Policy Conditionality in Africa : Advocating for Change

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IE International Policy Review - Policy of the Month

February 14, 2025

Introduction

Ending poverty in Africa has become an increasingly important target for the international community throughout the decades, giving a pathway to the rise of aid year after year from organizations such as the World Bank, International Monetary Fund, bilateral donors such as USAID, and NGOs. This financial support comes with the requirement that recipient countries implement policies and reforms in governance, transparency and economic management. These policy conditions attached to aid have created unintended spillovers towards the lives of Africans. This requires revising and reshaping policy conditionality to better align with the political and socio-economic contexts of African countries, improving its effectiveness while incorporating innovative solutions like blockchain infrastructure.

Foreign Aid's Background

Aid towards Africa began around the 1950s as countries won their independence. These investments contributed to steady economic growth. This led nine African countries to make the list of best-performing countries in the 1960s. For example, Gabon was the fastest-growing developing country of the time. However, in the late 1970s, this growth halted, due to the rising costs of oil coinciding with the plummeting prices of Africa's main exports.[1] Nations sought urgent aid and loan financing. Since then, Africa has been shaped by an increased dependence on aid and aggressive use of aid conditions provided by the World Bank and International Monetary Fund (IMF). The continent became the leading recipient of aid, having moved from "21 percent of global aid (from 1960 to 1980) to up to 35 per cent."[2]

Aid has become a prominent topic of discussion as people argue about its effectiveness due to African countries remaining in poverty. In fact, a well known Zambian economist Dr. Dambisa Moyo, argues that "foreign aid harmed more than helped in Africa by creating an aid dependency, a cycle where countries become overly reliant on it, hinder[ing] the development of sustainable economic policies and institutions, and foster[ing] corruption."[3] She supports this by pointing out that during the 70s, countries such as Singapore and South Korea had lower income per capita than several African countries, yet they surpassed African countries in economic growth. South Korea has evolved into an OECD donor. Thus, aid itself is not the problem as seen in the case of success stories. Contrarily the problem is the aid system, which Dr. Moyo points out. More specifically, conditionality. Conditionality, defined by the World Bank and the IMF, is what "links financial support to the implementation of a program of reforms that are considered

[1] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa,*" pg 10
[2] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 11
[3] COSSO, "*Foreign Aid in Africa: More than Meets the Eye,*"n.a.

critical for the country's economic and social development."[4] However, this definition has gained diverse interpretations from authorities, academics, and outside observers who rather see conditionality policies as pressured activities "a country may need to undertake to gain access to or influence the level of financing —including, for example, actions that borrowers need to take to meet the World Bank's operational policies."[5] This is commonly regarded as "ownership" as most aid-dependent countries have a harder time refusing compliance with conditions. Conditions have progressively changed from being "simple fiduciary and accountability requirements to ensure money is spent as intended"[6] being intrusive conditions that dictate policy-making in Africa such as determining the economic policies governing trade and the supply of money.

Conditionality's Background

Aid conditionality was introduced by the IMF around the 1950s and later adopted by the World Bank in 1979. Aid conditions were initiated so that foreign aid could have a dual purpose. The first is that it would be able to make direct impacts that are easily measured (such as how many people have been vaccinated, how many schools have been built, and how many areas are getting drinkable water). The second is that it would make policy reforms through aid conditions that will incur long-term beneficial effects. The World Bank states that conditionality is used "to ensure that the assistance it provides contributes to the country's development objectives (development effectiveness rationale), and to ensure that the resources are used for the purposes intended (fiduciary rationale)."[7] Conditionality has had a deeper impact on recipient countries than the money itself. African policies and economic structures have transformed from what they originally used to be and are more aligned with the 'Washington Consensus.' However, the Consensus has become much less influential after the early 2000s. The consensus was introduced by the IMF, World Bank, and the US Treasury Department to help aid recipient countries develop successfully.

Here are the following 10 policy recommendations from the Washington Consensus:

1. Tightening government spending across the board
2. Redirecting public expenditure to support growth and pro-poor services
3. Tax reform (lower marginal rates and a broader tax base)
4. Market-determined interest rates
5. Competitive exchange rates to induce growth in exports

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[4] World Bank Group, "*Review of World Bank conditionality*," pg 3
[5] World Bank Group, "*Review of World Bank conditionality*," pg 3
[6] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 36
[7] World Bank Group, "*Review of World Bank conditionality*," pg 1

6. Reducing barriers to trade
7. Reducing government controls over foreign investment
8. Privatizing state-owned companies
9. Reducing regulations restricting competition
10. Legally enforcing property rights

In theory, these aid conditions should be helpful towards alleviating the poverty situation in Africa; however, in practice they serve as a tool for different necessities, creating unintended spillovers.

Aid Conditionality's Impact in Africa

For example, for poorer countries, tariffs are a primary source of government revenue due to their ease of implementation and impartial impact across income groups. Thus, in the 1980s, when the IMF mandated Kenya to reduce their tariffs it significantly harmed the nation's clothing and cotton industry, as Asia and Europe's cheap clothing became more preferred. Kenya's cotton production had dropped from 70,000 bales of cotton in 1984 to 20,000 in 1995.[8] Trade liberalization affected many African countries overall. The diminishment of tariffs cut the size of national budgets that were used for development.

To further prove this point, an IMF study displayed that "while middle-income countries have been able to recover only 45–65 percent of what they lost in trade tax revenue from other revenue streams, the poorest countries, mostly in Africa, have been unable to find alternatives – they have simply lost the money."[9] Another similar instance is how institutions pressured African countries towards the privatization of state-owned enterprises. "Copper exports generate[ed] three-quarters of Zambia's foreign exchange earnings and copper prices (...) skyrocketed since 2003 due to increases in demand, especially from China."[10] It was expected that Zambia would benefit from this, however, during the '90s international financial institutions focused on the removal of mining from state ownership to the point that major donors withheld $530 million in aid from Zambia which did not cease. After reluctantly agreeing, Zambia's mining industry was divided and sold to foreign investors, which was beneficial in the short term as it brought significant investment and modernization but harmed the nations in the long term as it brought low government tax revenue and sent profits abroad. In 2005, mining taxes were far below levels seen when the industry was state-owned, despite higher copper prices.

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[8]GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 39
[9]GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 40
[10] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 41

There have been other similar incidents where the compliance of conditionality hurt the well-being of African countries, such as the reduction of subsidies, where the government supported the groundnut industry by providing benefits such as cheap credit (affordable loans) and guaranteed prices to stabilize farmers' incomes and protect them from market fluctuations. With the reduction, it led to higher prices and a huge loss for thousands of farmers and caused "widespread hunger and children being sent home from school because their families could not afford the fees."[11] Also, in the 90s, the World Bank implemented a strategy of adding education and health user fees which were detrimental to African nations such as Madagascar, Kenya, Tanzania, etc. It "led to a decline in the use of maternity and other health services in the poorest communities, contributing to a rise in infant deaths and putting women's health at risk."[12]

Overall, conditionality has forced countries to restrict one of their main sources of revenue like taxes and has harmed society to an extent, as African governments are forced to prioritize the desires of foreign donors instead of the needs of their citizens.

Present Conditionality in Africa

It is evident that the aid system, more specifically conditionality, has presented itself as an important issue to tackle. It has shaped the continent's trajectory since the early 1980s, and has produced benefits. The UN Conference on Trade and Development (UNCTAD) describes that it produced "macroeconomic stability…." and that "by 2004, only three of Africa's fifty-two countries had inflation rates higher than 20 per cent."[13] On the other hand, it has had its shortcomings, creating campaigning outbreaks from social groups and economists against it. This led to the prioritization of conditionality reform being on the agenda of multilateral institutions and donor governments. An approach was undertaken by donors and NGOs in the 1990s known as the Poverty Reduction Strategy Paper (PRSP). It is the involvement of domestic stakeholders like the government and development partners in analyzing the current recipient country's context and creating solution proposals. This was successful in cases like Zambia where it was agreed upon that agricultural liberalization was harmful and needed to change. However, it has its limitations as many donors do not necessarily respect it. PRSP is rather regarded as shopping lists that donors are "able to pick and choose which items on the list they will support, while claiming to be supporting government priorities."[14] As a matter of fact, it had little progress, as years later in 2005, the G8 (it was an

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[11] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 42
[12] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 43
[13] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 44
[14] GLENNIE, "*The Trouble With Aid : Why Less Could Mean More for Africa*," pg 47

intergovernmental organization that addressed international economic and monetary issues, from 1997 to 2014) had to promise again that "poor countries must decide and lead their own development strategies and economic policies."[15]

Furthermore, there are claims African governments manipulate the foreign aid system by agreeing to aid conditions without genuine commitment. For instance, "aid donors provide financial assistance in exchange for policy concessions, and recipient governments commonly use such aid to consolidate their power."[16] This suggests that conditionality can, at times, support "autocratic regimes, reinforce their hold on power, and erode the political structure as resources are corrupted ."[17] As a result, conditionality is often criticized for prioritizing the interests of donors over the well-being and needs of local African citizens.

Not all is lost as the World Bank states that there has been "an emergence of new approaches to policy-based lending, and the practice of conditionality itself has evolved with increased efforts by the IMF, the World Bank, and other development partners to analyze and improve the effectiveness of their support."[18] As a matter of fact, there has been much less focus towards financial and trade liberalization conditions by the early 2000s. "Budget and fiscal conditions also became far less common later in the 2000s, while privatization is the only area that maintains prominence in loan conditions."[19] This can be proven through a study conducted by two prominent professors, Ben Cormier from the London School of Economics and Mark S. Manger from Munk School of Global Affairs & Public Policy, where their results showed a decline towards the usage of these policies, and the increased usage of other policies unrelated to the Washington Consensus. These new policies are focused on social policy areas like health and education, borrower, and governance reforms.

However, aid conditions are not always designed to align with the political and socio-economic realities of recipient countries. Research by professors Cormier and Mang displays this disconnect, showing that "country-characteristics have little to no substantively significant effect on the content of loan conditions."[20] Thus, "the Bank's approach is not shaped much by borrower specifics. Bank policies still reflect a particular set of focal areas, although these have changed over time."[21] As a result, even though aid conditions have moved away from a sole focus on the "Washington Consensus," they can still produce negative spillovers in recipient countries.

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[15]Cosso, "*Foreign Aid in Africa: More than Meets the Eye,*"n.a.
[16] Cosso, "*Foreign Aid in Africa: More than Meets the Eye,*"n.a.
[17] Cosso, "*Foreign Aid in Africa: More than Meets the Eye,*"n.a.
[18] World Bank Group, "*Review of World Bank conditionality*," pg 1
[19] Cormier & Manger, "*The evolution of World Bank conditionality: A quantitative text analysis*", pg 2
[20] Cormier & Manger, "*The evolution of World Bank conditionality: A quantitative text analysis*", pg 32
[21] Cormier & Manger, "*The evolution of World Bank conditionality: A quantitative text analysis*", pg 32

Reshaping Conditionality in Africa

Even though progress has been made in improving aid conditions, there is still a need for innovation in conditionality. They need to better align with the socioeconomic and political realities of recipient countries to maximize their impact and minimize the unintentional negative effects of it.

However, this can be difficult, as organizations like the World Bank and IMF are funded by donors and stakeholders whose interests and preferences influence aid operations. For example, in the World Bank, donors continue to shape Bank loan operations, expecting that Bank loans lead to reform.[22] This creates a complexity in striking a balance between the interests of the interested parties.

Despite this, it is important to push for conditionality innovation which can be done through involving local African governments, civil society, and communities in the process of designing and implementing conditions. This ensures that the conditions align with the specific needs and priorities of the region. Flexibility is crucial, allowing conditions to be adjusted within a set time frame to respond to economic or social changes.

Strengthening accountability in conditionality is equally important and can be achieved through results-based financing. For instance, attaching conditions to performance-based contracts link payments to achieving specific performance goals, and cash-on-delivery aid ties funding to measurable progress, like fixed payment for each additional unit of progress. This enables donors to track progress effectively, reduces the risk of corruption and ensures funds are used as intended. This minimizes the misuse of aid because it avoids African governments from simply implementing the donor's conditions and later misusing the money.

Moreover, to strengthen conditionality, technological innovations can be taken advantage of. According to the economic founder of W Fintechs and expert in financial innovations "blockchain infrastructure offers anti-corruption advantages as a 'decentralized and distributed ledger, meaning all transactions recorded on it are immutable, ensuring transparency, as anyone can verify the complete history of transactions.'"[23] Implementing this can help with transparency and identify inconsistencies in resource management. Thus, minimizing corruption.

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[22] Cormier & Manger, "*The evolution of World Bank conditionality: A quantitative text analysis*", pg 29
[23] Cosso, "*Foreign Aid in Africa: More than Meets the Eye,*"n.a.

Conclusion

Conditionality, more specifically policy reformation, was introduced to ensure that aid aligns with a country's development goals, resources are used as intended, and positive, lasting changes are achieved. However, in Africa, this has often been challenging. Historically, it has caused negative spillovers, harming civil society and the continent's economic well-being. This is largely due to organizations like the World Bank and the IMF applying a one-size-fits all approach to policy recommendations and a misalignment between aid conditions and the interests of African civil society.

To improve its impact on Africa's political and economic structure, conditionality must better align with the political and socio-economic realities of recipient countries. Additionally, incorporating innovative components, such as blockchain infrastructure, could enhance conditionality's performance.

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