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Assisting Africa to achieve decisive change

Paul Collier*

Summary

■ Africa has stagnated despite receiving considerable international aid. I suggest that the most reasonable counterfactual is that without aid Africa would have declined, so that aid has been helpful in averting disaster, although lacking the power to achieve decisive change. Based on a diagnosis of the reasons for past stagnation, I propose five unexploited opportunities for aid better to complement internal African efforts at transformation. ■

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* *Paul Collier is Professor of Economics at the Centre for the Study of African Economies at Oxford University.*

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Africa is the only substantial low-income part of the world that has persistently failed to grow. Over the period 1960-2000 the population-weighted grow rate of per capita income averaged a mere 0.13 per cent. It thus appears likely that Africa is the development challenge of the future. This paper asks what will it take to achieve a decisive break with this past record, and in particular, what is the role of external actors in assisting this change?

The times may be propitious for such change. Since around 2000 African economic performance has improved. This may reflect important fundamental changes that will make the future different from the past. Even if, on a less optimistic interpretation, the recent improvement simply reflects the temporary boom in commodity prices, African societies may have learnt from past mistakes and use these windfalls as the launch pad to prosperity. Current Nigerian economic policy is important evidence of such a learning process. Even where governance has not yet improved, the combination of a commodity boom and an aid boom has substantially increased the stakes: the pay-off to change is much greater given this prospect of large resources that could finance the investment needed as part of economic transformation.

In Section 1 I consider whether aid is itself an instrument for decisive change. I argue that, on the basis of the past evidence, it is unlikely to be unconditionally decisive, but that there may be particular circumstances in which it is decisive, this being consistent with the tentative conclusion reached by Doucouliagos and Paldam in their useful recent review of the aid effectiveness literature. I then propose that the circumstances in which aid can be decisive are particular combinations of the economic opportunities that a country faces, and the choices made by its government. In Section 2 I set out a simple

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classification of the economic opportunities faced by different African countries, and consider the potential contribution of aid: for what opportunities might aid be decisive? In Section 3 I set out a classification of the various ways in which governments can make choices that are economically dysfunctional, and again consider the potential contribution of aid: for which failures of governance can aid be decisive? In Section 4 I bring these two classifications together, and deduce the combinations of opportunities and governance in which aid interventions of different types have the potential to promote decisive change.

1. Is aid an instrument for decisive change?

What is the role of aid in decisive change? As Doucouliagos and Paldam (2006) have recently demonstrated through a "meta-analysis" of aid studies, depending on which studies one selects most positions can be defended. I will group them into four. At one end of the spectrum of possible positions, a sufficiently large increase in the quantity and delivery of aid would itself constitute the decisive change, or directly trigger it. At the other end of the spectrum, aid is the critical inhibitor—big aid to Africa explains why Africa has failed to grow. In between these extremes, a third possible position is that aid is marginal—a sideshow to the true determinants of change. A fourth position, which is the one both Doucouliagos-Paldam and I find the most likely, is that aid is conditionally important depending upon the circumstances, but may also be conditionally detrimental.

The first of these positions—that big aid alone will achieve decisive change—faces a substantial credibility problem due to four pieces of evidence. The first is that the weight of the aid effectiveness literature finds that the contribution of aid to growth has been at best modest. The second is the admittedly casual evidence from the past failure of the growth process in Africa: *prima facie*, aid has not delivered growth in Africa. The third is the evidence for diminishing returns which most studies of aid effectiveness tend to find, and which is indeed an implication of much, though not all, economic theory of the growth process. Hence, even if aid in past volumes was successful in raising growth substantially, additional aid might have a significantly smaller incremental effect. The fourth is the analogy with the large windfalls to African governments that have periodically accrued from natural resource booms. On the whole these have not generated sustained growth. They provide something a little like a natural experiment for big aid.

The second position—that aid has prevented Africa from developing—has some empirical evidence to support it, but is mainly dependent upon two theoretical analogies. The empirical evidence is essentially the casual inference from the juxtaposition of Africa having received more aid than other regions and having grown more slowly. However, one major weakness from such casual inferences is that they implicitly assume a counterfactual. In this case, the implicit counterfactual is that without aid Africa would have grown much the same as elsewhere. There are strong reasons to doubt this. Once it is allowed that Africa's counterfactual, without-aid performance, need not have been that of other regions, it is sadly entirely possible that aid has contributed considerably to African growth despite the region's overall lack of growth. The two theoretical analogies that provide some support for the argument that aid has been counterproductive are with low-income households trapped in welfare dependency, and with governments that are oil-rich. The former, though the bedrock of conservative hostility to aid, cannot survive serious scrutiny as a general proposition. To the extent that the dependency trap is a genuine phenomenon for poor households in rich countries, it is because implicit marginal tax rates for welfare households are often of the order of 75 per cent. For low-income countries, not only is aid a much lower percentage of income than are welfare payments for poor households, but it shows remarkably little tendency to decline as income rises (Collier, 2006a). Hence, the implicit marginal tax rate upon growth arising from aid dependence is negligible, typically less than one per cent. The latter theoretical analogy, that aid generates the same problems as oil, is plausible *a priori*, but the empirical evidence is against it: in econometric studies of the growth process, aid and oil do not "pool" (Collier, 2006b).

The third proposition that aid is irrelevant to decisive change is at least on the face of it the most reasonable interpretation of the aid effectiveness literature: aid in general simply does not appear to have decisive effects one way or the other. This view is systematically underrepresented in policy debates because there is no interest group that finds it an attractive position for advocacy. I believe that on the basis of our present knowledge it cannot be dismissed and should be given more weight in policy formulation. The implication for governments of developed countries would be to pay more attention to possible instruments for intervention other than aid. I explore these other options in my book *The Bottom Billion* (Collier, 2007). At present, the development agencies are simply not constituted in a way that is conducive to this rethinking: in reality they are not *development* agencies, they are merely *aid* agencies. I think we need development agencies in which aid is merely one branch of the tree of activities.

The fourth proposition—that aid is conditionally decisive for good or ill—is my own current assessment of the evidence. In case this should be misunderstood for the thesis that aid works conditionally upon good policies, I should state explicitly that this is not going to be the argument. I indeed think that this is *sometimes one of the circumstances* in which aid is effective, but much of what I have to say will be in charting out a much more complex pattern of conditional circumstances. The very complexity may be why no robust yet simple (reduced-form) statistical relationship has been found between aid and growth.

On my assessment, the econometric evidence is most consistent with the hypothesis that without aid Africa would have experienced absolute decline. For example, taking the recent study of Clemens et al. (2004) as an example, using the coefficients estimated in that study the scale of past aid to Africa would imply that it has raised the growth rate by something between one and two percentage points. This is quite a solid study, but it is towards the top end of the range of estimates. As Doucouliagos and Paldam note, generally aid seems to be less effective in the growth process in Africa than elsewhere. My own sense of the likely numbers is that over the long term the contribution of aid to African growth has been of the order of one percentage point per year. If this is accepted it has a disturbing implication: although with aid Africa has barely grown, without aid it would have experienced severe cumulative decline. Over the long term, aid has probably been decisive in keeping many African economies afloat, even if it has not managed to transform them. Were Africa around 25 per cent poorer than it is today, its problems would be correspondingly more severe. This is not a fashionable thesis: indeed I have never seen it proposed. The anti-aid lobby does not want to grant this much credit to aid programmes, and the pro-aid lobby, structurally characterised by over-optimism, has shied away from the bleakness of the implied underlying economic and political forces at work in Africa. Nevertheless, as a description of the past it seems to me the most credible position, although not the only one that the data will sustain.

If, indeed, aid has raised growth rates by something of the order of one percentage point, it might seem that doubling it would offer some real promise, especially if African economic governance has now improved to the point at which the counterfactual is no longer absolute decline. Unfortunately, the econometric evidence for diminishing returns to aid is sufficiently strong that the presumption should be that a mere scaling-up of aid would not have much additional impact on growth. Thus, while the challenge is to make aid *more* effective than it has been in the past, the likely base-case for expanded aid is that it will be significantly *less* effective. This is why it is imperative to find ways of increasing aid effectiveness.

In wanting to make aid better it is important that changes do not inadvertently achieve deterioration. As I have noted, however limited the success of aid, it has been markedly more effective than oil in the growth process. Since oil is merely aid minus aid agencies, the comparison of aid and oil provides a neat estimate of the value-added generated by the aid agencies as organizations. Any reasonable assessment of aid versus oil will lead to the conclusion that the aid agencies collectively have much to be proud of: they have added a lot of value to the financial transfer which they have managed. This should be borne in mind in present critiques of donor behaviour. While there are some obvious design problems with aid delivery, some of the proposed transformations such as further sweeping debt relief and long term budget support risk turning aid into oil: unconditional finance for governments.

Hence, there is a dilemma. Past aid has not been decisive for growth, but it may well have been decisive in preventing collapse. Quite possibly, that role was only a phase during which African governments were learning how to manage their extremely difficult economic environments, and African societies were learning how to hold their governments to account so that the past counterfactual of decline no longer applies. Thus, aid-as-usual would make growth rates significantly positive instead of preventing them from being significantly negative. However, aid to Africa is in the process of being scaled-up. This is both the likely outcome of existing political commitments, and the inevitable outcome of economic success in the rest of the developing world: other regions will neither need nor want aid and so it will be redirected to Africa. If this incremental aid is used simply to scale up aid-as-usual, the likely consequence is that it will encounter severely diminishing returns: the extra aid will deliver much less than past aid. The onus is thus to "reform" aid: ways must be found for incremental aid to be more effective than were it simply used to scale up. Yet many of the political pressures for the "reform" of aid are dangerous. The past practices of the aid agencies have substantially added value to the financial transfers and so it would be easy inadvertently to make aid *less* effective.

I think that the way out of this dilemma is to leave aid systems broadly as they are for the existing volume of aid, but to find opportunities for using aid that have to date been missed, to which the additional aid can be directed. By that I do not mean to say that no reform of existing aid modalities is desirable. There are some evident weaknesses with existing modalities, notably the lack of harmonization. But such reforms are not in themselves likely to be decisive in raising absorptive capacity.

Thus, I turn to opportunities for aid that have been neglected. To date, the main focus for incremental aid has been the "global funds". These are dedicated to specific, high-profile needs, such as AIDS. They have the power to mobilize a lot of interest from OECD electorates and as such offer a constructive mechanism for increasing aid volumes. However, they suffer both from being rather distant from country-led strategies, and from being targeted on social rather than more directly economic objectives. While the global funds have a role to play in how additional aid should be raised and spent, they should not be the whole story. I am going to argue that there are indeed new opportunities for aid to be used more strategically in the growth process. These opportunities come from an interaction of the differences in underlying geographic endowments within Africa and the choices that its governments make.

2. Africa's opportunities for development to middle-income status

Africa is diverse, both in terms of economic opportunities and sovereign polities. I find a three-way classification of fundamental economic opportunities to be both revealing and the minimum necessary to discuss such a large and diverse region.

The first category is that of countries which are sufficiently well-endowed with valuable natural resources that this is a defining feature of their economies. In Africa about a third of the population live in such countries, whereas in the rest of the developing world it is around 11 per cent. Among the resource-*scarce* countries it is then important to distinguish between those that are coastal and those that are landlocked. In Africa around a third of the population lives in each group whereas outside Africa around 88 per cent of people live in countries that are resource-scarce and coastal, and only 1 per cent in countries that are resource-scarce and landlocked. Africa thus has a very distinctive distribution of its population. Globally, by far the most successful countries have been resource-scarce and coastal, and the least successful have been resource-scarce and landlocked. Africa conforms to this pattern and its distinctive population distribution accounts for a slower growth rate than the rest of the world of around one percentage point. However, the key point is that each of these three groups has distinctive growth opportunities so that growth strategies need to be distinctive, and corresponding, so does the role of aid.

The resource-rich countries are unlikely to be successful in diversified export markets, if only because of Dutch disease. They will inevitably have large government sectors because the resource rents should accrue to governments. Hence, the first-order development issue for these countries is how well their governments spend public money, especially on basic services for ordinary people. Aid as finance is evidently of only marginal significance for these countries: governments already have substantial revenues. If aid is to have a strategic role in these economies it is to make the public sector work more effectively. The most likely aid instrument for this task is a knowledge transfer through technical assistance and capacity-building. There may also be a role through "governance conditionality"—trying to condition aid in such a way as to make the government more accountable to its own citizens.

The resource-scarce coastal economies are the key group for which there is an established and highly successful development model—that of East Asia. Here the growth strategy is one of diversifying exports and harnessing the country's endowment of abundant labour, and sometimes in Africa also of abundant land. The new exports might be manufactures, services, or agricultural. In all cases the engine of growth is the private sector, and especially new exporting firms. Although there is much discussion of the East Asian "developmental state", this model does not *need* either a large, or even a good government: Hong Kong developed with minimal government, and Bangladesh is now developing despite having a bad one, rated bottom on the

Transparency International global ranking of corruption. What countries need to succeed with this growth strategy is new firms, and this requires an environment in which they can make money with reasonable confidence. Aid can be conducive to such an environment by subsidizing critical export infrastructure and by providing guarantees against the multiple ways in which firms can face expropriation. As firms grow they create jobs enabling ordinary people to move out of the peasant agriculture sector, which is intrinsically stuck in slow growth. The job creation tightens the labour market, and the two effects combined reduce poverty. The attempt of the past decade to target aid directly on poor households has tended to divert it from its critical strategic role in this growth process where it would probably be more effective over the medium term in poverty reduction (Collier and Dercon, 2006).

The third group is the resource-scarce landlocked economies. This is a highly distinctive African economic problem. The only historical model for the growth of such economies is if they are able to piggyback off the growth of their more fortunately endowed neighbours, exporting into their sub-region. Thus, Switzerland has been able to develop because Germany, France and Italy are not *in the way of* Switzerland's market, they *are* Switzerland's market. Globally, landlocked economies indeed structure their economies so as to make the most of their neighbours' growth. If neighbours grow at an extra one percentage point, the typical coastal economy gains a 0.4 per cent spillover, whereas the typical landlocked economy gains a 0.7 per cent spill-over.[1] Africa's landlocked economies have not structured their economies in this way: their typical growth spill-over from the growth of neighbours has been 0.2 per cent (Collier and O'Connell, 2007). To date, however, this has not mattered much because there has been so little growth to spill over: the neighbours have failed to harness their opportunities. What does this imply for aid policy to the resource-scarce landlocked countries of Africa? First, it suggests that these countries are likely to stay poor for a long time and so they will need large aid inflows simply to raise consumption to decent levels. These are the countries where aid needs to be targeted directly on the poor. Second, it suggests that until neighbours make better use of their op-

[1] Here I measure spillovers as the result of growth rates of neighbours. A similar spillover is likely if the neighbour has a markedly higher *level* of income, regardless of its growth rate. For example, Lesotho has obviously benefited from being a neighbour of South Africa.

portunities, there is no single driving engine of growth, and so these economies will need rather more diffuse and modest development strategies, probably with a strong emphasis upon rural development. Third, it suggests that to the extent that incremental aid is intended to be decisive for the growth process it should be used to encourage and facilitate the more fortunately endowed neighbours to harness their opportunities.

3. A taxonomy of unhappy African governance

If the opportunities are not there, as in resource-scarce landlocked economies with bad neighbours, even the best choices by governments will not deliver growth to middle-income levels. However, where the opportunities are there, they can be frustrated by sufficiently bad government. But bad government can take different forms. Tolstoy famously proposed that all happy families look the same whereas unhappy families each find their own particular way of failing. I think that there is something broadly analogous in respect of governments. Just as it is useful to distinguish between three opportunity groups, so is it useful to distinguish different types of bad government. The donor interventions that are appropriate depend not only on the fact that government is bad, but on the reasons that it is so.

One group of countries that have had manifestly bad government and that has been important in Africa is those that have suffered state breakdown from violent internal conflict. Among other states that have had bad governance but have not been broken by conflict there is a central distinction between those that are due to failures of political choice on the part of the government, and those that are due to failures of capacity on the part of the civil service. While the three *opportunity* groups are exclusive—at any one time a country cannot be characterized by more than one of them—the three types of bad government can co-exist: a society may have violent conflict, its government may have chosen not to develop the economy, and its civil service may lack the capacity to implement the policies necessary for development. In such a situation no strategy will work and there is therefore little incentive for change. I put such discouraging environments to one side and focus instead on those environments where only one of these three possible constraints is binding at any one time.

3.1. Opportunity 1: Violent state breakdown

Once a violent conflict is underway, aid during conflict probably has little role in bringing it to an end. Indeed, by reducing aid there is more scope for a credible aid-for-peace dividend. However, *post*-conflict situations are one of the conditions under which aid seems to be particularly effective in the growth process (Collier and Hoeffler, 2004). This is not surprising: these were the conditions for which aid was originally designed, hence the name International Bank *for Reconstruction* and Development. Further, growth is effective in post-conflict conditions in bringing down the risk of reversion to conflict (Collier, Hoeffler and Söderbom, 2006). Indeed, in post-conflict conditions economic growth appears to be far more effective than the political strategies such as elections that donor governments have emphasized. Since post-conflict conditions face a high risk of conflict reversion, and such reversions account for around half of all civil wars, aid post-conflict is a key instrument for conflict prevention. However, economic growth takes time: the reduction in risk that it gradually achieves occurs over the course of a decade rather than just two or three years. Historically, donors have not provided sufficiently large and sustained aid flows in these situations: aid has tapered out, just as it should have been tapering in. This is therefore an important opportunity for incremental aid.

3.2. Failures of political choice

Now consider those badly governed countries where the failing is one of political choice on the part of the government. Often in donor circles this is described as a lack of political *will*, but this term is misleading. Why might a government decide not to implement policy and institutional changes that would enable the economy to develop? There are three distinct sets of circumstances. First, the government might be controlled by an elite which benefits from bad governance even though the society as a whole is damaged. While in this case the elite indeed lacks the volition to change policies, the underlying problem that needs to be addressed is not the volition itself but the structure of power that makes this volition entirely rational. A second circumstance in which political choice is dysfunctional is when a governing elite is so badly informed about economics that it mistakes its own interest, choosing policies that are not only damaging for the country but bad for itself. Thirdly, the government might not be controlled by an elite, but the wider society that does control it may similarly be so badly informed as to mistake its true interest. In each of these cases the government would choose not to implement socially beneficial change. The role of aid is likely to be radically different in these three situations.

In the first, the case of the corrupt elite, there are two different ways in which aid might be effective in inducing change. One is the well-worn model of policy conditionality: the donor tries to change the pay-offs, making reform worthwhile for the elite. The accumulated evidence suggests that while this approach may have had occasional successes, it was largely a failure. Recent analysis on the role of aid in decisive policy reform in badly-governed countries strengthens this conclusion. Chauvet and Collier (2005, 2006) analyze policy and institutional change in a comprehensive set of such countries globally. They find that once there are signs of incipient reform both donor finance and an improvement in the terms of trade have a *reform-chilling* effect. They interpret this as indicating that elites are sometimes driven to implement reform by shortage of money, and that windfall finance obviates this need. These are the situations in which the conservative model of welfare-dependency is probably correct: financial aid at these times inadvertently traps countries into poverty. The other way in which aid might be effective in inducing change is if it attempted to change power structures, weakening the dominance of the elite. This is part of what I term "governance conditionality". The main reason to expect that it might be more effective than the tried-and-failed model of policy conditionality is that it is far more legitimate. With policy conditionality the donor is seeking to hold the government accountable to the donor, whereas with governance conditionality, the donor is seeking to hold the government accountable to the society. This greater legitimacy can make donors more united and this in turn can enable them to be tougher and more consistent.[2]

While governance conditionality is more legitimate, there is as yet a major knowledge gap before it could be adopted as a practical strategy. Evidently, before donors could attempt policy conditionality they needed a reasonably clear idea as to what policies would be conducive

[2] Of course, even if a recipient satisfies governance conditionality it may from time-to-time adopt policies that are so dysfunctional that donors should indeed withdraw funding. However, the rationale for such a withdrawal is essentially that the money would be better spent elsewhere, rather than that the act of withdrawal will induce the society to change its mind.

to development. By the 1980's the donor governments had themselves struggled through the disastrous economic conditions of the 1970's and so had learnt a lot of lessons on economic reform that they then applied, albeit sometimes inappropriately. There is no equivalent donor knowledge base on building accountability to citizens in low-income societies. Unfortunately, it is manifest that "democracy", interpreted merely as multi-party elections, is often not enough to ensure effective accountability. Governance conditionality would need to go beyond free and fair elections, while avoiding the obvious pitfall of nit-picking and arbitrary detail. There is of course plenty of evidence on the detailed mechanics of effective accountability in low-income countries, most notably sixty years of Indian politics. But donor agencies have not studied this evidence in the same depth as they have studied the design of economic policy. In particular, the explicit *exclusion* of "politics" from the mandate of the World Bank is a major impediment to such learning, and one that is wholly anachronistic. Even by the time that the international community decided to establish the European Bank for Reconstruction and Development (EBRD) there had been a sea-change in understanding: in the mandate of the EBRD the institution is explicitly *required* to take the political system into account. The World Bank, by far the foremost development agency, finds itself in the curious position that its skill base is appropriate for the design of economic policies, which is now firmly and properly in the domain of government choice, whereas it is discouraged from the design of accountable governance, which should be firmly in the domain of donor conditionality. This implies that governance conditionality is therefore at best something that will evolve gradually.

Now consider the two situations in which the constraint is knowledge: either the elite, or the wider society misunderstands its true interest. Chauvet and Collier find that both new leaders, and post-conflict situations enhance the chances of reform, and these are both circumstances in which there is some change in the composition of the elite. These changes in composition might change elite understanding, although they could also change the true interest of the elite. Chauvet and Collier also find that countries with only a small population and a lack of secondary education are less likely to achieve decisive change. These characteristics are reasonable proxies for the knowledge of the society as a whole. One reason why China and India were able to rethink their economic strategies, learning from failure, might well be that they were such large societies. Size ensured that each had a critical mass of knowledgeable people and the related scale-dependent knowledge infrastructure such as specialist media. Whatever the critical mass might be, it seems to me likely that the Central African Republic does not have it. Where knowledge is the constraint, what can donors do? They can transfer knowledge through capacity-building, most notably building up local tertiary education, think tanks, and specialised media. The "education for all" priorities of the 1990's, by transferring resources from tertiary to primary education, may have inadvertently retarded poverty reduction in these knowledge-constrained societies. Although Africa's primary schools were producing more children with a smattering of education, its universities were producing fewer doctorates.

3.3.Lack of capacity

Finally, consider the case in which change is constrained by a lack of capacity in the civil service. The government wishes to reform, and has perhaps implemented those few reforms that do not require much competence within the civil service for their implementation. Reform is then stalled by the incompetence of the civil service. What can donors do in this situation? They have an instrument, technical assistance, which is intended directly to break this constraint, by augmenting civil service capacity. Chauvet and Collier find that technical assistance early in the reform process has a significant and substantial beneficial effect, and that the result is robust across different specifications and proxies for governance reform. Technical assistance has become somewhat unfashionable: recipient governments would rather have money, and such assistance is easily criticized as being inconsistent with "ownership". However, in the process of decisive turnaround from bad policies, institutions and governance, it is technical assistance rather than money that seems to be effective.

4. Achieving decisive change in Africa

Having been through classifications of opportunities and bad governance the two can now be combined to present an account of the conditions for decisive change and the role of aid in that process. Evidently, the starting point is that for some reason or other development has not occurred, or at least not a rate commensurate with needs. The different reasons why development is stalled—the binding constraints—can now be set out.

4.1. Opportunity 2: Transport corridors for the landlocked

The logically prior category is where there are no credible opportunities to take the economy to middle-income level at reasonable speed. This is the group of resource-scarce, landlocked countries surrounded by poorly performing neighbours. Outside of Africa such countries account for only a negligible share of the population of the developing world. Within Africa they are important. For these countries neither governance nor aid is the binding constraint. The task within the country for the donor community is a holding operation until more fortunate neighbours harness their opportunities. Decisive change in Africa simply cannot be led by these economies regardless of their political choices or civil service capacity, and so donors should initially focus aid-for-change elsewhere: more specifically, on promoting change in the more fortunately endowed neighbours of these countries. For example, the economic opportunities open to Niger depend critically upon whether Nigeria harnesses its enormous potential for growth: if Nigeria grows, Niger has a neighbourhood market.

Although the landlocked, resource-scarce countries are highly dependent upon the economic choices made by their neighbours, this is evidently not reciprocated: the choices made by the government of Niger are of little consequence for Nigeria. This implies that there is little scope for bilateral bargaining between African governments. The government of Niger cannot hope through its bilateral diplomacy to get the Nigerian government to internalize the negative externalities that its dysfunctional choices inflict upon Niger. Conceivably, however, Niger and the many other African countries that face equivalent problems, can hope to achieve some influence through collective action. The African Union, NEPAD, the African Development Bank, and the Economic Commission for Africa all have the potential to exert peer pressure through setting standards of conduct. It is very much in the interest of the landlocked countries that these institutions use their potential. To date the landlocked have not used the pan-African institutions in this way: probably they have not recognized their collective interest. The gap between the potential for such peer pressure and current reality provides donors with a limited opportunity to act as catalysts. This would perhaps be easiest in the African Development Bank, where donors are represented and where the new head of the organization is a highly-able former minister of finance from a landlocked, resource-scarce country.

Because the landlocked face the problem of asymmetric power with their coastal neighbours, that part of their transport corridor that passes through the territory of their neighbours will intrinsically be deficient. The coastal neighbour simply lacks sufficient incentive to provide good infrastructure. Nuno and Venables (2001) show that the costs of being landlocked largely depend upon the infrastructure spending of neighbours and so this structural political problem is important. In effect, landlocked countries are more disadvantaged than necessary because political structures fail to internalize the interests of the landlocked. Whereas the governments of the landlocked countries cannot do much about this problem, the donors can readily resolve it. In effect, aid programmes to coastal countries must be top-sliced to finance transport corridors for the landlocked. The governments of coastal countries will, of course, prefer to spend their aid money on other priorities, but this is a case in which "country ownership" is not appropriate. Hence, the entire aid programme to a coastal country should be conditional upon its acceptance of that part of the programme designed to assist its less fortunate landlocked neighbour. This is not quite the same as the more comfortable notion of "regional public goods" which can also be financed by aid. The essence of regional public goods is that all countries benefit, and the rationale for aid is merely to assist the coordination needed to overcome free-riding. The problem of transport corridors is deeper: there is a radical asymmetry of interest between countries so that they cannot be negotiated by governments themselves based on mutual advantage. Aid for transport corridors directly alleviates the problem of the landlocked, resource-scarce countries in a way that they could not do themselves, and so is an important opportunity for aid. The decentralization of aid to country-based programmes, and the emphasis on country ownership in the design of these programmes has inadvertently destroyed the scope for such aid. It will need to be recreated through the introduction of top-slicing.

4.2. Opportunity 3: Supporting accountability systems in resource-rich countries

I now consider the third substantial donor opportunity: this arises in the resource-rich countries. Such countries do not need substantial additional finance to augment public spending: donor finance is likely to hit diminishing returns. Thus, any opportunity for donors to support decisive change must be strategic.

For the resource-rich opportunity group making "big government" effective is critical. Systems of public spending are complicated and demanding of the civil service and so its capacity is likely at some stage to become a constraint. Appropriately designed technical assistance can break this constraint. Three factors combine to make the large-scale importation of skills essential in all but the long term. These are the increasing technical sophistication and professionalization of government, the growing shortage of Africans with doctorates, and the widening gap between the incomes such people can earn internationally and in their own civil services. For example, the new head of an important technical unit within the Nigerian civil service took an 85 per cent cut in salary simply in moving from the Nigerian private sector. In principle, resource-rich countries could use their revenues to import technical assistance without aid. Such a choice is evidently difficult politically: spending money on expensive foreigners is hardly likely to be popular. Only one resource-rich African country has actually made this choice on a large scale and over a prolonged period: Botswana. The government of Botswana consciously eschewed concerns about "Africanization" and systematically hired foreigners into senior civil service positions. The astounding success of Botswana, in marked contrast to all other resource-rich African countries, is testimony to the efficacy of foreign technical assistance. Despite this evidence, the brute reality is that such a use of government revenues is not normally politically feasible. Thus, even where revenues are abundant and where the government is willing to use foreign technical assistance, it can only happen if financed through aid.

The constraint of political will is also likely to be binding at times. Given large resource rents accruing to government, if the elite controls the government it has an intrinsic conflict of interest with the wider society: its interest is to capture the rents for itself. Hence, in such societies a necessary condition for harnessing the opportunity presented by resource rents looks likely to be that power should be broadly diffused. Resource-rich societies tend to be less democratic that other societies, even though they are more in need of it, presumably because elites have a stronger interest in concentrated power (Ross, 2001). If the basic rudiments of democracy were sufficient to produce markedly improved development performance in resource-rich countries there would be a very strong case for introducing this aspect of governance conditionality with immediate effect. Africa is in the throws of what may well be huge resource windfalls, and it is a first-order concern that these revenues are well-used. Making resource revenues reasonably effective for development—turning oil into aid—is more important than either making aid more effective or increasing its quantity. Aid has only a limited role to play in this transformation. Non-aid interventions such as supporting and augmenting the Extractive Industries Transparency Initiative are likely to be more important. However, the practices that make aid more effective than resource revenues do constitute a model. Consider the specifics of why a million dollars of aid is more effective than a million dollars of oil, both of which accrue to African governments. It can only be due to some combination of the greater honesty and greater efficiency that determine how aid is spent. I take these in turn.

The spending of aid money is controlled by a series of checks designed to reduce opportunities for dishonesty. The most elementary point of control in the aid system is competitive tendering. For many years the government of Nigeria received virtually no aid and so was free to develop its own practices for how oil money was spent: competitive tendering was abandoned. When it was reintroduced as part of the recent reform process, the average cost of projects fell by 40 per cent. This example suggests that were the integrity standards that are routinely applied to aid expenditures adopted for the spending of resource revenues, their development effectiveness would be likely to increase considerably.

The systems designed to ensure efficiency in aid spending are more complex than those designed to achieve honesty. They can be divided into three steps: *ex ante* authorization, scrutiny during implementation, and *ex post* evaluation. The authorization procedures for proposed aid projects routinely require proper economic analysis of the rate of return: a project with a poor return will be rejected. Once the project starts, there is a careful process of supervision during project implementation. Chauvet et al. (2006) investigate the determinants of project success in conditions of poor overall governance. They find that supervision is particularly effective in these circumstances. Finally, the integrity of the authorization and supervision processes is in turn defended by a system of *ex post* evaluation which holds decisions to account. In the typical resource-rich state, none of these steps functions properly. Even today the Nigerian government lacks the skills to be able to estimate the return on all proposed projects, and so has to restrict analysis to the largest. Only Botswana has been able to maintain an authorization process for the spending of resource revenues that is fully commensurate with a normal aid system.

Botswana is a democracy, and it might be hoped that democratic government would be sufficient to achieve adequate accountability in resource-rich societies. Unfortunately, the empirical evidence is that democracy is not sufficient: indeed, if anything, it deepens the problems (Collier and Hoeffler, 2006). To explore this further two different aspects of democracy need to be distinguished: electoral competition and checks and balances. A mature democracy has both, but democracies vary substantially in their design. Resource-riches systematically weaken the checks and balances of the society. This is important because, uniquely in resource-rich societies, electoral competition worsens economic performance whereas checks and balances improve it. A resource-rich country needs democracy to avoid the elite capturing the rents, but it needs checks and balances to prevent electoral competition being a corrupt patronage game, financed by the resource rents. How might a society build checks and balances, and how might a donor help the process?

A well-functioning system of accountability depends on a multitude of distinct mechanisms. Donors potentially need to strengthen all of these mechanisms. I have already made the distinction between scrutiny designed to achieve honesty, and scrutiny designed to achieve efficiency. Current discussions of "good governance" tend to conflate governance with honesty, which is clearly insufficient. A second distinction is between systems designed for *ex ante* scrutiny, which is basically about how decisions get authorized, and those designed for *ex post* scrutiny, which is about evaluation. A third distinction concerns who is performing the scrutiny: some top-level authority, citizens or their representatives, or peer groups. The three types of distinction are brought together in Table 1 which gives examples of each of the twelve resulting mechanisms of scrutiny.

Because scrutiny is a public good, all these mechanisms are subject to the standard collective action problem: there is an incentive to free-ride. The problem is most severe with bottom-up scrutiny, since this requires citizens to organize together, and least severe with top-down scrutiny, since there are radically fewer actors. Donors thus have a role in assisting citizens to organize collectively to scrutinize government performance, and to advise on organizational designs that facilitate participation, such as putting parents on school boards. Donors probably also have a role in stimulating the process of peer group evaluation, especially in the professions. Because the professions are defined by specialist knowledge, accountability is extremely difficult except through peer pressure. In much of Africa peer pressure has fallen into disarray. One approach is to encourage greater twinning between professional associations in Africa and their counterparts in donor countries. Another is to use leadership and decentralization to build differentiated missions of service-providing agencies that can then recruit people who are intrinsically motivated by these goals (Akerlof and Kranston, 2006).

Table 1. A classification of opportunities for accountability

	Top-down scrutiny	**Peer group scrutiny**	**Bottom-up scrutiny**
Honesty *Ex ante s*crutiny	e.g. international competitive tendering	e.g. guidance on ethnical standards among medics	e.g. civil society of spending releases through the *College* in Chad
Honesty *Ex post* scrutiny	e.g. audit of public expenditure by auditor general	e.g. peer group disciplinary hearings in professions	e.g. exposure in the media
Efficiency *Ex ante s*crutiny	e.g. authorization of spending ministry expenditure by finance ministry	e.g. presentation of spending plans by ministers in cabinet	e.g. Parliamentary approval of budget, or PRSP consultations
Efficiency *Ex post* scrutiny	e.g. project evaluation	e.g. comparison of local government performance	e.g. community pressure to deliver on undertakings

Even once the collective action problem is overcome, the process of scrutiny encounters acute “agency” problems. The standard formulation of the “principal-agent problem” in economic theory provides a useful organizing framework. A “principal”, who we can think of as the scrutineer, has to depend upon an “agent” whose interests are not coincident with his own. The “problem” is that the principal has only incomplete information about the conduct of the agent, and must use this as best he can to provide incentives to the agent to perform as closely as possible to the interests of the principal. The severity of the problem is reduced if information is improved. The principal must also know how to interpret the information so as to extract as much as possible out if it. Finally, the principal needs to be able to link the information to powerful incentives which thereby induce changes in the behaviour of the agent. These provide the three possible points of intervention for a donor: improve information; build the capacity to use it; and promote high-powered incentives that can be linked to the information.

The combination of the classification in Table 1, the free-rider problem, and the three aspects of the principal-agent problem, provides a check-list with which to evaluate the weaknesses in existing systems of scrutiny. There is not space in this paper to apply the approach other than by example. I therefore take, arbitrarily, the case of *ex ante* scrutiny for honesty by a bottom-up process. The evidence on how financial transfers to Ugandan schools were transformed by bottom-up *ex ante* scrutiny suggests that this approach to scrutiny has huge potential: it has been grossly neglected (Mackinnon and Reinikka, 2002). The first step in such a system is to address the collective action problem. In Chad this was addressed through the establishment of a *College* with citizens represented by a few civil society organizations. In Uganda, the narrow problem of finance to primary schools was addressed through community groups. In Nigeria the scrutiny of state-level spending was addressed by the creation of state assemblies. The second step is to furnish the group with adequate and timely information. In Chad the incentive for this was that the College was given the power to block spending: its approval was built into the authorization process. Thus, the government had some incentive to provide the information necessary for scrutiny to occur. In Uganda and Nigeria the information was released to the media by the Ministry of Finance. In Nigeria such was the demand for information to facilitate citizen scrutiny that on the day that the information about budget releases to states was published in the newspapers circulation spiked. The third step is to build the capacity to interpret the information. This is particularly important where the information is complex, such as the scrutiny of oil revenues. This stage will normally require a substantial effort in training. The fourth step is that scrutiny must have consequences for those who are scrutinized: either positive of negative incentives. Donors have an important role to play in insisting that rewards and penalties are built in and are implemented. Thus, when governments attempt to dismantle a system of bottom-up scrutiny, as recently occurred in Chad, the donor community has a collective duty to try to defend it by imposing penalties upon the government. Enforcing accountability to citizens is at the core of "governance conditionality".

More generally, donors can use governance conditionality to insist on opportunities for citizens to hold the government to account, they can strengthen information-generating systems, and they can use technical assistance to build local capacity. The appropriate form of capacity-building will differ markedly as between the different channels of accountability. An audit system requires forensic skills within the civil service, parliamentary scrutiny of a budget requires that the members of relevant committees learn how to digest obscure and arcane information. To put this in a practical context, Nigeria already has intense electoral competition, but it has only rudimentary systems of accountability. Helping to build a well-functioning system of accountability should be the foremost priority for donors in Nigeria and it is an immense and expensive task. If as a result oil revenues are effectively harnessed for development, the pay-off will be correspondingly enormous. It is, however, a completely different donor agenda from that in, say, Niger or Tanzania.

Historically, across Africa aid agencies have probably neglected the building of accountability systems. Worse, amongst African countries they have systematically neglected the resource-rich, which are the countries that need them most. The reason for this neglect is the obvious one that donors have primarily been concerned with building accountability systems for their own aid money. Since aid is quite appropriately systematically lower in the resource-rich countries, accountability has been less of a priority. The current resource booms across Africa make a shift in priorities an urgent matter.

4.3. Opportunity 4: Turnarounds

Occasionally, in situations of poor governance, the government itself makes a serious attempt to reform. Even in the landlocked, resource-scarce economies this can provide an opportunity for growth as demonstrated by the past turnarounds in Burkina Faso and Uganda. However, it is the turnarounds in the resource-rich and the coastal, resource-scarce states that constitute donor opportunities for truly decisive intervention. The evidence from the analysis of turnarounds suggests that while donors can do little to initiate change, they can do a lot to strengthen it once it is underway.

It is difficult but not impossible for donors to spot a turnaround in its early stages. Three distinct indicators are a useful guide. One is a change in the leadership: as discussed above, a change in leadership signals the possibility of a change in political will, and the statistical evidence suggests that this commonly occurs. A second easily visible opportunity is the ending of a civil war. Post-conflict situations are highly fluid in terms of policy and governance and have the scope to absorb both technical assistance and money. Although the starting point is typically very bad, during the first post-conflict decade the norm is for rapid improvement. The third opportunity is more difficult to detect: this is where reform is already underway, but still in its early stages. In our work, Chauvet and I measure such incipient improvements both through the World Bank measure, the County Policy and Institutional Assessment, and using a commercially available index, the ICRG. Both produce the same result: donor interventions following incipient improvements are particularly useful. In all these cases the type of donor intervention that is useful is technical assistance. As the constraint of political will is broken, the constraint of capacity fairly rapidly comes to be binding. Except in situations of post-conflict, donor money at this stage appears to have adverse consequences, probably because it reintroduces the constraint of political will as elites find that it is no longer necessary to reform. The post-conflict situation is exceptional perhaps because political change is likely to have been atypically profound, and because needs are atypically acute.

In the resource-rich countries incipient turnarounds reinforce the case for the donor strategy discussed above, namely the strengthening of systems of accountability for public spending. In the absence of turnaround much of this work will necessarily be done with limited cooperation from government, whereas turnarounds provide the opportunity for a much more cooperative and substantial effort. In effect, reformers in the government themselves face an acute principle-agent problem in trying to get their own civil service to deliver public services. The interests of such reformers and donors in strengthening accountability are therefore coincident.

In the resource-scarce coastal group of countries, although a "developmental state" is surely not necessary, sufficiently bad government can clearly foreclose growth opportunities. Hence, for those countries in this group that currently suffer from bad governance there may be little point in donors providing the infrastructure for private sector export development. However, incipient turnarounds provide an opportunity for donors with enormous potential. If only these economies can break into the global markets for new exports they can growth virtually without limit. In breaking in to these markets the first step is the reform of policies and institutions at least to the point at which the state and its employees are no longer predatory on export activity. Thus, at a minimum, the customs service, the administration of taxation, the operation of the ports, and the regulation of production must all function to international standards. Beyond this, some infrastructure for export activities is likely to be necessary, and donors can usefully finance it. However, large *sustained* aid flows may be problematic due to Dutch disease. There is much more reason to be concerned about Dutch disease in the context of attempts to achieve growth through diversified exports than in other contexts. Evidently, it is the push-for-growth strategy in the coastal, resource-scarce economies where the potential adverse impact of aid on the exchange rate matters most. Even in these contexts aid can be designed in such a way as to minimize its impact exchange rate appreciation. The government can adopt an active policy of trade liberalization, and public spending can be shifted towards activities with a high import content.

Thus, what seems to be appropriate for donors is a sequence. In the first phase, once there is an incipient turnaround or good reason to expect one, such as a change in the leadership, the donor should provide large-scale technical assistance. In the second phase, once reforms have proceeded to the point at which government is no longer an impediment to exporters, donors should fund a big push on export infrastructure. In the third phase, aid should be harmonized with trade liberalization and a shift in the composition of public spending, and if the government does not adopt these strategies that are complementary to a large aid inflow, aid itself should be scaled back in order to avoid real appreciation frustrating export diversification.

Historically, donors have not adjusted technical assistance very much according to country circumstances. It has been excessively supply-driven, tailored neither to shifting political opportunities nor to fundamental differences in economic opportunities. The provision of technical assistance needs to be reorganized to be more responsive to change, analogous to emergency aid, and more informed by economic potential. Infrastructure is again becoming fashionable having been badly neglected, but where there is the political and geographic potential for export diversification it should be targeted on this objective. This will usually require agencies to accept that in the short term this will have a smaller impact on poverty reduction than other uses.

4.4. Opportunity 5: External shocks

Africa's exports are dominated by primary commodities, the world prices of which are volatile. This volatility creates a further important macroeconomic opportunity for aid, namely to be delivered in such as way as to reduce volatility. Although there has been much IMF-initiated concern about aid as a source of Dutch disease, and as a source of macroeconomic volatility, the general tenor of that concern has been to try to discredit aid as a development instrument, as part of the larger, and I believe mistaken, thesis that domestic revenue must be raised in order to reduce "aid dependency". At present aid is either not conditioned on macroeconomic conditions, or that conditioning is perverse: "good" macroeconomic performance inducing higher aid. Evidently, "good" macroeconomic performance as measured by inflation and budget deficits is likely to be correlated with improvements in the terms of trade, so that inadvertently such conditioning risks that changes in aid will amplify rather than offset external price shocks. Africa faces the most risky external conditions in the world and so aid should, as a matter of routine, be designed so as to be contingent upon shocks. Since world prices are very readily observed, such contingent aid flows can be integrated into budget support so that changes are virtually contemporaneous with the shocks themselves. Such a redesign of aid would help to stabilize both budget revenues and exchange rates. In effect, this would add the value of a macroeconomic insurance premium to the payoff from aid. While in principle governments could purchase such insurance on derivatives markets, in practice none do so. Insurance through aid is the only realistic option. Although to date aid has not been so designed, sometimes random changes in aid have indeed inadvertently had an insurance effect. Collier, Goderis and Hoeffler (2006) use these random variations in aid to investigate whether they are effective and find that aid so used has a significant and substantial insurance benefit over-and-above its normal effect.

5. Conclusion

Decisive change in economic performance will primarily come from within Africa. Across Africa there are internal struggles to raise the standards of economic governance in respect of both honesty and efficiency. Often, however, this struggle is unequal: reformers face vested interests entrenched behind money and guns. It is therefore both legitimate and important for external actors to strengthen the internal forces for change.

Many of these actions will *not* involve aid. The Extractive Industries Transparency Initiative, the repatriation from Swiss banks of the proceeds of corruption, the Africa Growth and Opportunity Act, and the ten-year security guarantee provided to the government of Sierra Leone by the British government are all disparate examples of non-aid policies that empower change. At present such policies are badly neglected. The aid agencies urgently need to turn themselves into development agencies to take on this wider range of instruments. Their potential has not yet been adequately quantified, but my judgment is that it considerably exceeds that of additional aid, although the two are likely to be complementary.

Although it is important for aid agencies to expand their role, in this paper I have confined my analysis to the more conventional subject of the part that aid might play in decisive change. I have suggested that while the extreme critics of aid are probably wrong and aid has been important in sustaining Africa, it is not legitimate to extrapolate from this to expect doubled aid to have twice the effect of past aid. It is more likely that if aid is merely "scaled up" it will encounter severely diminishing returns. For expanded aid to be even as effective as past aid, let alone more effective, at least the incremental aid will have to be handled differently from the past.

Although aid modalities are heavily criticized, some of these criticisms are probably unjustified. As a financial transfer, aid has been far more successful than a benchmarking comparison with the money transferred to African governments through natural resource revenues. The value-added of the aid agencies as organizations is essentially this difference between the development effectiveness of revenues such as oil, and the same sum transferred as aid. It is evident that the aid agencies have been adding a lot of value: some proposed "reforms" which basically dismantle donor scrutiny risk turning aid into oil.

Hence, the approach taken in this paper has been to find new opportunities for aid: situations where aid is highly effective in promoting decisive change and which have historically been under-funded. I have focused on five of them: aid post-conflict; aid for transport corridors for the landlocked; aid to build systems of accountability in resource-rich countries; aid to promote turnarounds and export breakthroughs in resource-scarce, coastal countries; and aid to cushion external shocks. Each of these offers the scope for *decisive* change: a large and sustained increase in growth rates that benefit both the countries themselves and their neighbours. None of these opportunities has been adequately funded by donors in the past.

These are all "here and now" opportunities for additional aid. I have also considered a much larger issue in rethinking aid to Africa: the switch from policy conditionality to "governance conditionality". Governance conditionality is legitimate in precisely the way that policy conditionality was not. Policy conditionality undermined the accountability of governments to their citizens, whereas the objective of governance conditionality would be to reinforce it. At present donors have no agreed approach to governance conditionality and it will take some years to develop one. The donor community is at present at the stage of developing policy "on the hoof", reacting to political developments and human rights infringements on an *ad hoc* basis. Such interventions are dysfunctional in three respects. First, being reactions by individual OECD governments to the particular decisions of African governments they appear maximally "neo-colonialist". Second, being *ad hoc* they are difficult to predict and so lose much of their potential deterrence effect. Thirdly, because they are reactions rather than deterrents they maximize the volatility that any conditionality potentially introduces into aid flows. A good system of governance conditionality would be one which was predictable, common to all donors, and agreed. This would require clearly-stated minimum international standards. Such agreed *ex ante* international standards would greatly reduce the perception of neo-colonialism, and by maximizing the deterrence effect would reduce the problem of volatility. They would position aid more clearly on the side of African reformers in the internal struggle for decisive change.

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