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Aid to Africa: The changing context

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WIDER Working Paper No. 2013/144

Aid to Africa

The changing context

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Abstract

To continue its economic growth and create new and better livelihoods, Africa must transform the productive side of its economy. Ongoing globalization—in trade, finance, and technology—opens up new possibilities for structural transformation, but also new risks as Africa’s integration with the global economy evolves. Climate change is impacting productive sectors and the livelihoods linked to them. Consolidating war-to-peace transition remains imperative for the Democratic Republic of the Congo, Somalia, and others, as they need inclusive growth to reinforce the politics of peace. This is the context within which official development assistance must operate and evolve if it is to remain useful.

Keywords: Africa, economic growth, official development assistance, climate change
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1 Introduction

To continue its economic growth and create new and better livelihoods, Africa must transform the productive side of its economy. Ongoing globalization—in trade, finance, and technology—opens up new possibilities for structural transformation, but also new risks as Africa’s integration with the global economy evolves. Climate change is impacting productive sectors and the livelihoods linked to them. Consolidating war-to-peace transition remains imperative for the Democratic Republic of the Congo (DRC), Somalia and others, as they need inclusive growth to reinforce the politics of peace. This is the context within which official development assistance (ODA) must operate and evolve if it is to remain useful.

In a nutshell, the argument of this study is as follows. While aid has been successful in helping countries achieve growth, this rests on too narrow a base, and Africa remains vulnerable to shocks. Growth also needs to reach more of Africa’s half billion poor people if rising inequality is to be avoided.¹ By investing in more infrastructure, especially for regional economic integration, aid can help improve both growth and equity; and infrastructure is also central to building climate change resilience. Aid has demonstrated success in the social sectors, which receive the largest share of aid, driven by the Millennium Development Goals (MDGs) with its human development focus.

The 2013 UN High-Level Panel report on the post-2015 development agenda emphasizes economic (i.e. structural) transformation to create better livelihoods. While improving education and health do contribute to this, donors must rethink their engagement with the productive side of African economies if they are to contribute meaningfully to inclusive growth, especially job creation and employment. This implies reversing the neglect of agriculture that has characterized aid over the last 25 years, and addressing the growth and equity dilemmas in smallholder versus larger-scale farming. Donors must also become more open to new forms of industrial policy that help countries ‘learn to compete’ in the global manufacturing and service economies.

Our study has a focus on growth, but we are cognizant of the key importance of issues associated with equity and sustainability; an increased economic pie can, if shared well, provide better lives for the many, not just the few, and the environmental capital on which Africa’s prosperity rests must be preserved.² This study does not attempt coverage of the institutional issues around bilateral and multilateral aid, nor does it address the division of labour between traditional (OECD-DAC) donors and emerging (‘new’) donors, nor the large subject of humanitarian aid.

This study is structured as follows. Section 2: aid and growth: what does research tell us? Section 3: Africa in the global economy: how can aid help? Section 4: development strategy post 2015: what role for aid? Section 5 concludes: what might the future hold for aid to Africa?

¹ Some 413.7 million people in SSA were poor at US\$1.25 a day (purchasing power parity (PPP)) and 667 million people at US\$2.5 a day (PPP) in 2010, on World Bank estimates (<http://povertydata.worldbank.org/poverty/region/SSA>).

² For comprehensive analysis of the many issues around aid, the reader is referred to UNU-WIDER’s programme: ReCom—Research and Communication on Foreign Aid (wider.unu.edu/recom).

2. Aid and growth: what does research tell us?

Growth itself has many determinants and it is important to start with the research literature on the aid-growth relationship; as much of the popular debate on aid is bedevilled by the notion that aid has consistently failed to help achieve growth in the developing world. That literature until 2008 can usefully be divided into four generations, reflecting changes in both economic methodology and paradigms of development.

First, in the early years (roughly until around 1980) aid was seen as filling the gap between low domestic savings and high investment need, and financing the gap between imports and exports. Development was typically seen as a stable and linear relationship between investment and growth, and the consensus held that aid increased investment and thereby growth.

A *second* generation of studies was stimulated by the ‘micro–macro paradox’ identified by Mosley (1987), whereby good returns at the project level did not seem to show up in macro-economic cross-country studies. The expectations that all capital investment translates into economic output, and that all aid is used as investment were questioned. It also pointed out that countries tend to receive aid because they are poor and because their economic performance is poor. This endogeneity problem must be accounted for if empirical studies are to be accurate. Concerns were also raised about the misuse of aid by dictatorial regimes.

Doubts about the assumptions at the core of previous research, as well as the new availability of panel data, which allowed researchers to look into the impact of aid both across and within countries over time, motivated a *third* generation of studies beginning in the early 1990s. Boone (1996), famously reviewed by *The Economist* under the heading ‘Aid Down the Rat hole’, found that aid had no impact on investment, infant mortality and other indicators of human development. His work did not stand unchallenged for long. Burnside and Dollar (2000) argued that aid works, but only when ‘good’ policies are in place. The third generation ended up being cautiously optimistic, but with disagreement over the circumstances under which aid works and has a positive impact.

This optimism is not reflected in the *fourth* generation that became influential around 2005. Rajan and Subramanian (2008) found that at the macro level it is difficult to identify ‘any systematic effect of aid and growth’. The study is widely used by aid’s critics, and for researchers it seemed to resurrect the micro–macro paradox. A variety of explanations have been offered ranging from Dutch Disease (when a capital inflow appreciates the currency, potentially reducing exports) to the potential for aid to keep rent-seeking governments and poor institutions in place. However, aid could have the opposite effects: it can stimulate exports by improving infrastructure for example, and it can encourage institutional reform. Interesting theories and stories can be developed that both criticise and support aid, but few have actually tried to test them systematically with the available data.

Why have widely different conclusions been drawn in the aid–growth debate, given that many studies use the same publically available data? One major analytical difficulty is the question of causation. Aid is given to countries that are poor and are in difficulty. When they grow and do better donors tend to give less aid. So, it may look to the uninformed eye as if less aid is a good thing. It is of course a good thing to do better, but this by no means implies that aid did not support the growth to begin with. This analytical challenge is clearly not unique to the aid-growth debate and must be properly accounted for in any meaningful

analysis. Moreover, it is often said that since econometric models do not find a statistically significant effect of aid on growth then such a relationship does not exist. Yet, absence of evidence about impact is by no means equivalent to evidence of absence of impact. The fact that the relationship does not always seem to be statistically significant may have many causes, including problems with the length of time the dataset covers or the care with which the econometric analysis is done.

To move ahead, we need to disentangle the mechanisms through which aid may affect growth, and vice versa. Recent research since 2008 (a *fifth* generation maybe) has made important strides in this direction, including three main findings (UNU-WIDER 2013a).³ First, an inflow of aid at the level of 10 per cent of GDP spurs a more than 1 percentage point increase in annual per capita growth rate on average (Arndt et al. 2011). Thus foreign aid has facilitated economic growth at the aggregate level over the long term (i.e. the period 1970-2007) (Arndt et al forthcoming). Investment in physical capital and health are two clearly identifiable channels through which aid promotes growth; education is another important area (see section 4 for further discussion) (Arndt et al. 2013a). Second, views that posit a non-existent or negative impact of development aid on growth have typically been based on mis-specified models and errors in data interpretation (Juselius et al. 2011). Third, when foreign aid is evaluated as an investment, it has had very respectable internal rates of return since the mid-1970s (Arndt et al. 2013b).

Thus, the overall conclusion is that aid has, on balance and based on the latest up-to-date research since 2008, had a respectable effect on growth. This effect is in fact equivalent to what economists would generally expect based on current growth theory. So, there is no micro–macro paradox to be explained. In sum, aid has worked in promoting growth, and has worked well. At the same time, no informed individual would argue that aid has worked with equal effectiveness everywhere and that failures have not occurred. Success is not assured; private investment also has its failures. Development is a risky business, especially in Africa.

3. Africa in the global economy: how can aid help?

The organization and delivery of aid is characterized by complexity, high transactions costs, and insufficient co-ordination. Bigsten and Tengstam (2012) calculate that annual savings ranging from US\$915 million to US\$2 billion and beyond could be achieved if donors switch more of their aid from projects to programmes, reduce the number of partner countries each works in, and generally co-ordinate more with each other and with recipient governments. The weaknesses are well known, and there are many ideas for improving the efficiency of aid, but political action has been slow.⁴ Consequently, rather than focusing on aid-efficiency, we focus here on some of the bigger *strategic* questions for aid policy with respect to growth, equity, sustainability, and peace (a demanding set of objectives).

A number of African countries have graduated, or are near graduation, from low-income country (LIC) to middle-income country (MIC) status.⁵ The region's resource boom is one reason, and the dangers of Dutch Disease are much discussed. Some observers see it as a

³ See also Brückner, (2013), Clemens et al. (2012); Minoiu and Reddy (2010).

⁴ See Kharas and Rogerson (2012); Manning (2012).

⁵ Success in moving up from LIC to MIC status implies that countries will also graduate from concessional assistance from the International Development Association (IDA).

foregone conclusion that this story will end badly (Diamond and Mosbacher 2013). Yet, Dutch Disease is not inevitable if the resource rents are invested to diversify economies and reduce structural constraints; transactions costs then fall, and productivity rises. This amounts to shifting the export–supply curve rightwards to offset the impact on overall national competitiveness of the real exchange rate appreciation induced by the resource boom.

Aid is already doing this when it finances infrastructure investments serving the tradable sectors. This is one reason why aid itself has less of a Dutch Disease effect than the critics allege (see previous section). If aid helps facilitate the deepening of domestic financial markets, then it will make monetary policy instruments more effective in sterilizing the real-economy impact of resource revenues. More ambitiously, aid could engage closely with national strategies for structural transformation. There is a link here to the post-2015 development agenda which is discussed in the next section.

Terms of trade shocks are a concern, as most economies are small and open, and over-dependent on commodity exports, which provide nearly 80 per cent of the region’s total export earnings—with oil accounting for 57 per cent of export earnings (AfDB et al. 2013: 66). Some 12 countries are net oil exporters, 44 are net importers.⁶ Some 12 countries are net food importers, making them potentially vulnerable to global food price spikes (Ng and Aksoy (2008: 12). Africa’s reliance on trade finance makes it especially vulnerable to banking crises in its trade partners (Berman and Martin 2012).

Africa’s foreign exchange reserves are historically high; these cushioned the 2008-09 shocks from the financial crisis in the high-income countries. This is fortunate since bilateral aid is pro-cyclical with respect to the business cycle in high-income countries: recessions reduce aid by around 11 per cent on average (Dabla-Norris et al. forthcoming). DAC⁷ aid is expected to show slower growth as the denominator in the official ODA/GNI⁸ commitments is now below its pre-crisis trend (Addison et al. 2011).

Aid is more volatile than other sources of government revenue (Bulř & Hamann 2008), imparting uncertainty to recipient budgets, which hinders public investment and macro-economic management. This is despite repeated pledges to make aid flows more predictable; see for example the ‘Paris Declaration’ and the ‘Accra Agenda for Action’ (OECD 2008). Aid for industrial development is the most volatile among the sectors that aid supports (Hudson 2012). This must change if donors want to engage with industrial policy (see next section).

The emerging economies now account for nearly a quarter of the market for Africa’s commodity exports.⁹ This partly offset the demand shock to commodity exports from the financial crisis in the high-income countries. But Africa is still vulnerable to any *synchronized* slowdown in both the high-income and emerging economies.

In summary, Africa’s commodity exports are simultaneously a source of strength *and* weakness. Moving Africa up the global value-chain and diversifying reduces the risk of being

⁶ US Energy Information Administration (www.eia.gov/).

⁷ Development Assistance Committee (OECD).

⁸ Development assistance/gross national income.

⁹ Emerging economies accounted for 22 per cent of Africa’s exports in 2011, up from 8 per cent in 2000 (AfDB et al. 2013: 66).

over-dependent on unprocessed commodity exports; aid's role in agricultural and industrial development is discussed in Section 4. Moreover, development cooperation has a continuing role to play in helping construct systems of public finance that transparently use resource rents and other revenues to expand public spending on services and infrastructure of benefit to the poor.

Stimulating internal demand as a driver of economic growth can also reduce the risks from global economic shocks. This is already happening as Africa's middle class is expanding with the growth of the last decade. But the opportunities existing at the 'bottom of the pyramid' remain latent as income growth amongst the poor is still too slow. To do this, donors can provide more support to smallholder agriculture (especially women farmers) and the rural non-farm economy (discussed in Section 4). Emerging economies, notably the Latin Americans, can bring their expertise and innovation in social protection to Africa. Social protection raises (and stabilizes) consumption amongst the poor and can be a driver of local economy activity, especially in regions stuck in spatial poverty traps (still only weakly connected to national and international markets).¹⁰ This approach is not new: Arthur Lewis emphasized rural demand as a promoter of industry in the Gold Coast (Lewis 1953). It also featured in early analysis of East Asia's take off (Ranis and Fei 1961), where the very first aid programmes supported rural transformation. Altering the pattern of domestic demand in this way can help resolve the 'iron triangle' of growth, inequality, and poverty (Bourguignon 2004) in favour of the poor—in addition to reducing growth's present dependence on global demand.

However, there is a catch. Poor economies acting alone will not get very far; few local producers will prosper serving only a small domestic market—even a buoyant one. Regional market integration is imperative for domestic consumption growth to spread itself across borders and stimulate investment by producers. Inter-country trade is only 11 per cent of Africa's total trade flow (in Asia it is 52 per cent), and it has halved over the last decade as commodity exports surged (AfDB et al. 2013: 67). Linkages to the continent's big growth poles (Nigeria and South Africa, especially) and between sub-Saharan Africa (SSA) and North Africa remain weak.

This is one reason to invest in cross-border transport and communications infrastructure (in addition to national infrastructure that shrinks spatial poverty traps). Another reason is to connect landlocked countries to coastal ports and global trade. Coastal countries do not internalize the positive externalities accruing to landlocked neighbours from transport infrastructure; under-investment is the result. Aid could be catalytic but it must leverage in private capital given the huge investment gap (and it needs to invest in both LICs and MICs to link lagging economies with those advancing). High tariffs and non-tariff barriers reduce the return on infrastructure investments that facilitate cross-border trade (UNCTAD 2013; World Bank 2012). If aid is to finance more infrastructure then it must do so within a policy framework for regional economic integration, including reduced trade barriers.

Infrastructure is also central to another big challenge for Africa and for aid: climate change, and environmental sustainability more broadly. Long-term planning and investment in road

¹⁰ The Northern Uganda Social Action Fund provides one example of this linkage between consumption, livelihood and growth. A cash transfer programme to young people has the express objective of promoting local structural change, and this is working—those who receive the cash transfers are more likely to report non-agricultural work as their main occupation than those who did not (Blattman et al. 2013).

infrastructure must account for the increased maintenance and construction costs caused by increases in temperature, precipitation and flooding, (see Arndt et al. 2012 on the case of Mozambique, for example). Energy is also at a crunch point. Donors are pulling away from financing power generation from coal, a resource in which southern Africa is abundant. They are committed to renewables, which feature in the doubling of aid to the SSA energy sector over 2005-11.¹¹ Yet, this amounts to only US\$1 billion per annum, a drop in the ocean when compared to Africa's energy investment needs. Private sector investment in renewables is small, mainly due to the high cost of financing the capital for green energy. This leaves a vast financing gap that is presently unfilled.

Of course, action on climate change entails much more than infrastructure investment; societies must build resilience to cope with an increased frequency of natural disasters. At present, much more aid goes into emergency responses and reconstruction than disaster prevention (World Bank 2013). Climate change is an issue in which aid can only work well if a solid and comprehensive policy framework is created at the global level; this is not yet in place (UNU-WIDER 2013b). Africa's progress in growth could slide back with climate change, taking domestic revenues with it, thereby reversing the recent decline in aid dependence. Climate change is destabilizing and could reverse the progress achieved over the last decade in reducing conflict and state fragility in Africa.

The ability of Africa's existing fragile states to absorb more aid (which often constitutes their largest financial inflow) is limited until their budgetary institutions show further improvement. This will slow the concentration of aid allocations on fragile states, which is occurring as LICs graduate to MICs, and as resource revenues rise. While the strategies of bilateral donors give more priority to fragile states, political criticism of any failure tends to raise their risk aversion. This intensifies their bias towards implementation via projects, which can be more tightly monitored and controlled than programme support to state-building. Fundamentally, the objective must be to help fragile states reduce their integration in the global economy via bad ways (piracy, human trafficking, narcotics etc.) and increase the control of their states over resource revenues (which are often now in private hands) and invest these in inclusive growth via a transparent fiscal process (Addison 2012: 363-78.).

While growth reduces the probability of internal conflict, it is not a universal remedy. Conflict and political instability in Kenya (2008), Madagascar (2009), and Northern Uganda all occurred in periods of robust growth (and large aid inflows). Indeed, highly unequal growth can be destabilizing when the poor, having weak property rights, lose their access to assets, and when resource revenues are distributed unequally by the state. The risk of exclusive growth as an outcome of the iron triangle can be reduced if aid assists in diversifying economies, promotes domestic consumption as a growth driver, and helps regional economic integration. We now place these strategic considerations in the context of recent debate around the post-2015 development agenda.

4. Development strategy post-2015: what role for aid?

The social sectors are at the core of OECD-DAC donor support to the Millennium Development Goals (MDGs), accounting for 42.6 per cent of their aid commitments in

¹¹ OECD-DAC data (<http://stats.oecd.org/>).

2011.¹² This aid has helped reduce under-five mortality, increase school enrolment, and combat HIV/AIDs, although social sector aid, along with aid in general, is still too fragmented to be fully effective (UNU-WIDER 2013c).

Will aid continue with its social sector focus after 2015? This would seem likely given the scale of education, health etc. in aid allocations, and the political support within donor countries for a human development approach. Yet the UN High-Level Panel report on the post-2015 development agenda calls for ‘... A quantum leap forward in economic opportunities and a profound economic transformation to end extreme poverty and improve livelihoods’ (UN 2013: 8). The report makes frequent reference to employment and inclusive growth. What does this imply?

Aid to the social sectors might be interpreted as broadly helping make this ‘quantum leap’, through human capital formation, and the economic growth that results. There is evidence for this: Arndt et al. (2013a) find that an average annual inflow of US\$25 aid per capita over the period of 1970-2007 augmented average schooling by 0.4 years, boosted life expectancy by 1.3 years, and reduced infant mortality by 7 in every 1,000 births. Improved human capital is one channel from aid to growth, livelihoods, and poverty.¹³

Nevertheless, the High-Level Panel report could be read as implying that in future donors should engage more *directly* with transformation and livelihoods.¹⁴ This could lead to a change in aid policy, although aid is a slow-moving ship, and we should not expect any rapid reallocations.

There are many ways that donors could recalibrate their aid effort towards structural transformation and livelihoods if they decide to do so. Here we focus on agriculture, which remains central, and actions around the ‘new industrial policy’, which has promise. Both need to take place within a framework of green growth, including adaption to climate change, and both entail large-scale infrastructure investment, as discussed in the previous section.

Moving their agriculture up the global value chain is one way that small open economies with good natural capital become richer. But what blend of large and small farms will achieve this for Africa? Will the poor participate as smallholders or, increasingly, as wage-labourers? How will Africa’s women farmers fare? The closing of Africa’s land frontier is already pushing many people towards waged labour, and communal tenure is giving way to individual tenure. In shrinking the area of cultivable land, climate change adds to the pressure.

Following the perceived failure of aid to large farms in the 1970s, agricultural aid now focuses on smallholders, encouraged by the ‘small but efficient’ research literature. Investment in smallholder agriculture can help turn the iron triangle in favour of the poor, and there is some success.¹⁵ But could large farms, interacting with small farms in ways that

¹² OECD-DAC data (<http://stats.oecd.org/>).

¹³ Arndt et al. (2013a) find a reduction in poverty of around 6.5 percentage points.

¹⁴ The High-Level Report itself is quite light on discussion of aid, mostly reaffirming the need to keep to commitments, and to using aid to leverage more private capital (UN 2013: 3, for instance).

¹⁵ In Malawi, the EU’s Farmers Income Diversification Programme (FIDP) in Malawi has successfully raised smallholder productivity and diversified crop income (Zant 2012). And in Mozambique, an integrated rural development project has improved food security (Nyysölä et al. 2012).

encourage scale economies in processing and marketing, deliver more of the productivity surge that Africa needs? Collier and Dercon (forthcoming) argue this case, while rejecting ‘super-farms’ of Latin American size.

Whether to expand donor support beyond small-landholders is a key strategic issue for the future of aid to African agriculture. A well-designed strategy that does raise productivity through a blend of small and large farms, integrated with each other, could accelerate structural transformation. Yet, if large farms fail, then it is difficult to reverse back towards a small-holder path, and historically large-farm investment has led to land ‘grabbing’ when property rights are weak (Deininger and Byerlee 2012). If large farms deliver growth, but higher inequality, then the poverty side of the iron triangle could actually worsen. India’s Naxalite/Maoist conflict illustrates what happens when growth dispossesses the rural poor. An efficiency case for more large-scale farms may evolve, but when social stability is factored in, the large-farm case could still be second best to a smallholder focus. There are a series of dilemmas here that donors need to consider, as any deep engagement with Africa’s structural transformation must put agriculture at its centre—the question is how.

Whichever pathway donors do support, their influence on the eventual outcome will be marginal if aid to African agriculture remains at today’s very low level.¹⁶ Agriculture’s share fell to 2.7 per cent of OECD-DAC aid in 2005.¹⁷ It was 6 per cent in 2011, but US\$1.7 billion is tiny given that two-thirds of Africans make a living in agriculture. A refocusing of aid on agriculture is required if the ‘quantum leap’ desired by the UN High-Level Panel is to be a realistic aspiration. And this aid will be more effective if combined with less protectionism against agricultural exports in which Africa competes with high-income countries (the situation for aid-dependent Malawi, for example).

Structural transformation entails a movement out of agriculture (accelerating as its productivity rises) and into non-farm employment, ideally into manufacturing and services, with rising value-added (often with an urban location to reap the externalities that clustering offers). If achieved, this would secure a ‘quantum leap’. But Africa is still far from this ideal; agriculture’s employment share is falling, but informal services, mainly in petty commerce, account for most of the non-farm employment.¹⁸ They provide a livelihood for the poor (women, especially) but typically a meagre one.

Ideally, donors would back national strategies that have a realistic prospect of moving Africa decisively into today’s global economy characterized by advanced manufacturing processes and high-value services, all connected by information technology. This is a global economy in which countries compete on quality, not just on price—often characterized by the sale of intermediate goods from one firm to another—and one which builds national capabilities by the interaction of domestic capital with foreign capital and knowledge, often via foreign direct investment (FDI) (Sutton 2012).¹⁹ Aid-financed infrastructure investments in energy, transport and communications can help attract this FDI (Page 2012).

¹⁶ Chimhowu (2013) discusses the decline in agricultural aid.

¹⁷ OECD-DAC data (<http://stats.oecd.org/>).

¹⁸ See UNU-WIDER (2013), and Jones and Tarp (2012) on Mozambique, for instance.

¹⁹ This is important as well for improving macro-economic stability, as noted earlier. The share of manufactures in the value of African exports fell from 21 per cent in 2000 to 16 per cent in 2011 (AfDB et al. 2013: 66).

For development cooperation to move in this way, donors would need to absorb the knowledge on industrial policy and structural transformation now emerging from research. For the moment they have barely begun to engage with the idea of industrial policy as it is now debated. Instead, most of their attention is confined to small- and medium-sized enterprises (SMEs) (Page and Söderbom 2012). Their virtue is labour-intensity, so they offer the prospect of employment growth. But SMEs must overcome multiple constraints, not least in their access to credit (especially evident for female-owned firms: see Asiedu et al. 2013). The policy framework also over-regulates and over-taxes SMEs, and training is limited by a weak post-primary education system that leaves much of Africa's demographic 'youth bulge' unskilled. Aid might help overcome such constraints, but spreading itself too thinly across a myriad of small-scale projects (as at present) will not work. Indeed, it could reinforce one of the weaknesses of Africa's SME manufacturing sector, which is that the average firm size is very small, and small firms find it hard to grow and export.²⁰

SME's will prosper if they have a chance of participating in well-defined strategies for industrial and service sector development that build national capabilities and reduce national constraints; donors need to thoroughly understand how these can be built, drawing especially on the knowledge around Asia's successes.²¹

5. Conclusions: what might the future hold for aid to Africa?

The slogans 'trade not aid', 'foreign investment not aid' and so on are regularly trotted out as if these were substitute pathways for development that African governments must choose between. This study has emphasized how aid might stimulate trade in ways that accelerate development, crowd-in private investment by providing public goods, and integrate Africa in the global economy in ways that promote inclusive growth, and thereby peace.

The context within which ODA operates has shifted dramatically since the heady optimism of the post-independence 1960s, the disillusion of the 1970s, the trauma of the 1980s, and the strife of the 1990s which gave way to the optimism of today. The very success of many African countries in achieving growth reduces old risks, but opens them to new risks for policymakers to grapple with. Development strategy is never finalized, it must be adjusted over time to take new opportunities, deal with new risks—and cope with the unexpected. Donors must bring good *ideas* to the table, not just finance, for aid is now a declining part of a growing and more diverse system of development finance.

The resolution of Africa's 'iron triangle' in favour of inclusive growth requires attention to the productive sectors, a priority highlighted by the UN High-Level Panel on the post-2015 development agenda. But the volume of aid is now growing at a slower rate than before the financial crisis. It seems therefore that any meaningful rise in agricultural and industrial aid must come from the social sectors, which is undesirable, given aid's high returns in education and health. Yet if aid for the productive sectors does not rise from its currently low level, then donors could find themselves irrelevant to the 'quantum leap' demanded by the UN High-

²⁰ A comparison using World Bank enterprise surveys finds that in SSA the average size is about 47 employees; this contrasts with 171 employees in Malaysia, 195 in Vietnam, 393 in Thailand, and 977 in China (Clarke and Dinh 2012: 6).

²¹ See Lin (2011) and Page (2012), for instance.

Level panel. This is a dilemma that the donor community must address over the coming years.

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