View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by Research Papers in Economics

A Brief History of Aid in East Africa: The Political Economy of Convergence

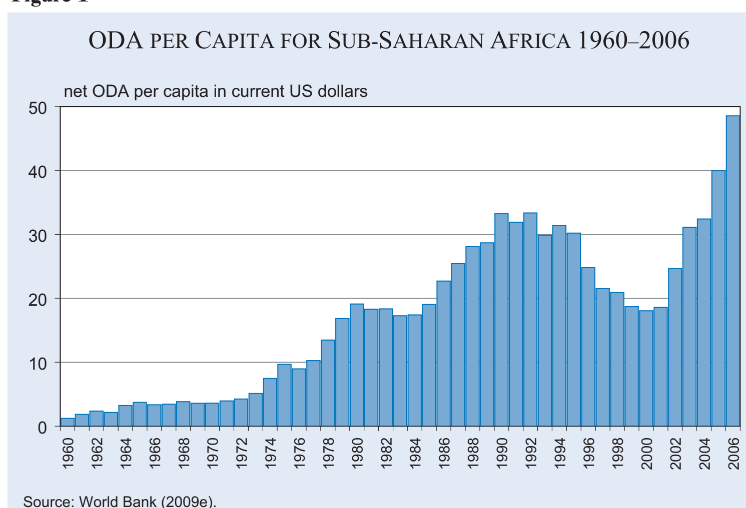
Howard Stein*

The debate over the nature and impact of aid on the economies and policy strategy of African countries has been rancorous and protracted. A good detail of the focus has been on empirical studies of the impact of aid on economic growth including the role of Washington consensus policies in enhancing or reducing the effect of aid.[1] Other studies have looked less at the direct effects of aid and more at the indirect effect of policy conditionality. Some have argued that economic growth has done poorly in Africa because orthodox policies were implemented while others have purported to show the very opposite.[2] Still other have argued, based on modeling of donor-government behavior that adjustment was never implemented properly and that it would have worked if properly followed.[3] The focus of this paper will be somewhat different. To test the impact of aid on government policy, this short study will focus on the levels of assistance over time and the degree of policy convergence between three countries in the same region of East Africa that started from divergent policy positions. Instead of abstract modeling of assumed behavior, the focus will be on an historical account of the impact of donor policies embedded in aid packages on the shifting nature of government policy. In general, the paper will argue that while there have been variations in relations between governments, international financial institutions (IFIs) and donors, aid and the withholding of aid have been effective in breaking down political resistance to orthodox reform and in shaping East African economies in a neo-liberal image.

ODA and Africa

Official Development Assistance (ODA) generally includes grants and concessional loans (with a 25-percent grant component calculated at a rate of discount of 10 percent) from government and other official sources for development/welfare purposes. There are a number of approaches to measuring ODA flows including gross measurements, net nominal and real flows, ODA/GDP, ODA/capital formation, ODA/exports and imports, etc. All of these provide varying and useful information. The best overall indicator is arguably per capita ODA which takes into account the overall level relative to population growth in dol-

Figure 1



Source: World Bank (2009e).

* University of Michigan, Ann Arbor. An earlier version of this paper was presented at the SIDA/CDPR Ownership Workshop, SOAS at the University of London, 25 January 2002. The revised version was written as visiting fellow at KITLV (Royal Netherlands Institute for Southeast Asian and Caribbean Studies), Leiden, the Netherlands.

[1] See, for example, the early debate on the role of 'good policies' in aid where good policies are defined by a standard array of orthodox macrostabilization targets including low inflation, openness of the economy, budget surpluses, etc. Hansen and Tarp (2001) were unable in their econometric analysis to reproduce the results of the World Bank work by Burnside and Dollar (2000) which purported to illustrate that aid was only effective in the presence of these 'good policies'. Since then there have been dozens of empirical studies on aid and its impact in growth. For a list of some of these, see Mavrotos (2009).

[2] See discussions of this literature in Stein (2008).

[3] See e.g. Killick (2004).

lar terms. Figure 1 provides the general movement of ODA in Africa since 1960.

We can see that there was a fairly significant rise in the commitment of donors to Sub-Saharan Africa (SSA) through 1992, stagnation until 1995 and then a significant decline from 1995 to 2001, and a recovery thereafter. Table 1 provides specific ODA per capita figures for the period from 1985 to 2006 and includes information for all three countries in East Africa. We can see that aid peaked in 1990-92 at around USD 33 per capita. However by 2000 aid had dramatically collapsed to a tiny USD 18 per capita or roughly a 45 percent decline. As we can see, per capita aid did not surpass the level of the early 1990s until 2005 and 2006.

There is a considerable literature venturing explanations of the decline in the 1990s pointing to the post-cold war period, donor fatigue, the growth of conservative power with their anti-aid agenda, the shifting of focus toward east and central Europe, etc. While these general trends have had their impact in East Africa, each country has also been influenced by its own idiosyncrasies. For Kenya with its very problematic bilateral and multilateral relations following many years of political turmoil, the decline was precipitous in the 1990s and fell by 80 percent over the decade. In 2006, per capita assistance reached only 50 percent of the peak year in this country. In contrast, aid to Tanzania and Uganda held up remarkably well. For Tanzania the decline after the mid-1990s was roughly a third from the peak years of the early 1990s. Uganda was a comparative favorite of the international community in the 1990s. The per capita ODA was almost constant through the period of 1990-1997 and actually had a peak year in 1995. Only the years 1998 and 1999 showed some fall-off in assistance which rapidly recovered and surged after 2002. By 2006 per capita aid in Uganda was almost 50 percent above the levels of the early 1990s.

This brief paper is aimed at providing a narrative on the recent pattern of ODA. The focus is on orthodox reform or structural adjustment (macro-stabilization, privatization and liberalization, etc.) which has dominated the agenda in Africa in general and East Africa in particular. Each country has had historically divergent strategies, politics and relations with donors that have affected how the orthodox strategy has been implemented. The focal point will be on the post-1986 period. However, the paper will also briefly discuss donor relations between 1980 and 1986 in Tanzania and Kenya. This is the year in which Tanzania settled with the IMF. It is also the year in which Museveni and the NRM came to power. It is less consequential in Kenya but it is the year they released the Sessional Paper No. 1 which launched the second level of economic reform and was a reaffirmation of their commitment to reform. As we can see in Table 1, 1986 and 1987 were threshold years for all three governments with huge increases in ODA. Let me begin with Tanzania.

Tanzania

Bagachwa et al. (1997) characterize aid flows to Tanzania as having four phases: the aid expansion phase when donors supported the country in the wake of the Arusha Declaration (1967–1980); the contraction phase (1980–1985) when Tanzania resisted settling with the IMF/World Bank and failed with its home-grown attempts at reform; the aid adjustment phase that followed the accord with the World Bank and the IMF; and the consolidation phase when aid was more closely tied to performance criteria which is a reflection of donor fatigue. I would like to add a fifth phase, the MDG phase after 2001

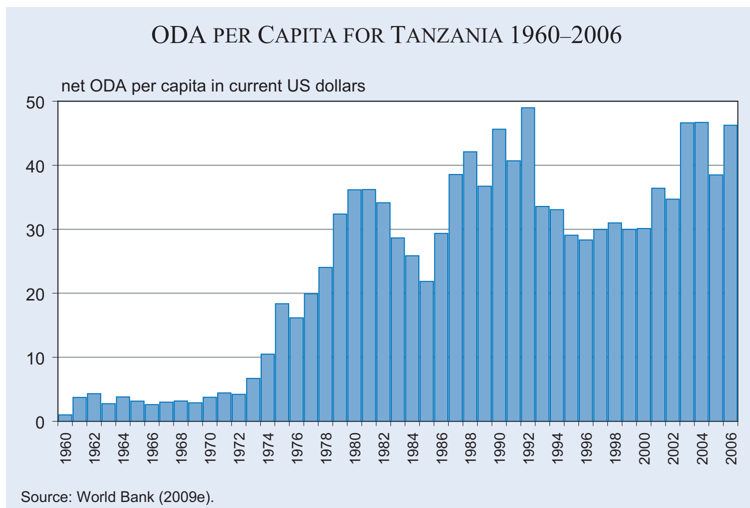
Table 1

ODA per capita for Sub-Saharan Africa, Tanzania, Uganda and Kenya 1985–2006 (in current US dollar)

Year	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
SSA	19	23	25	28	29	33	32	33	30	31	30
Tanzania	22	29	39	42	37	46	41	49	34	33	29
Uganda	12	12	19	24	26	37	36	38	31	37	39
Kenya	22	22	26	38	47	50	38	35	35	25	27
Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
SSA	25	22	21	19	18	19	25	31	32	40	49
Tanzania	28	30	31	30	30	36	35	47	47	38	46
Uganda	31	36	28	25	33	31	27	36	43	41	52
Kenya	21	15	14	10	16	14	12	15	19	22	26

Source: Worls Bank (2009e).

Figure 2



Source: World Bank (2009e).

in which donors committed to raise their ODA levels to help reach the Millennium Development Goals (MDG).

Figure 2 and Table 1 above tend to confirm the importance of 1986 in terms of the direction and level of aid. Overall (bilateral and multilateral aid) fell by roughly a third during the period of 1981 to 1985. The decrease also included significant declines in countries that were the strongest supporters of Tanzania historically, including Sweden.

The breakdown in negotiations with the IMF and the growing cartel-like behavior of bilateral and multilateral organizations in their support of adjustment was a clear cause of this decline. In 1980 Tanzania signed a three-year standby agreement for SDR 195 million, including a SDR 15 million compensatory facility. The accord had the usual IMF conditionality associated with it such as credit ceilings on government borrowing, reduction of external commercial arrears, and studies to evaluate mechanisms to raise interest rates and alter the foreign exchange levels and regime. Due largely to the huge increase in marketing board credit needs, the ceiling on borrowing was greatly exceeded leading to a suspension of the agreement in November 1980. Negotiations continued through 1981. In September, the IMF submitted a memorandum including a 50 to 60 percent devaluation, with adjustments to reflect inflation rate changes, significant deficit reductions, the elimination of subsidies on many products including a tripling of the price of sembe (maize meal) in order to diminish government support of the parastatals, removal of interest rate subsidization and an increase to real positive levels, and improving farm incentives by raising producer prices by 75 to 80 percent, implementing cost-of-living adjustments, the removal of import controls on inputs leading to input price liberalization and implementing a single licensing system.

The package was rejected by the government with negotiations lapsing for seven months. In response to the failure to reach a new accord, in May 1981 the government launched a homegrown program aimed at mobilizing internal resources for export and food self-sufficiency. The National Economic Survival Program (NESP) was hastily conceived and completely ineffective. Its poor formulation and weak implementation enfeebled the credibility of individuals within the state pushing alternatives to the IMF.[4] In late 1981, the Tanzania Advisory Group was jointly formed by the government of Tanzania and the World Bank with a technical assistance credit from the International Development Association (IDA). It included well-known Tanzania experts like Brian van Arkadie, Cran Pratt, Gerry Helleiner and John Loxley. They formulated the Structural Adjustment Program (SAP) prepared on the premise of reaching agreement with the IMF. Much of it focused on measures to tighten government budgeting. It was the beginning of the movement toward meeting the September 1981 IMF memorandum.

The National Agricultural Policy, also launched in the fall of 1982, pushed the country toward the IMF conditionality. While it still supported producer subsidies, along the IMF lines the report called for devaluation, cost of living increases for producers and the removal of consumer subsidies. The Tanzanian economy continued to decline through the early 1980s. As donors began to withdraw their ODA, the international accounts badly deteriorated. Exports fell by 30 percent between 1981 and 1984. Imports were severely compressed and declined by 25 percent over the same period and had a severe impact on economic activity. Manufacturing fell by 9 percent, mining by 10 percent and construction by 34 percent.

[4] The conceptual and implementation weaknesses of the NESP are analyzed in Stein (1992).

Drawing on these reports and under additional pressure from donors, the 1984/85 budget continued its movement toward the IMF position and included import liberalization (allowing individuals to import without questions of foreign exchange sources), the removal of subsidies on sembe and fertilizer, a currency devaluation of 26 percent, tax increases and a freeze on civil service hiring, a stopping of overdrafts on government accounts and the introduction of school fees. In line with a 1984 Presidential Commission on Public Sector Reform, the 1985/86 budgets further reduced government spending by announcing the layoff of 27,000 workers in the civil service and the elimination of a number of parastatals. The budget also abolished export taxes, reduced some customs duties and raised interest rates.

By the 1986/87 budget time Tanzania had met most of the conditions of the 1981 IMF memorandum and was ready to satisfy their donors by reaching an agreement with the IMF. In June 1986 donors promised to end the period of declining support with a significant increase in assistance if they settled with the IMF and the World Bank. In August 1986, the IMF signed a standby accord for SDR 64.2 million. Shortly after the IMF accord, the government also received a structural adjustment loan from the World Bank. Following the accords, in October 1987, Tanzania signed a three-year Structural Adjustment Facility (SAF) with the IMF for SDR 54.5 million for the first two years. The third year was contingent on finalizing an agreement for an Extended Structural Adjustment Facility (ESAF) which was signed in 1989. The conditions were publicized in the government's three year Economic Recovery Program (ERP) 1986–1989.

The 1989/90 budget was the first post-ERP I budget, but provided a continuation of the liberalization strategy. The shilling was devalued further (by December 1989 it had fallen 480 percent), the export retention scheme was expanded into new categories, foreign exchange accounts were permitted for Tanzanians working abroad, and school fees were raised significantly. A second three-year program (now called the Economic and Social Action Program) was prepared for the donor's consultative group meeting in December 1989. It contained a continuation of the liberalization measures of the earlier accord and reflected the conditionality of the ESAF. It emphasized the same credit controls, producer incentives, extension of user charges for government services, maintenance of steady real exchange rates through depreciations, etc. (Stein 1992).

Along with the IMF inducements, Tanzania was also rewarded with a series of World Bank loans primarily through the low interest window of the IDA. In 1986 they received a USD 300 million loan (half from IDA and half from donors) aimed at increasing agricultural production, particularly export crops via devaluations, market improvements and improved transport. A series of mostly macroeconomic conditions were associated with each tranche. In December 1988, the Industrial Rehabilitation and Trade Adjustment Credit was approved for USD 242 million with USD 182 million coming from the IDA. It focused on trade liberalization, tariff and sales tax reforms and industrial restructuring in the area of textiles, leather and agricultural processing.

In 1990, Tanzania received an Agricultural Adjustment Credit for USD 385 million, of which USD 200 million came from the IDA. It focused on the liberalization of marketing of agricultural products and inputs. The Financial Sector and Adjustment Program of 1991 for USD 275 million from the IDA focused on banking sector liberalization, including privatization, allowing forex bureaus and permitting foreign banks entry privileges into the Tanzania market. Finally the Structural Adjustment Credit in 1991, also for USD 200 million was aimed at parastatal restructuring and privatization, civil service reform and market restructuring for agricultural exports. The first three IDA loans supported ERP I and the latter three ERP II (Raikes and Gibbon 1996).

As promised, Tanzania was handsomely rewarded by the donors. Overall, the multilateral agencies increased ODA by 45 percent in 1986 and 23 percent in 1987. Development Assistance Committee (DAC) aid was even more generous and increased 38 percent in 1986 and 40 percent in 1987. In US dollar terms, the 1987 level was almost double the 1985 level. There was a big expansion in the category of program aid in the overall bilateral statistics, which is associated with the financial assistance linked to structural adjustment policies. Program aid increased almost fourfold from USD 68.2 million in 1985 to USD 221.3 million. Tanzania was rewarded not only in the category of foreign aid but in virtually every area aid was allocated. The high level of support continued through the early 1990s, peaking in 1992 with net ODA hitting USD 1.3384 billion or nearly a tripling of the 1985 level (OECD 2001).

One can use a simple measurement of the reward for settling with the IMF. If we assume that aid would not have increased from the 1985 level, Tanzania received a net inflow of an additional USD 3.7 billion from 1985 to 1992 alone. This is a massive amount of foreign exchange for an economy that exported only USD 300 to 400 million in the 1980s. Other measures capture this increased intensity of aid following the IMF accord. Aid per capita was more than doubled from 1985 to the peak year of 1992 increasing from 21.8 to 49.3 US dollars per capita. The latter figure was roughly 30 percent of the per capita nominal GNP of 172 US dollars in 1992. Aid as a percentage of GDP increased from 7.4 percent in 1995 all the way to 28.6 percent in 1992 (OECD 2001).

In 1992 Tanzania lapsed in its vigilant commitment to meeting conditionality. The World Bank (2001, 323) was puzzled by the movement away from the trajectory of reform: "in 1992, President Mwinyi appointed Malima as Minister of Finance. Although the move is hard to explain politically, given Malima's background [he was a former Minister of Planning and an important figure associated with Nyerere's socialist strategy], he seemed to change his views on economic reform. This was the start of a new period of crisis, however, and President Mwinyi seemed less emphatic as a reformer during his second term in office. Some argue that he lost control".

However, the early 1990s were also a period of considerable turmoil with increasing popular criticism of adjustment. In 1992 there were major upheavals in two universities in response to cost sharing proposals associated with the conditionality of the World Bank Higher Education Credit. In the Arusha region small miners resisted the alienation of their rights given to new companies under the new investment regulations linked to reform and conditionality. The press with its growing independence after 1991 also played an increasing role in articulating criticisms (Raikes and Gibbon 1996). Malima, as a member of the old guard, was partly brought in to shift direction in the wake of the growing disenchantment with adjustment.

The shift away from the commitment to adjustment played a clear role in the decline of aid to Tanzania. Among other things, the government missed fiscal and credit targets. By 1994, the IMF cancelled its adjustment program and essentially pulled out. The donors were also rather disturbed by the number of politically connected individuals receiving tax exemptions on import duties, declining efficiency in tax collection, the existence of a number of tax-free transit warehouses (e.g. Tanzania destined for Zanzibar and vice versa) where items did not make it to their destination, and corruption around debt conversion programs where private sector actors were rewarded for increasing investment.

The donor response was quite vociferous. The Nordic countries (except Denmark), which were the most consistent long-term supporters of Tanzania, cut off aid in November 1994. Overall, as indicated in Table 1, per capita aid plummeted by 43 percent between 1992 and 1996. The IMF and Nordic cutoffs sent a shock through the government. Malima was moved out of his position in the Ministry of Finance, the number of bonded warehouses was reduced from 177 to 65 by June 1995, and large amounts of outstanding taxes were to be collected by the donor's consultative meeting of February 1995 (Raikes and Gibbon 1996).

After the election of November 1995 when CCM retained power, Mkapa became president. With the fall-off in aid, CCM made a choice that was accommodating to the donors. He was a known pro-reformer and quickly put into place a team that would satisfy the adjustment conditionality. The government formulated a shadow IMF program between June and July 1996. It earned praise by the donors and the IMF. The IMF then rewarded Tanzania with a three-year ESAF. The government also signed a deal with the Paris Club in January 1997 and was included in the HIPC initiative in April 2000 (World Bank 2001a). Once again the government was rewarded with aid, reversing the downward trend and moving moderately upward contrary to patterns in other parts of SSA.

Since then Tanzania has kept in good relations with the IMF. It signed the Poverty Reduction and Growth Facility (PRGF) agreements with the IMF in April 2000 (completed in August 2003) and August 2003 (finished in February 2007) and a one-year External Shock Facility in May 2009 (IMF 2009). Tanzania also received many more World Bank loans than Uganda and Kenya after 1996 (57 compared to 44 for Uganda and only 33 for Kenya). The loans continue to push the same orthodox agenda including government decentralization

of power and services (Local Government Support Project 2004 and 2006; Health Sector Development Project 2003), seven poverty reduction support credits which government spending targets (2003 to 2009) and deregulation to improve agricultural private sector investment (Agricultural Sector Development Project 2006) – see World Bank (2009b). As seen in Table 1, Tanzania was also rewarded by the donor community with aid jumping by more than 50 percent by 2003 to levels last achieved in the early 1990s.

The Tanzania policy agenda like that of so many other countries in Sub-Saharan Africa has been driven by external donors. The World Bank has been hard pressed to come up with many examples of genuine input from business or civil organizations. In discussing the input arising from proposed changes to the National Bank of Commerce, the World Bank admitted, 'what was deemed best for Tanzania was the option that would make it easier to attract aid' (World Bank 2001a). Donors have also coordinated their efforts to provide incentives to Uganda to follow the conditionality of the World Bank and the IMF.

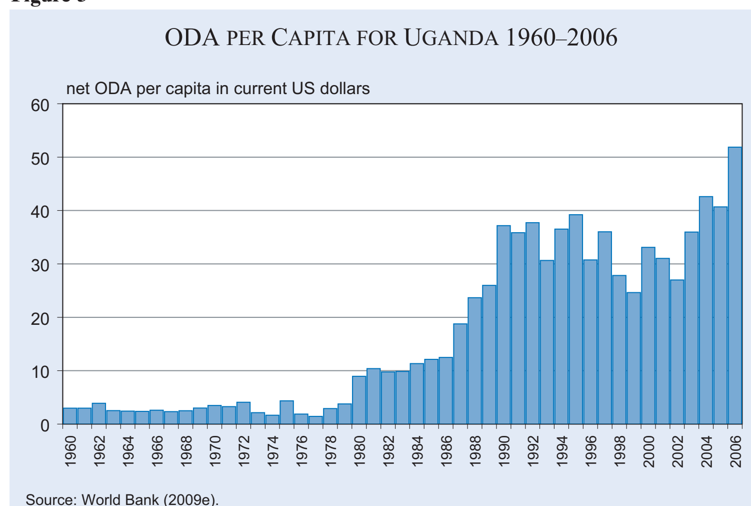
Uganda

After the NRM had taken power in 1986, there was widespread skepticism concerning markets and the role of the private sector. Their initial attempt to administer prices and exchange rates with little donor support proved unworkable, as inflation increased and economic activity continued to decline. They had little choice but to turn to the IFIs and little technical or financial strength to resist any parts of the standard package.

Beginning in May 1987, Uganda launched the Economic Recovery Program (ERP). The initial program involved a 77 percent devaluation (43 percent in real terms), an increase in all export crop prices, budgetary discipline, which improved through shifting access to bank credit for the private sector and paratastals rather than directly from the coffers of the government, foreign exchange controls that were to be replaced by an OGL (open general licensing) system, price control reductions and privatization of parastatals including the liberalization of the crop marketing system. In 1987 Uganda was rewarded with an IMF facility of SDR 69.7 million and with an Extended Structural Adjustment Facility of SDR 219 million in 1989. In the same year the World Bank allocated its first Economic Recovery Credit (and a second one in 1991) which included USD 132 million from the IDA and USD 132 million from other donors mobilized by the IDA (Brett 1986).

The response was very generous. While DAC aid went up moderately after the NRM victory (net inflow rose by USD 35million in 1986) the large inflow of DAC bilateral program aid did not occur until after Uganda settled with the IMF. In 1990 the DAC aid increased by nearly 600 percent compared to the 1985 level. Overall nominal net inflow of ODA had gone from USD 192.3 million in 1986 to USD 668 million in 1990 or more than tripling of the level. As in Tanzania, bilateral program aid jumped enormously and increased more than eleven-fold between 1985 and 1988. However, the increase was not limited to structural adjustment loans but was virtually across the board. Aid intensity, as measured by aid per capita, had increased from USD 12.3 to USD 38.5 by 1992 (OECD 2001). The aid inflow was all the more remarkable given the level of exports (USD 312 million in 1990) – see World Bank (2000). Aid inflows became virtually the only source of foreign exchange for private imports under official arrangements. Foreign exchange was vital to the government budgets. After conversion, it covered roughly half of the government recurrent budget by 1990. Once

Figure 3



Source: World Bank (2009e).

program aid was put in place, donors covered virtually all new projects – on average 80 percent of the total developmental budget (World Bank 2001a).

Despite missing some of the more narrow technical targets of the World Bank and the IMF, there was continuity of support through the early 1990s. By 1994 Uganda had received two Economic Recovery Credits, a Structural Adjustment Credit, a Financial Sector Adjustment Credit, Agricultural Sector Adjustment Credit and several other investment credits, two Structural Adjustment Facility Loans and four annual arrangements under the Extended Structural Adjustment Facility. Between 1987 and 1992 the original policy conditionality was deepened with continuous pressure to bring the exchange rate in line with the parallel market rate, to reduce inflation with budget deficit reductions, to eliminate export crop monopolies, encouraging foreign and domestic private investment through the reduction in licensing controls and restoring property rights, to privatize parastatals and to improve civil service efficiency through retrenchment and other means. Aid flows continued without interruption, with regular donor meetings in Paris and Kampala, despite the failure to implement many parts of the conditionality on schedule.

In some cases, such as the 1988/89 stabilization components of the ERP, the World Bank admitted that the government virtually abandoned all attempts to reach the agreed targets (Brett 1996). In a 1993 report, the World Bank stated that government ownership was weak and limited to a narrow circle of ministers and senior officials. There was not sufficient effort to foster wide support for the program (World Bank 1993). However, it continued to lend because it had a strong vested interest in achieving success. Brett (1996) argues that the donors continued because so much was done on the security front, restoring essential services and implementing discipline and because the regime was willing to deal with failures and work toward a new regiment. However, this also ignores the importance of Museveni as a strong ally of the United States in the region and the belief in the United States and IFIs that structural adjustment was in dire need of a 'success' case. Although Ghana was cited as the best of example of successful adjustment up to the early 1990s, Uganda replaced it in this role thereafter.[5] In other words, Uganda's slippage was tolerated whereas there was less flexibility in dealing with Tanzania and Kenya.

Unlike Tanzania, Uganda continued to receive strong aid support throughout the 1990s. After 1994 it obtained two additional World Bank Structural Adjustment Credits, one for USD 80 million from 1994 to 1996 and another for USD 125 million from 1997 to 1999. It also obtained an Education Sector Adjustment Credit for USD 80 million. The IMF also continued its uninterrupted support with three-year ESAFs for USD 180 million in 1994 and USD 138 million in 1997, a three-year PRGF in September 2002 for SDR 13.5 million that was extended until January 2006 (World Bank 2001a). Uganda also received 44 loans and credits between April 1996 and March 2009 from the World Bank including seven Poverty Reduction Support Credits for USD 150 to 200 million (between July 2001 and May 2008) – see World Bank (2009). Many focused on the usual orthodox agenda including privatization (Privatization and Utility Sector Reform 2000), decentralization (Local Government Development/Local Government Management 1999, 2003 and 2008) and financial liberalization (Financial Sector Market Assistants Project 1999) (World Bank 2009c).

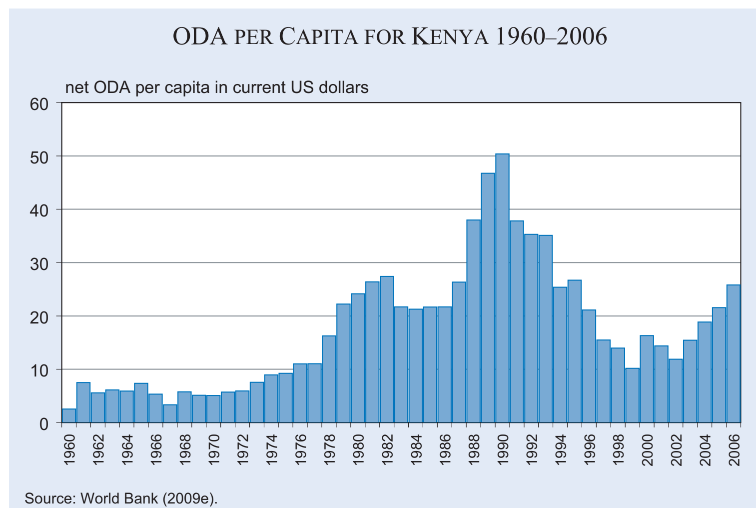
One of the downsides of the strong support by the IFIs is the disproportionately high loan component of Uganda's ODA. Multilateral aid exceeded bilateral aid in all but two years between 1986 and 1994. With the exception of 1998 and 1999, loans have typically been in the 30 to 50 percent range of the total net ODA inflows since 1987 (OECD 2001). The result is that Uganda experienced one of the most rapid increases of debt of any country in the world, rising by 571 percent between 1980 and 1998.[6] Given the structural weaknesses of exports and their heavy reliance on cash crops like coffee, the debt/export ratio rose from 209 percent to 1,555 percent before moderating slightly in the latter 1990s (World Bank 2009c).

[5] Although Ghana was the No. 1 'success case' in the 'adjustment in Africa' (World Bank 1994), it was no longer praised by the World Bank, shortly thereafter. In February 1997, for example, in a meeting at the Council of Foreign Relations in New York on Adjustment in Africa which I attended, there was no mention of adjustment in Ghana by the chief economist for Africa at the time (Kevin Cleaver). Uganda was placed at the top of new list of success cases. In 2001, in a glossy publication entitled *A Case for Aid,* Uganda was only one of two countries in SSA highlighted as a success case as an example of a 'Successful Poverty Focused Adjustment Program' (World Bank 2001b). Just as the World Bank was boasting of this decline in poverty rates, GNI per capita fell by an average of 4 percent per year between 1999 and 2003. Poverty levels rose to 39 percent of the population in 2002 from 34 percent in 1999 (World Bank 2009a).

[6] By contrast, Tanzania has often had two to three times the level of bilateral assistance relative to multilateral assistance and grants have generally been more than 80 percent of the total in most years after 1986. While Tanzania has high overall debt, the growth since 1980 was much slower rising by only 34 percent between 1980 and 1997 (World Bank 2000).

Because of its high level of debt and 'good behavior', Uganda was the first country to be declared eligible under the HIPC initiative (April 1997). One year later it received relief of USD 650 million from its external creditors which was approximately 17.5 percent of total 1997 external debt. Bilateral donors in the Paris Club also agreed to debt rescheduling in Uganda on six occasions between 1980 and 1999. Uganda was the first country to receive debt rescheduling under the Naples terms, corresponding to a reduction in eligible debt of 67 percent in net present value terms. Donor debt relief disbursements rose from USD 12.9 million in 1991/92 to USD 53.31 million in 1996/97. Before the HIPC initiative, Uganda also received some multilateral debt relief from the bilateral donor's Multilateral Debt Fund.

Figure 4



Source: World Bank (2009e).

Uganda was also the first country to reach the completion point for the Enhanced HIPC and obtained additional relief of USD 1.3 billion in May 2000. In July 2005 Uganda, along with eighteen other poor countries that reached the completion point, was provided an even larger reward for good behavior with a USD 3.522 billion write-off under the Multilateral Debt Relief Initiative (World Bank 2009g). By 2006, due to debt relief efforts, Uganda's debt/export ratio fell to a very moderate 53 percent with total debt declining by nearly 75 percent from its peak (World Bank 2009a).

While new initiatives for debt reduction were put in place, overall aid to Uganda began to slow, reflecting donor fatigue. The 1998 and 1999 overall levels fell by 43 percent and 29 percent respectively with declines in both DAC bilateral and multilateral assistance (OECD 2001). However, Uganda followed the post-MDG surge with a nearly doubling of aid between 2002 and 2006 to levels well above the SSA average.

Kenya

While Tanzania and Uganda have largely complied with adjustment conditionality, Kenya has had a much more problematic relationship with the IFIs and the donors. Kenya was one of the first countries in Africa to receive a World Bank Structural Adjustment Loan in March 1980, focusing on reducing government deficit spending, re-orientation of industry toward exports and interest-rate reform. The IMF followed up with a standby agreement in October 1980 pushing similar conditionality including trade liberalization. However, the stop-and-go relationship started almost from the beginning. The IMF agreement quickly broke down, and another one was signed in January 1982, with even tougher conditions for government borrowing and an associated large cutback in the government deficit. This one was also suspended for a failure to reduce government borrowing from the central bank. The allocation of the second tranche of the 1982 Structural Adjustment Loan was delayed until 1984. Kenya in the end did not undertake all the conditionality but was still granted the tranche. Partly as a result, a new Structural Adjustment Loan was not issued until 1986 which led to a rise in donor assistance. However, relationship with the IMF slightly improved after a standby agreement was successfully completed in December 1982 (Ikiara and Ndung'u 1999).

In 1986, Kenya confirmed its commitment to reform in the Sessional Paper No. 1, 'Economic Management for Renewed Growth'. The paper was a product of extensive dialogue between the IMF, the World Bank and the Kenyan government throughout 1985. The World Bank and the IMF supported the commitments in the paper with a series of loans. Between 1986 and 1989 the IMF approved a Compensatory Facility, a Standby Agreement, an SAF and an Enhanced SAF for a total exceeding SDR

480 million. The World Bank was even more generous with the approval of six Sectoral Adjustment Loans (SECALs) totaling USD 537 million between 1986 and 1991. An additional USD 348 million was allocated as IDA reflows or credits to offset previous IDA loans (World Bank 2001a). Annual disbursements of net ODA from multilateral sources increased eightfold between 1986 and 1990 (to USD 446.1 million). Bilateral donors also responded generously. The DAC group, following the IFIs, nearly doubled their net ODA to USD 735.2 million. The aid intensity figures support the quantitative jump in ODA. Aid per capita reached a historical peak hitting USD 48.7 in nominal dollar terms and 13.2 percent of GDP, up from USD 21.3 and 6.5 percent in 1986. As seen in Figure 3, after the peak, aid rapidly trended downwards as relations between the donors and Kenya deteriorated. By 1999 nominal per capita aid had fallen to less than half of the 1986 level (USD 10.5) and a mere 3 percent of GDP (OECD 2001).

The same problematic relations were repeated again in the early 1990s and after 1996 with greater consequences to aid disruption (World Bank 2001). The difference was less a change in Kenya's behavior or less tolerance by the donors. Kenya was less strategically important in the post-cold war period; other countries had proven that it was possible to meet the conditionality (Ndulu and Mwega 1994). By November 1991 donor frustration had been building over the lagging commitment to adjustment targets, corruption and governance issues surrounding Moi's long-term control of the presidency and his resistance to multi-party elections. Aid was suspended at the Consultative Group meeting in November 1991. The freeze lasted until mid-1993 and affected more than USD 400 million in potential financial support including undrawn funds from the IMF ESAF, the World Bank SECALs in agriculture, export development and education, the ADB funds, and significant amounts from Japan, the EU (and its members like Britain, the Netherlands, Germany, etc.) and the United States. Under pressure, the government renewed its effort for reform and eventually received about half the sums. They also signed on a new ESAF for SDR 150 million in April 1996 and received a new Structural Adjustment Credit (SAC) with IDA reflows of USD 90 million and USD 35 million, respectively. In mid-1997 the ESAF was suspended by the IMF for non-compliance on conditionality with only SDR 25 million allocated. It was allowed to expire in 1999. For similar reasons, the SAC second tranche was cancelled in mid-1998 (World Bank 2001). Bilateral assistance was also largely cut off. In 1999 total ODA net flows were merely 25 percent of the peak of 1990 in nominal terms (OECD 2001).

After Kenya had set up an anti-corruption commission in 1999 and had curtailed government spending, it was rewarded by an IMF PRGF and a World Bank Economic and Public Sector Reform Credit in 2000. However, the anti-corruption commission was declared unconstitutional in December 2000 with programs suspended. In 2003 Kenya held a successful consultative meeting and a new three-year PRGF was signed in November of that year. Aid per capita had more than doubled by 2006 to USD 26 but was well below the levels of Tanzania and Uganda and only 50 percent or so of its peak year of 1990. Overall, the IMF had fourteen programs with Kenya, far more than Uganda and Tanzania, but only five were fully disbursed. Another five had disbursal rates between 0 and 28 percent (Conway 2007).

Kenya had a much smaller number of World Bank loans between June 1996 and April 2009 (around 30) compared to Uganda and Tanzania. However, the focal point was also on the orthodox agenda including civil service reform and privatization (Structural Adjustment Credit 1996), decentralization of government services (Decentralized Reproductive Health Project 2000) and a reduction of non-tariff barriers (East Africa Trade and Transport Facilitation Project 2006), as shown in World Bank (2009d).

Overall, despite the problematic relations with donors, Ikiara and Ndung'u (1999) argue that by the end of 1995 Kenya had implemented major political and economic reforms agreed upon with the multilateral and bilateral donors. The economic reforms implemented included the removal of virtually all price and foreign exchange controls, the liberalization of domestic marketing trade, import liberalization, reduction of the budget deficit, financial reform, privatization, removal of wage guidelines and other labor market reforms and liberalization of the exchange rate.

Conclusions

The poor performance of the Kenyan economy and the inability to reach many targets is a product of a complex confluence of events. The machinations of

Kenyan politics have not contributed to growth and stability. However, neither has adjustment with its onerous conditionality and policies that are often based on economic theory with little grasp of the realities of African economies and the developmental needs of the continent.[7] Even with its stop-and-go relationship with the Bretton Woods Institutions and donors Kenyan policies have followed the same course of economic reform. Despite the variations in the histories of the three African countries, donors have largely acted as a cartel using aid as a weapon to impose a singular vision of transformation broadly defined. In 1981 roughly 27.5 million people lived in poverty in these three African countries. In 2005, the numbers had nearly doubled to 53.2 million or more than 50 percent of population. Hence there has been no improvement after nearly three decades of imposed policies (World Bank 2009f). This remains the historical legacy of donor aid in East Africa.

References

Bagachwa, M. S. D. (1997), "Aid Effectiveness in Tanzania with Special Reference to Danish Aid", in: Carlsson, J. et al. (eds.), *Foreign Aid in Africa, Learning From Country Experiences,* Uppsala: Nordic Africa Institute.

Brett, E. A. (1996), "Uganda: 1986 to 1994", in: Engberg-Pedersen, P., P. Gibbon, P. Raikes and L. Udholt (eds.), *Limits of Adjustment in Africa,* Oxford: James Currey.

Burnside, C. and Dollar D. (2000), "Aid, Policies and Growth", *American Economic Review* 90, 847–868.

Conway, P. (2007), "The Revolving Door: Duration and Recidivism in IMF Programs", *Review of Economics and Statistics* 89, 205–220.

Hansen, H. and F. Tarp (2001), "Aid and Growth Regresssions", *Journal of Development Economics* 64, 540–570.

Ikiara, G. and N. Ndung'u (1999), "Employment and Labour Markets during Adjustment – Kenya", in: Van der Geest, W. and R. Van Der Hoeven (eds.), *Adjustment, Employment and Missing Institutions in Africa: The Experience in Eastern and Southern Africa,* London: James Curry.

International Monetary Fund (IMF, 2009), *Tanzania History of Lending Arrangements 1 May 1984 to October 31 2009,* http://www.imf.org/external/np/fin/tad/extarr2.aspx?memberKey1=930&date1key=2009-10–31.

Killick, T. (2004), "Politics, Evidence and the New Aid Agenda", *Development Policy Review* 22, 5–29.

Mavrotas, G. (2009), "Introduction: Development Aid-Theory, Policies and Performance", *Review of Development Economics* 13, 373–381.

McGillvray, M. (2009), "Aid, Economic Reform and Public Sector Fiscal Behavior in Developing Countries", *Review of Development Economics* 13, 526–542.

Ndulu, B. and F. Mwega (1994), "Economic Adjustment Policies", in: Barkan, J. (ed.), *Beyond Capitalism vs. Socialism in Kenya and Tanzania,* Boulder: Lynne Reinner.

OECD/DAC (2001), *Geographical Distribution of Financial Flows 1960–1999,* Paris: OECD.

Raikes, P. and P. Gibbon (1996), "Tanzania: 1986 to 1994", in: Engberg-Pedersen, P., P. Gibbon, P. Raikes and L. Udholt (eds.), *Limits of Adjustment in Africa,* Oxford: James Currey.

Stein, H. (1992), "Economic Policy and the IMF in Tanzania: Conditionality, Conflict and Convergence", in: Campbell, H. and H. Stein (eds.), *Tanzania and the IMF: The Dynamics of Liberalization*, Boulder: Westview Press.

Stein, H. (2008), *Beyond the World Bank Agenda: An Institutional Approach to Development,* Chicago: University of Chicago Press.

World Bank (1993), *Report and Recommendations on a Debt Reduction Program (Uganda),* Washington DC: World Bank.

World Bank (1994), *Adjustment in Africa, Reforms, Results and the Road Ahead,* Washington DC: World Bank.

World Bank (2000), *Africa Indicators 2000,* Washington DC: World Bank.

World Bank (2001a), *Aid and Reform in Africa: Lessons from Ten Case Studies,* Washington DC: World Bank.

World Bank (2001b), *A Case for Aid: Building a Consensus for Development Assistance,* Washington DC: World Bank.

World Bank (2009a), *Global Development Indicators,* http://ddp-ext.worldbank.org.

World Bank (2009b), *Tanzania – Loans and Credits,* http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/TANZANIAEXTN/0,,menuPK:287377~pagePK:64030134~piPK:241685~theSitePK:258799,00.html.

World Bank (2009c), *Uganda – Loans and Credits,* http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/UGANDAEXTN/0,,menuPK:374979~pagePK:64030134~piPK:241685~theSitePK:374864,00.html.

World Bank (2009d), *Kenya – Loans and Credits,* http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/KENYAEXTN/0,,menuPK:356552~pagePK:64030134~piPK:241685~theSitePK:356509,00.html.

World Bank (2009e), *African Development Indicators Online,* Washington DC: World Bank.

World Bank (2009f), *Povcal,* http://iresearch.worldbank.org/PovcalNet/povDuplic.html.

World Bank (2009g), *Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) – Status of Implementation,* http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTDEBTDEPT/0,,contentMDK:22326067~menuPK:64166739~pagePK:64166689~piPK:64166646~theSitePK:469043~isCURL:Y,00.html.

[7] See Stein (2008) for a critique of the social and economic consequences of structural adjustment and the weakness of the economic theory underlying these policies.