional colleges of regulators/supervisors (not just individual central banks, finance ministries, etc.) will probably be established as new 21st Century institutional responses to the changed/increased systemic and governance risks. Such new governance institutions will rely on knowledge management (KM), which is all about a collection and integration of processes on developing, securing and re-using knowledge that is deployed by and in favor of all collaborators and stake-holders to achieve the strategic goals of the organization.

KM and other modern paradigms of human knowledge should be used for developing broader and more meaningful operational pictures/models of risk and risk management in the economic development nationally, regionally, and globally.

The Changing Nature of Governance: Coping With the New Kind of Crises

The US subprime mortgage crisis signals the birth of the new kind of financial and governance crises in today's global digital/knowledge economy (GDKE).

In the pre-global era, crises were usually caused by underinvestment, overconsumption or premature consumption of the fruits of early economic development which phenomena usually led to the general economic disequilibrium in the economies affected. Such crises were fuelled by loose monetary and/or fiscal policies (macroeconomic policies) whereby governments sought “easy” ways to please the electorate. While this kind of crisis is not extinct in the global economy, a different kind of crisis is now possible and even more pervasive because we do not fully understand its nature, mechanisms and, consequently, we are not yet able to adequately cope with it. The new type of crises is caused by overinvestment and/or misinvestment, domestic or foreign. Factors which appear to facilitate the birth of the new type of crises stem from the interaction of macroeconomy and microeconomy or, in other words, from the (mis)allocation of government roles in the economic development in the digital and knowledge era. The dangers have escaped the attention of the majority of analysts Include the following:

1. Less than transparent mechanisms of organizational governance, esp. not well defined or excessive roles of political and/or other noneconomic criteria in corporate decision-making. These problems were usually masked by the shortages of transparency (collusions, insider trading, other oligopolistic or rent-seeking behavior, etc.) prevailing among the top Wall Street firms; same happened to the US with Fannie Mae and Freddie Mac, two quasi-governmental mortgage giants;

2. Less than transparent and/or adequate domestic or international oversight/supervision/ governance of banks and financial systems in general. Contrary to the cases of direct industrial policies (improper government interventions, picking the winners by government, etc.), there are proper roles for the government in managing the financial systems. In a nutshell, they center on a role of a macro prudential regulator/supervisor (MPR) who sees to it that there are no undue systemic risks in the overall functioning of financial markets and the real economy. This is a question of appropriate laws and their consistent enforcement based on adequate disclosure, transparency, and supervision, taking into account all relevant cultural characteristics. Such a macro supervisory role has been missing in the American and European economies, where “cozy” relations between supervisors and financial institutions (“crony capitalism”) and/or a bona fide “abandonment” or “benign neglect” (as in the Efficient Markets Hypothesis) has been a norm rather than exception in the run-up to the Global Recession. This problem was compounded by the general

underdevelopment or misdevelopment of those financial institutions and/or financial products (especially their real and tested risk profiles, etc.) that should be suitable to today's global digital and knowledge economy. Also, the nature of macroeconomic policies in many of those countries contributed to overinvestment problems, primarily of short-term capital e.g. such capital that is talked about in the Tobin tax proposals.

3. High speed of international capital flows in today's global economy can cause overinvestment and/or misinvestment well before it is too late for rather slow self-correcting mechanisms (e.g. based on the efficient market hypothesis, EMH) to make any appreciable difference and prevent the outbreak of a devastating crisis.

In sum, inadequacies at micro- and macro-levels in political-economic systems of many in the global digital/knowledge economy and result in crises which cannot be contained, let alone solved or prevented, by traditional national or international (e.g. IMF) mechanisms countries, and especially inadequacies in the interaction of these two levels, are quickly exposed based on traditional national government roles.

Given the knowledge asymmetries (as postulated by 2001 Nobel laureates in Economics Stiglitz, Spence, Akerlof), a "real knowledge divorce" between the two levels in economics and the resultant inadequacies at micro- and macro-levels in the political-economic systems in the global economy cause a new type of crises that cannot be easily contained, on the strengths of the EMH based self-correction mechanisms. This problem is brought about mainly by the speed of capital and information flows in the global (digital) economy. It follows therefore that on top of understanding the real behavior of real economic agents (and their dynamic interactions in complex systems) what we need is new institutions that help speed the necessary "processing and digestion" of knowledge (to prevent "garbage in, garbage out" modeling syndrome) so that policy responses are much better informed and adequate than before. While the Internet-enabled easy access to data and information is very democratizing indeed, what to make of these new quantities of data and information is a new challenge (knowledge management challenge) that does not lend itself to atomized solutions. On the contrary, new governance supporting institutions are needed. Such knowledge management institutions (e.g. college of macro prudential regulators, etc.) would make very good use of the new understanding of the economic principles (e.g. new agent based paradigms) and in the longer run provide much less expensive solutions than market excess corrections via the new Global Depression.

This calls for new systemic solutions, a new financial and governance architecture which is better aligned with the nature of the global digital economy that is going to develop further. Such solutions should be adopted at both national and global levels, the latter effort is known as G20. More research on this is badly needed in the context of African governance and aid interactions.

Going Beyond Mechanical Markets and Beyond Hands Visible or Invisible

There is a pretty strong consensus in the global literature that the unexpected nature and severity of the Global Recession has turned many economic paradigms upside down; hence the need for new economic thinking including in the foreign aid area. The new economic thinking is developing slowly and we have to be careful not to jump to premature conclusions. It takes the whole (global) village to bring up a child (new economic thinking, in this case), as the African saying goes. With stagflation, gyrating financial imbalances, there is a rapidly growing need to learn from past crises and attempts at transformations in order to boost the necessary confidence (find new sources of hope) and to avert or minimize new crises. This is of importance globally and specifically for Africa as it moves away from its attempts at traditional comparative and competitive advantages to "softer" aspects of more advanced development involving new sources of those advantages and new institutions/systemic solutions that probably will be a creative blend of different models of governance modified in accordance with African history/cultures lessons and lessons of the Global Recession.

The major tone of the economic policy and governance paradigm needs to move away from the narrowly defined objective of low inflation to public and private outlays on modern infrastructure (especially Internet access, digital collaboration, etc.) carefully developed in the modern medium term expenditure and economic development plans. Important attention in governance goals will be moved away from basic mechanical market functioning (with very low inflation as a preeminent target) and towards the optimal management of confidence and of credit in both private and public sectors in order to properly govern the natural tension between innovation and risk. To venture some specific solutions, public-private partnerships (PPP) will be one major mechanism for safeguarding the appropriate levels of innovation and risk management. On the other hand, the construction and monitoring of PPP should be brought up to more demanding global 21st Century standards, as these private and public sector borders are notorious for "leakage" of public funds into private unauthorized pockets not only in Africa but in the world in general.

In essence, such challenges illustrate the importance of the proper roles for government in the 21st Century. Globalization is just in the initial stage and we have to expect much more complications as the world goes through its subsequent stages; in a nutshell, the world is developing into a set of interacting complex systems that we do not understand the basics of yet. Probably, the Holy Grail is how to get right the roles of modern state in the new economy of the 21st Century. The roles of government in modern economy are at the root of the current global crisis, as discussed above.

To use a couple of real-life examples, it looks like Singapore-like mix of government and market roles fits our polycentric times better than purely market economies that, as Joseph Schumpeter claimed long ago, tend to degenerate into plutocracy. The less successful Chinese "gaizhi" has also created a variety of new ideas, esp. in the area of public-private partnerships. However, much more research is needed on these combinations of state and market governance mechanisms before we can draw any more mature conclusions.

Thus, superimposed on the general 21St Century macro trend of greater roles for government, will be attempts to manage knowledge via institutions that interpret the new knowledge, manage global risks and subject those risks to operational paradigms. These are great challenges for Africa and other emerging markets. For example, we have not yet learned how to adapt to modern technological challenges in the world of globalized finance. All the traditional theories are too simplistic and do not account for the change in the speeds of global adjustments in the modern digital and knowledge economy.

APPENDIX B: ESTIMATED EQUATION, ESTIMATION METHOD AND DIAGNOSTIC TESTS

As indicated in the text, we follow Alesina and Dollar (2000), and Alesina and Weder (2002) and estimate an aid equation in which governance is an added regressor. The equation we estimate is:

$$aid_{it} = \alpha\, governance_{it} + \boldsymbol{X\beta} + \varepsilon$$

where aid is net aid inflow to a country i at time t, governance is a measure of governance in country i at time t, X is a vector control variables that affect aid inflows to country i in period t, ε is a composite error term, and α and β are coefficients to be estimated. The error term consists of country specific component, a time varying component that affects all countries over time, and an idiosyncratic component assumed to have a zero mean and a finite variance. Formally, ε = ζi + τt + ξit, where ζi is countryspecific error term, τtis time varying error term, ξit, is idiosyncratic error term and ε is as defined above. Elements contained in the X vector include the log of initial income, GDP per capita, population, and years as a colony. We are interested mainly in the coefficient of governance α; however, we need to estimate the full equation in order to ensure that the estimate of α is unbiased and consistent.

We estimate the aid equation with a panel data from 53 African countries over the 1990 to 2009 period. The usual approach in panel data analysis is to use five year averages of the variables in order to reduce the noise in the data. Because we have relatively few observations, we used four year averages instead of five year averages. Not all countries had complete data for all variables in all years, hence our data consists of 255 country year observations over the 20 year period.

We estimate the aid equation using a panel data set from African countries over the 1990 to 2009 period for 53 African countries. It is possible that aid is given in response to some of the regressors (such as income and its growth, or is given to improve governance). In addition, there appears to be path dependency in aid flows. Countries that receive large flows in the past seem to continue to receive large inflows for several reasons. These suggest that governance itself may be endogenous. Second, the path dependency nature of aid suggests that lagged aid is a regressor in the aid flows equation. It is well known that in the presence of an endogenous regressor and dynamics, the fixed effect (FE) and the random effects (RE) estimators are not consistent and therefore inappropriate for estimating the aid equation. Under these circumstances, researchers have either used an instrumental variable (IV) estimator to consistently estimate the aid equation. A consistent estimator that has been used by researchers to estimate cross-country regressions in a panel format is Arellano and Bond's dynamic panel data (DPD) estimator (Arellano and Bond: 1991).

The DPD estimator is a GMM estimator that uses lagged levels of endogenous and predetermined regressors as instruments in a difference equation. Arellano and Bond proposed two estimators---one-step and two-step estimators---with the two-step estimator being the optimal estimator. The two estimators will be asymptotically equivalent if the error terms are spherical. There is no reason to believe that the error terms are spherical, hence we use the two-step estimator to estimate the equations in this study. In estimating the aid equation, we use the legal origin and ethno-linguistic fractionalization as additional instruments for governance. The dominant legal origins in Africa are derived from the English Common Law and the French.., each of which provides different checks and balances, hence affect the structure of governance in a country.

Countries with high ethno-linguistic fractionalization are likely to have poor governance on account of ethnic rivalries while countries with low ethnic fractionalization are likely to have better governance since there is little ethnic rivalry. A good example of this in Africa can be found in Nigeria (high ethno-linguistic fractionalization) and Botswana (low ethno-linguistic fractionalization). Neither legal tradition nor ethno-linguistic fractionalization is likely to affect aid flows directly; they may do so indirectly through their effects on governance. These variables therefore satisfy the instrument exogeneity criterion. We use a two period lag for endogenous and pre-determined variables in creating the instrument vector.

The DPD estimator consistently estimates dynamic panel data equations and has been used in several recent panel data studies (Burnside and Dollar: 2000, Easterly et al: 2004, Roodman: 2000, Thiele: 2008, among others). However when the series are persistent (as aid flows are likely to be), lagged levels of endogenous and predetermined regressors tend to be weakly correlated with their subsequent first differences, thus leading to biased estimates on account of weak instruments. Arellano and Bover (1995) and Blundell and Bond (1998) introduced the ``systems DPD" estimator, which adds a levels equation with lagged values of first differences of endogenous and predetermined regressors as instruments to the difference equation and jointly estimate the two equations as a system, to correct this problem. We use the systems estimator to estimate both the primary school completion rate and infant mortality rate equations. In our estimation, we base all statistical tests on small sample statistics.

If all regressors are exogenous, the DPD estimator produces consistent but inefficient estimates while the FE estimator produces both consistent and efficient estimates. We therefore test for the exogeneity of all regressors using the Hausman specification test. We also test for the presence of second order serial correlation since the validity of the DPD estimates depends on the absence of autocorrelated errors. In addition, we test for instrument validity and instrument exogeneity using Hansen's J test and Sargan test. In estimating these equations, we add regional dummies to test whether there are regional variations in these outcomes and whether the effects of differed across regions. The estimation procedure applies Windmeijer's finite sample correction.

Results

Table B1 presents the systems DPD estimates of the aid equation for the 6 governance variables. Column 2 presents the estimates for the equation in which goveffect is used as the measure of governance, column presents the same equation for Polstab, column 4 presents the equation for Regqual, column 5 for Rulelaw, column 6 for Voice, while column 7 presents the estimates for the equation in which the governance is measured as Corruptcont. Table B1 also presents regression statistics and well as the results of diagnostic tests.

Table B1: DPD Estimates of Aid Equation						
	Goveffect	**Polstab**	**Regqual**	**Rulelaw**	**Voice**	**Corruption**
ln y_0	-1.8121** (2.89)	-1.6810** (2.72)	-1.7218** (1.89)	-1.8211** (1.99)	-1.5961** (2.18)	-1.9612** (2.24)
lnGDPcap$_{t-1}$	-0.0161*** (3.14)	-0.0172** (2.88)	-.0159** (2.98)	-0.0151** (2.41)	-0.0117 (2.13)	-0.0211** (2.51)
ln Pop	-0.2431*** (3.11)	-0.2516** (2.69)	-0.2189*** (3.42)	-0.3091*** (3.16)	-0.1816*** (3.44)	-0.2188** (2.99)
Years Colony	.011** (2.18)	.0181* (2.29)	.0132** (2.14)	.0123** (1.89)	.0221** (2.24)	.0109** (1.97)
Governance	0.3290*** (14.75)	0.7957*** (25.49)	0.2869*** (20.13)	1.3064*** (24.00)	0.6459*** (30.14)	0.3186*** (13.23)
N	255	255	255	255	255	255
No. of Instruments	35	35	35	35	35	35
Exogenous Instruments	Ethnic fractionalizations, legal origin					
Hansen *J* test *p value*	.286	.318	.219	.189	.211	.228
Difference Hansen *J* *p value*	.28	.18	.41	.27	.31	.35
AR (2) *p value*	.56	.49	.29	.37	.49	
Hausman ***m***	29.81 [5]	24.63 [5]	31.01 [5]	32.09 [5]	41.34[5]	29.65 [5]

*** Significant at - .01; ** significant at - .05; degrees of freedom in square brackets.

The regression statistics presented in Table B1 indicates that the DPD estimator is the appropriate estimator to be used for the aid equation. The regression statistics indicate a rejection of the null hypothesis that all slope coefficients are jointly equal to zero at any reasonable level of confidence, the Hausman ***m*** statistic suggests that not all regressors are exogenous and the second order serial correlation test suggests that there is no second order serial correlation of the error terms. One cannot reject the null hypothesis of validity of the instrument vector as indicated by the Hansen J statistics for all equations. Similarly, there is no evidence of instrument over-proliferation as the Difference Hansen statistics indicate.

As indicated in the body of the paper, coefficient estimates on all governance variables in the aid equation are significantly different from zero at any reasonable confidence level. This suggests that at the aggregate level, good governance has a significantly positive effect on inflows of aid to Africa, all things equal. For the control variables, the estimated coefficients on initial income, lagged growth rate of per capita income, and population are negative and significantly different from zero at $\alpha = .05$ or better while the coefficient of years of colonization is positive and significantly different from zero at 5% level of significance.

The DPD estimator is a single equation estimator. Although the suspected endogenous variable–aid–is instrumented for and thus we have consistent estimates, it is possible that the DPD estimator may produce results that are far different from what a true simultaneous estimation method will produce. To test whether the results are dependent on the DPD estimator, we specify a simple governance equation and jointly estimate if with the aid equation. The governance equation estimated is a function of aid, per capita income, the share of agricultural value added in GDP, ethno linguistic fractionalization, and legal origins. The equations are estimated using Two State Least Squares (2SLS) for each of the governance variables.

Table B2: 2SLS Estimates of Aid Equation

Variable	Goveffect	Polstab	Regqual	Rulelaw	Voice	Corruption
Governance	0.3816 (5.01)	0.4934 (4.52)*	0.3175 (5.01)	0.8798 (5.00)	0.6891 (6.21)	0.4168 (5.21)
First Stage F	41.26	45.50	38.62	40.57	42.61	39.87
p value	0.01	0.01	0.01	0.01	0.01	0.01
N		255				

* Absolute value of "t" statistics in parentheses

The 2SLS estimates of the aid equation for all 6 governance variables are presented in table B2.[+] Regression statistics suggest that the equation fits the data reasonably well and the coefficients are precisely estimated. The null hypothesis that all slope coefficients are jointly equal to zero is rejected at one percent significance level and the first stage F statistics indicate that the instruments are strong. The coefficient of aid in all the governance equation is statistically significant at $\alpha = .05$ or better, confirming that governance is indeed endogenous in the aid equation.

As in the Systems DPD estimates presented in tables 2 and B1, the coefficients on all governance variables in the aid equation are significantly different from zero at conventional levels. These coefficients are also similar in absolute magnitude to their DPD counterparts. The only difference between the 2SLS and the Systems DPD estimates is that the latter tends to be more precisely estimated than the former set of estimates. We can conclude that the estimates of the effects of governance on aid we estimate here do not qualitatively depend on the estimator used to estimate the aid equation.

+ The full 2SLS estimates are not presented here for space considerations.

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