The Financial Statecraft of Debtors: The Political Economy of External Finance in Africa

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St. Antony's College
University of Oxford

A thesis submitted for the degree of Doctor of Philosophy

Trinity 2019

Abstract

How do countries' borrowing choices affect their foreign relations? More specifically, can access to new sources of external finance enhance countries' leverage when negotiating with their existing donors? This thesis investigates whether, and how, the greater diversity in African countries' portfolios of external finance in the 21st century has affected their negotiations with traditional donors and lenders. I focus specifically on the effects of Chinese lending and bond market finance, which have become the most important alternative to the development finance provided by traditional donor countries and development banks. I argue that alternative lenders act as an outside option that reduces borrowing governments' dependence on any one source of external finance, which ought to give them greater leverage in negotiations with their traditional donors. In this way, countries' borrowing choices become a basis for shaping their foreign relations, a phenomenon I refer to as the *financial statecraft of debtors*. However, not all countries are equally effective in translating their access to alternative finance into preferred negotiation outcomes. Both domestic political contestation in the recipient country and the significance of the recipient to donors shape variation in the success of debt-based financial statecraft. I adopted a mixed methods approach to support my argument. I use data on the terms of World Bank and US development finance to show that, across sub-Saharan African governments, access to alternative financing sources is associated with terms on traditional aid that are more aligned with government preferences. Three case studies based on extensive interview evidence — Ethiopia, Kenya, and Ghana — allow me to trace the mechanisms by which alternative finance affects negotiations with traditional donors and provide a comparison that demonstrates the conditioning effects of government and donor constraints. By explaining the potential benefits borrowing governments can derive from their portfolio of external finance, the thesis contributes to a better understanding of the international political economy of financial interdependence.

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List of Abbreviations

ADF . . . . . African Development Fund

AfDB . . . . . African Development Bank

BRICs . . . . . Brazil, Russia, India, and China

CARI . . . . . China Africa Research Institute (Johns Hopkins)

CDB . . . . . China Development Bank

CPP . . . . . Convention People's Party (Ghana)

DAC . . . . . Development Assistance Committee of the OECD

DFID . . . . . UK Department for International Development

DP . . . . . Development Partner

DSA . . . . . Debt sustainability analysis

ECA . . . . . Export Credit Agency

EPRDF . . . . Ethiopian People's Revolutionary Democratic Front

EU . . . . . European Union

FOCAC . . . . Forum on China Africa Cooperation

FORD . . . . . Forum for the Restoration of Democracy (Kenya)

GNI . . . . . Gross national income

GoE . . . . . Government of Ethiopia

GoG . . . . . Government of Ghana

GoK . . . . . Government of Kenya

HIPC . . . . . Highly indebted poor country

IBRD . . . . . International Bank for Reconstruction and Development (World Bank)

ICC . . . . . International Criminal Court

IDA . . . . . International Development Association (World Bank)

IFI . . . . . International financial institution

IMF . . . . . International Monetary Fund

KADU . . . . Kenya African Democratic Union

KANU . . . . Kenya African National Union

KPU . . . . . Kenya People's Union

LIC . . . . . Low income country

LMIC . . . . . Lower middle income country

MDBS . . . . . Multi-donor budget support

NARC . . . . . National Rainbow Coalition (Kenya)

NDC . . . . . National Democratic Congress (Ghana)

NGO . . . . . Non-governmental organization

NPP . . . . . National Patriotic Party (Ghana)

ODA . . . . . Overseas Development Assistance

OECD . . . . . Organisation for Economic Cooperation and Development

OLS . . . . . Ordinary Least Squares

OOF . . . . . Other official finance

PFM . . . . . Public financial management

PNDC . . . . . Provisional National Defence Council (Ghana)

PPP . . . . . Public-private partnership

SD . . . . . Standard deviation

SGR . . . . . Standard gauge railway (Kenya)

SOE . . . . . State-owned enterprise

TPLF . . . . . Tigrayan People's Liberation Front (Ethiopia)

UN . . . . . United Nations

US . . . . . United States of America

USAID . . . . US Agency for International Development

USD . . . . . United States Dollar

1 Introduction

In the 1990s, the Finance Minister of an African country hoping to finance a major project — a dam or road construction, for example — had few options available. Most likely, the Minister would turn to the World Bank or the development agency of an advanced economy. These funders would be working largely from the same template, applying similar review procedures to determine whether country was eligible for aid or a loan and asking the country to comply with broadly the same conditions. By the late 2000s, however, the options available had expanded enormously. Now, the Minister could turn not only to the financing of the World Bank, African Development Bank or a traditional bilateral donor such as the US or UK, but also likely had the option of loans from China, issuing debt in international bond markets, or raising funds domestically. These new financing sources would come with different requirements and procedures. They might be more flexible, come in larger volumes, or be accessed more quickly, but were likely to be more expensive. This expansion of financing options certainly made it more likely that the project would be funded and realized. But what did it mean for the relationship with the country's traditional donors? Could the access to alternative financing alter the balance of influence in negotiations with traditional donors, perhaps in line with the borrowing country's preferences?

In this thesis, I study the international politics of African countries' changed access to external finance in the first decades of the 21st century, using this to analyse the consequences of financial interdependence of broader interest to international political economy. I ask: Does the proliferation of lenders strengthen borrowers' negotiating power?

It may be surprising to suggest that a greater number of lenders could enhance borrowing governments' negotiating power. After all, borrowing relationships are asymmetric, with debtors dependent on creditors for continued access to finance. Furthermore, African governments' relationship with the international system, particularly international finance, is often characterized as largely passive, at the receiving end of the interests of larger players. An alternative perspective sees new lenders, especially China, as a panacea for African governments, a continental counterbalance to the long dominance of Western donors. Different from both of these views, I suggest that these new borrowing relationships, though ones of asymmetric interdependence, can in fact be a basis for African governments to shape their foreign relations. However, I also argue there is considerable variation among African governments, with some benefiting much more than others from their greater diversity of external finance. In this way, this thesis offers a surprising insight into the consequences of financial interdependence for states often though to be among the weakest in the international financial system. Under the right conditions, these states can gain greater influence over their foreign relations by diversifying their relationships of dependence.

I argue that both international bond market finance and Chinese loans act as an "outside option" in negotiations between African governments and traditional donors. Access to alternative finance reduces the dependence of recipient governments on their traditional donors, which can increase governments' negotiating power. A more diverse portfolio of external finance gives recipient governments more influence over the outcomes of negotiations with traditional donors. I refer to this ability to translate borrowing patterns into preferred negotiating outcomes with traditional donors and creditors as the *financial statecraft of debtors*.

However, contrary to a prevalent assumption that more choice translates directly into greater policy autonomy for recipient governments, I show that such leverage is unlikely to be constant across borrowing countries. I argue that the success of financial statecraft is shaped by (1) how domestic politics affect the choices borrowing governments make about the composition and uses of their debt and (2) the extent to which donors and creditors value their influence over recipients.

I make this argument by analysing data on the terms of World Bank development finance and US foreign aid and comparing the cases of Ethiopia, Kenya, and Ghana. I find both the World Bank and the US are responsive to countries' access to alternative sources of external finance. When African governments turn to new sources of finance — both Chinese finance and international bond markets — traditional donors extend development finance on terms more aligned with recipient governments' preferences.

The three case study countries vary on the two moderating variables that affect the efficacy of debt-based financial statecraft: the extent of domestic political contestation and the government's significance to traditional donors. The case studies draw on over 170 interviews conducted during six months of field research in Ethiopia, Ghana, Kenya, and Washington D.C. I use this material to trace how political contestation (or the lack thereof) underpins the choices made about external finance and how these choices interact with donors' desire for influence with the recipient government to determine negotiation outcomes.

This thesis makes a number of contributions to the literatures on international finance, development aid, and sovereign debt. First, it specifies how borrowing governments can use international relationships with creditors to their advantage. The literature on financial statecraft has demonstrated how credit relationships can be a tool for influence, but has thus far almost exclusively focused on creditors in this respect. By contrast, I show how borrowing governments, seemingly in a structurally weaker position, can use their borrowing relationships as a source of leverage. Second, in explaining variation in the success of financial statecraft, my argument brings together accounts of the demand and supply for external finance.

Existing work on the political economy of sovereign debt offers explanations for the variation in developing countries' demand for external finance and a substantial body of work on development aid and bond markets explains variation in the supply of external finance. However, these two dynamics are rarely considered together. In my explanation for the variation in the success of the financial statecraft of debtors, I combine these two dimensions, showing how countries' choice of external finance interacts with donors' interests to create conditions in which borrowing countries can reach negotiating outcomes aligned with their preferences.

This introduction proceeds as follows. Section 1.1 briefly describes the change in African countries' external finance during the period under study and discusses existing arguments about new donors, debt, and aid, outlining how I build on these to explain how new forms of finance change the negotiations between recipients and donors. I introduce my argument about the financial statecraft of debtors in Section 1.2, explaining how new external finance shifts the process of bargaining between donors and recipients. Section 1.3 outlines the data and methods I use and Section 1.4 provides an overview of the thesis.

1.1 The international relations of a diversified financing landscape

I develop my argument about the consequences of borrowing governments' access to a wider range of external finance with a focus on sub-Saharan African governments from the early-2000s until the late-2010s. This was a period of rapid expansion of sources of external finance for African governments, as I briefly describe below and elaborate further in chapter 3. In particular, African governments experienced an abrupt transition from dependence on a small set of official lenders and donors to a diverse array of potential creditors, a much starker shift than governments in other regions, which had already enjoyed access to international bond markets for much longer. To contextualize my argument about the financial statecraft of debtors, I first describe the expanding portfolio of external finance in sub-Saharan

Africa during this time period, before reviewing existing arguments about this diversification of lenders and relevant insights from other literatures.

1.1.1 An expanding portfolio of external finance

From the early-2000s onward, the landscape of external finance for African governments shifted dramatically. More than half of African countries received a form of debt relief, freeing up fiscal space for greater investment, including through borrowing. China rapidly expanded its role as a lender to developing countries, extending ties to almost every sub-Saharan African country.[1] Only a few years later, bond markets began to take an interest in African governments, buoyed by abundant global liquidity to lend to riskier "frontier" borrowers. At the same time, while some were cutting their budgets, traditional donors — multilateral development banks and bilateral aid agencies — remained active on the continent.[2] Many African governments now had access to a much wider portfolio of external finance than ever before.

The diversification in the supply external finance was in large part exogenous to choices made by African governments. To receive debt relief, governments did have to demonstrate reforms and develop "poverty reduction strategies," but the initiative was global in scope and all but three countries ultimately received relief.[3] This constituted an external shock to countries' ability to borrow. In terms of the availability of finance, China's growing global role as a bilateral lender has been largely driven by internal factors, and its broad footprint across sub-Saharan Africa has meant almost all countries have been able to access some Chinese finance,

[1] Note that other emerging economies, especially Brazil, India, Turkey, and various Gulf States, also expanded their lending to developing countries, including in Africa, during this time. However, as I explain further in chapter 3, these other lenders did not have as extensive a footprint in sub-Saharan Africa, targeting a smaller set of countries, and so I focus my analysis on China's role as a creditor and donor.

[2] I use the term traditional donors to refer to bilateral donor countries that are members of the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC), as well as the established multilateral international financial institutions and development banks, i.e. the World Bank, IMF, and African Development Bank. This distinguishes them emerging bilateral donors, especially China.

[3] Eritrea, Somalia, and Sudan have yet to reach the "decision point" of the Highly Indebted Poor Countries process, meaning they have not yet fulfilled the basic requirements to be considered eligible for debt relief.

even if some countries have received much more than others. While bond market finance has not been spread as widely across the continent as Chinese loans, it too became available largely for reasons external to borrowing governments. Specifically, global liquidity in the aftermath of the global financial crisis and soaring commodity prices during the "commodity supercycle" in the late 2000s enhanced investors' willingness to lend to African governments.

Access to these new lenders was noteworthy for African governments not only because it increased the quantity of finance available, but also importantly because it increased the variety of financing. These new sources of finance — Chinese bilateral aid and loans and international bond market finance — diverged in significant ways from the development finance provided by traditional donors and creditors. First, these alternative sources of external finance are more flexible than traditional development finance. Chinese loans, while often tied to a particular project and requiring that Chinese firms be contracted to complete the project, are not accompanied by the same performance criteria and policy conditions as much traditional donor finance. Bond market finance is even more flexible, not tied to any specific project or reporting requirement, though it is considerably more expensive.

Furthermore, both Chinese loans and bond market finance are distinguished from traditional donors' aid and loans in their speed and size. Given fewer review procedures, Chinese loans can often be approved and disbursed more quickly than traditional donors' funds. For instance, in 2008, then-President of Senegal Abdoulaye Wade favourably compared Chinese lending processes to those of the World Bank, "I have found that a contract that would take five years to discuss, negotiate and sign with the World Bank takes three months when we have dealt with the Chinese authorities."[4] Similarly, while the process of preparing a Eurobond can be time-consuming, once the bond is issued, it is disbursed rapidly to the issuing government. In Ghana, for example, a government official contrasted the speed, volume, and ease of a bond issue to the requirements of traditional donor financing, "You want me to do what for those €5 million? Don't make me go through

[4]Wade 2008.

hoops when I can pull in $1 billion with a couple of investors."[5] Both Chinese loans and Eurobond finance are distinctive for their size, with China developing a reputation for funding "mega-projects" and bond issues releasing hundreds of millions of dollars to governments at a time, while traditional donors' projects are often smaller or broken down into tranches.

Finally, both forms of finance have enabled capital investments in borrowing countries, particularly in infrastructure. With respect to Chinese finance, this is because large portions of Chinese lending are in the form of export credits that provide finance for Chinese firms to deliver projects in developing countries. Given the expertise of Chinese firms, particularly state-owned firms, in infrastructure-intensive sectors, this has led to a particular emphasis on infrastructure. Bonds issued in international markets are not tied to particular projects, but because of their size have in some cases enabled governments to fund investments in infrastructure. This diverges from the emphasis of many traditional donors on social sectors and investment in human capital through funding projects in health and education sectors.

African governments did not just gain access to a greater *quantity* of finance, reducing their dependence on traditional donors, they also acquired a greater *diversity* of financing sources, creating conditions in which borrowing governments trade off among the different sources of external finance.

1.1.2 Arguments about the diversified portfolio of external finance

What have been the consequences of this rapidly expanding portfolio of external finance? There is a growing literature on "new donors" that considers the political and economic consequences of emerging economies as creditors and donors,[6] though there has been less scholarship on the consequences of African countries' access to international bond markets.[7] Within the literature on new donors, analysis has

[5] Interview 78. Government official, Accra, Ghana. May 2, 2017.

[6] Alden et al. 2008; Brautigam 2011; Dreher et al. 2013a, 2011; Mawdsley 2012; Rotberg 2008a.

[7] Bassett 2017, a notable exception, primarily analyzes the consequences of increasing indebtedness, rather than the access to alternative creditors as such.

often concentrated either on explaining why new lenders have established closer relations with African states or investigating the implications of this for traditional, Western donors. The analysis of consequences for borrowing states has been more limited, though recent empirical work has investigated the effects of Chinese aid and loans on growth and corruption and shown that Chinese finance is more likely to be targeted towards influential subnational regions.[8] Nonetheless, there are repeated suggestions in the literature on new donors that the diversified financing landscape could be beneficial for African borrowers, particularly that it could enhance their bargaining position with respect to traditional donors.

First, research on rising powers as donors and creditors has stressed the intrinsic appeal for borrowing governments of having a choice of creditors. One prominent think tank-led project on new donors was framed under the heading of the "Age of Choice," noting that "Countries are welcoming this additional choice...the benefits of greater choice were found to outweigh the potential costs of additional fragmentation."[9] Other scholars also emphasise China's role in providing an attractive alternative to traditional donors, offering diversity both in financing and development models.[10]

Furthermore, there is an implicit suggestion in the existing literature that new financing will increase the leverage of borrowers vis-à-vis their traditional lenders. As Woods puts it, "...the revolution taking place is a silent one. By quietly offering alternatives to aid-receiving countries, emerging donors are introducing competitive pressures into the existing system."[11] Several commentators, both those concerned about the undercutting of traditional donors' or lenders' authority and those cheering a greater diversity of lenders, suggest that borrowers have gained leverage through the emergence of alternative financing. For instance, Rotberg notes that "Africans welcome this new heightened rivalry for their attention and partnership," though he argues that Western donors and African governments should do more to convince

[8] Brazys et al. 2017; Dreher et al. 2019, 2017.
[9] Greenhill et al. 2013, p. 8; Prizzon and Hart 2016; Prizzon and Mustapha 2014.
[10] Kragelund 2014; Mohan and Power 2008.
[11] Woods 2008, p. 1206.

China not to support authoritarian African regimes.[12] Power and Mohan describe how "African states can pursue relations with more than one external state...and play donors and investors off against one another."[13]

In particular, commentators suggest that new financing sources make it harder for traditional lenders to set the terms of development financing. Drezner writes, "For much of this decade, emerging markets had the option of tapping private capital flows or receiving unconditional loans from creditors such as China. Not surprisingly, the ability of the World Bank and the IMF to attach conditions to loans declined markedly during this time."[14]

This potential for competition has invited some comparisons to patterns of lending and aid-giving during the Cold War. Large highlights the parallels between "concern over...the consequences of the new 'triangulation' in African foreign policy options" and Cold War-era preoccupation with "Communist China's influence in decolonized Africa."[15] This "revival of triangulation" stems both from the differences between the lenders and the underlying competition in other arenas between China and traditional lenders, particularly the largest shareholder in the traditional development banks, the United States.

Yet, while the potential for greater leverage is frequently alluded to, it has not been thoroughly explained and only rarely empirically investigated. As Kragelund puts it,

> ...the "China-Africa literature" often relates the rejuvenation of China's interest in Africa to enhancing the power of African governments to withstand the conditionalities of the international financial institutions (IFIs) and the [OECD Development Assistance Committee] DAC donors. *Most often, this relationship is only hinted at without detailing how or to what extent this change of power is taking place.*[16]

This lacuna is not simply with respect to the relationship between alternative finance and the conditionality of donor financing, but rather the effect of a more diverse array

[12]Rotberg 2008b, pp. 16-17; 18.
[13]Power and Mohan 2010, p. 17.
[14]Drezner 2009, p. 18.
[15]Large 2008, p. 58.
[16]Kragelund 2015, 250 (emphasis added).

of financing on the donor-recipient relationship as a whole. The literature on new donors has not so far developed an account of the mechanisms that link countries' access to alternative finance to changed relations between recipient government and traditional donors, nor systematically tested this relationship.

A number of empirical studies consider recipient governments' relationship with traditional donors in light of access to alternatives. Walshe Roussel's study of Nicaragua highlights the support that emerging donors, especially Venezuela, gave to the stance taken by the Ortega government towards its traditional donors. She notes, "...emerging donors have contributed to the most marked change in traditional donors' relationships with the government, namely the latter's assertiveness with respect to its development agenda."[17] Kragelund's work on Zambia stresses the ideational influence of non-traditional financiers, who provide alternatives to the traditional lenders' policy prescriptions.[18] Sato et al.'s study of Cambodia argues that fragmentation and competition among donors worked in the Cambodian government's favour, giving it leeway to publicly criticize traditional donor behaviour.[19]

Much of this previous work has consisted of single case studies, which have not been able to draw conclusions about the the broader implications of alternative finance for the donor-recipient relationship. One exception is Hernandez, who uses data on World Bank conditionality to show that African countries receiving aid from new lenders, especially China, have fewer conditions attached to their World Bank loans. Hernandez suggests that differences in government capacity help to explain why this effect is more pronounced in some countries than others.[20] Swedlund uses data from survey of development agency officials to show that while they are concerned about China's growing influence, only a fifth of officials agree that China is reducing their bargaining power with the government.[21] While this suggests that the counterbalancing effects of China across the continent as a whole

[17]Walshe Roussel 2013, p. 809.
[18]Kragelund 2014, p. 145.
[19]Sato et al. 2011, p. 2099.
[20]Hernandez 2017 Note that Hernandez measures government capacity or what he refers to as "bargaining power" using GDP per capita, which is likely to also capture other attributes of borrowing countries.
[21]Swedlund 2017a.

may be overstated, it does not account for variation among recipient countries. We still lack a general account of whether, and under which conditions, developing countries' access to external finance affects their foreign relations, particularly their relations with traditional donors. I first discuss alternative bodies of literature that offer helpful perspectives on the question, before turning to my argument.

1.1.3 Insights from other literatures

African states and extraversion

A tradition of research in Africanist scholarship emphasizes African governments' and elites' "extraversion," their strategic and instrumental use of foreign relations of seeming dependence for domestic political and personal gain.[22] Framed in part as a rejoinder to deterministic "dependency" theories, this approach emphasizes the agency and autonomy of African political elites despite relationships of structural dependence in the international economy.[23] It highlights how elites have fostered asymmetric relationships in the international economy in ways that can yield personal or political benefits or exploited existing patterns of economic dependence for domestic or personal gain.

Specifically, elites are able to extract rents from their country's uneven integration into the international economy. This is most obviously illustrated in the case of resource rich states where, for example, rulers may negotiate imbalanced contracts for resource extraction because these provide them with immediate benefits. Extraversion also includes the relationships between African governments and donors, in which governments are materially rewarded for meeting the expectations and preferences of donors, incentivising them to turn political attention outward to donors. Given the frequent fragility of domestic power structures and institutions in African states, acquiring wealth and influence through strategic relationships with outside actors is a means of shoring up elites' hold on power. In this way, the uneven integration of African states into the international economy is understood not as

[22] Bayart 2000, 2009; Clapham 1996.
[23] Bayart 2000, p. 219.

a deterministic fact, but rather as both the outcome of and basis for deliberate manoeuvring by governments and political elites.

More broadly, strategies of extraversion involve cultivating a country's importance or value to outside actors, even if the relationships remain, overall, asymmetric. For instance, Bayart argues that some supposed democratisations in Africa in the 1990s were forms of extraversion, currying favour with outside powers to yield material benefits, "the discourse of democracy is no more than yet another source of economic rents, comparable to earlier discourses such as the denunciation of communism or of imperialism in the time of the Cold War."[24] How governments and elites are treated by outside actors, and the consequences of this for domestic politics, is not a given, but rather the outcome of deliberate strategies to forge ties with particular actors. Pfeiffer and Englebert conceptualize African governments' different forms of engagement with the outside world as an "extraversion portfolio" and argue that countries with narrow extraversion portfolios, e.g., dependence on a single donor, are less effective in resisting pressures for institutional reform.[25] Countries' particular patterns of dependence, or interdependence, with the international economy thus help to shape important political outcomes.

This approach is helpful for my analysis, highlighting how ties of seeming dependence — e.g., an increasing reliance on China for bilateral loans — can be a potential source of domestic or personal benefit. Moreover, an extraversion framework emphasizes how African governments deliberately cultivate relationships with outside actors with an eye to strategic advantage. I incorporate this into my argument, arguing that expanding a country's portfolio of external finance can be a means of increasing leverage vis-à-vis other actors, even as it involves setting up new asymmetric relationships. More broadly, I take from the extraversion framework a focus on African states' agency in managing their financial interdependence. The choice to borrow from particular sources of external finance can offer African governments a means of influencing other aspects of their have direct consequences for other aspects of their foreign relations. However, on its own, an extraversion

[24]Bayart 2000, p. 226.
[25]Pfeiffer and Englebert 2012.

framework offers little account of how *external actors* are likely to respond to strategies of extraversion or when these efforts are likely to be successful. To understand how African governments' access to alternative forms of finance affects their relations with donors and creditors, one therefore also needs an account of these donors' and creditors' motivations.

The politics of debt and adjustment

There is an extensive literature in international political economy on sovereign debt and the relationship between governments and their creditors.[26] For my purposes in explaining how access to new sources of financing affect relations with traditional creditors, there are two particularly important strands. The first considers the negotiations between governments and their creditors, especially during periods of adjustment, i.e. when unsustainable debt burdens necessitate policy reforms. The second explains how governments choose how much and from whom to borrow.

With respect to negotiations between governments and creditors, including international financial institutions, an early literature emerged out of the developing country debt crises of the 1980s and the debt restructuring and structural adjustment lending that followed. This body of work identifies attributes of borrowers that explain variation in the terms of debt restructuring and structural adjustment conditions. Haggard and Kaufman argue that three factors shaped debtors' leeway in restructuring negotiations: the size of their debt, their political-strategic significance to lenders, and the availability of nonconditional resources.[27] Drawing on Putnam's model of international bargaining as a two-level game,[28] Biersteker adds to these "a country's domestic bargaining space," a product of the "power, preferences, and possible coalitions among domestic constituents."[29] Putnam's framework had a significant impact on the analysis of debt negotiations. Among others, Kahler stresses the influence of domestic coalitions on agreements with the IMF.[30]

[26] Lehman and McCoy 1992; L. Mosley 2000, 2003; Tomz 2007; Tomz and M. L. J. Wright 2013.
[27] Haggard and Kaufman 1989.
[28] Putnam 1988.
[29] Biersteker 1993.
[30] Kahler 1993.

These arguments highlight a number of relevant factors for explaining negotiations between governments and creditors in the recent context of a greater diversity of external finance. Both borrowers' strategic significance to lenders and their domestic politics shape the outcomes of these negotiations. The emphasis on domestic politics, particularly coalitional politics of domestic interest groups, also appears in explanations of how much developing countries borrow, and from whom. Analysing the build-up of public debt in Latin America in the 1960s and 1970s, Frieden argues that variation in governments' approaches to debt-financed development are attributable to coalitions of interest groups.[31] Studying the contemporary constellation of countries' borrowing choices, Bunte similarly emphasizes interest group politics, arguing that countries characterised by coalitions between industry and labour, for example, will be more inclined to borrow from emerging economy lenders than private creditors.[32]

I take from these arguments the importance of domestic politics in borrowing countries and borrowing countries' significance to their lenders. However, this work cannot alone explain how the diversification of finance affects countries' bargaining power with donors and creditors. While work on adjustment bargaining emphasizes the importance of fall-back options (e.g., oil wealth) in allowing borrowers to withstand pressures to adjust, the literature emerged out of a period of narrow options for many borrowing countries, rather than the abundance and expansion of options that I analyse. Furthermore, an important feature of the contemporary financing landscape for developing countries in general and African countries in particular, is the *diversity* of financing options, with countries trading off among quite different financing sources in ways that are likely to affect negotiating outcomes. Bunte's work on borrowing choice explicitly considers the diversity and differences among creditors, but does not offer predictions about how creditors are likely to respond to borrowers' choices, focusing on the demand for finance, leaving

[31] Frieden 1991.
[32] Bunte 2019.

unexplained how this demand shapes negotiations of the terms on which such finance is supplied.[33]

Aid and the politics of donor-recipient relations

Research on foreign aid sheds more light on the interests of donors, and I draw on this literature in making my argument about how traditional donors are likely to respond to recipient governments' access to new sources of finance and declining dependence on traditional donors. In particular, scholarship on foreign aid has identified that donors have an interest in influencing the policies of recipient governments, whether for altruistic reasons to enhance development outcomes or for self-interested reasons to generate commercial and geopolitical benefits.[34] An extensive literature has investigated whether donors are driven by altruistic or self-interested motivations, with broad agreement that to achieve their objectives, donors require some influence over recipients' policies, influence they gain in connection with the aid they provide.[35] This insight has led several scholars to suggest donors will compete with each other to retain access to and influence with the recipient government.[36] This scholarship provides crucial insights into why donors value their relationships with recipient governments, allowing me to explain how donors are likely to respond to recipients' reduced dependence.

Furthermore, the literature on donor-recipient relations emphasizes the fact that these relationships are subject to repeated negotiation between donors and recipient governments. In work on the World Bank's development finance in the 1980s, Mosley et al. stress that that the conditionality of World Bank policy-based lending was the outcome of bargaining.[37] Analysing aid in the post-structural adjustment period, Whitfield and Fraser similarly argue that the terms of aid agreements are subject to repeated negotiation, with the influence of recipient

[33] Bunte 2019.

[34] Bermeo 2011, 2017; Dietrich 2013; Dietrich and J. Wright 2015; Kahler 1992; Milner 2006; Whitfield 2009c.

[35] Alesina and Dollar 2000; Dreher et al. 2013b; Hoeffler and Outram 2011; Kevlihan et al. 2014; Younas 2008.

[36] Barthel et al. 2014; Bueno de Mesquita and A. Smith 2016; Fuchs et al. 2015.

[37] P. Mosley et al. 1991.

governments in negotiations determined by the negotiating capital that governments derive from economic, political, ideological, and institutional conditions.[38] More recently, Swedlund argues that donors and recipient governments negotiate over the procedures for the delivery of aid, with different formats of aid delivery aiming to solve the commitment problems of recipients to spend aid as agreed and donors to disburse the aid promised.[39]

The scholarship on foreign aid and donor-recipient relations provides three helpful insights for my argument: (1) donors seek access to and influence with recipient governments, (2) they do so for a variety of motivations, including commercial, geopolitical, and development-oriented ones, and (3) the terms of the relationship between donors and recipients are subject to negotiation. However, this literature cannot fully explain how recipients are likely to fare in a context in which they have access to a more diverse array of finance. For one, the literature on foreign aid remains fairly separate from work on sovereign debt and international finance and access to alternatives is thus only construed in terms of geopolitical or commercial competition between rival bilateral donors. Moreover, the preferences of recipient governments with respect to aid and external finance are sometimes underspecified in this work, making it hard to predict the direction that access to new forms of finance will push negotiation outcomes with traditional donors.

1.2 Argument: The financial statecraft of debtors

The starting point of my argument is that the relationship between developing country governments and their donors and creditors involves repeated negotiation over the focus, terms, and conditions of development finance, as well as the broader terms of the relationship. In these negotiations, recipient governments frequently have preferences that diverge from those of their donors and creditors. The more dependent recipient governments are on the development finance provided by

[38] Whitfield and Fraser 2009.
[39] Swedlund 2017b.

particular donors and creditors, the weaker their negotiating position is when resolving disagreements in the donor-recipient relationship.

I argue that variation in the outcomes of donor-recipient negotiations can be partly explained with reference to countries' portfolios of external finance. I outline this argument here, and develop it more thoroughly in chapter 2. When governments have access to a more diverse array of external finance, their dependence on individual donors and creditors is reduced, and they ought to have greater influence over the outcomes of negotiations with these donors, aligning outcomes more closely with their preferences. I refer to governments' ability to use their borrowing relationships as a basis for influence in other foreign relations as the *financial statecraft of debtors*. My core claim, that access to alternative forms of external finance should enhance borrowing countries' negotiating power, draws on literature on economic interdependence, bargaining, and economic statecraft, arguing that although borrowing relationships are in part a form of dependence, they can also be a basis for influence.[40]

In the financial statecraft of debtors, the value of outside options in the form of alternative creditors is that they *reduce* a country's dependence on any one creditor or donor. In this respect, the financial statecraft of debtors is different from the financial statecraft of creditors or large trading economies, who use their ties in the international economy to *increase* the dependence of others on them, thereby enabling them to use this increased dependence as a basis for influence. By contrast, borrowing governments use their borrowing relationships to reduce their dependence on individual creditors, thereby giving them a stronger negotiating position than previously. The craft of the financial statecraft of debtors is the act of developing new borrowing relationships that reduce a country's dependence on single sources of finance.

[40]The existing literature on economic and financial statecraft focuses almost exclusively on the use of such tools by large, wealthy states that occupy central positions in the international financial and trade system and are able to use this position to influence other states. Armijo and Katada 2014a,b; Baldwin 1985; Drezner 1999, 2015; Roberts et al. 2017. By contrast, I focus on the position of smaller, poorer states to use relationships of interdependence as a basis for leverage. This point is expanded in Chapter 2, Section 2.2.

Recipient countries' reduced dependence affects negotiation outcomes with traditional donors because these donors value their influence with the recipient government, influence they exercise in connection with the development finance they provide. When recipient governments draw more of their external finance from alternative sources and dedicate more of their time to arranging alternative financing, donors worry about a loss of access to and influence with the recipient government. To retain their access, they accede to some of the recipient's preferences to ensure their financing remains attractive.

I suggest that outside options reduce countries' dependence even if the finance provided by alternative sources and traditional donors are not perfect substitutes, i.e. if they are allocated to different sectors or have different financing terms. Analysing the consequences of Chinese loans for traditional donors, Swedlund argues that China is unlikely to place competitive pressure on traditional donors because Chinese-funded projects are different from those of traditional donors, i.e. predominantly in infrastructure or productive sectors like mining.[41] By contrast, I contend that alternative source of finance can impact negotiations with traditional donors even when they differ in focus and terms. Firstly, resources are fungible, meaning that the specialization of donors on particular sectors has little impact on borrowing countries.[42] More importantly, since the reason for changed negotiation outcomes is donors' desire to retain access to the government, rather than to fund specific projects, alternative finance can have an impact on the government-donor relationship if it reduces the government's openness to dialogue with traditional donors. This can be the case even if alternative loans differ from those offered by traditional donors and creditors.

In the aggregate, the expectation is that countries that reduce their dependence on traditional donors by accessing new forms of external finance will be better able to achieve preferred outcomes in their negotiations with donors and creditors. However, the effect of a diversity of external finance on negotiation outcomes with traditional

[41] Swedlund 2017a.
[42] Bunte 2019.

donors is unlikely to be the same across all countries. I identify two key sets of constraints that *condition* the likely efficacy of the financial statecraft of debtors.

On the part of recipients, governments' ability to translate access to finance into preferred negotiating outcomes is shaped by domestic politics, specifically contestation within and outside the governing coalition. When governing coalitions are more fractious or vulnerable to external challenge they are less likely to successfully convert a diverse portfolio of external finance into preferred negotiating outcomes with traditional donors, as I explain further below. On the part of donors, responsiveness to recipients' reduced dependence is conditional on appraisals of the recipient country's importance. While donors are expected to accommodate recipients' preferences in a more diversified financing landscape to retain access to the recipient government, such accommodations are costly and donors are likely to prioritize recipients they consider particularly valuable.

1.2.1 Recipient constraints

The key recipient constraint that affects the success of debt-based financial statecraft is the extent of domestic political contestation, and how this shapes the domestic political economy of borrowing and spending. By contestation, I mean political competition, not only in the form of electoral competition that challenges the governing coalition from outside, but also factional competition within the governing coalition.

Contestation affects the likely success of the financial statecraft of debtors through two mechanisms: the choice of financing and patterns of spending. With respect to the first mechanism, intense domestic political contestation can incentivise political opponents (within or outside the governing coalition) to politicize the government's borrowing choices. For instance, opponents can cast the relationship with China as "neo-colonial" and attack the government for drawing on Chinese loans. When governments are vulnerable, as in contexts of greater political contestation, they are more sensitive to such challenges and likely to adjust borrowing choices accordingly. Intense domestic political contestation may foreclose governments'

ability to draw on the full set of new alternative financing sources, thereby weakening their basis for financial statecraft.

Concerning the second mechanism, I draw on insights from diverse literatures in political economy — including political settlements and selectorate theory — to note that governments' spending patterns, and thus also their borrowing patterns, are likely to be shaped by the extent of contestation within and outside of the governing coalition. With respect to challenges from outside the governing coalition, the electoral budget cycle literature highlights that governments that face serious electoral challenges are likely to allocate spending in an attempt to ward off these challenges. Within a governing coalition, contestation and fractious distributions of power can lead to clientelistic spending patterns intended to hold the coalition together. This latter dynamic is why contestation is not simply about regime type. Even in authoritarian contexts, high levels of contestation within the governing coalition can induce fragility and require particularistic distribution to keep the government in power.

Politicised distribution can undermine the efficacy of debt-based financial statecraft. This is because traditional donors are less likely to be responsive to recipients' reduced dependence when they perceive recipient governments to use alternative finance in "unsustainable" ways. Donors and creditors have an interest in being repaid, and if recipient governments' access to new forms of finance is thought to facilitate clientelist distribution that could put their repayment at risk, donors are unlikely to accede to recipients' preferences. This is enhanced by the fact that much of alternative finance is expensive, either market-rate finance or Chinese export credits that are costlier than traditional donor aid, meaning that inefficient spending could quickly lead to a debt-build up. Notably, concerns about politicized distribution dampen the expected effect of recipient governments' access to alternative finance. Alternative finance reduces recipient governments' dependence on traditional donors and therefore should, in the aggregate, lead to recipients' preferred negotiation outcomes. However, when donor are worried about the moral hazard implications of governments' uses of alternative finance they are

less likely to meet recipient demands. Under circumstances of intense political contestation, where this shapes governments' spending patterns, traditional donors are therefore less likely to respond to recipients' access to alternative finance with accommodation and may instead even tighten their terms as a form of insurance.

1.2.2 Donor constraints

The second set of constraints is on the side of donors. Drawing on the literature on donors' motivations for giving aid, I suggest that donors' interest in influencing the recipient government varies by recipient country. This variation affects the likely success of recipient governments' financial statecraft, since donors are more likely to accommodate recipient preferences in light of reduced dependence when they particularly value their access to the recipient government.

For donors, accommodations to recipient requests can be costly. They can entail providing recipient governments with scarce grant aid or compromising on certain reform requirements that are valued by domestic audiences. Therefore, donors are only likely to make such accommodations if they particularly value their access to the recipient country. The mechanism of financial statecraft of debtors is that donors fear declining access to and influence with recipient governments that become less dependent on traditional donors. However, such effects are likely to be most pronounced when access to the recipient government is particularly important. Especially if donors are reluctant to accommodate recipient demands because these might set a precedent or be difficult to defend to domestic audiences, only recipient countries deemed "important" are likely to receive such accommodations.

The bases of traditional donors' interest in recipient governments can vary. Drawing on the literature on foreign aid, I suggest that donors value their relationship with recipient governments for three main reasons: geostrategic interest, commercial objectives, and symbolic value attached to the recipient country. Bilateral donors are more likely to classify countries as important based on their geostrategic interests or commercial motivations, though symbolic ties can further enhance these dimensions, as in the case of aid relationships with former colonies. For

multilateral donors such as development banks, symbolic importance and incentives to demonstrate success with well-performing recipients are more likely to shape their classification of recipient countries. For example, both Hauser and Fisher argue that Uganda's reputation as an economic success story and anchor of stability earned it a "donor darling" status that gave it greater leeway on issues of governance and democratisation.[43] These classifications, in turn, affect how different donors respond to recipient governments' access to alternative finance. Recipient countries that are classified as significant are more likely to be successful in translating a diversified portfolio of external finance into preferred negotiation outcomes.

1.2.3 Variation in the financial statecraft of debtors

Access to alternative finance creates the *potential* for recipient governments to reach negotiation outcomes with donors that are more aligned with their preferences. I expect that, on average, governments with greater access to diverse forms of external finance will be more likely to achieve their preferred outcomes in negotiations with donors. However, not all countries are equally likely to be successful. Together, the constraints on the part of recipients and donors shape variation in the efficacy of debt-based financial statecraft. Countries with less internal political contestation are more likely to be able to access a wide range of alternative finance to reduce dependence on traditional donors and more likely to have donors accommodate their preferences in these periods of reduced dependence. Countries that are more important to donors are also more likely to be able to use their access to new forms of financing as a way to shift outcomes in the donor-recipient relationship in line with their preferences. These two factors interact: when both are present, recipient countries are particularly likely to be successful in translating their access to alternative finance into preferred negotiation outcomes with donors.

[43] Fisher 2012; Hauser 1999.

1.3 Data and methods

To investigate the effect of a diversified financing landscape on the relationship between recipient governments and their traditional donors, I adopt a mixed methods approach. I combine large-n analysis that shows aggregate effects of new financing on traditional donor behaviour with three case studies that allow me to identify the mechanisms and processes that determine whether access to new financing has or has not translated into leverage in negotiations with traditional donors. The mixed methods approach is particularly appropriate for this study. For one, the existing literature on African governments' position in the diversified financing landscape has largely relied on single case studies, on the basis of which it is difficult to substantiate or disprove claims that diversified financing "increase[d] policy autonomy for African governments."[44] A cross-national study can fill a clear gap in the literature. In addition, there are operationalization and measurement challenges in this subject area that mean quantitative work is helpfully complemented by detailed case studies. First, the study faces the same challenges of data quality and accuracy that affect any quantitative work on sub-Saharan Africa.[45] More importantly, the case studies allow for a more complex operationalisation of the outcome variable, i.e. recipient influence in negotiations, capturing the multidimensional issue space that recipients and donors negotiate over, while proxies in the quantitative analysis are necessarily simplifications.

1.3.1 Cross-national evidence

I use data on the terms of traditional donor finance across sub-Saharan Africa to show that when countries gain access to alternative finance — both Chinese loans and bond market finance — the terms of traditional donor aid change in line with government preferences. This analysis is reported in Chapter 4. I focus on two important traditional donors, the World Bank and the United States, and show that both of these donors are responsive to recipient governments' access to

[44] Kragelund 2012, p. 711.
[45] Jerven 2013.

alternative finance. I use two common measures of outcomes in the donor-recipient relationship, the quantity and conditionality of development finance, as well as introducing two additional measures, the size and the sectoral focus of development projects. These latter two measures capture dimensions of development finance that have become particularly salient during this period of diversified external finance, with Chinese loans and bond market finance enabling recipient countries to fund large projects in infrastructure-intensive sectors. The indicators capture the extent to which access to alternative finance shifts the *type* of development finance that recipient governments receive from traditional donors.

I find that across these four measures, diversification in countries' portfolios of external finance alters the terms of traditional development finance. This holds true for both Chinese and bond market finance, bolstering the argument that recipients' access to new forms of finance and reduced dependence change negotiation outcomes, rather than this simply being a product of geopolitical competition. In addition, I investigate whether the aggregate relationship between alternative finance and the terms of development finance are driven by countries that are characterized by low political contestation and high strategic significance to donors. I find evidence consistent with the expectations. Using a number of different measures to capture geopolitical, commercial, and symbolic significance, I find suggestive evidence that countries scoring higher on these indicators are more likely to receive different terms in their development finance when they access alternative financing sources, just as there is evidence that countries with greater contestation are less likely to receive preferred terms.

1.3.2 Case study evidence

I complement the large-n analysis with three case studies that allow me to (1) trace the hypothesized mechanisms linking access to alternative finance with altered negotiation outcomes with traditional donors and (2) apply a more fine-grained measurement of the outcome variable — recipient influence over negotiation outcomes — that is sensitive to governments' different preferences with respect

Table 1.1: Case study countries across two key moderating variables

			Donor constraint: Recipient significance: Low	Donor constraint: Recipient significance: High
Recipient constraint	Political contestation	Low		Ethiopia
		High	Ghana	Kenya (Ghana)

to development finance. I choose case studies from among countries where the government gained access to both Chinese bilateral lending and international bond market financing in recent years, such that within-case analysis allows me to identify the effects of the newly acquired alternatives. From these, I select cases based on variation on the two variables I expect to condition governments' success in translating access to alternative finance into greater negotiating influence with traditional donors: political contestation and significance to donors. This means that across-case comparison speaks to the effects of these moderating variables. Ethiopia, Kenya, and Ghana vary on these two variables, allowing me to investigate cases where financial statecraft is expected to be successful (Ethiopia), middling (Kenya, and Ghana at points), and unsuccessful (Ghana), see Table 1.1.

To gather data for the case studies, I conducted six months of fieldwork in Accra, Ghana, Nairobi, Kenya, Addis Ababa, Ethiopia, New York City and Washington, D.C. in August-October 2013 and January-August 2017. The bulk of the evidence for the case studies comes from just over 170 elite interviews with actors participating in or familiar with the negotiations over external finance. Given my interest in particular processes of negotiation (rather than representativeness of all government officials or development practitioners, for example) I adopted a purposive sampling approach, seeking to speak with key donor and government officials.[46] I describe the samples of interview respondents further in Chapter 5 and the case study chapters, and they are recorded in detail in Appendix A. Interviews were largely

[46] J. F. Lynch 2013; Tansey 2007.

semi-structured, based on two separate interview questionnaires for government and donor interviewees.[47] Most respondents spoke to me only on the condition of anonymity, sometimes because they were not authorized to provide the official position of their employer or because donor-recipient relations were considered too sensitive to comment on "on the record." I therefore cite interview material by the broad category in which respondents fall ("Ministry of Finance representative," "bilateral donor representative," etc.).

1.4 Plan of the thesis

The thesis is structured as follows. I introduce the theoretical argument in Chapter 2. Chapter 3 makes the claim that various forms of financing should be considered as part of the same portfolio of external finance and describes the distinguishing features of new external finance, mapping African countries' access to these forms of finance. This is followed in Chapter 4 by large-n analysis that investigates how the terms of traditional development finance change when recipient countries have access to alternative forms of finance.

The qualitative evidence begins with a brief introduction to the case studies in 5. This is followed by the case study of Ethiopia in Chapter 6, Kenya in Chapter 7, and Ghana in Chapter 8. The three case studies trace how variation in the moderating variables, i.e. political contestation and strategic significance, affect governments ability to translate access to alternative finance into preferred negotiating outcomes with donors.

The Ethiopian case shows how relatively concentrated political authority and elevated strategic significance to donors translate into effective debt-based financial statecraft. Of the three cases, Ethiopia has been the most successful in translating the access to new sources of finance into preferred negotiating outcomes with traditional donors. For instance, donors muted their criticism of the governing regime's clampdown on opposition freedoms, largely because continued access to the government was so important and donors were aware that other creditors

[47] These questionnaires are included in Appendix A.

did not pose critical questions about domestic politics. Ethiopia's success at financial statecraft becomes particularly clear when the apex of diversified finance is compared to 2016 onward. In these later years, the government has made concessions it previously would not have considered, since its growing indebtedness has reduced the number of willing lenders, and thus again increased the government's dependence on traditional donors.

The Kenyan case, presented in Chapter 7, highlights how political contestation both incentivises politicised distribution and constrains the range of financing options, and how this impacts negotiations with donors. In Kenya, access to alternative forms of external finance has only occasionally strengthened the government's bargaining position in negotiations with traditional donors. The government's difficulty in translating alternative finance into preferred negotiating outcomes was largely due to domestic political contestation, which led alternative external finance to be channelled into what donors perceived to be politically-driven spending. Furthermore, the Kenyan opposition politicized the government's use of international bond market funds, alleging the proceeds of the 2014 bond had been misappropriated. The increasing pressure on the government from this opposition campaign narrowed the range of financing options the government was willing to consider, leaving it with fewer bases of debt-based financial statecraft. Nevertheless, there were instances when the access to alternative creditors altered the outcomes of negotiations between the Kenyan government and traditional donors, especially on issues of governance and political rights. Kenya's importance on geopolitical and commercial grounds meant that donors were willing to make some accommodations to retain access to the government.

In many ways, one might expect Ghana's relationship with its donors to show the greatest extent of donor accommodation. Among the first to democratize in the wave of democratic transitions in sub-Saharan Africa in the 1990s, Ghana has long been a "donor darling." However, the case study in Chapter 8 shows how the Ghanaian government's eagerness to draw on alternative financing, especially market-based financing, weakened rather than strengthened the government's position with donors,

who saw the spending funded by these resources as politically-driven. In fact, since Ghana's importance to its donors has always been more on the grounds of being a "success story" of democratization and market-oriented reforms, rather than for geopolitical or security reasons, Ghana's worsening debt situation due to expanded borrowing decreased its significance to donors, who were more inclined to harden their terms as a form of insurance. The government was largely unable to sway donors' stances on issues of economic policy and financial management, despite having access to alternative sources of finance.

Chapter 9 uses comparison across the case studies to illustrate the effect of the moderating variables identified in the theoretical framework, as well as describing insights from the case studies that nuance the theoretical argument. For instance, I describe how donors' accommodation of recipient preferences was also shaped by institutional differences across donors and recipient government strategy. Furthermore, I reflect on the paradox that the greater diversity of financing sources can enhance borrowing governments' leverage with traditional donors, but also increase these countries' debt burden, thereby limiting their subsequent room for manoeuvre.

Finally, I conclude the thesis in Chapter 10 by suggesting areas for future work based on the findings and spelling out the broader contributions and implications of the thesis. I discuss how the thesis challenges conventional narratives on African countries' integration into the international financial system and engagement with China by highlighting both the capacity for agency and the potential constraints arising from relationships of interdependence.

***

The central contribution of this thesis is an account of how countries' borrowing choices affect their relationships with their existing donors and creditors. My main argument is that borrowing relationships, though partly a form of dependence, can in fact be a basis for greater negotiating power and leverage with respect to other lenders. By reducing their dependence on any one donor or creditor, recipient

governments enhance their negotiating position. However, the benefits of a diverse portfolio of external finance are unlikely to be the same for all states. Translating access to a diverse range of financing sources into greater leverage with traditional donors is subject to constraints on the part of both recipients and donors. For recipients, political contestation, i.e. competition within and outside the governing coalition, can hamper efforts at financial statecraft. For donors, their responses to recipient appeals are likely to be shaped by the value they attach to their relationship with the recipient government. Access to new forms of finance creates the *potential* for greater negotiating power for borrowing governments, but for governments to best realise this potential, these conditions need to align.

2

Theory: The financial statecraft of debtors

Do countries' borrowing choices affect their relationships with official lenders and donors? How does access to a more diverse portfolio of external finance affect the relationships between developing country governments and the traditional donors and creditors that long provided the majority of their external finance? I argue that access to new and diverse forms of financing enables borrowing governments to exercise financial statecraft, translating their borrowing choices into preferred outcomes in relationships with traditional donors. The relationships between developing country governments and their donors involve repeated negotiation over the focus, terms, and conditions of development finance. In these negotiations, recipient governments and donors often have diverging preferences. When developing countries gain access to new forms of external finance, they reduce their dependence on traditional donors and creditors, thereby strengthening their negotiating position and increasing the likelihood that outcomes of negotiations over development finance will more closely align with their preferences. I refer to this ability to translate borrowing patterns into preferred negotiating outcomes with traditional donors and creditors as the *financial statecraft of debtors*.

Not all countries are equally likely to be successful at the financial statecraft of debtors. I identify constraints on the part of both borrowing governments and donors that condition the efficacy of debt-based financial statecraft. For borrowing governments, domestic political economy constraints are decisive. When domestic politics are characterized by intense contestation and distributive pressures, borrowing governments are less likely to be successful at translating their access to alternative finance into preferred outcomes with traditional donors and creditors. This is both because governments can be prevented from accessing particular financing by political opposition and because traditional donors are less likely to accommodate recipient government requests if they perceive alternative finance to be deployed for politicized distributive purposes.

On the part of donors, the key constraint is the value they place on their relationship with the recipient government. Only if access to the recipient government is considered valuable is the donor likely to accommodate recipient requests in the face of the country's reduced dependence on traditional development finance. Thus, while access to new forms of finance creates the *potential* for altered negotiating outcomes, not all countries will be successful at shifting their relationship with traditional donors and creditors simply because they gain access to a diverse set of finance.

This argument makes a number of contributions to the literatures on international finance, development aid, and sovereign debt. First, it specifies how borrowing governments can use international relationships with creditors to their advantage. The existing literature on financial statecraft has demonstrated how credit relationships can be a tool for influence, but has almost exclusively focused on creditors in this respect. By contrast, I show how borrowing governments, despite being in a structurally weaker position, can use their relationships with particular creditors as a source of leverage vis-à-vis other creditors and donors. Second, in explaining variation in the success of financial statecraft, my argument brings together accounts of the demand and supply for external finance. Existing work on the political economy of sovereign debt offers explanations for the variation in developing countries' demand for external finance and a substantial body of

work on development aid and bond markets explains variation in the supply of external finance. However, these two dynamics are rarely considered together. In my explanation for variation in the success of debt-based financial statecraft, I combine these two dimensions, showing how borrowing countries' choice of external finance interacts with donors' interests to shape the outcomes of donor-recipient negotiations.

This chapter proceeds as follows. In Section 2.1 I describe the outcome I seek to explain, i.e. variation in recipient governments' influence over negotiation outcomes in the donor-recipient relationship. I introduce the concept of the financial statecraft of debtors in Section 2.2, arguing that additional creditors should reduce countries' dependence on traditional donors, giving them greater influence in negotiations. I then specify the conditions under which recipient governments are most likely to be effective at the financial statecraft of debtors in Sections 2.3 and 2.4, explaining how recipient and donor constraints impede the ability of recipient governments to successfully translate their access to new forms of finance into greater influence in the donor-recipient relationship. I bring these two dynamics together in Section 2.5, outlining how they combine to explain variation in the financial statecraft of debtors. Section 2.6 concludes.

2.1 The outcome: Aid agreements and the donor-recipient relationship

The starting point of my argument is that the relationship between developing country governments and their donors and creditors involves repeated negotiation over the focus, terms, and conditions of development finance, as well as the broader terms of the relationship. In these negotiations, recipient governments, on the one hand, and donors and creditors, on the other, frequently have diverging preferences. Though these actors have a shared interest in reaching an agreement — donors need to disburse funds and recipient governments want to receive aid — they can have divergent preferences over the terms of that aid. These negotiations are therefore a process of reaching mutually satisfactory terms. The more dependent recipient governments are on the development finance provided by particular donors and

creditors, the weaker their negotiating position when resolving disagreements in the donor-recipient relationship. This explains why access to alternative finance and reduced dependence on traditional donors and creditors can strengthen the government's negotiating position.[1]

At first glance, it might not be obvious that developing country governments and donors should have diverging preferences. After all, development finance is intended to improve development outcomes in recipient countries, and in this respect is likely to be aligned with the interests of developing country governments. However, while donors and recipient governments might have a shared interest in development in the recipient country and in agreeing and disbursing aid, they disagree on a wide range of issues. There is an extensive literature documenting the divergences between recipient governments and donors, which are then reconciled through processes of negotiation.[2] These differences can be broadly grouped into four categories. First, the focus of development finance, i.e. which projects development finance will be spent on. Second, the terms and conditions of development finance, e.g. the performance criteria associated with development finance or the cost of development loans. Third, the mechanisms by which development finance is transferred to the recipient country, e.g. whether funds are directly transferred to the recipient country budget, released in discrete tranches, or flow to NGOs in the recipient country. Fourth, the broader terms of the donor-recipient relationship, e.g. the extent to which donors publicly comment on domestic politics in the recipient country. I briefly discuss each of these to describe the topics under negotiation in the donor-recipient relationship.

Disagreements over the uses and focus of development finance reflect donors' and recipient governments' diverging development priorities. Even when there is a consensus on broad goals, e.g. economic growth, poverty reduction, and economic

[1] Given my focus on how "new" forms of finance affect relations between "traditional" donors and recipient governments, I concentrate below on the differences in preferences between traditional donors and recipient governments. The differences between borrowing governments and alternative creditors such as China are similarly resolved through negotiation, but revolve around different tensions, such as local content requirements in construction projects, given China's different practices of providing and disbursing development finance.

[2] P. Mosley 1987; P. Mosley et al. 1991; Swedlund 2017b; Whitfield 2009c.

stability, donors and recipient governments may disagree about which interventions are most likely to achieve these aims. One area of disagreement, for example, is the emphasis given by donors to social sector interventions relative to capital-intensive investments in infrastructure. From the 1990s onwards the World Bank and donors in the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development (OECD) increasingly shifted their focus to social sector interventions aimed at poverty reduction, particularly in the health and education sectors.[3] These shifts were prompted by critiques of earlier structural adjustment policies and accompanied by a broader move towards "pro-poor" development interventions.[4] While such programmes were certainly welcomed by some developing country governments, they also prompted disagreements with governments that prioritized investments in infrastructure to enhance the potential for economic growth. At their heart, these differences were over how best to achieve development.[5]

Even when disagreements are not so foundational, donors and recipient governments may diverge on which particular development projects should be funded. Such disagreements stem from the different constituencies to which donor agencies and recipient governments are responsive. For instance, a European bilateral donor may prioritize gender-sensitive development programming because domestic audiences are receptive to these development interventions, but a recipient government may prefer to fund projects in the energy sector to satisfy election commitments about electricity provision. Such disagreements are not always zero-sum and some donors and recipient governments are more aligned in their political conceptions of development, but when divergences exist, these are resolved through processes of negotiation.

In addition to the substantive focus of development finance, donors and recipient governments can disagree over the terms and conditions under which development finance is supplied. The most immediate of these disagreements are over the cost of finance, with recipient government preferring development finance to be supplied as grants or, if grant aid is unavailable, as concessional finance on the cheapest terms

[3]Swedlund 2017b, p. 9.
[4]Goetz and O'Brien 1995.
[5]For a critical perspective see Chang 2011

available. Donors, on the other hand, have scarce resources and wish to deploy these in the most efficient manner possible. To avoid negotiating the financial terms of development finance with recipients anew each time, multilateral development banks like the World Bank and African Development Bank and bilateral aid agencies have institutional rules that set out eligibility for grant finance on the basis of development level and establish interest rates and loan maturities for concessional finance.[6] In addition, the OECD's rules spell out criteria for development finance to be classified as overseas development assistance (ODA), leading OECD members to converge on similar terms for their aid. As a consequence, most of the financial terms of development aid are not subject to negotiation. However, there are exceptions to this in the case of bilateral aid agencies, where eligibility for grant aid is not governed as strictly as at multilateral development banks.

Even if the financial terms are often predetermined by institutional rules and not subject to negotiation, donors and recipients negotiate over the non-financial conditions of development finance, including performance criteria that recipient countries may be required to meet to access finance.[7] Donors attach conditions to development assistance both to enhance the effectiveness of aid and avoid moral hazard problems by keeping closer control over the use of resources.[8] Conditions may specify performance or reform criteria to be met, and usually require evidence of the criteria being satisfied prior to disbursing funds.

After a substantial debate about the effectiveness of conditionality in World Bank lending in the 1990s,[9] the consensus among traditional donors from the mid-2000s has been that recipient "ownership" of development policies is crucial to effectiveness and that conditions should therefore be "draw[n]...from developing countries' own development policies."[10] The practice of attaching conditions to development finance has thus continued, though in an attenuated form. Recipient

[6] Faure et al. 2015.

[7] An earlier literature focused specifically on the conditionality of structural adjustment loans, e.g. Kahler 1992; P. Mosley et al. 1991. An extensive literature examines the determinants of IMF conditionality, see: Chwieroth 2014; Nelson 2014; Stone 2008; Vreeland 2007.

[8] On World Bank and IMF conditions, see Dreher 2004

[9] P. Mosley et al. 1991; Svensson 2003.

[10] OECD 2008b, p. 20.

countries, by contrast, have a preference for no or few conditions attached to development finance. Recipients' opposition to conditions stems not only from a desire for autonomy and flexibility, but also from an interest in lowering transaction costs. In some cases, an aversion to conditionality may be due to precisely the moral hazard problems donor agencies fear, i.e. governments would prefer flexibility over development finance to divert resources from agreed objectives. In other cases, recipient governments may simply wish to avoid the extensive reporting requirements and delays associated with meeting conditions. This divergence between donors and recipient governments over conditionality is resolved through negotiation of the conditions attached to individual projects.

Closely related to conditionality is the mechanism by which donors transfer their development finance to recipient countries. Here again, donors broadly have a preference for mechanisms that allow them the greatest scrutiny and control over the uses of development funds to satisfy domestic demands for accountability over aid budgets.[11] By contrast, recipient governments have a preference for mechanisms that give them the greatest control over the flow of development funds. In practice, this boils down to disagreements over whether aid funds are channelled to development projects via non-governmental organizations in the recipient country, implemented by the development agency or a contractor directly, disbursed as project funds to specific ministries in the recipient country, or directly transferred to the recipient government as a supplement to the annual budget.[12] Most recipient governments have a preference for the latter mechanism, known as "budget support." As Swedlund describes in recent work, moral hazard and credible commitment challenges have shaped the different aid delivery mechanisms over the last decade, with donors seeking to maximize recipient governments' commitments to spend resources on agreed projects and recipients' seeking to increase their autonomy.[13] In the process of negotiating the terms of the donor-recipient relationship, donors

[11] For a discussion of public opinion on development aid, see: Milner and Tingley 2013.
[12] Dietrich 2013.
[13] Swedlund 2017b.

and recipient governments settle on mechanisms of delivering development aid that fall somewhere between these diverging preferences.

Beyond the focus and delivery of development finance, donors and recipients may also diverge on the broader terms of their relationship and engagement. For instance, donors and recipient governments may disagree about which aspects of recipient domestic politics donors should publicly comment on. In addition to their development programming, bilateral donors often seek a broader engagement with recipient governments on human and political rights. Where there is considerable overlap between donors' preferences and recipient practices, such dialogue can be uncontroversial. In other instances, however, this commentary can be perceived as political interference, particularly if it is made public. The boundaries of acceptable commentary are therefore also a potential area of divergence between recipient governments and donors. Though these terms are not explicitly set out in aid agreements or attached to a particular development project, they are nonetheless the subject of discussion and negotiation between recipients and donors.

Across these different dimensions, donors and recipient governments have diverging preferences, which are reconciled through processes of negotiation. In some cases, donors' institutional rules about the terms and procedures of development finance remove some issues from negotiation, but the majority remains subject to bargaining between representatives of donor agencies and the recipient government. The variation in the donor-recipient relationship is what I seek to explain with reference to the financial statecraft of debtors. When are recipient governments able to use their relationship to new creditors to shift the outcomes of their negotiations with donors to be more in line with their own preferences?

Given the multidimensional nature of the donor-recipient relationship, capturing this variation requires a number of approaches. In the large-n cross-national work, I operationalize this outcome in four straightforward measures: the number of conditions attached to development projects, the quantity of finance that donors allocate to recipient countries, the size of average projects, and the sectoral allocation of development projects. These measures capture whether donors are changing their

development finance in ways that recipients, on average, prefer. However, in practice, preferences vary across recipient governments, and the case studies therefore allow me to capture variation in the outcome variable in a more nuanced way, by first specifying recipient government and donor preferences and then tracing outcomes on those dimensions of the donor-recipient relationship that are the most pertinent in each recipient country. If, for instance, donor commentary on democracy and human rights issues are very sensitive, this is a dimension of the relationship that might be indicative of shifts in the influence of the recipient government. For other countries, these issues will be less sensitive, and the reform conditionality of development finance might be a more salient feature of the donor-recipient relationship.

2.2 Financial statecraft of debtors and the value of outside options

I argue that variation in the donor-recipient relationship can be partly explained with reference to the financial statecraft of debtors. By this, I mean that countries' borrowing relationships are a basis for influence in other foreign relations. More concretely, the expectation is that developing country governments' access to a more diverse set of creditors can enable them to achieve outcomes in the donor-recipient relationship that are more closely aligned with their preferences. This is because new relationships with alternative creditors reduce borrowing governments' dependence on their traditional donors. Because traditional donors have an interest in a continued relationship with and influence over the borrowing government, this reduced dependence prompts donors to make their development finance more attractive to retain their access to the recipient government. In this way, countries' new relationships of financial interdependence become a means of altering existing relationships of financial interdependence.

That economic interdependence is a basis for influence is a commonly recognized feature of international politics.[14] However, most scholarship on economic interdependence and economic statecraft has focused on the opportunities such interdependence

[14]Baldwin 1985; Keohane and Nye 2001.

affords large economies, which can use their central position in the international trading or financial system as a basis for influence, for instance by imposing sanctions.[15] Recent work on the financial statecraft of emerging economies has largely focused on these countries' position as creditors as a source of international influence.[16] By contrast, I focus on the leverage that borrowing governments, i.e., debtors, can extract from their choice of external finance. That a borrowing relationship should be a basis for influence may initially seem paradoxical, since borrowing governments are in a structurally weak position, dependent on lenders for continued access to finance. Nevertheless, I show how the particular *choice* of external finance can lessen a country's dependence on other creditors, thereby enhancing its relative bargaining position.

My contention that borrowing governments strengthen their hand vis-à-vis individual donors by gaining access to alternative external finance stems from a simple insight from the bargaining literature: the value of outside options. In a basic bargaining framework, the final outcome of negotiations will be determined by the fallback options available to each party in the absence of an agreement.[17] The more attractive a party's fallback options are, the stronger its negotiating position is, since it only needs to accept agreements that are more attractive than the fallback option. A negotiating party that has access to a high-value outside option will be able to drive up the value of a negotiated agreement by signalling they prefer to revert to the outside option unless the offer made by the the counterpart is more attractive than that offered by the outside option.

In the financial statecraft of debtors, the value of outside options in the form of alternative creditors is that they *reduce* a country's dependence on any one creditor or donor. In this respect, the financial statecraft of debtors is different from the financial statecraft of creditors or large trading economies, who use

[15] Drezner 1999, 2015; Steil and Litan 2006.

[16] Armijo and Katada 2014a,b; Drezner 2009; Roberts et al. 2017. Note that Armijo and Katada do discuss various "defensive" measures available to debtors and capital importers (such as nationalizing foreign direct investment or debtors forming "cartels" in processes of debt restructuring), but they do not consider borrowing relationships as a basis of influence as such.

[17] Muthoo 2000.

their ties in the international economy to *increase* the dependence of others on them, enabling them to use this increased dependence as a basis for influence. By contrast, borrowing governments use their borrowing relationships to reduce their dependence on individual creditors, giving them a stronger negotiating position than previously.[18] Debt-based financial statecraft entails establishing new relationships of financial interdependence that alter the balance of influence in other relationships of interdependence.

Recipient governments' reduced dependence on traditional donors has an effect on the outcomes of donor-recipient negotiations because donors have an interest in their access to and influence over the recipient government. Aid relationships are valuable for donors as a means of shaping recipient policy, whether for altruistic reasons related to development effectiveness or more self-interested motivations. When recipient governments become less dependent on traditional donors' development finance and dedicate more of their time to agreeing development finance with alternative creditors, donors risk losing their access and influence with the recipient government. To retain a close relationship with the government, donors are incentivised to offer development finance on terms closer to those preferred by the recipient government, thereby leading to negotiation outcomes more aligned with recipient preferences. This builds on the insights of scholars who have shown that donors compete over recipients, hoping to influence recipient policy in line with their interests.[19] However, I suggest the change in negotiation outcomes happens not only through direct competition between donors over the recipient government's policy direction, but more broadly through the recipient government's reduced dependence on traditional donors. This is why I expect access to private finance to also affect negotiation outcomes, even though it is unlikely to place direct demands on borrower policy that contradict those of traditional donors.

[18] This process is similar to the process of "shifting one's own indifference system" that Hirschman discusses with respect to workers in unions, who use the financial backing of the union to reduce their dependence on employers and thus "bring about a new and more favourably situated contract curve." Hirschman 1945, p. 46.

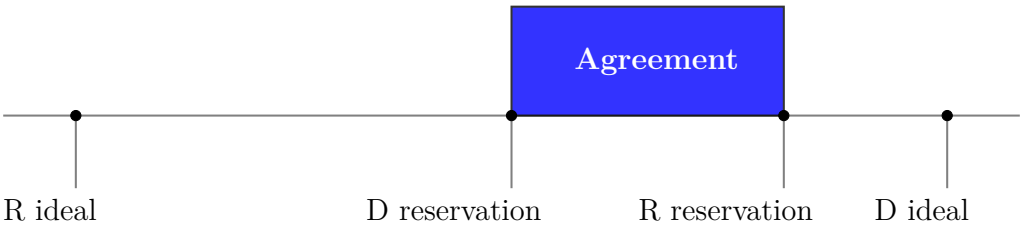
[19] Barthel et al. 2014; Bueno de Mesquita and A. Smith 2016; Fuchs et al. 2015.

I illustrate the expected impact of access to outside options in a simple bargaining diagram in Figure 2.1. The diagram is not intended to be a formal bargaining model, but rather to demonstrate the intuition behind the expected change in donor-recipient negotiations as recipient governments gain access to alternative finance. The first two panels in Figure 2.1 illustrate how access to outside options changes negotiation outcomes in the donor-recipient relationship. For the purposes of simplicity, the various dimensions of the donor-recipient relationship previously discussed in Section 2.1 are represented as a unidimensional space, with the recipient government's preferred outcome on the left and the donor's preferred outcome on the right, i.e. the two actors are presented in this case as having diametrically opposed preferences. The possible range of agreement falls between the two actors' reservation points, which are determined by their fallback options (denoted as D (donor) and R (recipient) "reservation" in Figure 2.1). In Panel 2.1a, the recipient government has few alternative sources of financing and therefore its reservation point is very close to the donor's ideal point. It is likely that negotiating outcomes in this donor-recipient relationship will fall close to the donor's preferences.

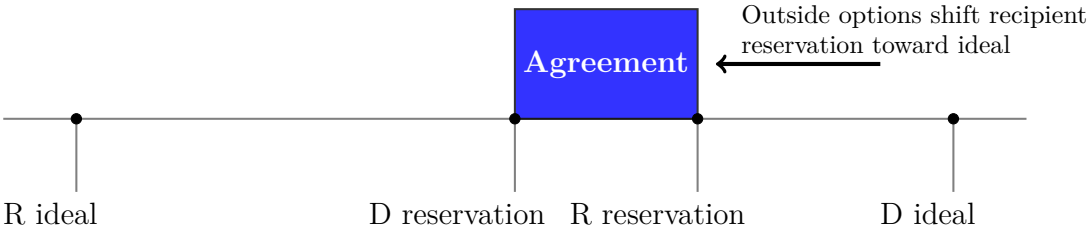
This changes when the recipient gains access to outside options, as Panel 2.1b illustrates. With access to outside options, the recipient government's fallback options improve and its reservation point moves closer to its preferred outcome, i.e. the government becomes less willing to accept outcomes further from its ideal point. The zone of possible agreement moves closer to the recipient government's ideal point and it is likely that the negotiation outcome will more closely align with the recipient government's preferences than it would have in the absence of outside options.[20]

Crucially, this process by which alternative finance shifts negotiating outcomes is subject to constraints on the part of both recipient governments and donors, which I discuss in Sections 2.3 and 2.4. One point is worth noting about constraints at this juncture, since it affects the possibility of reaching any agreement at all. This is the constraint on the part of the donor. Thus far, my focus has been on how access to outside options shifts a recipient government's fallback options

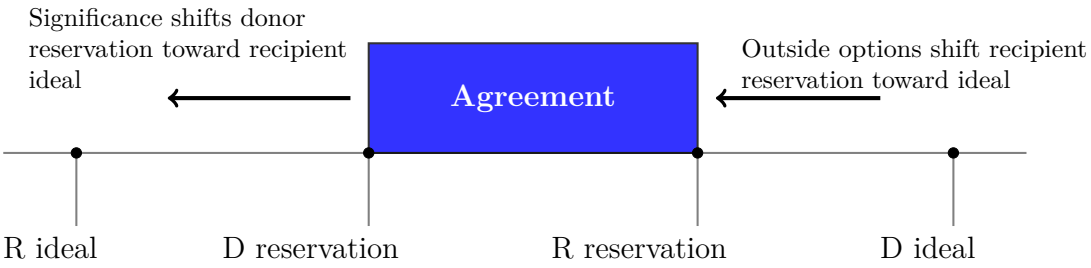
[20]Where exactly the outcome falls within the zone of possible agreement depends on a number of factors, including information about the negotiating counterpart and negotiating skill.



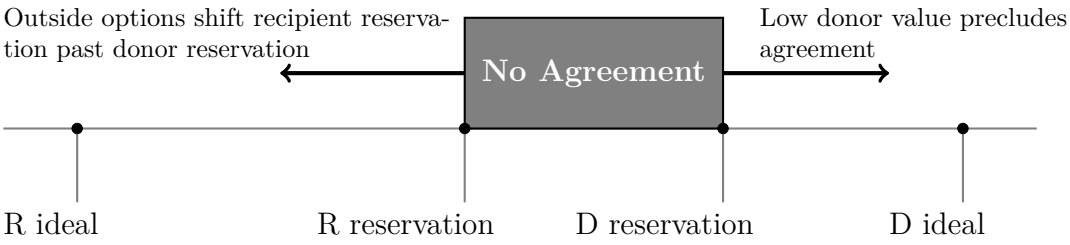
(a) Initial bargaining setup



(b) Effect of outside options



(c) Outside options and strategic significance



(d) Outside options without strategic significance

Figure 2.1: Effect of outside options and strategic importance on recipient-donor negotiating outcomes

such that negotiating outcomes move closer to the recipient government's preferred outcome. However, the donor's fallback option is also important for determining likely negotiating outcomes in the donor-recipient relationship. For donors, the reservation point is determined by the value the donor places on the access to and relationship with this particular recipient government. I describe the determinants of this in Section 2.4, but the key point here is that recipient governments differ in their importance and appeal to donors.

When the relationship with a particular recipient government is very valuable to a donor, the donor's reservation point in negotiations will be low, i.e. there are few attractive alternatives to reaching an agreement with the recipient government. In these cases the donor is likely to agree to outcomes that are closer to the recipient government's ideal. Panel 2.1c in Figure 2.1 shows this set-up. This holds true regardless of a recipient country's access to alternative finance. Indeed, the development finance literature has found this to be the case: highly valued recipient countries receive more attractive terms.[21] The relevance with respect to the financial statecraft of debtors is that a recipient government's strategic importance can *enhance* the effect of access to outside options, pushing the likely negotiating outcome closer to the recipient government's preferences. Moreover, as the comparison between Panel 2.1c and 2.1d in Figure 2.1 illustrates, the value donors place on access to the recipient government is important for making a negotiation outcome *possible* once the recipient government has attractive outside options. If the donor places a low value on access to the recipient government, then there may no longer be a zone of possible agreement once outside options shift the recipient's reservation point. Panel 2.1d illustrates this possible outcome, where an agreement is precluded by the fact that the recipient government has attractive outside options, but the donor does not value the relationship sufficiently to make accommodations to meet the recipient's preferred outcome.

Analysing the consequences of alternative finance in terms of outside options helps to clarify why I expect a diverse range of alternative finance, including

[21] Stone 2004; Vreeland 2007.

private market finance, to change the negotiating outcomes in the donor-recipient relationship. Alternative explanations for the change in donor-recipient relations in an era of diversified finance might focus on geopolitical competition.[22] In that case, donors' fear of the influence of geopolitical rivals, e.g. China, leads to a change in the relationship between recipient governments and their traditional donors. While this certainly does play a role, I suggest the phenomenon is a broader one. Namely, access to new forms of finance, whether bilateral loans from China or private finance from international bond markets, reduces recipient governments' dependence on any one donor or creditor, enhancing their negotiating position and leading to outcomes more aligned with recipient government preferences. This is why accessing bond markets can have an effect on donor-recipient relations, even though issuing international bonds is not geopolitically fraught for traditional donors in the same way as a recipient country establishing close relations with China.

Finally, it is worth addressing whether such trade-offs between financing options even take place, given that developing country governments often face a considerable shortfall of external financing, particularly hard currency financing. If there is so much need for aid and credit, will developing country governments ever turn financing down? In other words, is it even possible for access to alternative finance to raise countries' reservation points, or do reservation points remain low even when alternatives are available, given the great need for finance?

I suggest that access to alternative finance can in fact affect negotiation outcomes even when recipient governments have a considerable need for external finance. Firstly, even for governments that have a substantial demand for external finance, there are constraints on how much they can take up. Especially when the finance in question is non-concessional lending, debt sustainability limits mean that, at the margin, a choice for one form of financing is a choice against another.[23] There are also limits to how much grant aid and concessional finance a recipient government can absorb, given the transaction costs associated with receiving grants, including

[22]Bueno de Mesquita and A. Smith 2016.

[23]Bunte makes a similar point in explaining why choices for one creditor or another are meaningful choices. Bunte 2019.

occasionally the requirement that recipient governments provide counterpart funding to match grant aid. Thus, even with "free" or concessional financing, there are limits on the financing governments can take on, which makes trade-offs between different funding sources possible. Secondly and more importantly, the key constraint that leads donors to respond recipients' access to alternative finance is the limit on recipient governments' time. Donors value their access to the recipient government to be able to influence government policy, access they receive in connection with the development finance they provide. When recipient governments turn to alternative forms of finance, they tie up portions of their time with arranging and securing this alternative finance. This limits the amount of time available for traditional donors to engage in "policy dialogue" with the recipient government. Donors will be incentivized to provide more attractive financing to align more with recipient preferences, to ensure that they continue to receive access to the government.

Thus far, the framework of the financial statecraft of debtors has laid out how I expect access to alternative finance to enable recipient governments to reach preferred outcomes in donor-recipient relations. However, this picture holds only in the aggregate. There are constraints on the part of both recipient governments and donors that condition which recipient countries are most likely to successfully translate alternative finance into preferred negotiating outcomes. In other words, there is heterogeneity in the efficacy of the financial statecraft of debtors. I discuss these now, turning first to constraints emanating from the domestic political economy in the recipient country in Section 2.3 and then to constraints related to the importance donors attribute to their relationship with different recipient countries in Section 2.4.

2.3 Recipient government constraints

On the side of recipient countries, the key constraint shaping success of debt-based financial statecraft is the extent of domestic political contestation and how this impacts the domestic political economy of borrowing and spending. I draw on insights from both "selectorate" theory and the "political settlements" approach to

conceptualise contestation, by which I mean not only electoral competition between political parties, but also factional competition within governing coalitions.[24] Contestation limits governments' ability to take advantage of outside options and thereby impedes the success of financial statecraft. This happens through two channels. First, contestation can limit the range of alternative financing a recipient government can draw on for financial statecraft, since the choice of *who* to borrow from can become heavily politicised, leaving the government constrained. Second, in countries characterized by extensive contestation, the domestic political economy will entail considerable pressures for distributive spending to keep governing coalitions of elites in power. These spending pressures will shape *how much* governments borrow and *what* they choose to spend it on. Clientelist spending patterns in light of alternative finance, in turn, may make it less likely for donors to accommodate recipient government demands. I first discuss what I mean by political contestation and how it relates to existing concepts in the literature, and then describe the two mechanisms linking contestation to worse performance in the financial statecraft of debtors.

Contestation refers to the extent to which the control of political authority is subject to challenge, and thus the vulnerability of governing elites to losing political power. Importantly, contestation does not simply refer to party-political competition or institutional structures of democratic competition. Instead it is about the intensity of political competition among various factions, which can operate both within and across political parties, or outside of the context of democratic competition.

Crucially, contestation affects distributional politics. In countries where political contestation is high, economic distribution is likely to be driven by the need to maintain coalitions of support and ensure that governing elites can retain their hold on power. These dynamics are the reason that contestation is not simply a function of regime type. Even in authoritarian contexts, contestation within the governing coalition can make those in power vulnerable, leading to particularistic distribution to stave off threats to political authority. Similarly, democracies can

[24] Bueno de Mesquita et al. 2003; Khan 2010.

experience sufficient political cohesion and agreement on the "rules of the game" that distribution is not focused on maintaining governing coalitions and politicians are able to develop long time horizons. Contestation is thus not reducible to regime-type, but is rather a function of the vulnerability of governing elites to political challenge. Where governing elites see themselves as particularly vulnerable, economic distribution is likely to follow clientelist patterns, while governing coalitions facing less intense competition are less likely to channel resources into fending off political challengers and holding together their coalition.

The concept of contestation bears resemblance to a number of concepts in the literature on the relationship between political authority and political economy. First, the political settlements approach helpfully highlights how informal and formal institutions combine to shape the distribution of power in a society, and that political vulnerability for governing regimes can consist of both challenges from outside the regime and internal contestation within the regime.[25] Furthermore, the political settlements framework explicitly connects these patterns of political authority to the domestic political economy, explaining that "a high degree of vulnerability results in ruling elites focusing on immediate political survival and meeting distributional demands in order to keep the ruling coalition together, which means that distributional politics absorb resources."[26] The key insight I take from the political settlements literature is that the distribution of power within a society, including outside formal institutions, is likely to shape the distribution of resources.

Second, operating in a different theoretical tradition, selectorate theory also connects the structure of political competition to the political economy of distribution.[27] Here, a core claim is that the distribution of private and public goods will depend on the size of the winning coalition that supports the ruling leader. Though the focus of selectorate theory is more narrowly institutional than my concept of contestation, the argument similarly stresses that the desire for political survival causes leaders to distribute private benefits to supporters that are key

[25]Khan 2010, 2018; Whitfield et al. 2015.
[26]Whitfield et al. 2015, p. 97.
[27]Bueno de Mesquita et al. 2003.

for maintaining a winning coalition. Moreover, the theory highlights that such distributive demands are greater when the challenges to the leader are more acute.

Connecting this to financial statecraft, I suggest that countries with greater contestation will be more constrained in the range of finance they take up. Intense political competition creates incentives to politicize or "weaponize" the incumbent government's choices, including borrowing choices, such that the government becomes more constrained in its selection of finance. In this way, contestation introduces an element of contingency into governments' borrowing choices, since challengers to the governing coalition can politicize the government's reliance on a particular form of financing such that it becomes politically dangerous for the incumbent government to continue to borrow from that source. In economies where financial sectors are at a low stage of development, there is unlikely to be interest-driven support or opposition for borrowing choices, instead politicization of borrowing choices is more likely to arise from political opportunism. This political opportunism introduces an element of unpredictability into government borrowing choices in countries with higher political contestation. Political hand-tying with respect to the choice of finance limits the likely success of financial statecraft. If certain borrowing relationships are foregone because they are too politically toxic domestically, then the recipient government has fewer choices available to reduce its dependence on traditional donors.

This claim about contestation, political opportunism, and contingency in borrowing choice builds on the existing literature on the politics of borrowing choices, diverging somewhat from these previous arguments. Bunte argues that countries' choice of creditors depends on the relative influence of the interests of finance, industry, and labour, drawing on insights from Frieden and Rogowski.[28] He shows that different coalitions of these interests shape the countries' choice of creditors, with a "corporatist coalition" of labour and industry, for example, favouring loans from emerging bilateral lenders. Bunte explains *why* developing countries' portfolios of external finance become diversified in one direction rather

[28]Bunte 2019; Frieden 1991; Rogowski 1989.

than another, i.e. why some countries are more likely to take on private finance rather than Chinese loans. My interest is in explaining the *consequences* once countries' portfolios of external finance have become diversified, where the relative importance of individual creditors is less important.

Furthermore, my emphasis with respect to the influence of domestic politics on borrowing is somewhat different. Rather than highlighting the influence of economic interest groups in society, I emphasize the political context in which decisions about borrowing are made. Coalitions of interest groups may be influential in determining whether countries take up the alternative finance that provides them with greater leverage in negotiations with traditional donors. However, these coalitions of interest groups are more likely to shape borrowing choices where the political context is characterized by intense contestation such that opponents must be satisfied in order for governing coalitions to retain their hold on power. Furthermore, I suggest that political opponents may oppose borrowing choices for reasons of political expediency in addition to economic interest. In many sub-Saharan African countries, for example, the financial sector is underdeveloped and finance is unlikely to be an influential interest group in society. Nonetheless, countries have engaged in borrowing patterns that Bunte ascribes coalitions where finance plays a large role, for instance preferring private external credit. In these cases, opposition to particular borrowers can emerge from the contingency of political competition just as much as from the economic interests of influential groups.

The second mechanism by which political contestation affects the likely efficacy of the financial statecraft of debtors is through the pattern of borrowing and spending that alternative finance enables. I argue that politicized spending that donors perceived as unsustainable make donors less likely to accommodate recipient government demands in negotiations over development finance. The first step of this argument is that political contestation is associated with spending patterns. With respect to electoral competition, the literature on electoral budget cycles has found empirical support for this claim, including in developing countries.[29] Meanwhile,

[29]Block et al. 2003; de Haan and Klomp 2013; Shi and Svensson 2006.

research on clientelist spending patterns highlights how patterns of political support beyond party political competition can shape governments' spending choices.[30] Maintaining governing coalitions often requires access to resources that allow flexible distribution to key support bases.[31] The second step of this argument is that recipient governments that face considerable political contestation will therefore be inclined to use new financing sources to meet distributive demands. The third and final step is that donors will be less responsive to recipient government's reduced dependence if the government's uses of alternative finance are perceived to be clientelist or unsustainable.

This final step is worth elaborating further. If access to alternative finance reduces recipient governments' dependence on traditional donors and thus increases their negotiating power, why would patterns of recipient spending affect donors' likelihood of accommodating recipient demands? Most importantly, donors are likely to be concerned about moral hazard. If donors perceive alternative finance to be deployed for clientelist distribution, potentially leading to an unsustainable accumulation of debt, they are likely to worry this will put repayment of their own development loans at risk.

This especially because much of new finance, i.e. international bonds and Chinese export credits, is extended on commercial terms that make unsustainable debt accumulation much more likely. The sustainability and responsibility of governments' spending is of course a matter of donors' subjective interpretation, though certain categories of spending in political contexts with high levels of contestation are likely to particularly provoke donors' concerns. For instance, "white elephant" infrastructure projects in geographic regions that are electorally important or recurrent expenditure targeted at particular interest groups and financed with commercial loans. These patterns of spending are likely to *dampen* the effect of alternative finance. While alternative finance is usually expected to enhance governments' negotiating influence, donors are likely to respond differently to

[30] Abdulai and Hickey 2016; Abdulai and Hulme 2015.
[31] Arriola 2013.

alternative finance when domestic political contestation leads to spending patterns that donors perceive as unsustainable.

Donors' concerns are further heightened by the debt relief that most traditional donors, both multilateral and bilateral, extended to developing countries in the early- and mid-2000s. The fear is that new bilateral and private creditors may take advantage of borrowers' improved financial situation to extend commercial loans and that recipient countries are not deploying this finance sustainably.[32] Traditional donors worry that new lenders are free-riding on their debt relief, and that indiscipline on the part of borrowing countries could undermine the positive effects of debt relief.[33] Thus, though donors may be willing to make accommodations to recipient requests in the face of alternative finance, this can be dampened when concerns about the sustainability of debt-financed spending come to the fore.

There is certainly a history of traditional donors extending aid to African regimes perceived to be corrupt or clientelist, though domestic audience costs of such funding have increased since the end of the Cold War, making it harder for donor agencies to justify an accommodating stance toward countries that are seen to be corrupt or irresponsible.[34] Nevertheless, my argument is not about the direct effect of clientelism on donors' treatment of recipient governments. Instead, my claim about the political contestation and the spending patterns of borrowing governments is that this *moderates* the effect of access to alternative finance. Since political contestation can incentivise borrowing governments to use such alternative finance in ways that may put the repayment of traditional donors at risk, contestation can impede governments from effectively translating alternative finance into greater negotiating leverage.

[32]For a discussion of debt accumulation after debt forgiveness, see Reisen and Ndoye 2008 and IMF 2018, pp. 20-55.

[33]Note that Bunte finds that China and other emerging country creditors are no more likely to lend to countries that have received debt relief than Western creditors are, so these fears may be overstated. Bunte 2018.

[34]Both Dunning and Bermeo argue that the effects of aid on democracy changed after the end of the Cold War because the geostrategic imperatives of the Cold War no longer outweighed donors' considerations with respect to recipient democracy. Bermeo 2015; Dunning 2004.

In the empirical work to follow, I therefore evaluate whether and how countries' access to alternative external finance has different effects on negotiation outcomes in the donor-recipient relationship in recipient countries with high and low levels of political contestation.

2.4 Donor constraints

The second set of constraints that affects whether developing countries' access to alternative forms of finance shifts negotiating outcomes is on the side of donors. For donors, influence with some recipient country governments is more important than others. When donors value their relationship with recipient governments highly, they are more likely to accommodate recipient preferences to retain their access to the recipient government in light of the recipient's reduced dependence. Drawing on the existing literature on aid and development finance, I suggest that donors value their relationship with recipient governments for three main reasons: geostrategic interest, commercial objectives, and symbolic value attached to the recipient country. I first explain why donors' interest in a relationship with the recipient country is a constraint that conditions the success of the financial statecraft of debtors and then describe the three bases of recipient significance in turn.

In the aggregate, the expectation of the financial statecraft of debtors is that recipient countries' access to alternative forms of finance will lead to negotiating outcomes more aligned with recipients' preferences, because donors will respond to recipient requests to retain their access to the recipient government. However, such accommodations to recipient preferences are costly. They may entail providing recipient governments with scarce grant aid or compromising on certain reform requirements that are valued by domestic audiences in the donor country. Therefore, donors are only likely to make such accommodations if they particularly value their access to the recipient country. If a recipient government is *not* particularly important to a donor, then that government's access to alternatives may shift the recipient government's reservation point outside of the zone of possible agreement (see Panel 2.1a of Figure 2.1 above). Thus, the expectation is that recipient countries

that are more significant for donors will be more successful in translating their access to alternative financing sources into preferred negotiating outcomes.

Why do donors value their access to and influence with recipient governments? And why does this vary across recipients and donors? The literature on aid and development finance suggests donors may value their influence with recipients for self-interested or altruistic reasons, in the latter case believing that their research and experience across developing countries allow them to be effective in achieving development outcomes.[35] The latter is perhaps more relevant to multilateral donors, who seek to maximize their access to recipients to translate their expertise into positive development outcomes.[36] Recipient countries differ in their appeal to donors in light of these motivations. Some recipient countries are more useful in helping donors achieve security or geopolitical aims, while other recipient countries might be deemed to be more effective in achieving development goals.

A first determinant of donors' interest in a recipient government is the country's perceived geopolitical or security-related importance. Bilateral donors, in particular, are likely to value their access to recipient countries on the basis of strategic considerations.[37] Even beyond the Cold War context when aid was explicitly deployed for geopolitical ends, security considerations shape contemporary relations between donors and recipient countries, especially in the context of the "War on Terror."[38] Powerful shareholders can influence the decision-making of multilateral donors such that these agencies give differential treatment to countries based on their geopolitical importance, so that it is not only bilateral donors who privilege geopolitically important recipient countries. For instance, Kilby demonstrates that the World Bank disburses loans despite weak macroeconomic conditions in countries that are politically aligned with the United States.[39] Vreeland and Dreher show that developing countries with a temporary seat on the UN Security Council receive

[35]For as discussion of motives in giving aid, see: Alesina and Dollar 2000; Dreher et al. 2013b; Fuchs et al. 2014

[36]Milner 2006.

[37]Alesina and Dollar 2000; Berthelemy 2006.

[38]Fleck and Kilby 2010.

[39]Kilby 2009.

better terms on their IMF and World Bank loans, because influential shareholders of the two major IFIs shape the allocation of loans as part of an effort to secure recipient countries' support on the Security Council.[40] Building on this literature, I expect that recipient countries that are seen as geopolitically important will be more successful in translating their access to alternative finance into preferred negotiation outcomes.

In addition to security-related motivations for influence, donors may value their influence in recipient countries for commercial reasons. If a recipient country is an investment destination for donor country firms, an important export market, or a source of natural resources, influence over the recipient government is valued as a means of smoothing these commercial relations. Research has shown recipient countries receive more aid if they are importers of capital goods from donor countries.[41] Furthermore, scholars have found that recipient countries receive more aid when donors are competing for access to the recipient's market.[42] As with security considerations, commercial interests are more likely to shape bilateral donors' priorities than those of multilateral donors, though shareholders may influence the allocation decisions of multilateral donors in line with their preferences. Commercial interests can thus make recipient countries more important for donors, increasing the likelihood that donors will accommodate recipient preferences when these diversify their portfolio of external finance.

Finally, recipient countries may be significant to donors for symbolic reasons related to their performance in achieving development objectives. Given the need to demonstrate effectiveness to domestic audiences, donor agencies have a particular interest in close relationships with countries that are seen to be delivering on development objectives. These countries can also take on a broader symbolic importance, demonstrating the effectiveness of donors' policy recommendations. This can lead to more generous treatment of "donor darling" recipient countries. For instance, Kahler attributes some of the IMF's treatment of Ghana in the 1980s to Ghana's symbolic significance to the Fund, "[there may be] internal IMF concerns

[40] Vreeland and Dreher 2014.
[41] Younas 2008.
[42] Barthel et al. 2014; Fuchs et al. 2015.

for countries that are of particular symbolic importance. Such symbols...may be economic successes of considerable importance to the credibility of either the IMF or World Bank prescriptions. Ghana is a good example of such a 'success,' generously rewarded to see that it stays a success."[43] While geostrategic and commercial importance are also a matter of donors' perception and weighting, with symbolic importance there is the greatest role for perception in determining which countries are considered significant. When donors perceive a recipient country to be a "success story" and value their access to the recipient government, this can amplify the effect of the recipient's access to alternative finance, increasing the likelihood that negotiation outcomes will be aligned with recipient preferences.

Drawing on existing literature on the determinants of development finance, I suggest that recipients can be important to donors for one or a combination of geopolitics, commercial interests, or symbolic importance. The literature already suggests that these countries are more likely to be rewarded by donors with more attractive development finance. I argue that the importance that donors place on their relationship with recipient governments in these countries will *amplify* the effect of alternative finance on negotiating outcomes. When choosing where to make costly accommodations to recipient preferences, donors will prioritize those countries where access to the recipient government is particularly important. I therefore expect that the financial statecraft of debtors will be more successful in countries that are important to donors in one or more of these ways.

2.5 Variation in the financial statecraft of debtors

I have argued access to alternative finance creates the potential for recipient governments to reach negotiation outcomes with donors that are more aligned with their preferences. The first observable implication of my theory is thus that countries receiving Chinese loans and issuing international bonds should receive aid and development finance from traditional donors on preferred terms.

[43] Kahler 1993, p. 379.

Table 2.1: Expected outcomes: Variation in the likelihood of success of the financial statecraft of debtors

			Donor constraint: Recipient significance	
			Low	High
Recipient constraint	Political contestation	Low	Likely	Very likely
		High	Unlikely	Likely

The theory further suggests there is likely to be variation in the success of financial statecraft, i.e. the extent to which outcomes align with recipient preferences, and that this variation is associated with recipient and government constraints. The observable implications of this argument is that countries with lower levels of political contestation and higher levels of significance to traditional donors should experience greater success of debt-based financial statecraft. Where political contestation is low and recipient significance is high, negotiation outcomes are most likely to align with recipient government preferences. These moderating variables act both independently and jointly, as Table 2.1 outlines. On their own, low political contestation and high significance are each expected to slightly enhance the likelihood of effective financial statecraft. When both moderating variables are favourable, the government is very likely to be able to achieve preferred negotiation outcomes due to a diverse portfolio of external finance.

These two sets of constraints — political contestation on the side of recipients and recipient significance on the side of donors — are moderating variables in my theory. They moderate the effect of access to alternative finance on negotiating outcomes in the donor-recipient relationship. In presenting this argument, I have treated these two constraints and the access to alternative finance as three independent variables that interact to produce observable outcomes in the donor-recipient relationship. In most cases, these three variables are in fact independent. However, it is worth noting they may occasionally be related. For instance, political contestation may affect a recipient country's significance, especially when that significance is based on the country's symbolic importance. Since political contestation can affect the political economy of distribution, and thus the country's economic policy, this can

shape how the country's development effectiveness is perceived, and thus, how important the country is to donors. When this is the case in the case studies, I trace which aspects of changes in the donor-recipient relationship are attributable to access to alternative finance, political contestation, and recipient significance, though each of these may be affecting the other.

Furthermore, there can occasionally be a relationship between the recipient country's significance and its access to alternative finance. Recipient countries' significance to their traditional donors can also be related to their access to alternative finance, in some cases. Countries of considerable significance to traditional donors for commercial or geopolitical reasons may also be more strategically important to alternative bilateral creditors, giving them access to greater quantities of finance. However, empirical work suggests that Chinese finance is not closely related to the determinants that affect traditional donors assessment of recipient country significance. Dreher et al. find that the most important geopolitical determinant of Chinese overseas development assistance is Taiwan recognition.[44] Furthermore, countries with a temporary seat on the UN Security Council, which are likely to be seen as more significant by traditional donors,[45] receive *less* Chinese finance. Moreover, for access to international bond markets, recipient significance to traditional donors is much less likely to be important. Thus, while the significance of recipient countries to traditional donors and recipient countries' receipt of alternative finance are somewhat related, they are determined sufficiently independently to be treated as independent variables in this framework.

Finally, I consider in the last chapters of the thesis, Chapters 9 and 10, what the long-term consequences of the accumulation of debt are for countries' ability to exercise financial statecraft. I reflect on the paradox that those sources of alternative finance that enhance borrowing countries' leverage vis-à-vis traditional donors can also increase their debt burden to unsustainable levels, leaving them in a weaker position when negotiating with donors. Not all alternative finance need have this effect, and it is possible for countries to manage their portfolios

[44]Dreher et al. 2018.
[45]Vreeland and Dreher 2014.

of external finance sustainably, but this unintended side effect of a diversifying portfolio of external finance can hamper long-term prospects for financial statecraft in some borrowing countries.

2.6 Conclusion

The argument of this thesis is that developing countries' borrowing choices can be the basis of a strengthened negotiating position in relations with donors and creditors. Relationships of seeming structural weakness — reliance on international bond markets or bilateral creditors — can in fact be a basis for financial statecraft and thus increased negotiating power. Access to new forms of finance provides borrowing governments with outside options that reduce their dependence on individual donors and creditors. I expect this will allow borrowing governments to achieve negotiating outcomes in the donor-recipient relationship that are more aligned with their preferences.

However, not all countries are equally likely to be successful at the financial statecraft of debtors. I suggest that variation in the efficacy of debt-based financial statecraft is associated with constraints on the part of both recipient governments and donors. On the side of recipient governments, domestic political contestation affects the likely success of financial statecraft. When the domestic political landscape is characterized by intense competition, both between parties and internal to elites, this hampers governments' ability to translate access to alternative finance into preferred negotiating outcomes. Opposition politicization of borrowing choices can foreclose access to certain outside options, diminishing potential negotiating leverage. Furthermore, the domestic political economy of contestation can mean that new forms of finance are swept up in clientelist distribution, making it unlikely that donors respond to alternative finance with accommodations to recipient requests.

On the side of donors, the key constraint is the value placed on the relationship with the recipient government. If the relationship with the recipient government is not particularly important, donors may not be willing to meet recipients' preferences, even when recipients have access to outside options. However, when recipient

governments are very valuable to donors, donors are more likely to worry about losing their access to the recipient government, and accordingly accommodate the recipient when it turns to alternative finance.

Together, these two sets of constraints condition the success of the financial statecraft of debtors. While access to alternative finance creates the potential for greater leverage, in practice, only some countries will be successful in using access to alternative forms of finance as a basis for shaping negotiation outcomes with traditional donors.

This theoretical framework makes two main contributions to the literature on development finance and sovereign debt. First, it argues that countries' borrowing relationships can be a basis for influence in foreign relations, elaborating the possibilities for financial statecraft by countries that are net debtors. Second, by examining how recipient and donor constraints interact to condition the success of financial statecraft, it combines accounts of the demand and supply for external finance that are often kept separate.

The following chapter describes the financial landscape for African governments during the period under study, explaining why this is an optimal setting in which to examine the effect of alternative finance on negotiation outcomes between recipient governments and donors. I then present results of the large-n cross-national analysis before moving to the analysis of the case studies.

3

An expanding portfolio of external finance

From the mid-2000s onward, the landscape of external finance for African governments shifted dramatically. More than half of African countries received a form of debt relief, freeing up fiscal space for greater investment, including through borrowing. China rapidly expanded its role as a lender to developing countries, extending ties to almost every sub-Saharan African country. Only a few years later, bond markets began to take an interest in African governments, buoyed by abundant global liquidity to lend to riskier "frontier" borrowers. At the same time, while some were cutting their budgets, traditional donors — multilateral development banks and bilateral aid agencies — remained active on the continent. Many African governments now had access to a much wider portfolio of external finance than they ever had before.

In this chapter, I explain how this diversification of financing options took place and what distinguishes these different forms external finance from the perspective of borrowing governments. I argue that different forms of finance, whether concessional or commercial, should all be seen as part of a government's portfolio of financing options, allowing it to make trade-offs and choices among them, choices that enable the government to exercise financial statecraft, as I demonstrate in the subsequent chapters.

Placing concessional grant aid and commercial debt finance on a continuum as part of the same portfolio is somewhat unusual. The literatures on foreign aid and sovereign debt are largely separate. In part this is because much of this scholarship has focused on the perspective of donors and lenders, where the motivations in aid and sovereign debt are understood to be distinct. Donors are understood to be either altruistic or self-interestedly focused on geopolitics, but not, like commercial lenders, motivated by the prospect of financial returns.

When these flows are considered from the perspective of recipient or borrowing governments, however, their similarities become more evident and it is easier to understand how choices made across these different forms of finance could influence each other. Though funding differs in repayment terms, flexibility, and size, it all provides governments with non-tax resources. Governments therefore make choices based on the political and financial costs associated with each form of financing.

Sub-Saharan Africa from the mid-2000s onward is particularly illuminating with respect to the politics of a diversified financing landscape because the transition was so abrupt. Only a few years prior, in the late 1990s, many African countries had been highly indebted, with few external financing options aside from traditional donors. Unlike Latin American or Asian governments, no African governments (besides South Africa) had previous experience of international bond markets. Similarly, while African governments have a long history of accessing bilateral loans, especially export credits, these had previously all been from traditional donor countries in Europe and North America. The arrival of China as an important lender thus marked a crucial disjuncture.

Moreover, the diversification of external finance was in large part exogenous to African governments themselves. Debt relief, the growth in Chinese lending, and access to international bond markets were all to a large extent shaped by international phenomena. To receive debt relief, governments did have to demonstrate reforms and develop "poverty reduction strategies," but the debt relief initiative was essentially universal and all but three conflict affected countries ultimately

received relief.[1] This constituted an external shock to countries' ability to borrow, freeing countries from debt overhang and giving them space to take on new debt. In terms of the availability of finance, China's growing role as a bilateral lender has been largely driven by factors internal to China, and its broad footprint across sub-Saharan Africa has meant almost all countries have accessed at least some Chinese finance. While bond market finance has not been spread as widely across the continent, it too became available largely for reasons external to borrowing governments, i.e. global liquidity and favourable commodity prices.

This externally-driven diversification of financing options is part of why we can interpret shifting negotiation outcomes with traditional donors as a product of financial statecraft. It is not simply that certain countries receive a lot of finance and also receive favourable terms from traditional donors, but rather that in this context, some governments *chose* to draw on alternative finance and this altered negotiations with traditional donors.

This chapter discusses the features of different forms of external finance, explaining why African governments found the new forms of finance — Chinese bilateral loans and international bonds — attractive. With this explained, it then becomes possible to analyse in the later chapters how access to these new forms of finance affected negotiations with traditional donors, when governments were able to exercise the financial statecraft of debtors. Section 3.1 outlines the rise of China as a donor and lender in Africa and explains which distinctive features of Chinese finance have made it attractive to borrowing governments, while Section 3.2 does the same for international bond markets. Section 3.3 explains the nature of traditional donors' aid and development finance during this time, outlining divergences with the newer, alternative forms of finance. In Section 3.4 I briefly discuss whether this period was too distinctive to be informative, instead arguing that insights from negotiations during this time of plenty extend to other periods as well.

[1] Eritrea, Somalia, and Sudan have yet to reach the "decision point" of the Highly Indebted Poor Countries process, meaning they have not yet fulfilled the basic requirements to be considered eligible for debt relief.

3.1 Chinese finance in Africa

The expansion of Chinese engagement in sub-Saharan Africa, especially China's role as donor and financier, has attracted a great deal of scholarly attention.[2] I focus here on dimensions of Chinese finance that are pertinent to African countries' ability to derive bargaining leverage from their access to Chinese loans. In particular, I describe the breadth of Chinese lending across sub-Saharan Africa, the fact that variation over time in the availability of Chinese finance was driven by factors internal to China and thus largely exogenous to borrowing countries, and the differences between Chinese lending and traditional donors' aid and development finance. China was not alone among emerging economies in becoming a lender to African governments during this time. India, Brazil, Turkey, and the Gulf states also increased lending to African borrowers in the 2000s and 2010s.[3]. However, China has been unique among "new donors" in the breadth and extent of its financing across sub-Saharan Africa, and I therefore concentrate specifically on China's impact on borrowing countries' negotiating influence.

3.1.1 The expansion of Chinese finance

China's engagement in sub-Saharan Africa as a creditor and provider of development aid since the 2000s is not an entirely new phenomenon. In the 1950s and 1960s, Maoist China supported a number of infrastructure projects (most notably the landmark TanZam Railway) and provided aid to newly independent African states.[4] Though China's interest in providing development aid cooled during the pragmatic Deng Xiaoping period, closer relations with African states reignited after the 1989 Tiananmen Square incident, with China fostering ties to countries providing diplomatic support in international institutions.[5] These closer ties were formalized

[2]See, for example, Alden 2007; Brautigam 2011; Dreher et al. 2018; Rotberg 2008a; Strange et al. 2015

[3]Mawdsley 2012; Mawdsley and McCann 2010; Momani and Ennis 2012.

[4]Mawdsley 2008.

[5]Taylor 2006.

with the Forum on China Africa Cooperation (FOCAC) in 2000, and aid and lending increased rapidly in the decade that followed.[6]

Estimates of bilateral Chinese lending to sub-Saharan Africa vary, since the Chinese government does not release precise data on its foreign aid and lending.[7] The Chinese Ministry of Commerce released highly aggregated data in its 2011 and 2014 White Papers on China's Foreign Aid, but otherwise there is little in the way of official information on aid and loan allocations. Brautigam puts the total amount of Chinese aid to Africa in 2009 at $1.4 billion, while a 2009 study claims Chinese "aid and related activities" in Africa amounted to $18 billion in 2007.[8] Many of the differences in estimates stem from different classifications of what constitute development finance. Across the board, however, there is agreement that China has become an important lender and donor in sub-Saharan Africa and that the amount of Chinese financing has increased over the course of the 2000s and 2010s, even if it might have abated somewhat since 2016 with the slowdown in Chinese growth.

Since 2013, a new dataset using media reports and official sources has provided comprehensive project-level data on Chinese development finance in Africa.[9] This AidData dataset alleviates some of the earlier ambiguities around Chinese finance by explicitly categorizing projects as concessional or commercial.[10] The AidData data estimates that total Chinese finance to African borrowers over the 2000-2014 period amounted to $115 billion, of which $46 billion was aid and concessional finance comparable to traditional donors' overseas development assistance (ODA) and $69 billion were loans on less concessional terms, or other official finance (OOF). Annual commitments increased from $859 million in 2000 to $9.5 billion in 2014. Focusing exclusively on loans, an alternate dataset on Chinese commitments in

[6] Taylor 2011.

[7] Lancaster 2007; Strange et al. 2013.

[8] Brautigam 2011; Lum et al. 2009.

[9] Dreher et al. 2017; Strange et al. 2013.

[10] Early versions of the dataset faced criticism for inaccuracies arising from the reliance on media reports of Chinese projects, which often include exaggerated amounts or may report projects that were mooted but never implemented. In response, compilers of the dataset improved the data by expanding the range of sources used to track financial flows and verifying the data by "ground-truthing" entries in the dataset with field visits to recipient countries. Brautigam 2013; Muchapondwa et al. 2015.

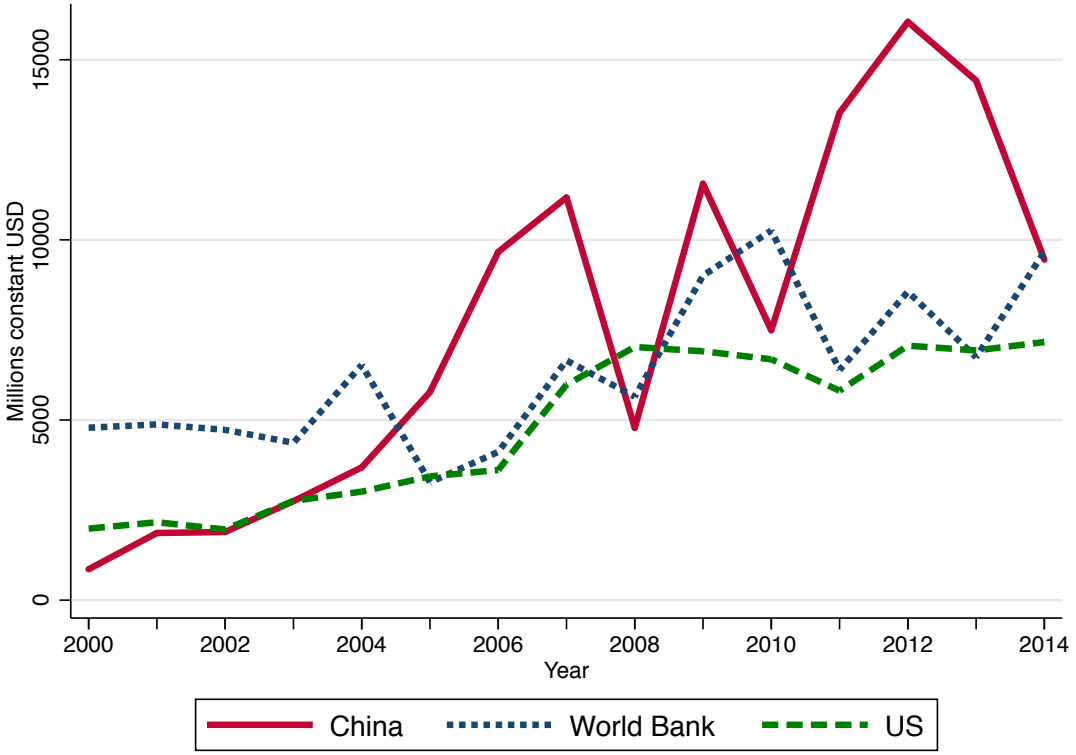


Figure 3.1: Official overseas finance commitments in sub-Saharan Africa: China, the World Bank, and the US, 2000-2014.
Sources: AidData Global Chinese Official Finance Dataset Version 1.0; World Bank Projects & Operations Dataset; USAID, Foreign Aid Explorer.

Africa from Johns Hopkin's China-Africa Research Institute (CARI) estimates the total amount of Chinese lending to Africa over 2000-2014 at $84 billion, with annual commitments increasing from $124 million in 2000 to $12 billion in 2014.[11]

The growth in Chinese finance has seen China catch up to and surpass established donors and lenders. Figure 3.1 shows annual financing commitments of China against those of the World Bank and the US. The data show the steep increase in Chinese official finance to sub-Saharan Africa, particularly from the mid-2000s onward, when Chinese commitments have surpassed those of the World Bank and the United States.

Within sub-Saharan Africa, Chinese official finance is spread widely across borrowing countries. There is no strong sub-regional pattern in Chinese lending, e.g. East Africa has not benefited more from Chinese lending, though some countries have

[11] Brautigam and Hwang 2016. The CARI estimates of annual loans are correlated at 0.67 with those of AidData and in several years correlated at more than 0.85.

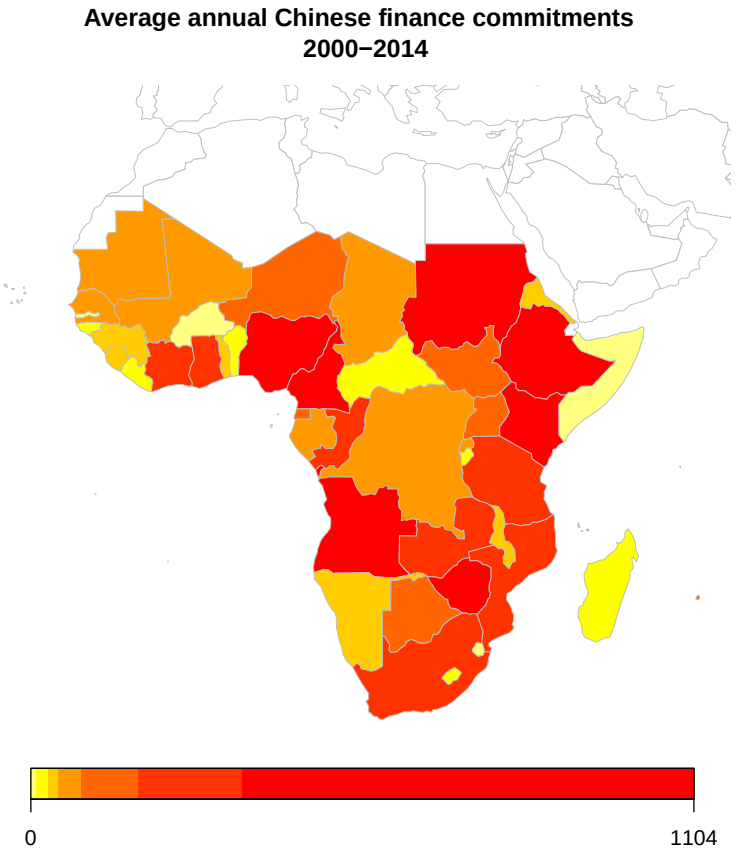


Figure 3.2: Average annual commitments of Chinese official finance (millions constant USD) in sub-Saharan Africa, 2000-2014
Source: AidData Global Chinese Official Finance Dataset Version 1.0.

received considerably more finance than others. Figure 3.2 shows the geographic distribution of Chinese financing on the continent, highlighting its broad reach, as well as identifying top borrowers over the period 2000-2014: Angola, Ethiopia, Sudan, Nigeria, and Zimbabwe. This is not driven simply by wealth. Figure 3.3 shows countries' average receipt of Chinese loans scaled by GDP. Again, Ethiopia and Zimbabwe count among the top borrowers, joined by Eritrea, Mozambique, and the Republic of the Congo.

3.1.2 The determinants of Chinese finance

This rapid expansion of China's global role as a bilateral lender over the course of the 2000s and 2010s, including to African countries, was largely driven by factors internal to China. In particular, scholars highlight that loans and aid projects

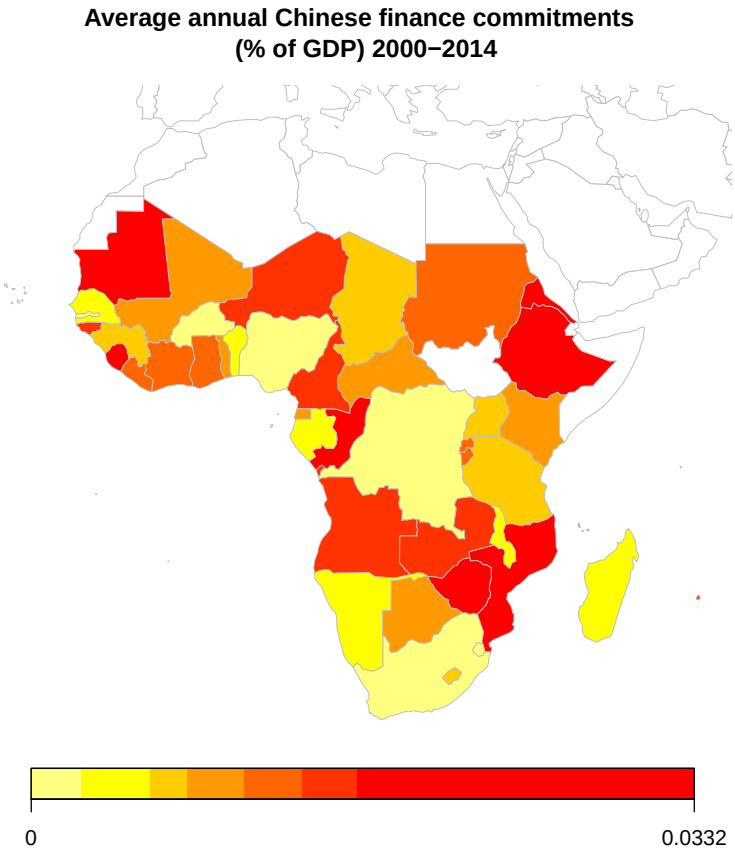


Figure 3.3: Average annual commitments of Chinese official finance (% of GDP) in sub-Saharan Africa, 2000-2014
Source: AidData Global Chinese Official Finance Dataset Version 1.0

were seen as increasing China's influence and global stature commensurate with its growing economy.[12] Furthermore, China's rapid export-led economic growth led to a surging capital account surplus and a growing accumulation of dollar reserves that could be "recycled" into bilateral loans.

A large share of China's bilateral lending is provided by China ExIm, the Chinese export credit agency. As such, the growth in Chinese lending was also driven by an interest in increasing commercial opportunities for Chinese firms, including state-owned enterprises.[13] Finally, the increase in Chinese lending came at a time when China's economic growth led to a wish to diversify the sources of natural resources that are inputs into Chinese manufacturing, including oil, natural gas

[12]Brautigam 2011.
[13]Hopewell 2019; Rotberg 2008a.

and precious metals.[14] Projects and loans were occasionally structured to facilitate increased access to resources, including specific projects in the extractive sector or loans structured with natural resources as collateral.[15]

Some of these motivations for increased lending, especially commercial ones, mean that Chinese lending has been more extensive in certain African countries than others. Indeed, Dreher and Fuchs find that a country's resource endowments and volume of trade with China are positively correlated with non-concessional finance from China.[16] However, this relationship is specific to non-concessional finance, since they find Chinese concessional lending and grant aid to be correlated with borrowers' political and ideological proximity to China.

Despite some heterogeneity in the quantity of finance allocated to borrowing countries, Chinese financing is spread extremely widely across the continent. Strange et al. find that the only sub-Saharan African countries not receiving official finance from China were those four that retained diplomatic relations with Taiwan.[17] Thus, while the volumes of Chinese financing available to sovereign borrowers may differ based on countries' natural resource endowments or attractiveness as commercial counterparts for Chinese firms, some form of Chinese financing was available to all African countries but those four with diplomatic relations to Taiwan.[18]

3.1.3 The distinctiveness of Chinese finance

Chinese finance differs from the aid and development finance extended by traditional donors in a number of ways that shape how access to Chinese finance has affected borrowing governments' negotiations with traditional donors. Chief among the

[14] Taylor 2014.

[15] Referred to as the "Angola model," this form of collateralised lending was very prominent in the Angolan case, see Corkin 2011. Resource-backed loans have also been common practice in Latin America, see Gallagher et al. 2012.

[16] Dreher and Fuchs 2015.

[17] Strange et al. 2015. In 2015, the four countries recognizing Taiwan rather than the People's Republic of China (PRC) were Burkina Faso, eSwatini (Swaziland), the Gambia, and São Tomé and Príncipe. As of 2019, the only remaining sub-Saharan African country recognizing Taiwan rather than the PRC is eSwatini.

[18] In fact, it is possible that even those four countries received loans from the PRC in an attempt to woo governments away from their recognition of Taiwan. Bunte uses an alternative dataset that draws on non-public data about cross-border lending and finds that even countries with diplomatic relations with Taiwan received loans from the PRC. Bunte 2019

distinctive traits of Chinese finance are the disavowal of policy conditionality, speed of disbursement of finance and execution of projects, large size of individual projects, and sectoral focus on infrastructure-intensive and productive sectors.

With respect to the *terms* of Chinese financing, a notable trait compared to traditional development finance is the lack of policy conditionality, especially with respect to governance.[19] "Non-interference" and mutual respect for sovereignty have been central to the Chinese discourse on its development financing.[20] The lack of emphasis on governance conditions led some commentators to label Chinese finance "rogue aid" responsible for propping up authoritarian governments,[21] though empirical work has found no consistent negative relationship between democracy and Chinese development finance.[22]

For borrowing governments, the absence of policy conditions is frequently described as one the main benefits of Chinese development finance. A lack of policy conditionality is deemed to enhance the speed and efficiency of development finance, as well as conveying greater respect for borrowing country's sovereignty.[23] Despite the absence of policy conditionality, there are important constraints associated with Chinese finance. In particular, a large bulk of Chinese lending is in the form of export credits, which carry an explicit requirement to use Chinese firms as suppliers and contractors for the loan-financed project.[24]

China also differs from traditional donors in the lending procedures it uses, leading to more quickly executed and larger projects. Chinese loans are disbursed more rapidly and in larger volumes than traditional financing, given fewer review procedures and a willingness to finance large infrastructure "mega-projects" that are carried out by Chinese firms.[25]

The central role of export credit in China's lending has meant that Chinese-financed projects tend to focus on sectors where Chinese firms have a particular

[19] Mawdsley 2012.
[20] Alden 2007; Mawdsley 2007; Rupp 2008.
[21] Naim 2007.
[22] Dreher and Fuchs 2015.
[23] Six 2009.
[24] Brautigam 2011.
[25] Foster et al. 2009.

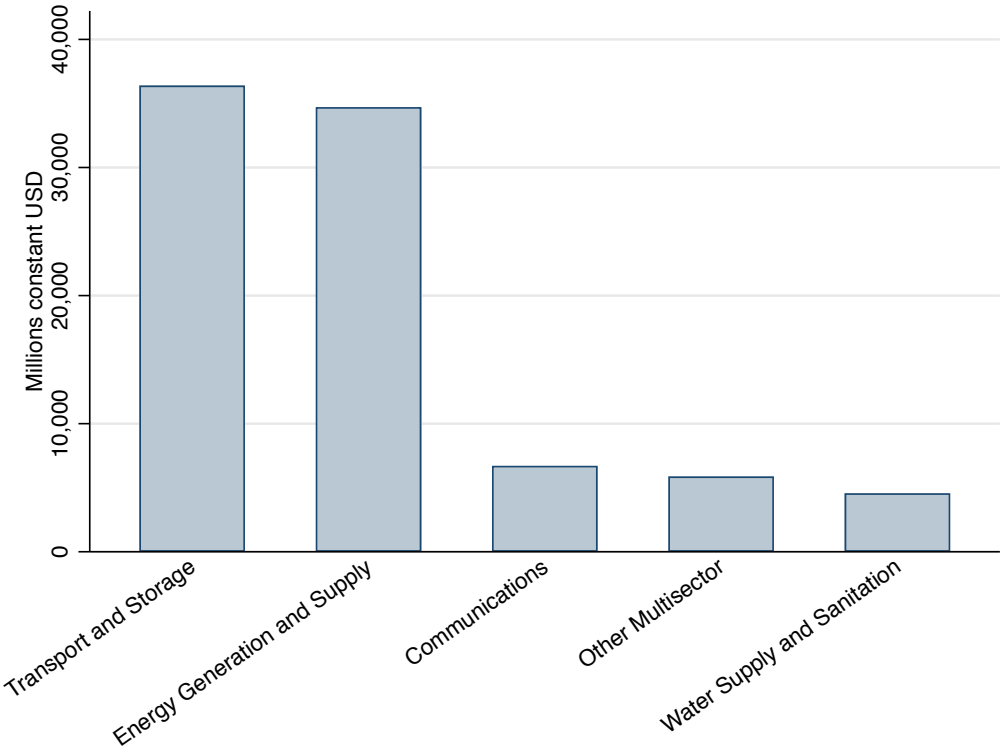


Figure 3.4: Top five sectors of Chinese-financed projects in sub-Saharan Africa by amounts committed.
Source: AidData Global Chinese Official Finance Dataset Version 1.0.
Projects are assigned to sectors using the OECD's creditor reporting system classification scheme.

advantage, especially infrastructure-intensive sectors such as energy generation, transport, and communications. This is further bolstered by China's own experience of infrastructure-led growth. The data shows that transport and energy generation sectors receive the largest commitments of Chinese finance in Africa (see Figure 3.4). This highlights China's growing role in meeting the "infrastructure investment gap" faced by developing countries. In Chapter 4, I demonstrate that the appeal of China's focus on large, infrastructure-intensive projects is changing the outcomes of aid negotiations between African governments and traditional donors.

3.2 Accessing international bond markets

During the same period that African governments gained access to Chinese finance, many of them also borrowed in international bond markets for the first time. Sovereign debt issued in international markets thus presented another alternative to borrowing from multilateral development banks, expanding governments' portfolios of external finance. From negligible levels in the early 2000s, the total stock of foreign-currency bonds issued by sub-Saharan African states rose to over $30 billion by the end of 2017.[26] I describe the expansion of sub-Saharan borrowing in international markets below, highlighting how this was largely enabled by abundant global liquidity and outlining the comparative appeal of bond market finance for borrowing governments.

3.2.1 The expansion of bond market finance

In 2006, the Seychelles became the first sub-Saharan African country other than South Africa to issue a foreign currency-denominated sovereign bond. The $200 million bond was issued in the UK and listed for trading on the London Stock Exchange. The bond prospectus warned investors that this was a debut bond for which there was no established market.[27] Yet, in the decade that followed, a further 15 sub-Saharan African countries followed the Seychelles and issued a foreign currency bond (see Table 3.1). African countries' access to international bond markets was in large part a function of global liquidity. As the *Financial Times* put it when Ethiopia launched its debut bond in 2014, "Ethiopia has become the poorest country ever to tap the global sovereign bond market...[the] relatively low yield of 6.625%...shows how years of ultra-lax monetary policy in the US, Europe and Japan is allowing countries on the fringes of the frontier market category to tap the international capital market at relatively low cost."[28] These foreign currency

[26] Vanek 2017.

[27] Republic of Seychelles, "U.S.$200,000,000 9.125 per cent. Bonds due 2011," 3 October 2006, p. 11

[28] Blas 2014.

bonds, referred to in shorthand as "Eurobonds", are denominated mostly in US dollars, occasionally in Euros, and are issued in London or New York.[29]

To track the extent of African governments' foray into international bond markets, I collect data on the timing and terms of individual bond issues.[30] As Table 3.1 shows, wealthier and more developed African economies have been at the forefront of borrowing in international bond markets, with Gabon, Kenya, Namibia, and Nigeria repeatedly issuing bonds. However, poorer and less developed economies have also issued Eurobonds, even if only once, as in the case of the Republic of the Congo, Ethiopia, and Rwanda. Crucially, these bonds raise very large sums of hard currency, especially when compared with traditional donor aid. The average African bond issue in the last decade raised $1 billion.

With the growth in bond issues over the course of the 2010s, this debt has become increasingly important as a source of finance for issuing countries in Africa. A 2014 report estimates that inflows from from external bond issues in 2013 amounted to 20% of aid inflows and 12% of foreign direct investment on the continent that year.[31]

3.2.2 The determinants of bond market finance

As with loans and aid from China, the change in African countries' access to international bond markets was largely driven by supply-side factors. African economies gained access to international bond markets in the aftermath of the global financial crisis, as expansionary monetary policy pursued in Europe and the United States led yields on safer advanced economy government debt to plummet. Facing a persistent low-yield environment, investors were on the "search for yield" and developed an appetite for the risk associated with frontier markets like sub-Saharan African sovereign borrowers.

[29]Confusingly, the term "Eurobond" does not mean that bonds are denominated in Euros, but instead simply refers to bonds denominated in a currency other than that of the issuer. The name stems from the Eurodollar market originally established in Europe, specifically London, which allowed for the trade of dollar-denominated assets outside of the United States. Eurobonds can in fact be referred to as "Eurodollar bonds" or "Euroyen bonds" depending on the currency they are issued in, but are often simply shortened to "Eurobonds".

[30]This data was collected from S&P's Capital IQ Database and corroborated with reporting in *Bloomberg News*, the *Financial Times* and *Reuters*.

[31]te Velde 2014.

Table 3.1: Sub-Saharan African Eurobond issuers (excluding South Africa)
Sources: Capital IQ Database, Bloomberg News, Financial Times, Reuters.

Country	Year(s) issued	Volume issued (millions USD)
Angola	2015, 2018	5000
Cameroon	2015	750
Congo, Republic of	2007	500
Cote d'Ivoire	2010, 2014, 2015, 2017	6150
Ethiopia	2014	1000
Gabon	2007, 2013, 2015	2750
Ghana	2007, 2013, 2014, 2015, 2016, 2018	7000
Kenya	2014, 2018	4000
Mozambique	2013	500
Namibia	2011, 2012, 2015	2100
Nigeria	2011, 2013, 2017, 2018	7400
Rwanda	2013	400
Senegal	2009, 2011, 2014, 2017, 2018	4500
Seychelles	2006, 2010	400
Togo	2013, 2014	1750
Zambia	2012, 2014, 2015	3000

The timing of Eurobond issues speaks directly to the relationship between global liquidity conditions and African governments' bond market access. As Figure 3.5 shows, the frequency of bond issuance increased from 2010 onward, and continued to accelerate as the yields on long-term government bonds in advanced economies dropped further in the aftermath of the global financial crisis and prolonged Eurozone crisis. While US Treasury rates steadied from 2012 onward, yields on European government bonds have remained low (in Germany's case even becoming negative at one point in 2016) and Figure 3.5 shows that appetite for African debt has remained accordingly high. The correlation between quarterly long term government bond yields and the number of African bond issues over the period 2006-2018 is -0.19 for US ten-year Treasury yields, -0.39 for German ten-year bonds, and -0.41 for French ten-year bonds.

Investor appetite for higher-yielding debt during the global liquidity glut was further enhanced by a prevailing sense in both development and financial circles that African economies were experiencing a renaissance. Over the course of the 2000s, six of the ten fastest growing economies in the world were in Africa, and an

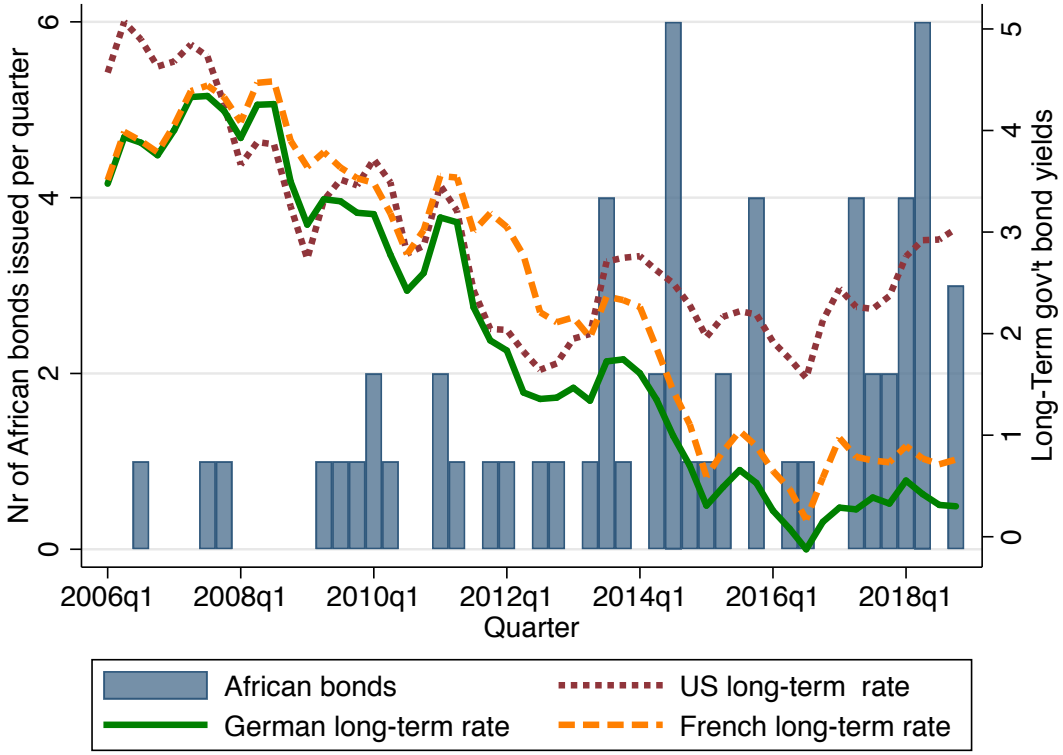


Figure 3.5: Quarterly Eurobond issues by sub-Saharan African governments and long-term government bond yields of advanced economies, 2006-2018
Sources: Capital IQ Database, Bloomberg, Financial Times, Reuters; Federal Reserve Bank of St. Louis

"Africa rising" narrative stressed the economic potential of a continent that many in financial circles had previously written off as the "hopeless continent."[32]

Furthermore, research has shown that during periods of greater global liquidity, investors become less sensitive to economic and institutional "fundamentals."[33] For African governments, this meant that even countries that would likely not have been considered creditworthy in a different global context were able to borrow in international capital markets during this time. This appetite on the part of bond market investors meant that for some African governments the decision to enter international bond markets was truly a *choice*, not simply a question of which countries cleared an obvious threshold of creditworthiness. This is further illustrated

[32]In May 2000, the Economist dubbed Africa "The hopeless continent" on its cover. Ten years later, in 2011, it noted the African growth trajectory with the headline "The hopeful continent: Africa rising."
[33]Ballard-Rosa et al. 2018; Naqvi 2018.

by cases such as Uganda, which received a credit rating and indications of market interest, but decided not to issue a Eurobond, instead drawing on Chinese loans.[34]

3.2.3 The distinctiveness of bond market finance

For borrowing governments, the appeal of international sovereign debt compared to traditional donors' development finance is the flexibility of this financing, the quantities of finance, and speed of accessing funds once the bond has been prepared. These distinctive traits of Eurobond finance shape how countries' access to bond market finance affects the outcomes of their negotiations with traditional donors. Benefiting from access to flexible finance, borrowing governments can signal a preference for greater flexibility on the part of traditional donors.

Compared to both traditional development finance and Chinese loans, bond market finance is very flexible, with no requirement for governments to use bond market proceeds for a particular purpose. The prospectuses that governments prepare when issuing bonds include a section on "Use of Proceeds," but these are often the shortest portion of the document, extremely vague, and, in any case, not binding.[35] While Chinese finance is already more flexible than traditional development finance due to its lack of policy conditionality, bond market financing is even more flexible, not being tied to a specific project. As Adams notes, "international bond investors impose no conditions on how funds are spent by sovereign borrowers, unlike multilateral and bilateral lenders."[36]

Despite the lack of explicit prescriptions for how funds are to be used, bond markets can still impose constraints on borrowing governments. Creditors evaluate borrowing governments' policies to assess the level of repayment risk and price debt accordingly. Borrowers' reputation is key for ensuring them continued market access.[37] In this way, bond markets can lead governments to converge on a narrow

[34] Biryabarema and Blair 2015.

[35] Nigeria's 2017 bond prospectus, for example, simply states, "The net proceeds from each issue of Notes will be applied by the Issuer toward funding of approved budgetary expenditures and for refinancing of domestic debt as may be applicable."

[36] Adams 2015, p. 5.

[37] Tomz 2007.

set of policies. This is especially true in developing countries, where creditors have less information about borrowing governments.[38] However, the extent of this constraint is dependent on global liquidity conditions. When liquidity is abundant and investors are hunting for yield, borrowers' policy "fundamentals" are less likely to be decisive in shaping lending decisions.[39] The opportune global environment in which African countries first entered international bond markets meant that markets were unlikely to act as a constraint on domestic policy.

The market context also meant that African governments were able to borrow, in many cases, at very attractive rates. For example, in 2014, only three years after the most recent fighting in the Ivoirian civil war had concluded, Cote d'Ivoire was able to issue a 10-year $750 million bond at a 5.375% interest rate. As a comparison, yields on US ten-year Treasury bonds in 2014 were 2.5% and the the last time the rate on US bonds was 5.4% was in 2002. Despite these comparatively attractive rates, bond market finance is considerably more expensive than concessional traditional development finance, especially the highly concessional aid available to the poorest countries.[40] Nevertheless, African governments were drawn to the discretion that this form of finance offers. Tyson describes the trade-off as follows, "Issuers have...prioritized the advantages to them of the lack of conditionality of sovereign bonds over the preferential cost and maturity of concessional financing."[41]

In addition to flexibility, bond market finance has the appeal of providing large quantities of finance very rapidly. In fact, countries are incentivized to borrow large quantities in a single bond issue if they are able to get an attractive rate, since it is unclear whether market appetite for the bond will persist. Furthermore, only bonds over $500 million are included in JP Morgan's influential emerging market bond index, inclusion in which can be crucial for attracting investors.[42] This means a single bond issue can give governments access to large quantities of flexible

[38] L. Mosley 2003.

[39] L. Mosley 2003, pp. 149-156; Ballard-Rosa et al. 2018; Naqvi 2018.

[40] Furthermore, Olabisi and Stein 2015 find that even during the global liquidity glut, African governments paid an "Africa premium" to issue in international markets, i.e. spreads on African bonds were not fully explained by countries' macroeconomic fundamentals.

[41] Tyson 2015.

[42] J.P.Morgan 2017.

funds, which can be very attractive for financing investments in infrastructure, especially when compared to smaller development finance projects, which can be perceived as piecemeal by comparison.

3.3 Traditional development finance

There are a number of important attributes of traditional donors' aid and development finance that distinguish it from the alternative financing options of Chinese loans and international bonds. By traditional donors, I mean both the established international financial institutions and advanced economy bilateral donors that coordinate through the OECD's Development Assistance Committee (DAC). First, for the poorest developing countries, donors' aid and development finance is much cheaper than alternative finance, especially bond market finance. Traditional donors' aid is governed by institutional rules on concessionality, requiring funds to have a significant grant component to qualify as ODA and imposing strict criteria on concessional loans. Second, traditional donor funds, especially from bilateral donors, can often bypass the central government to be allocated to civil society organizations, limiting the government's discretion over funds. Finally, despite reforms to conditionality, much of traditional donors' aid and development includes performance requirements that set specific targets for recipient countries.

A defining feature of traditional development aid is the clear rules about concessionality of funds. The OECD DAC, the body that sets standards and reports statistics on development assistance from advanced economies, defines ODA as a flow from an official agency, for which the "promotion of economic development and welfare of developing countries" is "the main objective." Importantly, at least 25% of the total must be a grant (i.e. a transfer without expectation of repayment and without interest charged).[43] With respect to concessional loans, both the World Bank and African Development Bank have strict rules about the cost of finance. For example, loans from the World Bank's International Development Association (IDA) typically carry a 3.125% interest, and have a repayment period of

[43] OECD 2008a.

38 years.[44] More developed economies that are no longer eligible for IDA loans can access financing from the International Bank for Reconstruction and Development (IBRD) benchmarked at a variable market rate, the London Interbank Offered Rate (LIBOR), for loans of more than 20 years. These loans have been priced at around 2.5%-4.5% since 2010.[45]

Such aid can be extended either directly to the government, or to non-governmental organizations involved in development efforts in the recipient country. Practices among donors differ, and some donor countries, including the United States, are much more likely to bypass recipient governments in favour of providing resources to civil society or other non-governmental organizations.[46] The tendency of some bilateral donors to bypass recipient governments is an important difference with respect to sovereign bonds, which raise funds directly for the central government and provide full discretion over the use of funds.

Both multilateral development banks and bilateral donors aim to influence how recipient governments use funds by attaching conditions to their development finance. Conditions are intended to protect aid resources from misuse and to increase the effectiveness of development aid. Conditions of the former type may set out specific targets for development projects to achieve (e.g. the number of pupils enrolled in primary education in a district) as well as specifying reporting requirements to monitor the use of funds. Conditions intended to enhance the impact of development aid may include broader reform objectives that are believed to improve the economic or policy environment in the recipient country (e.g. the introduction of a public financial management framework to be approved by the legislature).

The conditionality of traditional donor aid further distinguishes it from Chinese development finance and international bond market financing, and enters the calculations recipient governments make about their preferred methods of funding.

[44]IDA loan terms: `http://ida.worldbank.org/sites/default/files/pdfs/ida_terms_effective_january_01_2018.pdf`

[45]IBRD loan terms: `http://www.worldbank.org/en/about/unit/treasury/financial-products/ibrd/ibrd-lending-rates-and-fees#2`. Since 2010, 6-month LIBOR rates have been between 0.5% and 2.0%

[46]Dietrich finds that donors are more likely to bypass central governments in their aid allocation if the quality of governance institutions is perceived to be low. Dietrich 2013.

While Chinese lending often comes in the form of export credits that include the requirement to procure goods or services from Chinese services as a condition of accessing the loan, such financing does not include reform conditionality related to governance or public policy. Similarly, while borrowing governments give an indication of what they intend to spend Eurobond proceeds on when they prepare a bond prospectus, there is no monitoring of this, and financing from international bond markets is among the most flexible financing available to governments.

3.4 More than a brief moment of plenty

The expansion of African governments' portfolio of external finance in the decade and a half since debt relief has been in large part driven by global factors. China's lending in sub-Saharan Africa comes on the back of years of double-digit export-led economic growth in China that led to the accumulation of dollar reserves that could be "recycled" into loans to borrowing countries. Bond investors' interest in African governments' debt was largely driven by the context of greater global liquidity during the monetary loosening in advanced economies in the aftermath of the global financial crisis. For resource-rich African countries, these dynamics were accentuated by a "commodity supercycle" of high commodity prices running from the late 1990s until a peak in 2011. High commodity prices drew China to seek out new sources of natural resources and thus pursue lending relationships with commodity producers, just as they reassured bond investors that governments would be able to earn foreign exchange to honour their debt obligations.

The backdrop to the empirical focus of this thesis — borrowing governments' ability to translate their financing choices into greater negotiating leverage — was thus very favourable to African countries. The coincidence of the global capital cycle, commodity cycle, and China's growth cycle (themselves highly related) combined with recent debt relief to create conditions in which African governments' portfolio of external finance rapidly expanded.

Given this confluence of factors, it may appear that African governments' access to a wide range of finance was a brief moment of plenty with few broader insights.

However, there are at least two reasons why it is worth explaining how African governments' access to finance shaped negotiation outcomes with donors during this time of plenty and why these findings are important outside of the region and this specific time period.

First, understanding cyclical dynamics requires understanding different phases of the cycle. There is an intrinsic benefit to explaining whether and how phases of abundance affect borrowing governments relationships with donors and creditors.[47] Furthermore, a better understanding of this phase of the cycle can allow us to generate hypotheses about other phases of the cycle. If countries are constrained in their ability to translate access to finance into negotiation leverage during phases of abundance, how likely are they to be able to exercise such leverage when finance is more scarce? I reflect toward the end of the thesis, in Chapters 9 and 10, on what the findings of this thesis from a period of abundant financing options suggest about the likely negotiation dynamics during a period of greater debt constraints.

Second, while diversification in external finance was in large part driven by global factors, aspects of this diversity are likely to endure, especially for a subset of African countries. Despite the slowdown in economic growth, China appears likely to continue to extend loans and development finance. The 2018 high-level meeting of the Forum on China Africa Cooperation (FOCAC) included pledges of $50 billion in Chinese development finance commitments to Africa over the next thee years, including at least $15 billion in foreign aid, i.e. grants, interest-free loans, and concessional loans.[48] Though China's "One Belt, One Road" initiative appears to refocus attention away from Africa to Central Asia, the initiative has been framed in broad terms that allow African countries to also benefit from associated projects.

While access to bond markets is more likely to wane when conditions in advanced economies normalise and market sentiment shift, even here there is potential for more enduring diversity in the financing portfolios of some African governments.

[47] A recently revived research agenda in international political economy stresses the influence of systemic factors, including global capital cycles, on various outcomes of interest, including financial crises and countries' access to bond markets. Ballard-Rosa et al. 2018; Bauerle Danzman et al. 2017.

[48] Brautigam 2018.

Countries that manage to establish themselves as part of the frontier market asset class, including through having their bonds included in the frontier and emerging market indices, are likely to retain some access to international markets, though at higher costs, when the global capital cycle winds down. Thus, although widespread market interest in African debt may decline as conditions in advanced economies normalize, there is a good chance that sovereign bond markets will remain an alternative source of financing for a more select group of African borrowers.

3.5 Conclusion

Since the mid-2000s, African governments experienced a rapid expansion and diversification of their portfolios of external finance. Going from reliance on traditional donors for access to hard currency to a diverse array of external finance, African governments benefited from global conditions to increase their sources of financing for covering budget shortfalls, infrastructure investments, and development projects. The new sources of finance that African governments accessed in the 2000s and 2010s differed in important ways from traditional donors' aid and development finance. Though Chinese development finance is sometimes more expensive and bond market finance always more expensive than traditional donors' development finance, these alternatives are also more quickly disbursed, more voluminous, and often perceived as more flexible than traditional development finance.

It is worth noting that alternative sources of external finance were not the only means by which African governments reduced their dependence on traditional donors during the first decades of the 21st century. Rapid economic growth, in some cases driven by high commodity prices, also led to an increase in domestic revenue. Moreover, donors supported a large number of initiatives to improve tax systems and enhance tax collection in developing countries during these decades, culminating in the 2015 Addis Tax Initiative, which pledges support for developing countries to strengthen their tax structures. At the same time, several African countries have launched efforts to deepen their domestic bond markets to allow for more domestic borrowing, again supported by donors, especially the World Bank.

Greater revenue collection and deeper domestic bond markets further enhanced governments' autonomy from traditional donor funds. However, neither of these sources provide access to the hard currency necessary for major capital investments, nor do they provide funding in nearly the same quantities as sovereign bonds or bilateral loans from China.

New external finance thus introduced a substantial change in African governments' funding opportunities and I expect this to have significantly reduced their dependence on traditional donors, allowing them to achieve negotiating outcomes more in line with their preferences. Furthermore, the distinctiveness and attraction of these alternative forms of finance ought to have enabled borrowing governments to negotiate more attractive terms with their traditional donors. I test these expectations in the chapters that follow.

4
Cross-national evidence

To test my expectations that African governments' access to alternative forms of external finance shapes the outcomes of their negotiations with traditional donors, I turn in this chapter to data on the terms of traditional aid and development finance in sub-Saharan Africa. I demonstrate that, in the aggregate, African countries that have greater access to alternative forms of finance receive terms in development finance agreements with traditional donors that are more aligned with their preferences. This gives support to the first expectation derived from my theory of the financial statecraft of debtors, namely that governments that have access to a greater diversity of finance are able to negotiate preferred terms in their negotiations with traditional donors. Furthermore, I show that constraints on the part of donors and recipients condition the success of financial statecraft. Strategically significant countries are more likely to receive preferred terms when they have access to alternative finance and contestation attenuates the relationship between alternative finance and preferred negotiating outcomes.

I first introduce measures to capture the negotiation outcomes between recipient governments and traditional donors. The existing literature has focused on two dimensions of aid agreements to capture their responsiveness to recipient preferences: conditionality and the volume of development finance. I add two measures that capture dimensions of alternative finance that have been particularly attractive to

recipient countries: the size of development projects and their focus on infrastructure-intensive productive sectors. When publicly explaining the appeal of Chinese development finance compared to traditional donors and creditors, recipient governments have stressed the transformative potential of large Chinese loans targeted at infrastructure financing gaps. By testing whether traditional donors and creditors extend larger and more infrastructure-focused projects to recipient countries when these have access to alternative funding sources, I investigate whether traditional donors are converging on the lending practices of new creditors. Given recipient preferences, such emulation would be a sign of donors responding to recipient government interests. Together with the established measures of conditionality and volumes of development finance, these indicators allow for a broad appraisal of the impact of alternative finance on multidimensional donor-government negotiations.

I test both the World Bank and the United States' responsiveness to recipient governments' access to alternative finance using these indicators, to evaluate the influence of alternative finance on recipient governments' relationships with both an important multilateral and bilateral donor.[1] I find that both donors respond to recipient governments' access to alternative finance by offering terms that are more aligned with recipient governments' preferences. That the impact of countries' access to alternative finance is not confined to bilateral donors such as the United States where geopolitical motivations for competition are likely to be most pronounced suggests that changes in negotiation outcomes are instead associated with a recipient government's declining dependence on traditional donors.

To capture the extent of countries' access to alternative finance, I include both Chinese bilateral finance and governments' borrowing in international bond markets. I rely on data on Chinese loans and grants from AidData's dataset on Chinese official finance.[2] For data on bond market access, I collect information on African countries' bond issues from a market data platform. I show that African governments'

[1] As a large bilateral donor with substantial strategic interests in sub-Saharan Africa and a global interest in China's expanding influence, the US is selected not as a representative bilateral donor, but rather as an important case.

[2] Dreher et al. 2017.

access to both Chinese bilateral loans and external finance from international bond markets is associated with receiving preferred terms on traditional development finance. This shows that traditional donors are not simply responding to the geopolitical pressure of competition with China, but instead reacting to recipient governments' reduced dependence on traditional development finance, including due to international bond market access.

Finally, I use a number of measures to capture the constraints on the part of recipient governments and traditional donors that I expect to condition the success of financial statecraft. I show that strategic significance, operationalized in terms of countries' importance as an export market, UN voting alignment with the US, and historic World Bank allocation, does amplify the effects of countries' access to alternative finance: strategically important countries are more likely to receive preferred negotiating outcomes when they have access to alternative finance than countries that are less strategically important. Though measures of domestic political contestation are less readily available, I use an institutional measure of democracy to investigate whether countries with less intense competition are more successful at translating their access to alternative finance into preferred negotiating outcomes, and find evidence in support of my theory.

This chapter proceeds as follows. Section 4.1 introduces two new measures of the negotiation outcomes between recipient governments and donors, comparing these to existing measures in the literature on recipient-donor relations. Section 4.2 briefly discusses the data on countries' access to alternative finance, Section 4.3 introduces measures of donor and recipient constraints that are expected to condition countries' success at financial statecraft, and Section 4.4 describes control variables. I discuss my estimation strategy in Section 4.5, before reporting and analysing results in Section 4.6. Section 4.7 concludes.

4.1 Measuring negotiating outcomes

My outcome of interest is developing countries' ability to achieve their preferred outcomes in negotiations with traditional donors and creditors. As explained

in Chapter 2, negotiations between recipients and donors are multidimensional, covering a range of features of development finance, including the quantity, terms, and focus of development finance. To reflect this wide array of issues over which donors and recipient governments negotiate, I use four different variables to capture the extent of recipient influence in donor-recipient negotiations: conditionality, the volume of finance, the size of development projects, and the sectoral focus of development projects.

Beginning first with the measures used in the existing literature, conditionality is a clearly contentious aspect of donor-recipient relations, one that has been used to capture the extent to which creditors favour particular borrowing governments[3] and the extent to which recipients are dependent on particular creditors.[4] However, the conditions of most bilateral development finance are not publicly available. Despite OECD DAC donors' 2008 commitment in Paris Declaration that "donors and developing countries should work from a small set of mutually agreed conditions, and make all these conditions public," there is no commonly agreed definition of conditionality, and bilateral donors do not report on their aid conditions in a harmonized fashion.[5] Most research on conditionality has focused on the IMF or, more recently, on the World Bank.[6].

Given my focus on development finance (rather than the balance of payments financing the IMF provides), I use data on World Bank conditions to investigate whether access to alternative finance changes the conditionality of traditional development finance.[7] Hernandez also uses this data in his study of World Bank responses to African countries' relations with "new" donors, finding that countries that receive more loans from China have fewer conditions attached to their World Bank loans.[8] I build on this finding below, testing whether the World Bank is also

[3]Kilby 2009; Nelson 2014; Stone 2008.
[4]McLean and Schneider 2014.
[5]OECD 2008b.
[6]Breßlein and Schmaljohann 2013.
[7]The data on World Bank conditions comes from a different dataset than the data on World Bank commitments and does not cover all the same projects. This is why the models of World Bank conditionality have a smaller sample size than the other models.
[8]Hernandez 2017.

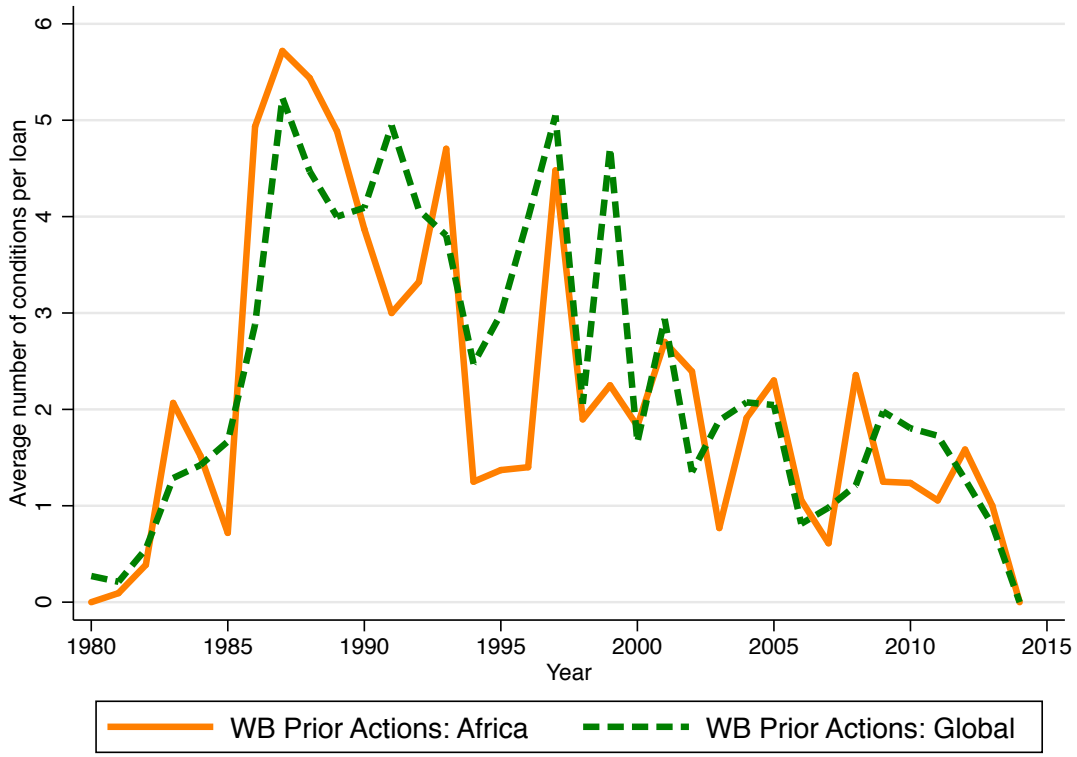


Figure 4.1: Average number of conditions (prior actions) per World Bank project, 1980-2014
Source: World Bank Development Action Database

sensitive to countries' access to international bond market finance, and whether some countries are more likely than others to translate their access to new finance into loans with fewer conditions attached.

Figure 4.1 shows the trend in the average number of conditions per development project in the period 1980-2014.[9] The data shows average conditionality declining from the 2000s onwards. In the analysis that follows, I investigate whether some of that decline can be attributed to recipient countries' reduced dependence on traditional lenders and their access to alternative forms of finance.

A second means of capturing the outcomes of donor-recipient negotiations is the volume of development finance that donors extend to recipient countries. Studies investigating the special treatment of geopolitically important developing

[9] I follow Hernandez in defining conditions only as legally binding ex ante prior actions. Hernandez 2017.

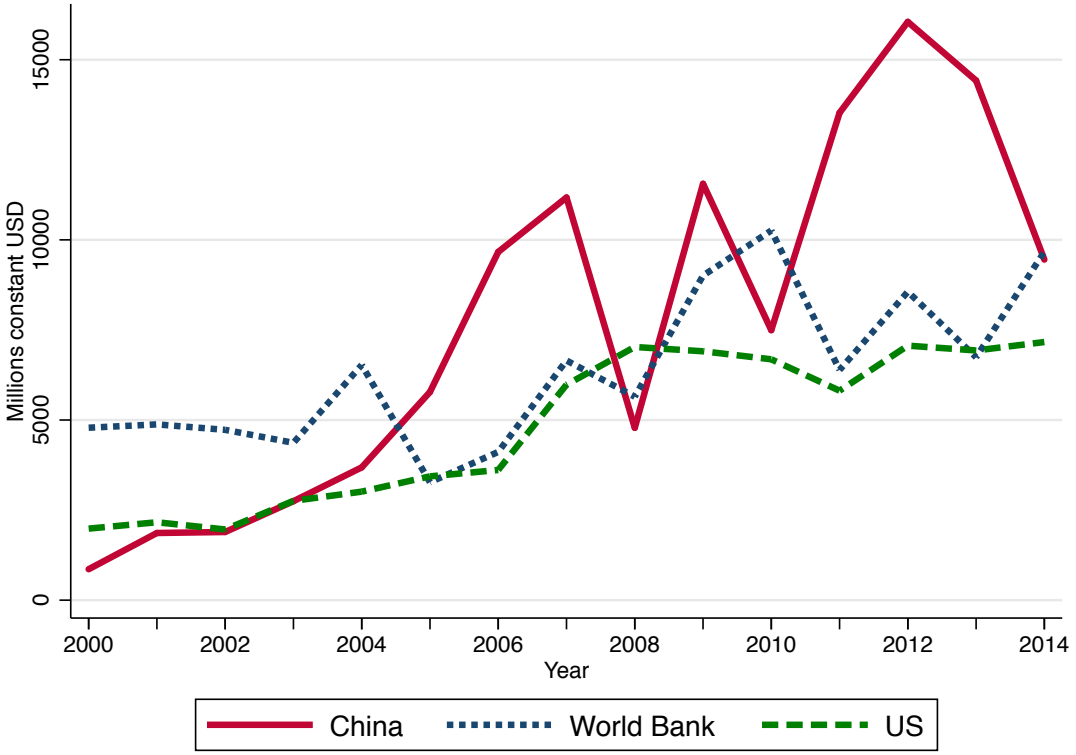


Figure 4.2: Annual total official finance commitments, 2000-2014
Sources: AidData Chinese Global Official Finance Database Version 1.0; World Bank Projects & Operations Dataset; USAID, Foreign Aid Explorer.

countries have tended to operationalise donors' favouritism in terms of the quantity of aid allocated.[10] For instance, Bueno de Mesquita and Smith investigate the consequences of donor competition and use data from Cold War aid allocation to show that when two donors are competing, recipient governments receive greater allocations of aid.[11] Building on these studies, I investigate whether the World Bank and United States allocate higher quantities of development finance to recipient countries when these have greater access to alternative forms of external finance. Figure 4.2 shows the annual development finance commitments of the World Bank, the US, and China in sub-Saharan Africa.

In addition to these existing measures, I operationalize recipient government influence over negotiating outcomes with two indicators that reflect the appeal of

[10] Alesina and Dollar 2000; Schneider and Tobin 2013.
[11] Bueno de Mesquita and A. Smith 2016.

alternative finance. First, I focus on the size of individual loans. Chinese loans in Africa have been distinctive in part for their financing of "mega-projects." Similarly, bond market financing has been attractive for releasing large volumes of finance. Recipient governments have heralded the appeal of large loans to fund transformative investments, suggesting that large projects can be particularly catalytic, for instance in meeting infrastructure investment gaps.[12] Especially compared to small loans and grants from traditional bilateral donors, where relative transaction costs can be high, large loans from China or volumes from international bond markets can be attractive.[13]

Figure 4.3 shows the count of projects over 50 and 100 million USD financed by the World Bank, the United States, and China in sub-Saharan Africa 2000-2014. The data shows China financing a greater number of "mega-projects," as well as a clear upward trend in the number of large projects being financed by the World Bank. I investigate below whether recipient countries' access to alternative finance makes the World Bank and United States more likely to accommodate recipient governments' preference for large, transformative projects.

Finally, I operationalize recipient influence over negotiations with donors in terms of the sectoral allocation of development finance. A further appeal of alternative forms of development finance for recipient governments has been the ability to meet infrastructure funding gaps. Chinese finance, in particular, is focused on infrastructure-intensive sectors such as transport and energy generation.

This diverges from the approach of many of the traditional donors, whose portfolios have tended towards social sectors and smaller projects over the course of the 2000s, as aid budget shrank and the Millennium Development Goals emphasized achieving social sector objectives.[14] While this trend was less pronounced for the World Bank and other multilateral development banks, they too shifted funds

[12]Foster et al. 2009.

[13]Of course, for certain recipient governments the appeal of large loans is not only their transformative potential, but rather that large projects allow for generous subcontracting or outright theft, and concerns have been raised about the incidence of corruption in Chinese "mega-projects."

[14]Swedlund 2017b, p. 9.

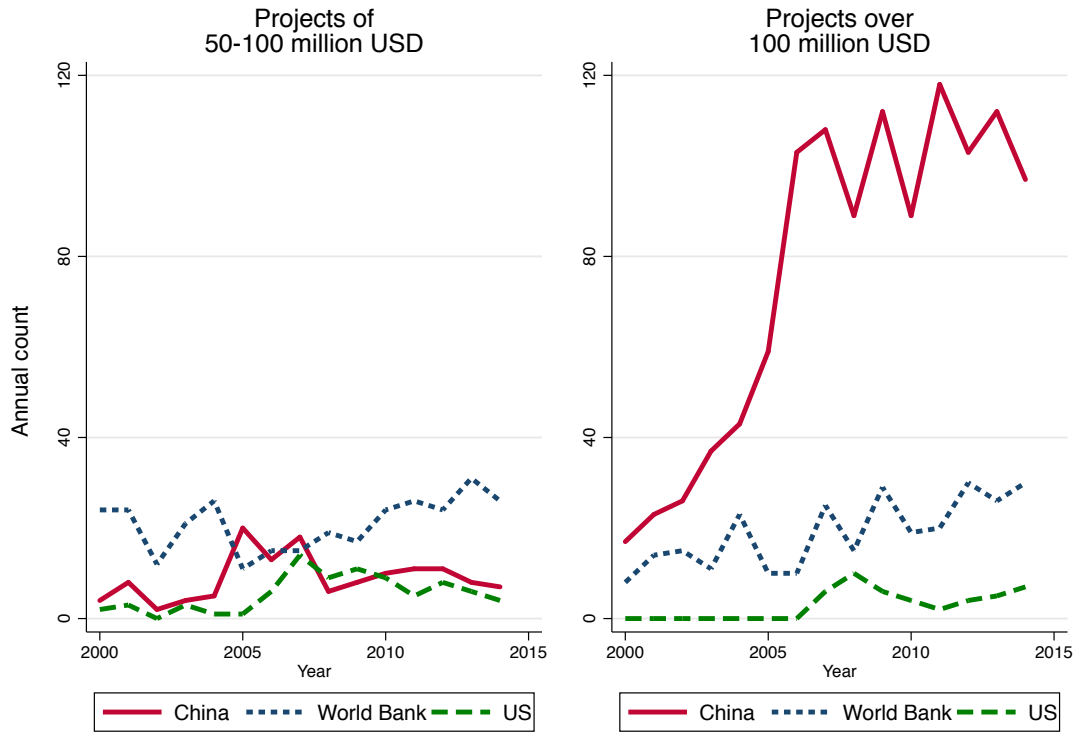


Figure 4.3: Annual count of projects committed in sub-Saharan Africa, by size, 2000-2014
Sources: AidData Chinese Global Official Finance Database Version 1.0; World Bank Projects & Operations Dataset; USAID, Foreign Aid Explorer.

into social sector programs in education and health.[15] In particular, the increased sensitivity to environmental and social impacts of large-scale infrastructure projects has meant that funding such projects with the World Bank now requires extensive and lengthy environmental and social impact reviews.[16] Against this backdrop, recipient governments have stressed the appeal of Chinese finance. For instance, in 2017 President Uhuru Kenyatta of Kenya praised Chinese lending in connection with the Belt and Road Initiative as an "opportunity to make a paradigm shift," noting that thus far "post-colonial Africa has been stuck in a rut."[17]

Figure 4.4 shows the share of annual development projects in infrastructure-

[15]In fact, the World Bank's perceived neglect of infrastructure projects and productive sectors has been a long-standing concern for some recipient countries, as Kellerman describes with respect to Asian countries' criticisms of the World Bank in the 1960s. Kellerman 2019
[16]Park 2007.
[17]Xinhua 2017.

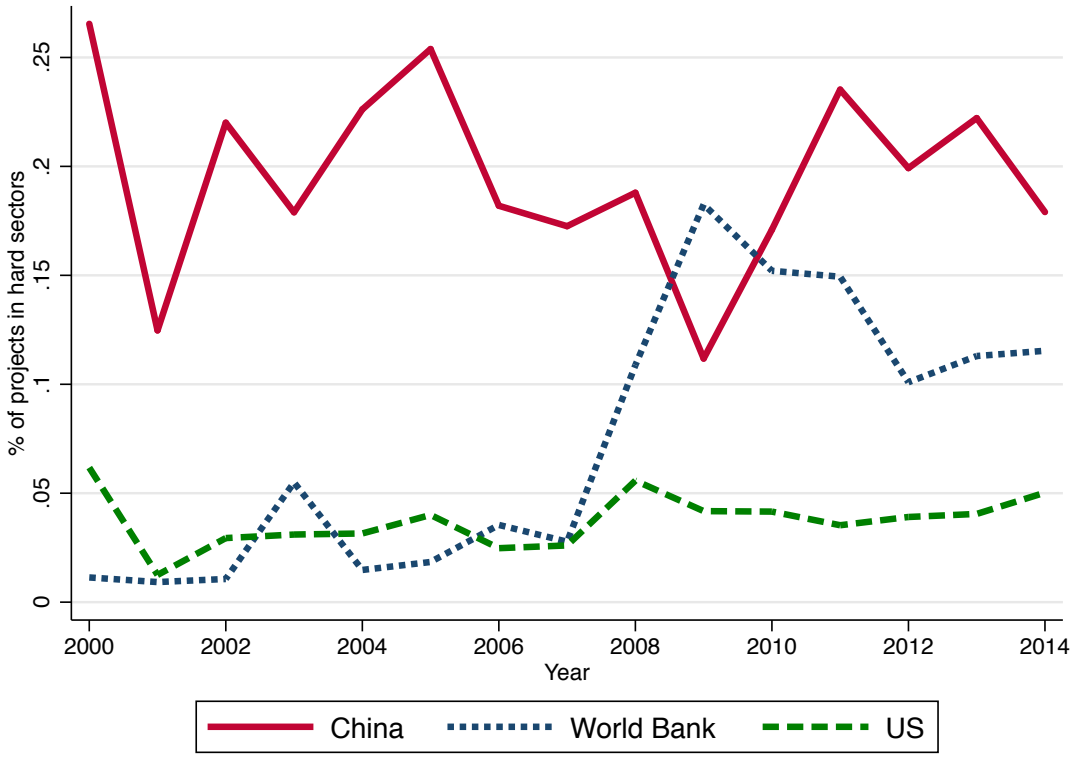


Figure 4.4: Share of annual development projects in infrastructure-intensive "hard" sectors, 2000-2014
Sources: AidData Chinese Global Official Finance Database Version 1.0; World Bank Projects & Operations Dataset; USAID, Foreign Aid Explore.

intensive sectors, i.e. in "hard" sectors like energy, industry, and transport, rather than "soft" sectors such as health, education, or governance.[18] Over the period 2000-2014, an average of 20% of Chinese projects per year were allocated to infrastructure-intensive hard sectors, while only 7% of yearly World Bank projects and 4% of annual US development projects were allocated to similar sectors during that time. I investigate below whether the World Bank and the United States are

[18]The World Bank's sector classification is sightly different from that used in the AidData Chinese Official Finance and USAID datasets, but effort has been taken to make these as comparable as possible. The World Bank's internal sector classification structure comprises eleven sectors, while the AidData and USAID datasets both use the 24 sector categories of the OECD's Creditor Reporting System. Furthermore, World Bank projects may be associated with multiple sectors, while both the AidData and USAID projects are only assigned to a single sector. I coded World Bank projects as being in hard sectors if their only "major sector" was one of the following: (1) energy and extractives, (2) industry, trade and services, and (3) transport. I coded Chinese and American projects as in hard sectors if they are classified as (1) water and sanitation, (2) transport, (3) communications, (4) energy, (5) agriculture, (6) industry, mining and construction.

responsive to recipient governments' preferences for infrastructure financing and allocate more projects to hard sectors when recipient governments gain access to alternative external finance.

Together, these four indicators give a picture of the outcomes of donor-recipient negotiations over development finance, reflecting areas of disagreement where recipient governments have clear preferences. By testing whether recipients' access to alternative finance is related to these four measures, I am able to ascertain whether a diversification in sources of development finance leads to negotiation outcomes more aligned with the preferences of recipient governments. Moreover, the diversity of measures allows me to capture the multidimensionality of donor-recipient negotiations described in Chapter 2. Since recipient governments trade off across multiple issue areas in their negotiations with donors, it is helpful to measure outcomes of donor-recipient negotiations across a range of dimensions.

4.2 Measuring access to alternative finance

To capture countries' access to alternative finance, I focus on two particular sources: (1) Chinese bilateral finance, and (2) sovereign bonds issued in international bond markets. Chapter 3 outlined how the landscape of external finance for African governments has changed since debt forgiveness in the early 2000s, explaining why new sources of finance have become available. Here, I simply briefly describe the data sources I use to measure the extent of countries' access to alternative finance.

For Chinese finance, I rely on the AidData dataset of Chinese global official finance. Since the AidData data rests on media reports and official statements about Chinese-financed projects, it can only provide estimates of financing *commitments*, not actually *disbursed* financing. To allow for the time lag between Chinese finance being committed and altered outcomes in negotiations with traditional donors, I lag Chinese commitments by one year in the estimation. Nevertheless, a challenge with using this data could be a potential mismatch between the quantity of finance committed and the quantity received. For traditional donors too, there is sometimes a gap between funds committed and disbursed, with donors releasing fewer funds

than they publicly commit.[19]. If Chinese finance behaves similarly to traditional donors' finance, this ought to bias against finding the relationship I expect, since commitment data then in fact reflects less of a reduction in dependence on traditional donors. If I nonetheless find a relationship between Chinese commitments and the negotiation outcomes between recipient governments and traditional donors, this suggests the actual relationship between Chinese finance and negotiation outcomes may in fact be stronger.

To account for countries' access to alternative finance in international bond markets, I collect data on African government bond issues. Comprehensive data on governments' bond issues in primary markets is not readily available, and most research on access to international bond markets relies on data from trading in secondary markets, e.g. the spreads in interest rates between developing country issuers and advanced economies.[20] To analyse how access to international bond markets affects negotiating outcomes between recipient governments and their donors, I therefore collect data on the timing and volume of sub-Saharan African countries' sovereign bond issues in primary markets 2004-2018.[21] This data includes 56 bond issues from 17 countries over that time period (including South Africa). In the analysis below, I operationalise access to international bond markets as a binary variable that captures whether a country issued a sovereign bond in a given year. Like with Chinese loans, I lag this by a year to allow governments' reduced dependence to take effect.

4.3 Measuring recipient and donor constraints

I argue that constraints on the part of both the recipient government and donors will shape likelihood of successful financial statecraft. I use a number of measures to

[19]Celasun and Walliser 2008; Hudson 2013.

[20]An exception is Ballard-Rosa et al., who uses data on the timing of countries' issues in primary bond markets to demonstrate that the democratic advantage in bond markets is conditional on global liquidity. Ballard-Rosa et al. 2018.

[21]Data was collected from Capital IQ, a financial database similar to the Bloomberg terminal. Data from Capital IQ was supplemented with reporting in the financial press and the data in Tyson 2015.

capture these constraints and test whether they condition the relationship between the access to alternative finance and recipient-donor negotiation outcomes.

Recipient governments' significance to donors is a multidimensional concept, since access to recipient countries is important to donors for a variety of reasons. To reflect this, I use multiple indicators that capture different aspects of recipient significance. First, to get at geopolitical and strategic motivations for retaining access to the recipient government, I use data on countries' temporary membership of the UN Security Council. Vreeland and Dreher have shown that when countries are temporarily on the UN Security Council, they receive more favourable terms on World Bank and IMF loans, which major shareholders direct toward temporary members to sway their votes.[22] In the sample, there are 37 country-years where sub-Saharan African countries are temporarily on the Security Council, which includes larger states like Nigeria and South Africa, but also smaller countries like Mali, Burkina Faso, and Benin, where strategic significance to donors will be considerably elevated from the period on the Security Council. I also measure significance using data on recipient countries' political affinity with the United States, relying on an indicator that uses United Nations voting records to estimate political proximity.[23] This widely used indicator has been applied in existing studies of development finance to test whether countries that are closer to the US receive more aid.[24]

To capture commercial significance, I measure the share of US exports to a recipient country in a year.[25] This data is taken from the World Integrated Trade Solutions dataset. Top US export markets in sub-Saharan Africa include South Africa, Nigeria, Angola, Ethiopia , and Kenya. I expect that commercial significance will have a moderating effect on the relationship between alternative finance and US allocation decisions and may also affect World Bank allocation through US pressure.

To get at the path dependence associated with symbolic significance, in which countries that were once "donor darlings" continue to receive preferential treatment,

[22] Vreeland and Dreher 2014.
[23] Bailey et al. 2016.
[24] Bermeo 2017.
[25] This is similar to the "donor exports" variable that Bermeo uses as a measure of commercial significance. Bermeo 2017.

I use an indicator of the amount of financing a country received from the World Bank 1975-1990. The expectation is that the World Bank's commitments to these countries in the 1970s and 1980s reflect the value attached to these countries and incentives to continue to engage with governments in these countries. Top recipients of World Bank loans during that period were Kenya, Nigeria, Tanzania, Côte d'Ivoire, Cameroon, Senegal, and Ghana.

Separately, I seek to account for recipient governments' constraints, i.e. the extent of political contestation both within and outside of the governing coalition. A number of indicators would be well suited to this task. Data on cabinet size reflects the breadth of the coalition required to support the government, and broader coalitions are likely to reflect more contestation. However, data on cabinet size in African countries is unfortunately only available until 2005, offering too little overlap with the period of diversified finance.[26]. Kopecký et al. provide an indicator of party patronage, which is one of the consequences of contestation that can impede financial statecraft.[27] However, their dataset only includes two African countries, Ghana and South Africa. Given the limited availability of indicators capturing contestation at the level of the governing coalition, I therefore rely on a more narrowly institutional indicator, namely the Polity democracy indicator. In empirical tests of selectorate theory, the winning coalition is usually measured using three subcomponents of the Polity score, making the indicator an appropriate proxy for one aspect of contestation.[28] Countries that score higher on this indicator will be characterized by more contestation and may therefore be less effective at translating access to alternative finance into preferred negotiating outcomes.

4.4 Controls

In models predicting the size and sectoral focus of either World Bank or US finance, I include an indicator measuring natural resource wealth (natural resource rents to GDP), since greater natural resource wealth may lead both to greater access

[26] Arriola 2009; Arriola and Johnson 2013.
[27] Kopecký et al. 2016.
[28] Morrow et al. 2008.

to Chinese finance and to the World Bank and US allocating a greater amount of resources to large projects in infrastructure-intensive energy and extractive sectors.

In all of the models, regardless of the dependent variable, I control for the following economic and capacity indicators likely to affect access to alternative finance and negotiating outcomes. First, GDP per capita (logged), since wealthier countries are likely to receive less development finance and may receive a greater number of large projects and infrastructure-focused hard sector projects, just as they are more likely to access international bond markets. Second, government indebtedness, measured as debt to GDP, because higher levels of debt likely affect both countries' access to finance and the terms of traditional donor aid, since creditors and donors will assess a country as more risky if it has a higher debt burden. Third, government effectiveness, measured using an indicator from the World Bank Governance Indicators.[29] This accounts for the fact that more effective bureaucracies are likely to be more successful at achieving preferred negotiating outcomes and at tapping alternative forms of finance. In models without a time trend, I also include the US Treasury rate, since global liquidity conditions affected African countries' access to international bond markets and potentially donors' willingness to make loans.

4.5 Estimation

I investigate the relationship between countries' access to alternative external finance and the outcomes of negotiation with traditional donors in three steps. First, I use simple bivariate tests to investigate an association between alternative forms of finance and altered negotiation outcomes. Second, I report multivariate models that include controls to account for heterogeneity in recipient countries' access to alternative finance and the terms they receive from traditional donors. Finally, I investigate conditional effects, testing whether the association between alternative finance and negotiation outcomes is stronger in some countries than others.

[29] This variable aggregates data on the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies.

Table 4.1: Variables and measures

Dependent variables: Negotiation outcomes		
WB conditionality	Avg. nr. prior action conditions per project	World Bank Development Action Database
WB commitments US commitments	Amount committed per year (lg constant millions USD)	World Bank Projects & Operations USAID Foreign Aid Explorer
WB big projects US big projects	Nr. of projects >50 million USD	World Bank Projects & Operations USAID Foreign Aid Explorer
WB hard sector US hard sector	Nr. of projects in hard sectors	World Bank Projects & Operations USAID Foreign Aid Explorer
Explanatory variables: Alternative finance		
Chinese official finance	Amount committed per year (lg constant millions USD)	Dreher et al. 2017
Bond market access	Dummy: Bond issued in a given year	Capital IQ database
Moderating variables: Donor and recipient constraints		
Strategic significance	Temporary UNSC seat	Dreher et al. 2009
Political alignment	UNGA voting proximity to the US	Bailey et al. 2016
Commercial significance	Share of US exports	WITS database
Symbolic importance	Total WB commitments 1975-1990 (lg constant millions USD)	World Bank Projects & Operations
Contestation	Polity2 combined democracy score	Polity IV

Table 4.2: Summary statistics

Variable	Mean	Std. Dev.	Min.	Max.	N
Dependent variables					
Avg. WB conditions per project	1.414	4.026	0	33	474
WB commitments (lg millions USD)	3.009	2.394	0	8.313	658
US commitments (lg millions USD)	3.341	1.977	0	7.011	658
WB big projects	0.86	1.449	0	9	658
US big projects	0.188	0.566	0	5	658
WB nr. hard	0.36	0.752	0	4	658
US nr. hard	4.739	6.723	0	40	658
Explanatory variables					
Chinese official finance (lg millions USD)	2.444	2.461	0	8.184	658
Bond market access	0.038	0.191	0	1	658
Moderating variables					
US affinity	12.414	6.544	0	66.667	643
Export market	0.025	0.073	0	0.5	657
UNSC seat	0.049	0.216	0	1	655
Historic WB	46.664	27.426	0	93.599	658
Polity	2.03	5.23	-9	10	626
Controls					
GDP per capita (logged)	6.715	1.149	4.664	10.273	642
Debt (% of GDP)	0.679	0.886	0.036	8.733	597
Resource rents (% of GDP)	13.887	13.59	0.002	61.945	623
Govt effectiveness	-0.765	0.624	-2.402	0.982	611
US Treasury rate	3.659	0.981	1.803	5.017	658

The unit of analysis is the country-year. For the continuous dependent variable, i.e. the quantity of development finance committed, I estimate OLS models. For the dependent variables that are measured as discrete counts, i.e. the average number of World Bank conditions per project, the number of World Bank and US projects over 50 million USD, and the number of World Bank and US projects in infrastructure-intensive hard sectors, I estimate count models. The data on World Bank conditions and US hard sector projects is characterized by overdispersion, so these models are estimated using negative binomial regression, while the remainder are estimated using Poisson regression. Across all models, standard errors are clustered at the recipient country level. Countries' access to alternative finance is lagged by one year to allow time for this to affect donor-recipient negotiation outcomes.

The main confounder to inference in my analysis is that heterogeneity across

recipient countries may affect both countries' access to alternative finance and the the outcomes of their negotiations with traditional donors. I address this concern in a number of ways. In the bivariate analysis, I use country fixed effects and time trends to account for unobserved heterogeneity across countries and over time. This is particularly important over time, since global trends in the availability of alternative finance and the terms of traditional development finance may lead to a spurious correlation between the two. However, I interpret the fixed effects results with caution, since variation in access to international bond markets is largely across countries rather than within countries, and the fixed effects models therefore rely on a small portion of overall variance.[30] In the multivariate analysis, I control for factors likely to shape both access to alternative finance and negotiation outcomes.

For the continuous outcome variables, i.e. the quantity of the finance committed by the World Bank and the US, the bivariate models are estimated as follows,

$$y_{it} = \beta_1 China_{it-1} + \beta_2 Eurobond_{it-1} + \epsilon_{it} \tag{4.1}$$

For the count data, i.e. conditions, number of large projects, and number of hard sector projects, the models are estimated as follows, using either the Poisson or negative binomial distribution,

$$\log \lambda_{it} = \beta_1 China_{it-1} + \beta_2 Eurobond_{it-1} + \epsilon_{it} \tag{4.2}$$

In subsequent models, I add, in turn, a unit fixed effect α_i, a time trend γt, and both.

The multivariate models include controls to account for heterogeneity in recipient countries' access to alternative finance and the terms they receive from traditional donors. This includes the time-varying US Treasury rate. These models have no unit fixed effects or time trends. For the continuous outcome variables, the models are estimated as follows,[31]

$$y_{it} = \beta_1 China_{it-1} + \beta_2 Eurobond_{it-1} + \boldsymbol{\delta x_{it}} + \zeta USTreasury_t + \epsilon_{it} \tag{4.3}$$

[30] On variance reduction in fixed effects models, see Mummolo and Peterson 2018.

[31] Note that the estimating equation for count models is slightly different, but for simplicity, I only show the OLS estimating equations for the following models.

Investigating the conditional effects entails estimating an interaction term between each of the forms of alternative finance and various measures of significance and contestation, in turn. Below I note the equations for the models estimating the conditioning effect of significance, the estimation is the same for contestation.

$$y_{it} = \beta_1 China_{it-1} * Significance_{it-1} + \beta_2 China_{it-1} + \beta_3 Significance_{it-1} + \beta_4 Eurobond_{it-1} + \boldsymbol{\delta x_{it}} + \zeta USTreasury_t + \epsilon_{it} \quad (4.4)$$

$$y_{it} = \beta_1 Eurobond_{it-1} * Significance_{it-1} + \beta_2 Eurobond_{it-1} + \beta_3 Significance_{it-1} + \beta_4 China_{it-1} + \boldsymbol{\delta x_{it}} + \zeta USTreasury_t + \epsilon_{it} \quad (4.5)$$

4.6 Results

4.6.1 Bivariate tests

I begin by reporting simple tests of the association between alternative finance and the negotiation outcomes between recipients and donors. These show a consistent relationship between recipient countries' access to alternative finance and negotiating outcomes across a range of dimensions. For the World Bank, the association is most consistent for countries' access to Chinese finance, while negotiating outcomes with the United States are responsive to both countries' access to Chinese finance and entry into Eurobond markets.

Table 4.3 reports the results for the terms of World Bank development finance. The first row shows the negotiation outcomes regressed just on access to finance, while the subsequent rows add country fixed effects and a time trend to account for unobserved heterogeneity. The association between access to Chinese finance and the terms of World Bank development finance are as expected. In the first column, there is a negative association between access to Chinese finance and the average number of conditions attached to a World Bank project, as expected. Access to alternatives is correlated with fewer conditions attached to World Bank lending, though this relationship is no longer significant when a country fixed effect

Table 4.3: Bivariate regressions: World Bank negotiating outcomes

	1 WB conditions	2 WB commitments	3 WB big projects	4 WB nr. hard
Chinese commitments	-0.179*	0.209*	0.171***	0.197***
	(0.07)	(0.09)	(0.05)	(0.04)
Issued Eurobond	0.415	-0.113	0.372	0.188
	(0.58)	(0.72)	(0.43)	(0.28)
Country fixed effects	No	No	No	No
Time trend	No	No	No	No
Chinese commitments	-0.069	0.084*	0.040	0.186***
	(0.25)	(0.04)	(0.03)	(0.04)
Issued Eurobond	1.959	0.484*	0.512**	0.249
	(3.38)	(0.22)	(0.19)	(0.27)
Country fixed effects	Yes	Yes	Yes	Yes
Time trend	No	No	No	No
Chinese commitments	-0.161*	0.195*	0.164**	0.142***
	(0.07)	(0.09)	(0.05)	(0.03)
Issued Eurobond	0.506	-0.238	0.320	-0.176
	(0.60)	(0.72)	(0.43)	(0.31)
Country fixed effects	No	No	No	No
Time trend	Yes	Yes	Yes	Yes
Chinese commitments	0.009	0.052	0.008	0.082*
	(0.21)	(0.04)	(0.02)	(0.04)
Issued Eurobond	2.203	0.255	0.300	-0.325
	(3.53)	(0.22)	(0.18)	(0.32)
Country fixed effects	Yes	Yes	Yes	Yes
Time trend	Yes	Yes	Yes	Yes
N	474	658	658	658

Robust standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

is included. As expected, there is a positive and significant relationship between access to alternative finance (in this case Chinese finance) and the quantity of finance that the World Bank commits. Countries that receive higher commitments from China receive greater commitments from the World Bank in subsequent years. This relationship is robust to the inclusion of a time trend to account for the upward trend in both Chinese and World Bank commitments.

There is a strong relationship between countries' access to Chinese finance and the *types* of World Bank projects, as reported in columns 3 and 4 of Table 4.3. Countries that receive greater commitments of Chinese finance receive a greater number of large World Bank projects (over 50 million USD) and a greater number

Table 4.4: Bivariate regressions: US negotiating outcomes

	1 US commitments	2 US big projects	3 US nr. hard
Chinese commitments	0.284***	0.234***	0.161***
	(0.06)	(0.05)	(0.04)
Issued Eurobond	0.838	1.288**	0.661**
	(0.68)	(0.41)	(0.24)
Country fixed effects	No	No	No
Time trend	No	No	No
Chinese commitments	0.068***	0.084*	0.082***
	(0.02)	(0.04)	(0.02)
Issued Eurobond	0.371*	0.707**	0.405**
	(0.15)	(0.24)	(0.15)
Country fixed effects	Yes	Yes	Yes
Time trend	No	No	No
Chinese commitments	0.273***	0.209***	0.127**
	(0.06)	(0.05)	(0.04)
Issued Eurobond	0.743	1.123**	0.390
	(0.70)	(0.41)	(0.27)
Country fixed effects	No	No	No
Time trend	Yes	Yes	Yes
Chinese commitments	0.029	0.009	0.003
	(0.02)	(0.04)	(0.02)
Issued Eurobond	0.098	0.258	-0.134
	(0.16)	(0.27)	(0.17)
Country fixed effects	Yes	Yes	Yes
Time trend	Yes	Yes	Yes
N	658	658	658

Robust standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

of projects in hard sectors. This significant association is robust to the inclusion of a time trend to account for global trends in the focus of World Bank development programming and, in the case of hard sector projects, country fixed effects.

Table 4.4 reports the association between alternative finance and the terms of US aid and development finance. There is evidence that countries' negotiation

outcomes with the US are affected both by access to Chinese finance and their entry into international bond markets. Column 1 shows the relationship between access to alternative finance and the quantity of finance committed by the US. As expected, there is a positive relationship, particularly for access to Chinese finance. Countries that receive higher commitments of Chinese finance receive larger commitments of US finance in the subsequent year. This significant relationship is robust to the inclusion of country fixed effects and a time trend, individually. The positive relationship between countries' entry into Eurobond markets at the quantity of US finance is statistically significant when country fixed effects are included.

With respect to the *types* of development projects supported by the US, there is evidence that both Chinese finance and bond market finance shape negotiating outcomes. Column 2 shows a positive and significant relationship between access to both alternatives and the number of large projects (over 50 million USD) provided by the US. This relationship is in the expected direction, and robust to the inclusion of country fixed effects and a time trend, individually. The same is true for the number of development projects in hard sectors that the US commits to financing (column 3, Table 4.4). Countries that have access to alternative finance receive a greater number of these projects. This significant association is robust to the inclusion of country fixed effects and, for Chinese finance, the inclusion of a time trend.[32]

4.6.2 Multivariate results

Turning to the multivariate analysis, I find further support for the claim that countries' access to alternative finance is associated with the terms of traditional development finance. In particular, I find that the World Bank is responsive to recipient countries' access to Chinese finance, while the terms of US development finance are associated with both Chinese commitments and bond market access. I discuss the results for each of the different measures of the dependent variable in

[32]Note that in the second and fourth panel where country fixed effects are included, the estimated relationship between issuing a Eurobond and the terms of US development finance is based solely on those observations where there is variation in Eurobond issuance, i.e. those 17 countries in the dataset that have issued an international bond during the period of study.

Table 4.5: Results: World Bank conditions, 2000-2013

	WB conditions		
	1	2	3
Chinese commitments	-0.157*	-0.246**	-0.096
	(0.07)	(0.08)	(0.08)
Issued Eurobond	0.315	0.240	0.694
	(0.60)	(0.61)	(0.78)
GDP per capita (logged)	0.191	-0.123	-0.509
	(0.12)	(0.23)	(0.37)
US Treasury	0.278*	0.076	0.028
	(0.12)	(0.20)	(0.29)
Debt (% of GDP)		-0.626*	-1.013+
		(0.31)	(0.54)
Govt effectiveness		0.986**	1.445*
		(0.38)	(0.61)
US affinity			-0.032
			(0.04)
Export market			-20.716*
			(8.05)
UNSC seat			-0.094
			(0.45)
Historic WB			-0.021
			(0.02)
Polity			0.015
			(0.06)
WB commitments (log millions USD)			
N	468	423	409

Robust standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

turn, highlighting the relevance of alternative finance for each of these dimensions of the donor-recipient relationship.

Conditions

Table 4.5 shows the results for World Bank conditions. As expected, and in line with the bivariate results, countries' access to alternative finance is associated with fewer conditions attached to the average World Bank project. However, this is only the case for Chinese finance commitments, not bonds. Substantively, the estimates

Table 4.6: World Bank and US commitments, 2000-2014

	WB commitments			US commitments		
	1	2	3	4	5	6
Chinese commitments	0.181*	0.180*	0.121+	0.280***	0.279***	0.180***
	(0.08)	(0.07)	(0.07)	(0.05)	(0.05)	(0.05)
Issued Eurobond	0.838+	1.011	0.603	1.566*	1.544*	0.069
	(0.46)	(0.64)	(0.36)	(0.72)	(0.70)	(0.39)
GDP per capita (logged)	-0.948***	-1.387***	-1.017***	-0.678**	-0.883***	-0.755**
	(0.12)	(0.18)	(0.24)	(0.19)	(0.22)	(0.25)
US Treasury	-0.435***	-0.425***	-0.329*	-0.308**	-0.271**	-0.315**
	(0.07)	(0.10)	(0.13)	(0.09)	(0.10)	(0.11)
Debt (% of GDP)		-0.539**	-0.315		-0.269	-0.135
		(0.18)	(0.20)		(0.32)	(0.25)
Govt effectiveness		1.183**	0.729+		0.883+	0.615
		(0.39)	(0.37)		(0.46)	(0.41)
US affinity			0.018			-0.012
			(0.01)			(0.01)
Export market			1.415			9.148***
			(3.94)			(1.91)
UNSC seat			0.536			0.308
			(0.37)			(0.24)
Historic WB			0.026**			0.023**
			(0.01)			(0.01)
Polity			0.044			0.005
			(0.03)			(0.04)
N	642	554	533	642	554	533

Robust standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

in column 2 mean that as Chinese finance commitments move from the mean to one standard deviation above the mean, the predicted count of prior actions per project decreases by almost half, from 1.2 to 0.67.

With respect to controls, more government debt is surprisingly associated with fewer World Bank conditions, contrary to expectations. Also counter to expectations, government effectiveness is also associated with a greater number of World Bank conditions, despite the prediction that the Bank will attach fewer conditions when it has greater confidence in the government. In line with expectations about recipient significance and conditionality, countries that are more important as export markets receive fewer conditions, all else equal.

Quantity of finance

With respect to the quantity of finance committed by the World Bank and the United States, I find evidence that Chinese finance and international bonds are both associated with the allocation decisions of traditional donors. Table 4.6 reports these results. Beginning with the World Bank (columns 1-3), Chinese finance commitments in the year prior are significantly associated with an increase in World Bank allocations in the subsequent year. Substantively, a one standard deviation (SD) increase in Chinese financing commitments is associated with a one fifth SD increase in World Bank allocations (approximately 2 million USD). As with World Bank conditionality, the quantity of World Bank commitments does not appear to be sensitive to countries' access to bond markets.

By contrast, US allocation decisions are responsive to countries' access to both Chinese finance and international bond markets. The positive association between recipient countries' access to Chinese finance and the quantity of US commitments is highly significant and robust to the inclusion of both economic controls and measures of recipient significance and contestation. Substantively, in the most extensive model reported in column 6 a one SD difference in Chinese financing commitments is associated with a one third SD difference in US allocations (approximately 2 million USD). For the US, allocation decisions are also responsive to countries' access to international bond markets. The relationship between bond market access and US allocations was also positive and significant in the simple models with the inclusion of country fixed effects in Table 4.4, increasing confidence that this result is not simply driven by the unobserved heterogeneity between countries that are Eurobond issuers and those that are not. In the multivariate models in Table 4.6 the result remains significant when controlling for the US Treasury rate, indicating that the association is not simply driven by a spurious correlation between recipients countries' increasing access to international bond markets over time and increasing global US allocations. Substantively, issuing a bond is associated with an increase in US allocations of ca. 1 million USD in the subsequent year.

Table 4.7: Results: Count of WB and US projects greater than 50 million USD, 2000-2014

	WB big projects			US big projects		
	1	2	3	4	5	6
Chinese commitments	0.173***	0.125***	0.054	0.221***	0.176***	0.138*
	(0.04)	(0.04)	(0.04)	(0.05)	(0.05)	(0.06)
Issued Eurobond	0.874**	0.757+	0.308+	1.258***	1.143***	0.243
	(0.30)	(0.41)	(0.18)	(0.37)	(0.34)	(0.43)
GDP per capita (logged)	-0.580***	-0.760***	-0.712***	-0.031	-0.237	-0.576*
	(0.15)	(0.18)	(0.15)	(0.16)	(0.24)	(0.27)
US Treasury	-0.257***	-0.124	-0.216**	-0.090	0.125	-0.205
	(0.06)	(0.09)	(0.08)	(0.09)	(0.13)	(0.15)
Debt (% of GDP)		-1.027*	-0.563*		-2.424+	-2.661***
		(0.42)	(0.29)		(1.46)	(0.76)
Resource rents (% of GDP)		0.012	0.016+		-0.015	-0.020
		(0.01)	(0.01)		(0.02)	(0.02)
Govt effectiveness		0.648	0.855***		0.294	0.402
		(0.40)	(0.21)		(0.49)	(0.39)
US affinity			0.010			-0.087***
			(0.01)			(0.02)
Export market			3.637***			4.977***
			(0.87)			(1.16)
UNSC seat			0.220			0.588+
			(0.16)			(0.32)
Historic WB			0.029**			0.013
			(0.01)			(0.01)
Polity			-0.015			0.044
			(0.02)			(0.04)
N	642	542	521	642	542	521

Robust standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

For both the World Bank and the US, controls behave largely as expected. In line with existing literature on aid that shows allocation decisions are at least partly responsive to need, wealthier countries receive less development finance. The US Treasury rate is negatively associated with allocations. For the World Bank, this may reflect the fact that part of its lending is financed through bond issues, and it therefore is able to make greater allocations during periods of greater global liquidity. Greater government debt is negatively associated with allocations, but only for the World Bank, which is likely to be more sensitive to macroeconomic policy in its lending practices than US aid. As expected, government effectiveness is positively associated with allocations. For both the US and the World Bank, certain measures of strategic significance are associated with greater allocations.

Size of development projects

Table 4.7 reports the results of models of the relationship between access to alternative finance and the size of development projects, measured as the count of projects of more than 50 million USD. Beginning with the World Bank, I find a positive relationship between a country's receipt of Chinese finance and the number of large projects it receives from the World Bank in the subsequent year. Substantively, a move from the mean level of Chinese commitments to one SD above the mean is associated with a shift from 0.9 to 1.3 predicted large World Bank projects. There is also a positive and significant relationship between a country issuing a Eurobond and the count of large World Bank project. Substantively, the estimates in column 1 suggest that a country issuing a Eurobond can expect 2.5 large projects from the World Bank in subsequent years, while non-issuers can expect 1 project of a similar magnitude.

The US' allocation of large projects is also sensitive to countries' access to alternative finance. There is a positive and consistently significant relationship between a recipient accessing more Chinese finance and receiving larger development projects from the US, though the substantive effect is small. The quantity of large projects is also positively and significantly associated with whether a country has accessed alternative finance in international bond markets. Since this relationship is also positive and statistically significant with the inclusion of country fixed effects, as reported in Table 4.4, this increases the confidence that the relationship is driven by country's access to international bond markets and not other differences between issuing and non-issuing countries. However, the statistical significance dissipates when controlling for strategic significance, which has a big influence on the US' allocation of large projects. Substantively, the estimates in column 5 mean that issuing a bond is associated with a difference of .01 in the number of projects over 50 million USD allocated by the US. The estimates for the US are smaller than those for the World Bank in part because US projects tend to be much smaller, on average.[33]

[33]The average size of a World Bank project in the sample is 33 million USD, while the average size of a US project is 5 million USD.

The controls behave much as expected, also highlighting differences between the World Bank and the US in allocating large projects. Economic and capacity factors appear to be more important for the World Bank in this regard, while both the US and the World Bank respond to countries' strategic significance. For the World Bank, wealthier and more indebted countries are less likely to receive large projects, while more effective countries are more likely to receive such projects. For the US, most of these economic indicators are not significant predictors of the number of large projects that a country receives. In terms of significance, the World Bank allocates a greater number of large projects to countries that are important export markets for the US, and to countries that have historically been important recipients of World Bank lending. Surprisingly, political proximity to the US is negatively associated with the allocation of large US projects, while export market, UNSC seat, and historic World Bank allocations are all positively associated with the count of large US projects, as expected.

Sector of development projects

Finally, I find evidence that access to alternative finance is associated the sectoral allocation of traditional donors' finance, see Table 4.8. Countries receiving greater quantities of Chinese finance can expect to receive a greater number of projects in infrastructure-intensive hard sectors from the World Bank in subsequent years. This relationship is robust to the inclusion of economic and capacity controls, as well as measures of recipient country significance and contestation. However, there is no such effect for countries' access to international bond markets in the case of the World Bank.

With respect to US development finance, there is a positive relationship between countries' access to alternative finance and sectoral allocation both in terms of bond market finance and Chinese bilateral finance. First, Chinese commitments are significantly associated with a greater number of projects in hard sectors in subsequent years, a relationship that is robust to the inclusion of economic and capacity controls, as well as measures of country significance. The estimates

Table 4.8: Results: Count of WB and US projects in infrastructure-intensive hard sectors, 2000-2014

	WB hard sector projects			US hard sector projects		
	1	2	3	4	5	6
Chinese commitments	0.156***	0.123***	0.092***	0.123***	0.140***	0.089**
	(0.03)	(0.03)	(0.03)	(0.04)	(0.04)	(0.03)
Issued Eurobond	0.245	0.209	-0.080	0.711**	0.529+	-0.086
	(0.30)	(0.28)	(0.32)	(0.24)	(0.28)	(0.24)
GDP per capita (logged)	-0.347***	-0.509***	-0.517***	-0.213	-0.399*	-0.355
	(0.09)	(0.13)	(0.15)	(0.16)	(0.18)	(0.22)
US Treasury	-0.559***	-0.475***	-0.683***	-0.409***	-0.492***	-0.640***
	(0.07)	(0.14)	(0.11)	(0.09)	(0.09)	(0.08)
Debt (% of GDP)		-0.458	-0.200		-0.075	0.080
		(0.68)	(0.36)		(0.12)	(0.10)
Resource rents (% of GDP)		0.015	0.018+		0.015	0.027*
		(0.01)	(0.01)		(0.01)	(0.01)
Govt effectiveness		0.639**	0.628**		1.035**	1.039**
		(0.24)	(0.21)		(0.35)	(0.33)
US affinity			-0.052**			-0.059***
			(0.02)			(0.01)
Export market			1.943*			3.266**
			(0.79)			(1.12)
UNSC seat			0.292			0.373
			(0.46)			(0.24)
Historic WB			0.011*			0.020***
			(0.00)			(0.01)
Polity			0.026			0.058+
			(0.03)			(0.03)
N	642	542	521	642	542	521

Robust standard errors in parentheses
+ p<0.10, * p<0.05, ** p<0.01, *** p<0.001

in column 6 imply that a country receiving the mean level of Chinese finance commitments can expect to receive 5.8 US projects in hard sectors, while a country receiving Chinese finance commitments one SD above the mean can expect 7.2 US projects in hard sectors the following year. Furthermore, as already indicated in the bivariate associations in Table 4.4, there is a positive relationship between countries' access to international bond markets and the allocation of US aid to infrastructure-intensive sectors. Substantively, the estimates in column 4 suggest a country issuing a bond can expect 9 US projects in hard sectors in the following year, while a country not issuing a bond can expect 5.6 such projects. However, this relationship does not hold when controlling for economic, capacity and significance indicators.

By and large, the controls behave as expected. US treasury rates are negatively

associated with hard sector projects for both the World Bank and the US, suggesting that donors allocate fewer of these projects under tighter global liquidity conditions. As expected, natural resource endowments (measured as resource rents) are positively associated with the count of large projects for both the World Bank and the US, as is government effectiveness. Significance measures are also important predictors of sectoral allocation. Countries that are more important as US export markets receive more hard sector projects, as do countries that have historically been important World Bank borrowers. Oddly, the coefficient on US proximity is negative and significant, as in the case of large projects, suggesting that the World Bank and the US agree to fewer infrastructure-intensive projects in countries that are more closely aligned with the US, counter to expectations.

Overall, these results provide support for the first expectation about the financial statecraft of debtors, namely that recipient countries that draw on alternative financing will receive aid on different terms from traditional donors, terms more aligned with their interests. I find evidence that both Chinese finance and bond market finance are associated with recipient governments reaching preferred outcomes, though access to international bond markets only appears to affect recipient governments' negotiations with the US, not the World Bank.

4.6.3 Conditional results

I now investigate whether and how the relationship between countries' access to alternative finance and outcomes donor-recipient negotiation differs by donor and recipient constraints, i.e. is the effect of alternative finance *amplified* in strategically significant countries and *dampened* in countries with greater domestic political contestation? Given the large number of dependent and moderating variables, I report full results in Appendix B, and highlight noteworthy results here. I find evidence consistent with the expectation that strategic significance enhances the effect of countries' access to alternative finance, particularly in the case of symbolic significance associated with historic World Bank lending, and that the effect of alternative finance is strongest at lower or middling levels of contestation.

In line with the advice of Brambor et al., I report the results of my models in marginal effects plots rather than coefficient tables, including histograms to show the distribution of the conditioning variable, as suggested by Hainmueller et al.[34] Figure 4.5 reports selected marginal effects plots for interaction models.[35] These plots show suggestive evidence for the conditioning effects of political proximity, commercial significance, symbolic significance, and contestation across a number of negotiation outcomes, in particular the quantity of finance committed by traditional donors and the count of projects in infrastructure-intensive sectors.

Beginning with the conditioning effects across various measures of recipient country significance, I find that political proximity to the US has a conditioning effect on the relationship between access to Eurobond finance and World Bank commitments. This relationship is positive and significant only at higher levels of US affinity (Figure 4.5, top left).[36] Moving one plot to the right in Figure 4.5, I also find a conditioning effect of countries' commercial importance on the the relationship between Chinese finance and the quantity of World Bank finance committed. For countries that attract no US exports, the relationship between Chinese finance and World Bank commitments is indistinguishable from zero. However, at higher levels of US export share, the coefficient on Chinese finance becomes positive and increases in size.

[34] Brambor et al. 2006; Hainmueller et al. 2019.

[35] The full set of plots are reported in Figures B.1-B.10 in Appendix B.

[36] Admittedly, this result should be interpreted with some caution, since most observations are clustered at lower levels of political affinity with the United States.

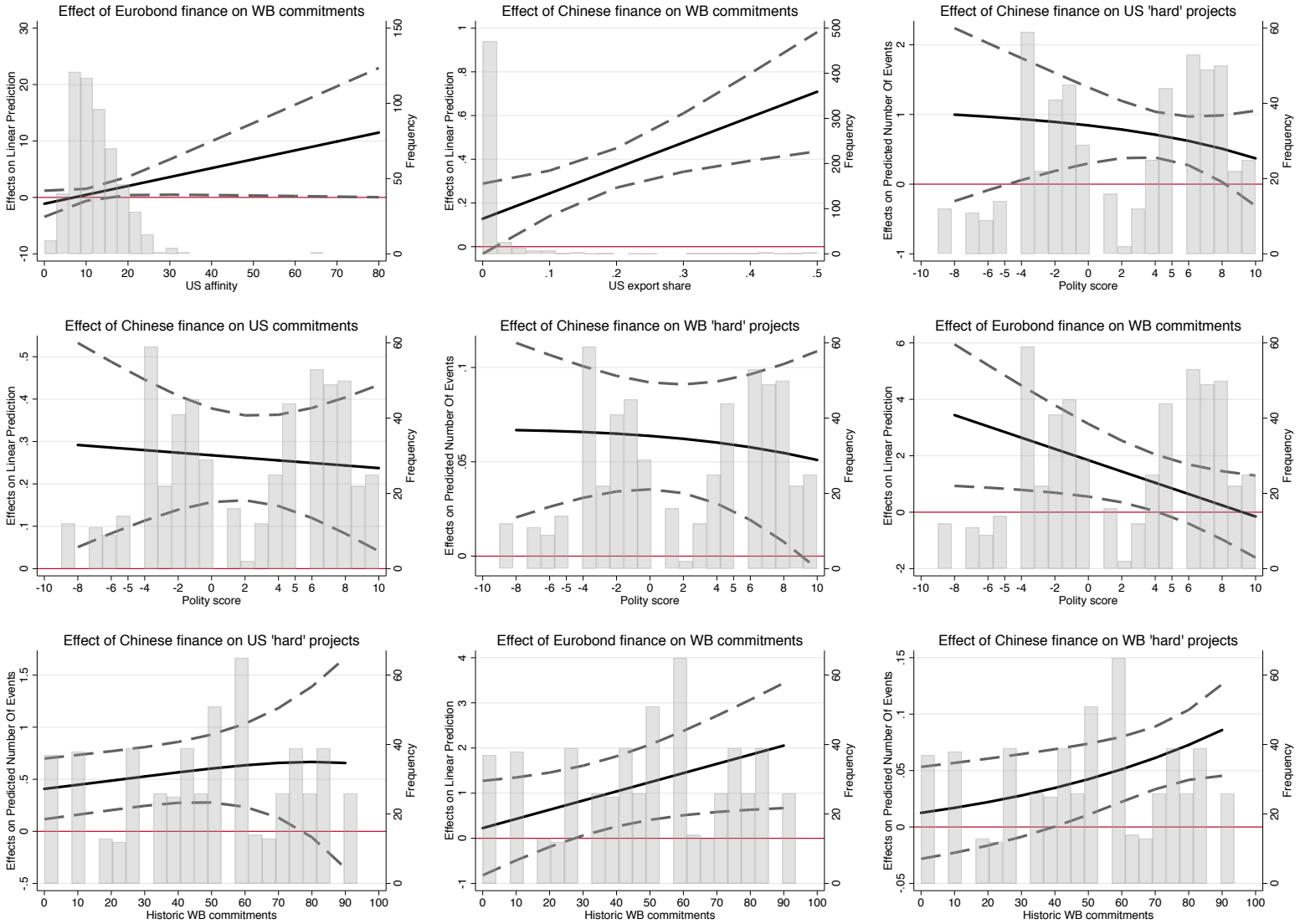


Figure 4.5: Selected marginal effects plots

There are a number of results consistent with the conditioning effect of symbolic significance, as measured by the historic World Bank commitments received by a recipient country (Figure 4.5, bottom row). First, the association between Chinese finance and the number of US projects in hard sectors increases with the quantity of historic World Bank allocations, though the relationship is no longer significant at the highest levels of historic World Bank commitments. As might be expected, there is also a conditioning effect of historic World Bank commitments on the World Bank's responses to alternative finance. The effect of Eurobond finance on the quantity of World Bank commitments is positive significant at higher levels of World Bank commitments, while the relationship is insignificant at low levels of historic World Bank commitments. Similarly the relationship between Chinese finance and the number of World Bank projects in hard sectors becomes significant only at higher levels of historic World Bank commitments.

Together, this assortment of results is indicative of a conditioning role for strategic significance.[37] Across a number of different measures of significance, I find that significance enhances the positive relationship between alternative finance and quantity of commitments and projects in infrastructure sectors, or that such a relationship only exists where levels of significance are high. This suggests that these more significant countries were driving the aggregate results reported in Section 4.6.2.

With respect to contestation, I find indicative evidence that donors become less responsive to countries' access to alternative finance as contestation increases. The four marginal effects by Polity score in Figure 4.5 all show a negative relationship between the Polity score and the coefficient on alternative finance. For instance, while receiving Chinese loans is associated with a higher count of US projects in infrastructure-intensive sectors, this relationship is only statistically significant at middling levels of the Polity score (Figure 4.5, top right). Similarly, receiving Chinese finance is associated with a higher quantity of US finance commitments, but

[37] I do not find any significant conditioning effects for countries' temporary membership of the UN Security Council, which is not surprising given the distribution of the data. In only 5% of the country-years in the sample did a country hold a temporary UN Security Council seat, and in only 1% did they both hold a temporary seat and issue a Eurobond.

the effect lessens at higher levels of the Polity score. A similar pattern is observable for the World Bank. Receipt of Chinese finance is positively associated with the predicted number of World Bank projects in hard sectors, but this relationship is no longer statistically significant at high levels of the Polity indicator. Finally, the World Bank's response to Eurobond finance is also sensitive to a recipient country's Polity score. While there is a positive relationship between receipt of Eurobond finance and the amount of World Bank commitments, this does not hold at higher levels of the Polity indicator.

These results are suggestive of the hypothesized conditioning effect of contestation. While access to alternative finance has a positive effect on quantity, size, and infrastructure-focus of development finance in the aggregate, this relationship is attenuated or obviated at higher levels of contestation. However, the results should also be interpreted with caution. The Polity score captures one aspect of contestation, namely institutionalization of democratic political competition, but cannot measure other elements of political contestation, i.e. the extent of governing coalitions' vulnerability to competition within the governing coalition. Thus, while the results are suggestive, they are not a conclusive test of the hypothesized conditioning effect of contestation. The case studies will investigate this relationship in greater detail.

Finally, it is worth noting for which negotiation outcomes the relationship with alternative finance does not appear sensitive to strategic significance or contestation in the direction. Despite the negative relationship between Chinese finance and World Bank conditionality reported in Table 4.5, this relationship does not vary based on countries' strategic significance or contestation. Perhaps this is due to institutional rules governing World Bank conditions. Furthermore, for neither the US nor the World Bank is the relationship between alternative finance and the number of large projects conditional on significance or contestation, despite the positive aggregate results reported in Table 4.7 for the US and World Bank with respect to both Eurobond finance and Chinese lending. This is especially notable because the significance measures (UNSC, export market, and historic World Bank) are positively related to the count of large projects on their own,

suggesting that more significant countries receive more of these projects. This could perhaps be because not all recipient countries have a preference for large projects and therefore not all significant recipient countries are leveraging their access to alternative finance into larger projects from traditional donors.

4.7 Conclusion

I show that across sub-Saharan Africa, countries' access to new forms of finance is associated with receiving development finance from traditional donors on preferred terms. In particular, I show that the World Bank moderates the conditionality of its lending, offers more development finance, and offers larger and more infrastructure-focused projects when recipient countries receive greater amounts of Chinese finance. The terms of US foreign aid are also associated with recipient countries' portfolio of external finance. The US similarly extends more aid, larger projects, and more infrastructure-focused projects when recipients access Chinese finance.

In addition, the terms of US aid are also responsive to countries' access to international bond market finance. Countries that issue bonds subsequently receive more aid and larger projects from the US, even when controlling for factors likely to affect both countries' bond market access and the US' patterns of aid allocation. However, patterns of World Bank development finance are not responsive to countries' access to international bond markets. This difference between the US and World Bank may be simply a function of the limited variation in the data. It may also reflect the fact that the World Bank has supported countries in gaining access to private funding and the reduction in dependence through bond markets is therefore not seen to imperil the World Bank's influence.

I also report evidence from interactive models that is in line with my conditional expectations about the financial statecraft of debtors. Across a number of measures of strategic significance, I find indicative evidence that recipient country significance amplifies the effect of alternative finance on negotiating outcomes. I also find suggestive results for contestation that are in line with my expectations. The

relationship between alternative finance and preferred negotiation outcomes is more likely to be positive at low or middling levels of contestation.

These results offer a first test of the theory of the financial statecraft of debtors introduced in Chapter 2. I now turn to the case study evidence to investigate how differences in the conditioning variables across the three case studies shape the consequences of the governments' access to alternative finance and, especially, to trace the mechanisms that connect alternative finance to preferred negotiating outcomes.

5
Introducing the case studies

Quantitative findings and case study complements

The quantitative analysis in the preceding chapters shows that, across sub-Saharan Africa, governments have experienced a diversification in their portfolios of external finance and that this is associated with different outcomes in their relations with traditional donors. Countries that access alternative finance receive aid from traditional donors on preferred terms, as measured by a wide range of indicators. Furthermore, there is indicative evidence that access to alternative finance is more likely to lead to preferred outcomes when recipient countries are significant to their donors and when domestic political contestation is lower.

The three case studies in the following chapters complement the preceding quantitative analysis in a number of ways. First, the case studies allow for a more nuanced measurement of the dependent variable, i.e. the extent to which recipient government are able to influence the outcomes of negotiations with donors in line with their interests. In the quantitative analysis, this multidimensional outcome is captured with the help of four different indicators that measure different aspects of donor-recipient negotiations. However, given differences in preferences among governments, the exact terms that recipient government seek to improve are necessarily more idiosyncratic. For some recipient governments, a donor's preference for economic liberalization and privatization may align perfectly with the policy

agenda and therefore not be subject to negotiation. For other recipients, this might be a hotly contested issue, and the outcome of negotiations on this issue will therefore be indicative of the relative negotiating power of the donors and the government. In the case studies, I use interview evidence and secondary sources to identify the flash points of negotiations between the government and donors, allowing a more fine-grained measure of the outcome variable.

As with the dependent variable, the case studies also allow for a more subtle measure of the moderating variables, complementing the cross-national analysis. Recipient country significance is multidimensional, encompassing a number of ways that recipient governments can be of value to donors, including geopolitics, commercial interests, and symbolic significance. In the quantitative analysis I addressed this multidimensionality by using a number of different variables to measure recipient country significance. In the case studies, I can be more nuanced in how significance is captured, relying on interviews with donors to establish how important the relationship with the donor government is for individual donors, and why. This more nuanced approach to measurement is most important in the case of the second moderating variable, contestation. In the quantitative analysis, I relied on the Polity indicator as a proxy, since more appropriate measures such as cabinet size were not available for the country-years in the sample. However, the Polity indicator only captures one aspect of contestation, i.e. institutionalized political competition. In the case studies, I can be more sensitive to the various dimensions of contestation in tracing the effect of this moderating variable, identifying the role of competition from outside as well as within the governing coalition.

Evidence from the case studies

In addition to complementing the quantitative analysis, the case studies provide important evidence in their own right. First, they allow me to trace the mechanisms linking African governments' access to alternative finance to changed negotiation outcomes with donors. The quantitative results show there is a consistent association between these. The case studies can demonstrate whether this association is in fact

due to the mechanisms that I hypothesize, i.e. governments' reduced dependence on their traditional donors and donors' desire for continued access to the recipient government. By hearing from individuals involved in the process of negotiating development finance I can establish which mechanisms underlie the association between countries' portfolio of external finance and the outcomes of donor-recipient negotiations. The evidence in the cases provide "causal process observations," i.e. data that can either confirm or disconfirm my expectations about the mechanisms linking alternative finance to changed negotiation outcomes.[1] In this way, the case studies allow for a full test of my theory.

In addition, the comparison of the three cases provides valuable variation I can use to test my theory. Since the cases have been selected for variation on the two moderating variables — political contestation and significance to donors — comparison across the three cases allows me to confirm whether variation in success of the financial statecraft of debtors is in fact associated with these two factors. The evidence *within* each individual case is thus most valuable for testing whether the mechanisms hypothesized in my theory are accurate, while comparison *across* the three cases is most appropriate for probing the expected effects of the moderating variables.

Case selection

To be able to draw inferences from the comparison of the cases, the case study countries were selected for variation on the two moderating variables, with other important factors held constant, as far as possible. I select cases only from the pool of countries that borrowed both from China and in international bond markets since 2000 (92% of sub-Saharan African countries borrowed from China and 35% issued an international bond during this period). Focusing only on those countries that have a more diverse portfolio of external finance allows me to more cleanly identify the relationship between alternative finance and changed negotiation outcomes. I hold constant the *availability* of alternative finance and can instead analyse how the

[1] Bennett 2010.

Table 5.1: Case study countries across the two moderating variables

		Donor constraint: Recipient significance — Low	Donor constraint: Recipient significance — High
Recipient constraint: Political contestation — Low			Ethiopia
Recipient constraint: Political contestation — High		Ghana	Kenya (Ghana)

choices the government makes among this available finance, as well as the extent of domestic political contestation and recipient significance, shape donor-recipient negotiations in this context.

From this pool of African bond issuers and borrowers from China, I then select cases for variation on the two moderating variables based on assessments in the secondary literature, see Table 5.1. Ethiopia and Kenya are both high in significance to donors, especially geopolitical significance. By contrast, Ghana has historically been of considerable importance to traditional donors for its development effectiveness and symbolic appeal, but more recently has faded in its value for donors. With respect to contestation, Ghana and Kenya are both polities with high political contestation, while in Ethiopia political contestation is much more circumscribed. This is partly a function of Ethiopia being an autocratic regime, while Kenya and Ghana are electoral democracies. However, that it not all. In addition, governing coalitions in Ghana and especially Kenya are internally fractious and vulnerable to collapse. By comparison, the governing coalition in Ethiopia has been cohesive for most of the last three decades, much more so than in many other authoritarian contexts.

Gathering evidence

The bulk of the evidence for the case studies comes from just over 170 elite interviews with actors participating in or familiar with the negotiations over external finance, including donor officials, recipient country bureaucrats and politicians, researchers

and think tank observers, private sector actors, and civil society representatives. These interviews were conducted during six months of fieldwork in Accra, Ghana, Nairobi, Kenya, Addis Ababa, Ethiopia, New York City and Washington, D.C. in August-September 2013 and January-August 2017.

Given my interest in particular processes of negotiation (rather than representativeness of all government officials or development practitioners, for example) I adopt a purposive sampling approach.[2] For each country, I developed a sample frame of multilateral donors, bilateral donors, government officials, and civil society representatives. Sometimes I was able to identify key actors from those institutions prior to arrival in the country, e.g. the head of development cooperation listed on the the EU delegation's website. At other times, I relied on "snowball sampling" to fill in interviewees in the institutions in the sample frame or to add individuals or institutions I had not previously realized were important to the process of negotiating and contracting external finance.[3] I describe the samples of interview respondents in greater detail in the individual chapters and in Appendix A. In line with the advice of Bleich and Bekannen, I also report in the appendix the non-responses to interview requests and the level of saturation across my different categories of interviewees.[4] For each of the three case studies, I was able to achieve saturation in the four most important categories, i.e. bilateral donors, multilateral donors, the resource mobilization unit and the debt management unit in the Ministry of Finance. This gives me greater confidence that I achieved a complete picture of the relations between the government and donors, hearing perspectives from all sides.[5]

Interviews were mostly semi-structured, except for a small number interviews with academics and civil society members that were unstructured. I had two prepared lists of questions, one for government and one for donor interviewees, and used these as a means of guiding the interview, leaving room for follow-up questions

[2] J. F. Lynch 2013; Tansey 2007.
[3] Goldstein 2002.
[4] Bleich and Pekkanen 2013.
[5] L. Mosley 2013, p. 18.

based on the expertise and experience of individual respondents.[6] These interview questionnaires are included in Appendix A. Most respondents spoke to me only on the condition of anonymity, sometimes because they were not authorized to provide the official position of their employer or because donor-recipient relations were considered too sensitive to comment on "on the record." I therefore cite interview material by the broad category in which respondents fall ("Ministry of Finance official," "multilateral donor official," etc.). Given interviewees' wariness about anonymity, most respondents were reluctant to have the interview recorded with a tape recorder. I therefore took detailed handwritten notes during the interview and transcribed these the same day to fill in details.[7]

Preview of the case study evidence

Chapter 6 reports the findings of the Ethiopian case, Chapter 7 the Kenyan case, and Chapter 8 the Ghanaian case. The structure of each of the chapters is broadly similar. I first describe the political context, outlining the extent of domestic political contestation and, where important, describing the origins of that contestation in the country's recent political history. I next outline donors' interest in a relationship with the recipient government, explaining the bases of recipient significance and whether these have varied over time. I then briefly describe changes over time in the government's portfolio of external finance and the issues under negotiation between the government and traditional donors. Finally, I bring these all together to show whether the government was or was not successful in using reduced dependence on traditional donors to achieve its preferred outcomes in negotiations with those donors. The three case studies are followed by a comparative analysis in Chapter 9, where I revisit the theoretical framework in light of the findings across the cases.

The Ethiopian case is the most successful case of financial statecraft among the three case studies. In Ethiopia high political cohesion and concentrated political authority underpin the government's borrowing choices and the relationship with

[6] Interviews were conducted in English, but for seven interviews with representatives of German and Austrian bilateral donors that were conducted in German.

[7] L. Mosley 2013, p. 25.

the government is important to traditional donors for geopolitical and development effectiveness reasons. These combine to lead to effective debt-based financial statecraft. Unconstrained by contestation, the government is free to take up a wide range of external finance, and, valuing their access to the government, donors are more inclined to accommodate the government's preferences in light of its reduced dependence. Specifically, donors modify their criticism of the governing regime's clampdown on opposition freedoms, largely because continued access to the government is so important and donors are aware that other creditors do not ask critical questions about domestic politics. This becomes particularly clear when the apex of diversified finance is compared to 2016 onward. In more recent years, the government has made concessions it previously would not have considered, since its growing indebtedness has reduced the number of willing lenders, and thus the alternatives available.

In Kenya, the government had a more uneven track record of debt-based financial statecraft. The Kenyan case highlights how political contestation both constrains the range of financing options the government can take up and incentivises politicised distribution, and how this impacts negotiations with donors. While the government secured some wins in negotiations with donors, most notably a dampening of donor criticism of governance and human rights outcomes, in other areas it was much less successful. Donors' concern about the moral hazard of government spending enabled by alternative finance led them to adopt a much stronger stance on issues important to the government, especially financial management. In these areas, the government was much less successful in translating a greater diversity in external finance into preferred negotiating outcomes.

Finally, in Ghana, the government has been the least successful at using new sources of external finance as a basis for greater leverage with traditional donors. Since Ghana's importance to its donors has historically been on the grounds of being a success story of democratization and market-oriented reforms, rather than for geopolitical reasons, Ghana's worsening debt situation decreased its significance to donors, who were more inclined to harden their terms as a form of insurance.

Furthermore, the Ghanaian government was not able to draw on the most potent form of alternative finance, since opposition politicization precluded the ruling government from pursuing close relations with China after a scandal involving illegal goldmining by Chinese migrants in Ghana. This meant that one outside option was removed after about 2014, leaving the government in a worse negotiating position. On issues of macroeconomic policy and public financial management, the government was largely unable to use alternative finance as a means of achieving its preferred outcomes in negotiations with donors.

6

Ethiopia: Successful financial statecraft

In Addis Ababa today, a number of embassies, including those of the United States, United Kingdom, Russia, and Germany, stand on land bequeathed to their respective countries at the turn of the 20th century by Ethiopian Emperor Menelik II. The ample grounds on the outskirts of the city mark out those countries that the Emperor saw as Ethiopia's natural peers at the time. The embassies are also evidence of Ethiopia's long-standing practice of working its foreign relations to its own advantage. The German embassy is separated from the city by the Kebena River and a deep ravine, and only reached by crossing a squat stone bridge, decorated with Gothic lettering that stands out in Addis Ababa and reveals the bridge's provenance. Emperor Menelik II granted Germany the enormous tract of land (now Germany's largest embassy grounds in the world) on the condition that the German government fund and construct a bridge to connect the area surrounding the embassy to the city. Recounting this story in 2017, over a century later, a German diplomat joked it showed Ethiopia's long history of savvy engagement with external partners to achieve its aims, as well as Ethiopia's enduring interest in infrastructure investment. In its contemporary foreign relations, Ethiopia has also been largely successful in achieving its preferred outcomes, translating its access to new forms of finance into greater negotiating leverage with traditional donors.

Ethiopia is the most successful case of debt-based financial statecraft among the three case studies, achieving outcomes across a number of dimensions of donor-recipient negotiations that were aligned with its interests. These include some donors muting their criticisms of shortcomings in the rule of law and democratization, while others avoided punishing the government too harshly for growing debt accumulation. Furthermore, the Ethiopian government has been able to persuade traditional donors to fund key investments as part of its state-led development agenda, even as others in the donor community are sceptical about the merits of this developmental approach. Access to alternative finance enabled the Ethiopian government to push negotiation outcomes in line with the government's preferences, particularly at the height of alternative finance, 2010-2015. I analyse the changes in the donor-recipient relationship from the mid-2000s until the end of data collection in 2017.

The Ethiopian case demonstrates how political contestation and the significance of recipient countries to donors affect the leverage recipient governments are able to extract from alternative forms of finance. In Ethiopia, the absence of significant external challenge has left the government largely free in choosing among financing options. Furthermore, the governing coalition has, until very recently, enjoyed a high degree of internal cohesion. Oriented around the political project of a "developmental state," the governing coalition inhibited internal contestation on ethnic or regional grounds that could lead to particularistic distributive pressures. Since 2018, this cohesion has been called into question with open struggle among various factions and the emergence of a new Prime Minister, Abiy Ahmed, from a previously under-represented group. These recent developments fall outside of the time span covered by this thesis. However, I briefly explain below how they fit with the argument that lower levels of political contestation enabled the Ethiopian government to translate alternative finance into greater bargaining leverage.

The impact of lower levels of political contestation in Ethiopia becomes particularly clear when the case is contrasted with Kenya and Ghana. In Ethiopia, the government was able to draw on a wider range of alternative finance than in either Kenyan or Ghana, where political opponents foreclosed financing options

through vociferous challenge of the government's borrowing patterns. Furthermore, the politics of borrowing and spending in Ethiopia, with finance clearly aligned with the overarching objectives of the developmental state and few clientelistic distributive pressures, left donors more comfortable accommodating the government's preferences than in settings where alternative finance has been deployed in cycles of politicized spending.

The effect of this on Ethiopia's financial statecraft was enhanced by the country's importance to traditional donors. Donors' interest in relations with the Ethiopian government is driven both by geopolitical motivations related to the country's role as an anchor of stability in the Horn of Africa and its symbolic significance in achieving development outcomes. These have enhanced donors' willingness to accommodate the government's preferences, particularly as the government reduced its dependence on traditional donors. Like Kenya, Ethiopia has been able to take advantage of donors' interest in preserving their access to the government.

My evidence for the Ethiopian case stems from over 50 interviews with Ethiopian civil servants, policymakers, academics, journalists, and experts carried out in Addis Ababa, as well as donor representatives based in Addis Ababa and Washington D.C. The interviews were conducted in July and August 2017. Across the four most important categories of respondents in the sample frame — bilateral donors, multilateral donors, resource mobilization, and debt management officials in the Ministry of Finance — I was largely able largely to achieve saturation in my interviews (see Table A.1 in Appendix A). The only category of partial saturation was among debt management officials in the Ministry of Finance. In Ethiopia, this office was small, and I was only able to speak with one person, albeit the most senior official in the department. I compensated for this with interviews with other officials in the Ministry of Finance knowledgeable about debt, for instance in the Fiscal Affairs and Budget units. Furthermore, I spoke with senior officials in key government offices that deal with externally financed projects, the Ethiopian Investment Commission, the Ethiopian Railway Corporation, and the Prime Minister's Office. The response rates among both government and donor

officials were high, with 81% of government officials and 73% of donor officials agreeing to interview requests. Donor officials declining or ignoring interview requests were mostly from emerging donors (e.g. China, Turkey), so these non-responses and declined requests do not limit my insights into negotiations between traditional donors and the government.

Despite efforts to reach a broad range of interviewees, Ethiopia's political context shapes the data available. Information is tightly controlled and officials are cautious about speaking about policy processes. Important decision are taken by a small group of party elites to whom researchers rarely gain access. As far as possible, I therefore supplement interviews with Ethiopia's English language press, as well as material from participation at an annual conference of Ethiopian economists, a workshop on tax reform hosted by the UN Economic Commission for Africa, and a high-profile gathering of Ethiopian business leaders.

This chapter proceeds as follows. Section 6.1 describes the extent of political contestation in Ethiopia, which helps to explain both the choices the government has made with respect to external finance and the government's success in financial statecraft. Section 6.2 identifies Ethiopia's strategic importance for traditional donors, which is decisive for the outcomes of Ethiopian financial statecraft. Section 6.3 provides a brief overview of external finance in Ethiopia, describing the government's preferences and the areas of disagreement in government-donor relations. Section 6.4 demonstrates that Chinese loans and Eurobond financing do act as outside options to traditional donor development finance and shows that these have led to changed outcomes in donor-recipient negotiations. Furthermore, I use within-case variation in Ethiopia's access to alternative to finance to show that a more recent narrowing of financing options has reduced some of the leverage the government had previously acquired. Section 6.5 concludes.

6.1 Minimal government constraints: The EPRDF and the developmental state

Ethiopia's political context has had a decisive impact on the composition of the government's portfolio of external finance and the country's success in translating new forms of finance into preferred negotiating outcomes with traditional donors. In Ethiopia, political contestation has been deliberately limited by centralizing control of the economy, largely impeding the emergence of alternative power bases within or outside of the governing coalition. In addition, the government has cultivated ideological commitment to the political project of a developmental state, further dampening political contestation and establishing long time horizons. However, the government's legitimacy and hold on power rest crucially on delivering the economic growth and transformation promised by the developmental state, lending an urgency to the government's efforts. I describe the emergence of this political context below, since it is crucial to understanding the choices the government made over alternative finance and how this affected its financial statecraft with traditional donors. The combination of long-run objectives with urgency has shaped the government's choices with respect to external finance, with a preference for finance that can be delivered quickly and flexibly. These choices set the government up well for financial statecraft.

There is a long history of consolidated political control in Ethiopia that predates the contemporary grasp on political authority of the ruling Ethiopian People's Revolutionary Democratic Front (EPRDF). The continuity of centralized and autonomous political authority in Ethiopia is distinctive in the sub-Saharan context. Except for a brief occupation by Italy in the 1930s, Ethiopia has never come under the influence of a foreign power. Not only the freedom from outside interference is notable, but also the continuity of centralized political control. Though the exact dates are subject to historical debate and cloaked in national myth, historians suggest the origins of present-day Ethiopia lie in the ancient Aksum kingdom in the 6$^{\text{th}}$century B.C., and the Solomonic dynasty claimed continuous rule of the Ethiopian Empire from the 13$^{\text{th}}$century until the 1970s.[1] Reference to the long

[1] Keller 1988.

history of centralized authority is a common trope in Ethiopian politics, and though the reality of the EPRDF's hold on authority is more complex, such historical allusions are a recurrent feature of donor commentary on the Ethiopian government, reinforcing the sense the government is in control.[2]

The political legitimacy of the EPRDF has come to rest on its ability to deliver development, which it defines not only as an improvement in living standards, but also a transformation from an agrarian to a manufacturing economy. Though delivering economic development is key to the legitimacy of any developing country government, the particular focus and implementation of development policy in Ethiopia emerges out of the political and ideological origins of the EPRDF. The EPRDF rose to power in 1991 after 16 years of civil war against the communist military Derg regime. Several nationalist movements fought against the Derg from its inception in 1975, and the Tigray People's Liberation Front (TPLF), a nationalist revolutionary movement based in the north of Ethiopia, emerged victorious, ultimately aligning itself with other resistance movements under the broad national umbrella of the EPRDF.[3]

In the post-transition period, the TPLF's origins as a revolutionary peasant movement had a strong influence on the political institutions it established.[4] Since the early 1990s, the EPRDF espoused the political doctrine of "revolutionary democracy."[5] Revolutionary democracy was most often defined by contrast with liberal democracy, with two implications. Rather than enshrining individual rights, revolutionary democracy is premised on the rights of collectives, i.e. nations, and rather than being representative, revolutionary democracy entails government by the people.[6] The 1995 Ethiopian constitution decentralizes power on the basis of ethnicity, in line with the ideological commitment to protect the rights of collectivities rather than individuals.[7] This commitment has introduced a pervasive tension

[2]Hagmann 2006; Vaughan 2011.
[3]On the TPLF and the war against the Derg, see: Berhe 2004; Young 1997
[4]Vaughan 2011.
[5]Bach 2011; Hagmann and Abbink 2011.
[6]Bach 2011; Lefort 2007.
[7]Young 1996.

into Ethiopian politics between the autonomy supposedly granted to constituent nations and the centralization established by the EPRDF's party state. This tension manifested itself dramatically in the 1997 war with Eritrea, in which the Eritrean region exercised its ostensible right to autonomy up to secession, triggering conflict with Ethiopia.[8]

Over time, EPRDF leadership came to stress the state's role in economic transformation, and revolutionary democracy transformed into "developmental democracy" and an embrace of the "developmental state." As the influence of Leninism on the party's ideology waned, it was replaced by a conception of the state's central role in development drawing on the work of heterodox economists.[9] The engineer of this ideological shift was Meles Zenawi, a leading figure in the TPLF, head of the EPRDF from 1991, and Prime Minister of Ethiopia from 1995 until his death in 2012, who championed the view that Ethiopia's path to economic development (and that of other developing countries) lies in an activist state that effectively allocates rents to productive sectors.[10]

Importantly for Ethiopian politics, Meles' notion of the developmental state combines economic policy with a claim about the politics required for such a plan to succeed. As de Waal argues, Meles' vision of the developmental state requires deep societal acceptance of the state's role in development; developmentalism has to become "an internalized set of assumptions, not an imposed order."[11] This also means that serious opposition to the ruling party has come to be seen as opposition to development, and therefore cannot be accepted. As Arkebe Oqubay, an EPRDF member and key architect of the Ethiopian developmental state, explains it, "A developmental states...[needs] the autonomy to insulate itself against the narrow interests of specific actors and to secure the support of all social forces."[12] In practice, this has meant the EPRDF does not countenance significant or organized political opposition, which it sees as undermining the consensus on developmentalism. From

[8]Clapham 2016.
[9]Vaughan 2011.
[10]Zenawi n.d.
[11]de Waal 2012, p. 153.
[12]Oqubay 2015, p. 33.

the perspective of critics, this has perpetuated a "top-down, authoritarian, centralist, intrusive and overly uniform approach" on the part of the government.[13]

The regime's unwillingness to accept organized opposition and the reliance on developmental performance to legitimate itself became more pronounced after a key turning point, the contested 2005 elections that shaped both the EPRDF's subsequent strategy and donors' approach toward the government. In the May 2005 parliamentary elections, the EPRDF suffered much greater losses than it anticipated.[14] The regime adopted a heavy-handed response as it delayed recognizing opposition victories. Public demonstrations were banned, journalists arrested, and protesters shot at and killed.[15] To ensure it would not again face such opposition, the EPRDF ramped up its recruitment efforts, expanded the role of the party in everyday Ethiopian life, and emphasized the achievements of the developmental state. To win over sceptical urban voters who had punished the party in the 2005 polls, the EPRDF prioritized interventions in cities and towns, initiating affordable housing developments in Addis Ababa, intensifying road-building projects, and in 2015 opening a light rail tram system in Addis.[16] The EPRDF was remarkably successful in reasserting its dominance. In the 2010 election only one opposition MP was elected, by 2015 it was not a single one.[17]

This combination of close political control and demonstrable developmental achievements as a means to counter potential political vulnerabilities persisted into the 2010s. Despite the EPRDF's dominance over the electoral process, unrest in 2015-2017 highlighted potential fragilities in the governing coalition. The EPRDF's umbrella structure includes three other ethnically-based parties in addition to the TPLF, including parties representing the two largest ethnicities in Ethiopia, the Oromo and Amhara. When protests emerged in the Oromia and Amhara regions surrounding the capital Addis Ababa in 2015 and 2016, the parties in the governing

[13]Lefort 2013.

[14]The opposition won 174 out of 546 seats in the House of People's Representatives, especially in cities and larger towns, as well as all the seats on the Addis Ababa city council.

[15]Abbink 2006; Clapham 2005.

[16]Khisa 2019.

[17]Abbink 2017.

coalition initially largely supported the government's heavy-handed response to the unrest.[18] Publicly, it appeared there was a consensus within the EPRDF that protests against the government were an unfortunate consequence of its own successes, with rapid economic growth raising the public's expectations, leading to frustration especially among Ethiopian youth.

However, by 2017 the enduring unrest activated fractures in the governing coalition. Amhara and Oromo representatives called into question the TPLF's historic dominance of the EPRDF and an Oromo, Abiy Ahmed, was selected in March 2018 as chairman of the EPRDF and Prime Minister of Ethiopia, after a period of internal wrangling. As Prime Minister, Abiy notably diverged from the policies of his predecessors, removing key TPLF officials from influential security portfolios, pursuing rapprochement with Eritrea, and calling into question the developmental state agenda. These most recent political developments in Ethiopia fall outside of the time span of the thesis, since the last interview material was collected in Addis Ababa in August 2017, and it is still unclear whether policy shifts under Abiy represent a lasting change to government policy. Nevertheless, while Abiy's rise does suggest that internal fractures within the EPRDF became more decisive over time, it does not undermine the categorization of Ethiopia as a case with lower levels of political contestation, particularly when compared to Kenya and Ghana. Until 2017 at least, the governing coalition enjoyed fairly extensive internal cohesion and certainly insulation from external challenge.[19]

To understand Ethiopia's relations with its donors and creditors, there are two important features of the EPRDF government in the period under study. First,

[18]The protests were initially triggered by a proposed urban development plan for Addis Ababa that would have seen the city's borders expand into Oromia. Over time, protests became a broader outlet for the frustrations of Oromos and Amharas, who together make up 60% of Ethiopian population and contend they are excluded from political influence in the EPRDF's leadership structure. News reports suggest that 900 people were killed during the months of protests.

[19]Cohesion within the EPRDF coalition was most extensive up to 2012, the year of Prime Minister Meles Zenawi's death. Meles' charismatic leadership played a substantial role in keeping the governing coalition together. Meles' successor, Hailemariam Desalegn, was less of a uniting force, and fractures began to open up within the TPLF and between the TPLF and other parties in the EPRDF after his succession. These widened further in the face of the 2015-2017 unrest. The unrest also led to greater coordination among parties representing the Amhara and Oromo, creating a counterweight to the TPLF within the EPRDF. Fisher and Gebrewahd 2018.

while the government operates under long time horizons due to extensive control of political authority, there is also an urgency stemming from legitimacy based on delivering economic development. Second, the governing coalition is motivated by a vision of the state as an active agent in the process of economic development. Unlike in Ghana or Kenya, the EPRDF was not making decisions about foreign financing against the backdrop of day-to-day opposition critique, nor was it making decisions with concerns about the next election at the forefront. As one donor representative in Addis Ababa put it, "This is a government that plans to be in power in a generation. So there is a degree of long-term thinking that might be absent elsewhere."[20] However, in addition to such a long-term view, the regime was also aware that its legitimacy rested on delivering tangible development as quickly as possible. The representative of a multilateral development bank explained this anxiety with reference to an analogy used by the late Prime Minister Meles Zenawi,

> To understand [the government], you have to think of something Meles once said. 'Ethiopia is running very fast in its development, it's running downhill. But it's also being chased by a boulder, and that boulder is poverty. If we don't manage to run faster than poverty, we will be crushed by it'...So, the motivation is to run quickly to achieve some development...their motivation is to outrun the boulder.[21]

This combination of long-run objectives with urgency also shaped the government's choices with respect to external finance. There was a preference for finance that can be delivered quickly, with potential for rapid economic impact, and which gives the government flexibility, setting the government up well for financial statecraft vis-à-vis traditional donors.

6.2 Minimal donor constraints: Ethiopia's importance

Ethiopia's success at financial statecraft comes from the choices the regime made with respect to external finance, as well as the value that traditional donors place

[20]Interview 125. Bilateral donor representative. Addis Ababa, Ethiopia. July 13, 2017.
[21]Interview 119. Multilateral donor representative. Addis Ababa, Ethiopia. July 10, 2017.

on their access to the government. As argued in Chapter 2, donors are more likely to respond to recipients' access to outside options with concessions and accommodations if donors particularly value their access to the government. In Ethiopia, donors value their access to the government for two main reasons. First, donors have geopolitical motivations to cooperate closely with the government. Given volatility in the Horn of Africa, Ethiopia is seen as an anchor of stability, and most donors perceive Ethiopia's role in Somalia, Sudan and South Sudan as productive. Second, the government's effectiveness in implementing development programs, as well as the country's obvious development needs, mean that donors see Ethiopia as an important partner in achieving "development effectiveness." Furthermore, the EPRDF has been deliberate in crafting Ethiopia's international image, making it more attractive as a partner for donors. For all these reasons, donors are keen to remain active in the country even if domestic political repression or certain economic policies are cause for wariness. Against this backdrop, the EPRDF's access to alternative financing has prompted traditional donors to make concessions, as described in the following sections.

6.2.1 Geopolitical importance

Ethiopia's geopolitical significance to donors is determined by the role the country has played in regional conflicts, especially in connection with the "Global War on Terror," its position as an anchor of stability in a volatile neighbourhood, and its hosting of refugees from the subregion.[22]

Ethiopia's support for US policies associated with the Global War on Terror was decisive in increasing US assistance to the regime over the course of the 2000s. US ODA to Ethiopia rose from an average of 114 million USD per year in the 1990s to 492 million USD per year in the 2000s.[23] As Borchgrevink notes, this affected the US stance toward the EPRDF government, "Western — and in particular US — interests in containing the spread of radical Islamism in the Horn of Africa, a recognition of

[22]Feyissa 2011.
[23]OECD, Aid (ODA) commitments to countries and regions.

Ethiopia's legitimate security concerns towards Somalia, and the concern for regional stability were important reasons for toning down criticism of the EPRDF regime."[24]

This accommodating position has persisted well into the 2010s. For instance, when visiting Ethiopia in 2015, US President Obama twice referred to the EPRDF regime as "democratically elected" in a press conference, after an election in which the EPRDF and its associated parties had won 100% of the seats in Parliament.[25] It is not only the US that is sensitive to Ethiopia's relative stability within the region. As one representative of a small European bilateral donor put it, noting that ethnic diversity could become a source for instability in the absence of a strong EPRDF regime, "The strategic significance of the Horn of Africa is so pronounced that donors can be very cautious. The attitude is sort of 'we'll close our eyes to that, because if it falls apart here [in Ethiopia] then we'll have a Yugoslavia on our hands'."[26]

For European donors, this view of Ethiopia's strategic significance has been compounded in recent years by the role that Ethiopia has played as host country to refugees in the region. Maintaining stability in Ethiopia is thus important for stemming flows of refugees to Europe. Ethiopia is one of five African countries, and the only East African country, to receive funds from the EU through the "Migration Partnership Framework" established in 2016.[27] This stance has also translated into supporting the regime's economic policies. In a recent project co-financed by DFID, the EU, and the World Bank (discussed further below), the government received financing for a key component of its industrial transformation agenda under the condition that a portion of the jobs created are reserved for refugees.

6.2.2 Development effectiveness

Second, donors value their access to the Ethiopian government because its effectiveness in implementing development policy makes Ethiopia a valuable counterpart for donor agencies keen to demonstrate the impact of their aid. Though the substantive orientation of the EPRDF's economic policy splits the preferences of

[24] Borchgrevink 2008, p. 214.
[25] Baker and Fortin 2015.
[26] Interview 169. Bilateral donor representative. Addis Ababa, Ethiopia. August 18, 2017.
[27] European External Action Service 2016.

donors, even those who are critical of the regime's state-led approach appreciate the government's ability to translate development plans into concrete outcomes, achieving considerable economic growth and poverty reduction.[28] As Abbink puts it, the government benefits from "the image of a stable and fast-growing economy that "delivers"."[29] One donor representative explained, "Success attracts friends, and we all want to be part of that glow."[30] Another donor representative noted that the government's "progress leads to credibility, and everybody wants to be partners with you when you have results."[31] Government officials recognized this appeal for donors. As one Ministry of Finance official noted, commenting on the retrenchment of aid in other developing countries, "If you have a situation [like in Ethiopia], where aid is working, you [the donor] will not discontinue."[32]

Furthermore, Ethiopia's poverty and substantial economic need motivate donors to remain active in the country. Furtado and Smith highlight how this leads some donors to overcome their scepticism of the regime's approach, "Donors, on occasion, find themselves uncomfortable with certain elements of the government's policy agenda. Nonetheless, because of the country's size and level of need, most donors want to provide support. This gives the government substantial bargaining power."[33] Together, the Ethiopian state's administrative effectiveness in implementing development programs and the country's significant poverty motivate donors to remain active in the country even when they regard certain policies critically.

This combination of factors has given the EPRDF leverage when negotiating with donors, and sets it up well to use access to outside options as a basis for financial statecraft. Despite Ethiopia's considerable aid dependence, donors are also dependent, in part, on the regime. This has lent it strength in bargaining with donors. In Whitfield's study of negotiations between donors and aid dependent

[28]Feyissa 2011.
[29]Abbink 2017, p. 315.
[30]Interview 122. Multilateral donor representative, Addis Ababa, Ethiopia. July 11, 2017.
[31]Interview 131. Multilateral donor representative. Addis Ababa, Ethiopia. July 17, 2017.
[32]Interview 128. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.
[33]Furtado and W. J. Smith 2009, p. 153.

African countries, Ethiopia stands out among the case studies as a recipient country that negotiates effectively with donors to achieve aid outcomes that are in line with the EPRDF's objectives.[34] As one donor representative starkly put it, speaking of the government, "If you don't follow their rules, you'll just have to leave, and they don't care...they [the government] engage in partnership with very strict conditions, probably the strictest you'll see."[35]

6.2.3 A carefully crafted international image

These two bases of Ethiopia's importance to donors are enhanced by a deliberate strategy on the part of the Ethiopian government to cultivate a positive international image. The international community's perception of Ethiopia shifted enormously in the 1990s after the fall of the Derg, with the government assuming a position of reliable and trusted partner for many donors. As Clapham puts it, "Ethiopia's international standing was transformed from near pariah status into a favoured position in the new global order, notably among aid donors for whom the new government's apparent honesty, efficiency and dedication especially to transforming the lives of the rural masses chimed precisely with their own agendas."[36] Many donors saw Ethiopia's institutional reforms in the 1990s, including the introduction of the constitution, as evidence of the country's liberalization. Abbink notes, "Donor-country diplomats, especially, are charmed by this formal façade of Ethiopian politics and always place high hopes in the promises offered by political leadership."[37]

Nonetheless, the violence and severity of government repression in the aftermath of the 2005 election drained much of the confidence that outside observers had in the liberalization of the regime. Most donors withdrew general budget support after 2005 to distance themselves from the government. Yet even as tensions emerged over the government's respect for political rights, the regime's emphasis on the developmental state during this period offered donors an opportunity to draw connections between EPRDF policy and their own interests, especially given the

[34] Whitfield 2009a.
[35] Interview 141. Bilateral donor representative. Addis Ababa, Ethiopia. July 26, 2017.
[36] Clapham 2009, p. 183.
[37] Abbink 2006, p. 177.

development community's focus on the Millennium Development Goals and poverty reduction at this time.[38] This again showed what Clapham calls the EPRDF's "ability to present its own interests as the answers to other actors' problems."[39] Some of Ethiopia's importance to donors has therefore been deliberately constructed by the EPRDF by couching its own objectives in the language of outsiders' preferences.[40]

6.3 Aid and development finance in Ethiopia

In this section, I describe the variation over time in Ethiopia's portfolio of external finance, explaining the government's choices as new forms of finance became available, as well as outlining the areas of divergence between the government and traditional donors. This sets up the discussion in the following section of how Ethiopia's diversity of external finance has translated into negotiating outcomes with traditional donors, explaining the funds available to Ethiopian government and the issue areas where financial statecraft was most likely to be applied. Throughout, the government's preferences over external finance have been shaped by the political context, especially the demand for financing for investments in the developmental state. As one government official put it, describing how the choices of financing relate to government strategy, "the kind of government we have had in the last 25 years and the development strategy the government put in place, shapes all economic policy, including external economic cooperation."[41] These preferences became more relevant when the range of potential finance expanded from the mid-2000s onward.

As a comparison, I first describe aid and finance prior to debt forgiveness in 2004. In this period, Ethiopia was dependent on traditional donor aid and divergences with traditional donors focused on economic policy and the conflict with neighbouring Eritrea. Next, from the mid-2000s onwards, Ethiopia experienced a diversification in its portfolio of external finance, most prominently a rapid expansion of Chinese lending (see Figure 6.1). During this time, disagreements

[38] Feyissa 2011.
[39] Clapham 2009.
[40] A recent example of this is the EPRDF's framing of its industrial policy in terms of a "Green Economy."
[41] Interview 128. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.

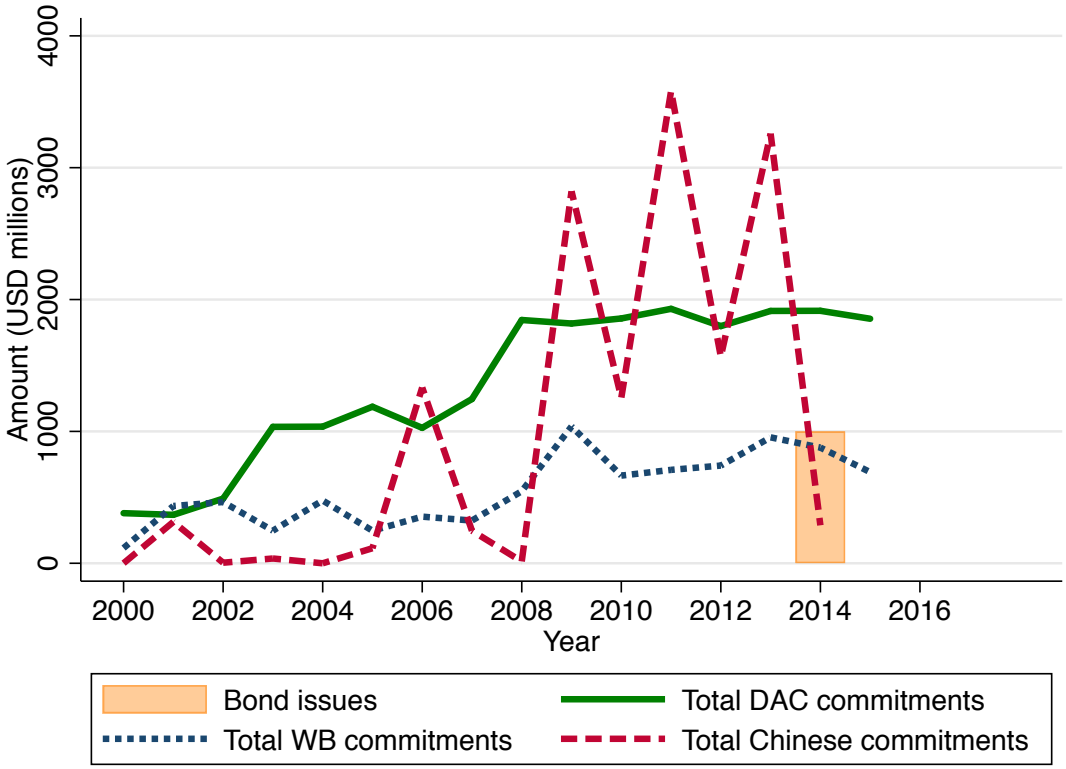


Figure 6.1: Ethiopia's portfolio of external finance, 2000-2016

with donors shifted towards governance questions. Finally, from the mid-2010s, Ethiopia's debt level increased (see Figure 6.2), narrowing the government's portfolio of financing options and somewhat increasing its dependence on the concessional finance provided by traditional donors.

6.3.1 1991-2005: Post-transition Ethiopia

In the years after the EPRDF came to power in 1991, Ethiopia was highly aid dependent. Aid from OECD DAC donors averaged 35% of GDP 1990-1995. There were few alternatives to traditional donor finance at this time and the vast majority of external finance to Ethiopia came from traditional OECD DAC donors. In 2001, these donors formed institutional mechanisms for coordination, establishing the Development Assistance Group (DAG) that both facilitated coordination among donors over their separately funded development projects, and pooled donor funds for support of Ethiopia's development plans. At the time, these traditional donors

Table 6.1: Total commitments of top DAC-reporting donors to Ethiopia, 1995-2017 (millions 2016 USD)

	1995-2000		2001-2010		2011-2017	
	Donors	Total	Donors	Total	Donors	Total
1	WB	1,963	US	6,470	WB	15,850
2	EU	1,007	WB	6,008	US	12,317
3	US	647	EU	2,426	EU	3,704
4	Italy	424	UK	1,619	AfDB	3,149
5	Germany	328	AfDB	1,494	UK	3,060
6	AfDB	299	Canada	786	Canada	1,544
7	Netherlands	278	Germany	781	Germany	1,511
8	Norway	237	Italy	612	Netherlands	1,161
9	Japan	198	Netherlands	586	Japan	1,112
10	UK	158	Japan	505	Italy	796
11	Canada	155	IMF	444	Norway	726
12	Sweden	139	Ireland	402	France	716
13	France	68	Sweden	373	Ireland	655
14	Belgium	62	Norway	346	Sweden	632
15	Australia	46	France	234	Korea	530

enjoyed a virtual monopoly on the supply of development finance in Ethiopia, and the DAG ensured a degree of coherence in these donors' stance towards the government

During this period, negotiations with traditional donors focused on economic policy. The newly established government clashed with the IMF over proposed economic reforms. Though it agreed to open the economy to domestic private investors, expand the range of sectors open to foreign investors, and remove price and distribution controls, the government also refused certain policy proposals, prohibiting foreign participation in the Ethiopian banking sector and failing to fully liberalize the exchange rate. Relations with the IMF worsened over the course of the decade, and the Fund halted disbursement of its loans by 1997.

Alongside economic reforms, negotiations with traditional donors during this period focused on security issues. A number of bilateral donors, especially Nordic ones, suspended their aid in 1997 after the outbreak of hostilities with Eritrea to avoid aid being deployed in the conflict. By contrast, the US increased its aid allocations during this period, given its geopolitical concerns about stability in the

region, particularly in Somalia.[42] The trend in US support continued into the early 2000s, as Table 6.1 shows, making the US Ethiopia's largest donor in the 2000s.

6.3.2 2005-2015: A contested election, donor concerns, and increasingly diversified finance

Debt forgiveness in 2004 marked the beginning of a period of expanded financing options for the Ethiopian government. Chinese lending increased rapidly during this time, the government borrowed from other non-traditional bilateral lenders, and in the 2010s private finance became an additional alternative.

During this period of diversification in Ethiopia's portfolio of external finance, the focus of government-donor relations concentrated on governance issues. In the aftermath of the contested 2005 election, most donors halted general budget support, unwilling to provide direct support to the government. In the following years, most traditional donors that had previously provided budget support rerouted their funds either into discrete development projects or sector-specific budget support, where they were able to exercise greater control over the use of funds.[43] The government often bristled at what it saw as intrusive commentary on domestic politics. As one official put it, reflecting a broader view, "We are still at a low level of democracy, and if we have to consider this [democracy], we will not develop...if you talk to European countries, they give resources as an instrument to rectify human rights, political issues. When China ignores this, countries in Africa tend to prefer this model, because it doesn't put pressure on the country."[44]

In 2006, Ethiopia signed its first large loan agreements with China ExIm Bank, including a 500 million USD loan for the construction of a hydroelectric power plant and expansion of a cement factory and an 822 million USD loan to fund an extension of Ethiopia's telecommunications infrastructure by China's ZTE corporation.[45] These projects were only the beginning of what came to be an enormous flow of Chinese finance over the following decade (see Figure 6.1). Over

[42] Borchgrevink 2008.
[43] Furtado and W. J. Smith 2009.
[44] Interview 129. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.
[45] AidData 2014.

the 2000-2014 period, Ethiopia was the second largest borrower from China of any country in sub-Saharan Africa, after Angola, according to both the AidData and CARI datasets. Two factors drove the government's interest in Chinese finance. First, the Chinese stance of non-interference, which was contrasted favourably with traditional donors' perceived scrutiny of governance issues. Second, the focus of Chinese lenders on financing infrastructure projects, which aligned well with the objectives of the developmental state.

China's official stance on non-interference in the domestic affairs of borrowing countries is well known, and is important in explaining the uptake of Chinese finance in both Ethiopia and Kenya. In Ethiopia, government officials explicitly contrasted China's position with that of traditional donors. As one Ethiopian government representative explained, "On politics, they [China] say 'this is your internal affairs, I have no right to say'. There's no suspension or termination of loans with related issues."[46] An official from the Chinese Economic and Commercial Counsellor's office in Addis Ababa noted this appeal of Chinese finance outweighed the higher interest rate cost of Chinese loans,

> The Chinese loans, I think, they cannot compete on interest rate with the World Bank. So I don't know why Ethiopia prefers Chinese financing? But I think one reason is that our financing does not have conditions. We don't ask for changes. The World Bank says you can have this low interest rate, but you must make these adjustments.[47]

The Chinese official stance of political non-interference was thus directly compared with the perceived intrusion of traditional donors.

Furthermore, the infrastructure focus of much Chinese finance has been particularly attractive to the EPRDF, aligning with its developmental state objectives. Government officials often drew comparisons between Chines finance and that of traditional donors in this respect, favourably noting the flexibility and speed of Chinese loans. An official at the Ethiopian Ministry of Finance tasked with managing Ethio-Chinese relations explained,

[46]Interview 129. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.
[47]Interview 151. Bilateral donor representative. Addis Ababa, Ethiopia. August 7, 2017.

> The greatest advantage [of Chinese financing] is that as long as you have a feasible project, they're ready to finance anything. Especially loans. That's not the case for other countries, for America, for Europeans. Their reason is that Ethiopia's GDP is so low, so they say you don't deserve such a big loan. China's perspective is, if you have a feasible project, they think it will have returns, so they will finance it.[48]

Moreover, the speed in agreeing and disbursing financing is also well suited to the regime's political incentives. As one official from the Ethiopian Investment Commission stated, "The most scarce resource in the government's system is time. We always want things done yesterday. And that's a problem with the World Bank. That's part of why we rely on the Chinese."[49]

In addition to China, other non-traditional bilateral lenders joined Ethiopia's portfolio of external finance during this time. India's Export Import bank opened an office in Addis Ababa in 2010 to cover the entire East African region and extended a 300 million USD credit to Ethiopia a few years later to fund a portion of a railway connecting landlocked Ethiopia to the port of Djibouti. In 2015, the Saudi Arabian central bank made a deposit of 1 billion USD with the Ethiopian central bank, helping to ease the country's foreign exchange constraints.

A further diversification of funding sources came at the end of this period, as the Ethiopian government drew on private external financing. In December 2014, Ethiopia made its debut in international bond markets, issuing a first-ever international bond of 1 billion USD at an interest rate of 6.625% and a maturity of 10 years, an attractive rate that lay below the mean for sub-Saharan African issuers in 2014 (excluding South Africa). Considering the government's heterodox development approach, the choice to borrow in international markets and open itself up to foreign investors' scrutiny appears surprising. However, the political context and government's developmental approach shaped the move into international bond markets in two ways. First, the decision to issue the Eurobond was motivated by the desire to access unconditional funds to realize key public investments faster

[48]Interview 129. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017

[49]Interview 148. Ethiopian Investment Commission representative. Addis Ababa, Ethiopia. August 3, 2017.

than would be possible with traditional lenders and donors. Second, the regime saw the success of the Eurobond as a means of validating its developmental approach by demonstrating market confidence.

The appeal of the flexibility of Eurobond proceeds was illustrated in the government's use of the bond to fund a key, expensive component of its industrial policy, its industrial parks. Following East Asian examples, the government chose to develop industrial parks as special economic zones to encourage foreign investors to establish manufacturing operations in Ethiopia. Bond market financing gave the government the freedom to execute the project to its own preferences, allowing it to develop a "proof of concept" that gave it leverage in securing funding from donors to develop future industrial parks. As one World Bank official noted, reflecting on how the government's experience has affected subsequent negotiations over funding for further industrial parks, "When you go to negotiate with them [the government], they can say 'We did it already'. They know more than anyone in the World Bank."[50] Representing the broad sentiment among government officials, one Ministry of Finance representative explained the appeal of the Eurobond, "Of course, it's not cheap, but nevertheless it's very good. It's more flexible, it's not project tied, it's not tied to conditions."[51]

A further appeal of the international bond was that it gave the government a demonstration of market confidence, which government officials counterposed to criticism by international financial institutions. When the bond was issued in December 2014, it was oversubscribed by 260%, a surprising level of investor interest in a debut bond by an unknown issuer. Market analysts interpreted this as a sign of investors' risk-appetite in a global low-yield environment.[52] The government, however, interpreted market interest in the bond as confirmation of its economic policy. A senior official at Ethiopia's central bank explained that investors responded to Ethiopia's policies, in his view, untainted by the ideological

[50]Interview 122. Multilateral donor representative, Addis Ababa, Ethiopia. July 11, 2017.
[51]Interview 126. National Bank of Ethiopia representative. Addis Ababa, Ethiopia. July 14, 2017.
[52]Blas 2014.

outlook of international financial institutions, "Investors are pragmatic people, they have pragmatic concerns, they don't have any ideology. They're different from the IMF or the World Bank...the rating agencies create a good view of our economy, they are connecting us to practical investors, which is different from the IMF and their view."[53] For the government, the success of the bond issue provided outside confirmation of its policies, allowing it to counter the position of international financial institutions.

In addition to the Eurobond, the government took on a 1.4 billion USD syndicated loan arranged by Credit Suisse in 2014 to finance a railway project. The choice to draw on these different forms of private commercial finance represented a new approach to development finance on the part of the EPRDF. Not only did it signal a willingness to accept and pay for market finance, it also showed the extent of capital required to realize the EPRDF's ambitious development program.

6.3.3 2015 onwards: Growing indebtedness and constraints

The final period of government-donor relations in Ethiopia began with the increase in the government's debt burden from the mid-2010s onwards. During this time, the government's concerns about debt sustainability led it to be increasingly wary of taking on additional non-concessional finance, thereby narrowing its portfolio of external finance and increasing its dependence on the concessional finance provided by traditional donors. Negotiations with traditional donors during this period focused both on governance issues and economic policies.

As Figure 6.2 shows, Ethiopia's debt burden has increased considerably since debt forgiveness in 2004, even more so since the early 2010s, when the government signed the largest loans with China. More importantly, the cost of debt service as a share of export earnings has increased steadily since the early 2010s, reaching levels similar to those prior to debt relief. In 2013, the World Bank and IMF debt sustainability analysis (DSA) first recategorized Ethiopia's risk of debt distress from "low risk" to "moderate risk." While the government initially ignored warnings

[53]Interview 126. National Bank of Ethiopia representative. Addis Ababa, Ethiopia. July 14, 2017.

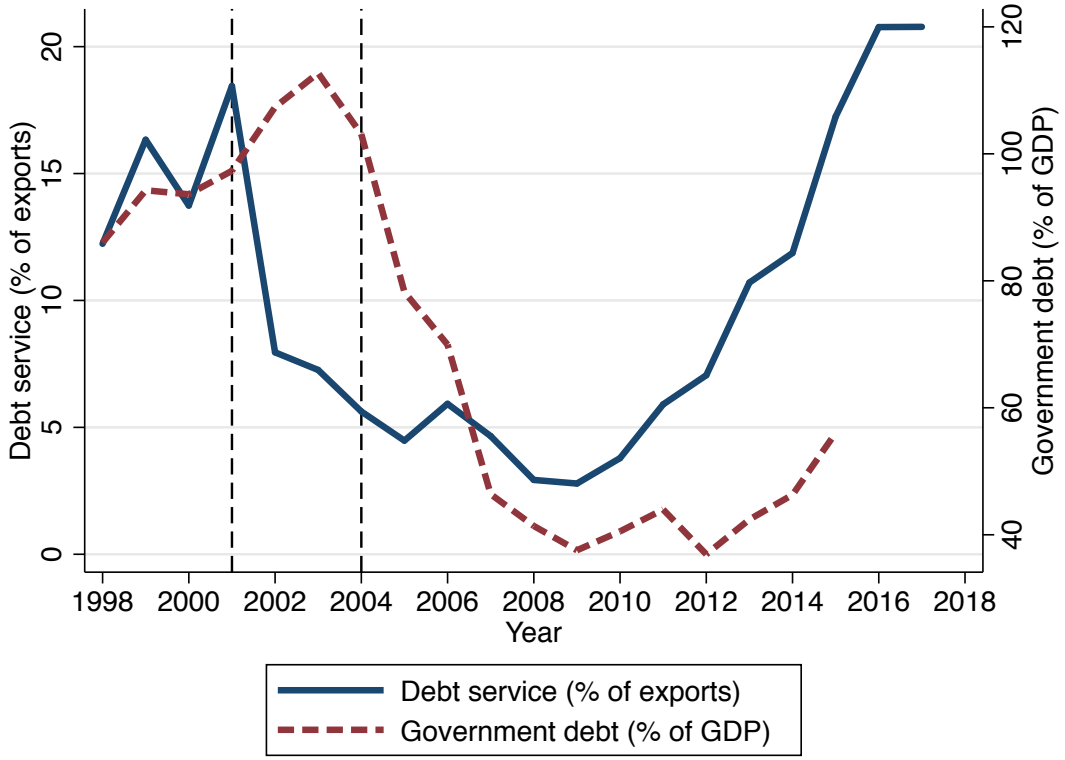


Figure 6.2: Ethiopia's debt sustainability indicators, 1998-2016
The decision and completion point for donors' debt relief were 2001 and 2004, respectively

to cut back on its non-concessional borrowing, by 2016 the government became increasingly cautious about non-concessional debt, worried that an unsustainable debt burden could increase dependence on traditional donors or frighten investors. Given the worsening debt statistics, some Chinese creditors became less willing to lend to the Ethiopian government. An official from the Chinese Economic and Commercial Counsellor's Office in Addis Ababa confirmed that China ExIm Bank was taking greater precautions in its lending to Ethiopia and had turned down projects in 2017.[54] Such precautions did not preclude all Chinese aid and finance, but slightly narrowed the range of finance available to the government.[55]

During this time, negotiations between the government and traditional donors focused on both governance issues and economic reforms. The government responded

[54]Interview 151. Bilateral donor representative. Addis Ababa, Ethiopia. August 7, 2017.
[55]While the AidData dataset ends in 2014, the CARI dataset runs to 2017 and estimates that China provided 652 million USD in finance to Ethiopia in 2017. Brautigam and Hwang 2016.

harshly to the protests that emerged in 2015, declaring a state of emergency in 2016 that was extended in 2017, giving the military the power to enforce security throughout the country and shutting down internet access during periods of intense protest. Much like the 2005 election, these events brought governance and political rights to the forefront of engagement between traditional donors and the Ethiopian government. Alongside this, the government and donors also continued to diverge on the pace of economic reform. While almost all traditional donors lauded the effectiveness of the government's development interventions, some disagreed with the government on the pace of economic reform, urging more rapid privatization in key sectors, as well as liberalizing access for foreign firms.

6.4 Financial statecraft of debtors in Ethiopia

In Ethiopia, access to alternative finance translated into successful financial statecraft. The government's expanded portfolio of external finance allowed it to achieve negotiation outcomes with traditional donors that were more aligned with its preferences. Across three areas of disagreement between the government and traditional donors, negotiation outcomes shifted to be more in line with the government's preferences when the government had a broader and more diverse portfolio of external finance: the process of aid disbursement, governance, and economic reforms.

Of these, the change in negotiation outcomes was most pronounced with respect to governance issues. Traditional donors muted their public criticism of the government's political rights record, aware that the government had access to alternative financing that would not require it to answer questions about its governance track record. On issues of economic policy, donors were more supportive of the government's approach to development policy. This becomes particularly clear when negotiation outcomes from a period of diverse finance are compared with negotiation outcomes during the most recent phase, when Ethiopia again became more reliant on traditional donors' concessional finance. As I describe below, during this constriction of external financing options, negotiation outcomes on economic

policy came to align more closely with donor preferences again. This reveals the role that alternative finance played in bolstering the government's previous negotiating position. Finally, Ethiopia had a few successes in persuading donors to alter their procedures for disbursing and monitoring aid, including relaxing the responses to the government's breaching of a pre-agreed borrowing limit. However, most aspects of donors' aid procedures, especially those of multilateral donors, proved difficult to shift.

Throughout, two things are noteworthy in comparison to Kenya and Ghana. First, Ethiopia's domestic political context led to a different pattern of borrowing and spending than either Ghana or Kenya, which increased its success in translating a wider range of financing options into leverage with traditional donors. Relatively unconstrained by political contestation, the Ethiopian government was free to take advantage of a wide range of alternative financing, increasing the range of outside options that could place pressure on traditional donors. Furthermore, unlike in Ghana and Kenya, donors were less likely to worry about the moral hazard of Ethiopian government borrowing from new sources, believing that the government's spending allocations were more likely to be guided by investment objectives of the developmental state than clientelist pressures. Second, Ethiopia's significance to traditional donors meant that donors made concessions so as not to lose access to an important partner.

I first show that alternative finance acted as an outside option to traditional donors' development finance and then describe how the government translated this into financial statecraft, leading to changed outcomes in negotiations with donors. Finally, I show how relations between traditional donors and the Ethiopian government have shifted more recently in an environment of constrained external finance.

6.4.1 Alternative finance as an outside option

In Ethiopia, both the government and donors saw Chinese loans and private finance as outside options, i.e. alternatives to the development finance provided by traditional donors. As such, alternative finance was seen as reducing the

government's dependence on traditional donors, even when alternative finance was channelled into projects and sectors that were different than those funded by traditional donors. The distinctive focus and uses of new forms of external finance was precisely what made them an *attractive* alternative to traditional development finance, i.e. an outside option that had the potential to improve the negotiation outcome with traditional donors. The Ethiopian government also enhanced donors' awareness of its access to outside options, deliberately playing donors off against each other.

Government and donor representatives all stressed that alternative financing, especially Chinese loans, allowed the EPRDF regime to carry out politically valuable projects it would have been unable to fund with traditional donor aid, providing an important alternative. As an official from the Ethiopian Ministry of Finance put it, "Chinese financing is changing everything. The railway, the tram, this is all unthinkable from the others, from the Western world."[56] Government officials described Chinese finance as allowing it to realize its ambitious targets, by contrast to traditional donors' more conservative approach,

> For the broad-based growth that Ethiopia hopes to achieve, the traditional donors are...too conservative, cautious, they think we're not ready. Take the Great Renaissance Dam, take the Addis-Djibouti railway, we wouldn't have been able to do that with them, we wouldn't have been able to do it without raising our own resources or other external resources.[57]

In practice, this led to a differentiation among donors, with traditional donors funding more social sector projects and China providing financing for infrastructure investment.

This tendency for donors to fund different types of projects did not obviate donors' concerns about their access to the government. In fact, the different focus of alternative finance made it more attractive to the government than much of traditional donor financing, and some donors feared the infrastructure focus of Chinese finance would undermine their own access to the government. As the

[56]Interview 129. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.
[57]Interview 128. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.

representative of one European donor put it, "This was the Europeans' mistake, that now China and Turkey come in here more and more. We didn't think enough about financing for infrastructure, and that's what governments need...If we continue this way, then we will become irrelevant."[58] Traditional donors clearly recognized that other financing provided an attractive alternative without some of the features that the government finds burdensome about traditional donor finance. One donor noted, "If the government wants to go quickly, if they don't want to be slowed down by environmental or social safeguards, they will go for expensive money from China, where you don't even a need to do a project feasibility study."[59]

The Ethiopian government also played an active role in signalling its access to outside options to donors, more so than in either Ghana or Kenya. One donor representative described the government's tactics, "The government does that all the time, not quite playing donors off each other, but definitely limiting cooperation...for example commissioning the same study from two different donors."[60] For instance, one Ministry of Finance official explained the importance of having a "competitor" or outside option on governance issues,

> If there is a competitor, it means you can get a good term sheet for the project. Sometimes if there is conditionality, that is a problem. Some from America are always saying, 'You give preference to the Chinese!' But that's not the case. The Chinese never asked us, for example, for good governance changes. For America, it is a part [of aid].[61]

The availability of a wide range of different lenders made this strategy feasible. As one government representative explained, "The current international system is good because you can work with all of them without lining up with one. We work with the US, we work with China, we work with Europe...we are free to choose, we will not be dictated, so in that sense it is a source of leverage."[62] This freedom to choose among different creditors, and the associated leverage, was a marked change from Ethiopia's dependence on traditional donors in the 1990s.

[58]Interview 169. Bilateral donor representative. Addis Ababa, Ethiopia. August 18, 2017.
[59]Interview 119. Multilateral donor representative. Addis Ababa, Ethiopia. July 10, 2017.
[60]Interview 144. Bilateral donor representative. Addis Ababa, Ethiopia. July 28, 2017.
[61]Interview 134. Ministry of Finance representative. Addis Ababa, Ethiopia. July 19, 2017.
[62]Interview 129. Ministry of Finance representative. Addis Ababa, Ethiopia. July 17, 2017.

6.4.2 Outside options and the success of financial statecraft

The Ethiopian government's access to outside options increased its leverage with traditional donors, leading donors to adopt a more accommodating stance. Donors' changed position in negotiations was a function of both the government's expanded range of financing options and Ethiopia's strategic significance. Few donors were willing to sacrifice their access to the government, particularly knowing that the government was likely to cultivate an even closer relationship with China in response.

There is some evidence that the Ethiopian government was successful in aligning donors' formal aid processes with its preferences. In one important example, the World Bank's application of debt rules gave the government more leeway than it would otherwise have had, maintaining its access to attractive concessional finance. As a low income country eligible for IDA credits and having received multilateral debt relief, Ethiopia falls under the World Bank's non-concessional borrowing policy. This policy is intended to monitor countries' non-concessional borrowing to mitigate potential moral hazard problems arising from countries using the fiscal space acquired through debt relief to take on large amounts of new commercial debt.[63] In practice, this means that the World Bank sets non-concessional borrowing limits for Ethiopia and other developing countries to mitigate risks of debt distress and free-riding by commercial creditors. In 2013 and 2014, the World Bank set Ethiopia's limit for non-concessional borrowing at 1 billion USD per year. The Ethiopian government flagrantly violated these limits, contracting 5.8 billion USD in non-concessional debt in 2013 and 2.9 billion USD in 2014, mostly in loans from China.

The World Bank has two tools to respond to borrowing countries' breaches of the non-concessional borrowing policy. It can harden the terms of its financing, making funding more expensive, or make cuts to the amount of allocated IDA funding, reducing the amount of funding available. The non-concessional borrowing policy suggests that cuts of 20-40% to an IDA allocation are appropriate for extensive violations of agreed borrowing limits.[64] When faced with Ethiopia's

[63] World Bank 2006.
[64] World Bank 2006, p. 22.

breach of the agreed debt cap in 2014, the World Bank considered the range of possible responses. A confidential, internal World Bank document shows that proposals included hardening financing terms to an intermediate "blend" level or changing the terms of borrowing even further toward market terms. According to the non-concessional borrowing policy, Ethiopia's market access and extensive violation of the debt ceiling made it a candidate for a substantial hardening of financing terms. In the end, however, the World Bank did not harden the terms of Ethiopia's IDA financing at all and simply imposed a 5% cut to the country's IDA allocation, a very minimal response given that IDA commitments increased, on average, 40% year-on-year during the period 2000-2014.[65] This was the most lenient possible response to Ethiopia's violation of the debt agreement, short of granting the country a waiver.[66] A number of donor representatives alluded to the World Bank's treatment of the Ethiopian government in response to this debt violation as evidence of the Bank's efforts to maintain access to the government, particularly as the government increasingly turned to alternative forms of financing. As one donor put it, "Perhaps the World Bank is somewhat shaped by the fact that they want to maintain a relationship."[67]

The World Bank's more lenient interpretation of Ethiopia's obligations under the non-concessional borrowing policy continued into 2016. That year, the debt cap was set at 750 million USD. Reporting on Ethiopia's compliance with the agreed borrowing limit, a 2017 internal World Bank document notes the country has been "substantially" compliant. In particular, the report notes that the World Bank chose not to count a number of loans the government contracted in 2016 towards the country's limit. This includes the 1 billion USD deposit by the Saudi Arabian central

[65]World Bank 2014.

[66]Note that the World Bank's 2014 response also included extending all of Ethiopia's IDA allocation in the form of credits rather than grants. However, Ethiopia had only become eligible to receive half of its allocation in grants a few months prior to the September 2014 assessment, when its risk of debt distress was shifted from low to moderate. Countries' eligibility for IDA grants is determined by their debt sustainability analysis. Those at low risk of debt distress are extended the entirety of their allocation in credits, while those at moderate risk receive half as grants, and those at high risk receive the entirety as grants so as not to exacerbate debt risks. Since Ethiopia had been receiving its entire IDA allocation as credits thus far, the decision to continue this arrangement was not a considerable disincentive.

[67]Interview 125. Bilateral donor representative. Addis Ababa, Ethiopia. July 13, 2017.

bank with Ethiopia's central bank, a quasi-loan intended to shore up Ethiopia's foreign exchange reserves, which was omitted from the World Bank's assessment.

The World Bank applied a generous interpretation of the rules on non-concessional borrowing to enable the country's continued access to concessional IDA funding. In part this was due to the faith in Ethiopia's development policies and the quality of its public financial management. However, the World Bank's interest in maintaining a relationship with the government also played an important role. Continuing a dialogue with the Ethiopian government required being able to offer attractive financing, and in considerable volumes, now that the government had access to alternative funds. Cutting Ethiopia's IDA allocation would have further diminished the appeal of the World Bank for the Ethiopian government.

Despite this noteworthy lenience the World Bank's application of its debt policy, there appeared to be little change in negotiation outcomes in other areas of donors' procedures for approving, disbursing, and reviewing development finance, despite clear preferences on the part of the government. It may simply be that such adjustments are kept confidential. Evidence of the World Bank's response to Ethiopia's breaches of its debt ceiling, for example, was only accessible through anonymous interviews and leaked documents. However, it is also the case that large donors, especially multilateral development banks like the World Bank or the African Development Bank, have little immediate control over the procedures that recipient governments often find most onerous. Environmental and social review processes, for example, are established by shareholders and officials at headquarters, with little discretion on a country-by-country basis. An Ethiopian government official explained that rather than trying to negotiate with the World Bank on its processes, the government prefers to simply avoid what it perceives as the most onerous of the Bank's lending instruments, "It's very difficult. The Bank is the Bank, they're a big multilateral institution. The only thing we can do as a government is to shy away from the investment-lending mechanism. The procedures are the procedures, trying to change them is like pushing down a wall."[68]

[68]Interview 148. Ethiopian Investment Commission representative. Addis Ababa, Ethiopia. August 8, 2017.

Some donors suggested that such formal rules were in fact restricting donors' ability to respond to the government's preferences in light of their reduced dependence. Referring to some donors' cutbacks in lending to Ethiopia in light of the country's growing debt burden, one donor representative suggested that donors' rules would impede their ability to respond effectively to competition from new lenders,

> Who is cautious about lending? China? No. India? No. Turkey? No. But the Bank? Yes. The IMF? Yes. When we designed these principles [on debt sustainability] we were a bit stupid. We didn't think about the competition. And now we have these principles and we are losing.[69]

This framing, that donors' rules are leading to them "losing," makes clear that donors are concerned that the stringency of their rules makes it hard to remain appealing to the Ethiopian government. With little flexibility in these rules however, the government's access to outside options had only a partial impact on outcomes of negotiation over development finance procedures.

In other areas of the donor-recipient relationship, the government was more successful in shifting outcomes in line with its preferences. In particular, the government had success in dampening donors' criticism of domestic governance. This area of donor-recipient negotiations is much less formalized, with few internal policy documents shaping donors' behaviour and more discretion for in-country staff. Donors' activities on governance have two dimensions. First, private dialogue with the government, urging the government to adhere to human rights norms and exercise restraint in their engagement with the opposition. Second, public commentary or criticism of the government's actions, intended to signal donors' appraisal to a wider audience and exercise greater pressure. While the former is difficult to observe, the latter can give a good indication of the state of government-donor relations. On this dimension, donors were much less likely to criticize the government over time, particularly once the government gained access to alternative forms of finance that did not include criticism on domestic governance issues. A comparison between donors' responses to the government's actions in the 2015 and 2016 unrest to donors' reactions to the 2005 election a decade previous makes this clear.

[69]Interview 138. Multilateral donor representative. Addis Ababa, Ethiopia. July 25, 2017.

In 2005 and 2006, donors publicly addressed both irregularities in the conduct of the election and their dismay at the government's crackdown on opposition protests in the subsequent months. Not only the EU and individual bilateral donor representatives expressed their wishes that the government exercise restraint, but the World Bank also released a statement expressing concerns about the government's actions, despite its nominally apolitical stance.[70] As the situation worsened, many donors halted their aid flows. In December 2005, after security forces killed dozens of protesters, donors including the UK, Canada, Ireland, Germany, Sweden, the World Bank, the EU, and the African Development Bank announced plans to withhold 375 million USD in budget support.[71] In January 2006, the UK cut all of its 88 million USD in aid to the government.[72]

Critics point out that many donors' responses to the 2005 crisis were short-lived.[73] Several of the donors who withheld their budget support soon rerouted their aid into sectoral budget support programmes that ostensibly ring-fenced the funds for development initiatives at the regional and sub-regional *woreda* level. However, despite this later moderation, donors' response in the mid-2000s was notably stronger than in the mid-2010s.

The violent suppression of protest in 2015 and 2016 approached the severity of the government's actions in 2005. 11,000 people were arrested over the course of the protests and at least 500 killed.[74] In response, there have been a few high-level condemnations of the Ethiopian government's behaviour, particularly by the EU Parliament. On a visit to Addis Ababa in October 2016, German Chancellor Angela Merkel encouraged the government to develop a dialogue with the opposition. However, these statements were not accompanied by any cuts to foreign aid that would have signalled the severity of donors' censure. Donor representatives in Addis Ababa explained that there was no substantial private dialogue with the government on this matter. In fact, donor officials who interacted with the government regularly

[70] Abbink 2006, p. 189.
[71] Abbink 2011, p. 230.
[72] Abbink 2006, p. 189.
[73] Abbink 2006, 2011; Borchgrevink 2008.
[74] Brechenmacher 2017.

were wary of raising governance issues. One donor representative noted she "ha[d] never been in a country before where donors are so afraid of the government."[75]

The government's reduced dependence on traditional donor funds and access to alternative financing with fewer political expectations played a considerable role in dampening donors' criticism. One donor official explained how the Ethiopian government's access to outside options affected donors' reactions to the crackdown,

> In the context of the current state of emergency, there were donors who indicated they would reduce their programs in-country and the government responded by saying they were welcome to leave if they wanted to. That's only really possible because there are others standing at the ready, able to provide financing.[76]

As outside options reduced the government's dependence on traditional donor finance, the government was in a stronger position to push back against donors' critiques of governance shortcomings, leading to a more muted outcome.

Donors' concerns about their access to the government in light of alternatives were exacerbated by the country's strategic significance. As one donor representative bluntly put it, "The reason, to some extent, the Western partners are all here, is because if they weren't, they know the big bogeyman China is here."[77] A 2017 Carnegie Endowment report echoed this appraisal, "Donor governments also worry that isolating the Ethiopian government could further increase China's influence in the country—particularly since the EPRDF already views Chinese investment as an important alternative to Western support."[78] The combination of Ethiopia's importance to traditional donors and the government's access to alternative finance, particularly Chinese loans, thus dampened donors' criticism of governance shortcomings in line with government preferences.

Finally, in the domain of economic policy, the government was also largely successful in bringing negotiating outcomes with donors in line with its preferences. As explained in Section 6.3, the government has historically diverged from the

[75]Interview 149. Bilateral donor representative. Addis Ababa, Ethiopia. August 4, 2017.
[76]Interview 142. Bilateral donor representative. Addis Ababa, Ethiopia. July 26, 2017.
[77]Interview 141. Bilateral donor representative. Addis Ababa, Ethiopia. July 26, 2017.
[78]Brechenmacher 2017.

policy prescriptions made by most traditional donors. However, during this period of diversified finance the government secured certain donors' support for a number of initiatives at the heart of its developmental state agenda, particularly public investments in sectors intended to boost manufacturing exports. In 2014, for example, the World Bank agreed to provide financing for two industrial zones the government was developing in Addis Ababa, with a particular focus on textiles, leather, and pharmaceutical production. In addition, the UK was singled out by both government representatives and others in the donor community as being noteworthy in its support of the government's development policy. Other donor representatives suggested that those donors who most directly supported the government's development efforts were also likely to further dampen criticism of the Ethiopian governance track record. For these donors, Ethiopia's development performance enhanced the country's significance, impacting their treatment of the government in negotiations. A representative of a smaller European bilateral donor described "the British" as "often our biggest problem. They're the biggest defenders of the idea that we can't be too critical of the government," adding that "the biggest ones [donors] have bet on the developmental state here, and so they need to sell the success story."[79]

When Ethiopia's debt constraints began to tighten, both these very supportive donors and others started to encourage a range of economic reforms that had previously been considered too sensitive to pursue with the government, as the following section makes clear. This shows that those donors who were most supportive of the government's developmental policies were doing so in part because of the autonomy of the government at the time. When Ethiopia started losing access to certain outside options, particular reforms, especially privatization, public-private partnership, and state owned enterprise reform, reappeared on the agenda.

[79]Interview 169. Bilateral donor representative. Addis Ababa, Ethiopia. August 18, 2017.

6.4.3 Narrowing of financing options and waning success of financial statecraft?

Ethiopia's access to alternative finance narrowed somewhat from 2015 and 2016 with worsening debt sustainability indicators. In light of mounting concerns about repayment risks, the government heeded World Bank warnings about the build-up of non-concessional debt and cut back on its borrowing, further constrained by some alternative creditors' caution about lending to the government. During this time, the balance of influence in government-donor negotiations shifted yet again. On aspects of its industrial development agenda, public-private partnerships, and the reform of state-owned enterprises, donors reported having greater influence over agreed policy. To be sure, these are small shifts and they aligned with the interests of certain actors in the governing coalition, meaning they should not be seen as wholly donor imposed, but they are indicative of how negotiation outcomes are shaped by the relative dependence of the government on donor finance. This within-case variation in the government's access to alternative finance shows the importance of outside options even for a government as tactically minded and strategically significant to traditional donors as Ethiopia.

The government's increasing dependence on concessional finance during this time shifted the context for negotiation. For instance, one donor representative contrasted the government's approach to engaging donors in 2017 with a more independent stance in previous years, characterizing the government's approach as follows, "A couple of years ago, it was 'we don't need you'."[80] This shift in the government's dependence on traditional donor funds had an impact on negotiating outcomes. One illustrative example of this rebalancing is the 2017 "Jobs Compact" project co-financed by the EU, European Investment Bank, DFID and the World Bank. The project provides 500 million USD on attractive financing terms for the government's industrial parks. One condition of the project is that the government commit to employing 30,000 refugees in the industrial parks. A donor representative involved in the negotiations suggested that such a deal would not have been possible

[80]Interview 125. Bilateral donor representative, Addis Ababa, Ethiopia. July 13, 2017.

if the government still had access to commercial financing to fund the project on its own. Another donor official pointed out that since industrial parks are so central to the government's developmental agenda and the government's access to commercial finance was narrowing, "they were willing to do anything to get the financing."[81] One government official from the Ethiopian Investment Commission corroborated this perspective, saying, "When the Jobs Compact came, we said 'Of course we'll do out-of-camp programming for refugees, but only if it supports industrialization. Only if it funds industrial parks, because we are short on funds'."[82] Given the EPRDF's usual insistence on closely controlling projects at the core of its developmental agenda and deploying these investments for political purposes, this project is a telling indication of how the regime's need for concessional finance has readjusted the balance of bargaining influence between donors and the government.

A further area where donors have advocated for reforms that were long considered too sensitive was in the area of public-private partnerships (PPPs). The EPRDF government long resisted PPPs, particularly in sensitive sectors. As borrowing space narrowed, however, the government has relented to private participation in key infrastructure projects, and donors seized the opportunity to advocate for reform, especially in the energy sector.[83] As one donor representative put it, "The government would have preferred this hadn't happened so quickly, that they hadn't had to slam the brakes [on public investment]."[84] DFID, the World Bank and the African Development Bank provided aid to research and draw up a law on PPPs, and in June 2017, the Ministry of Finance and Economic Cooperation introduced its draft bill to govern PPPs to Parliament.[85] An official at the Ministry of Finance explained, "Because of our capacity to borrow, and lenders' capacity to lend, there are limitations to debt...so we considered private financing."[86] In the

[81]Interview 122. Multilateral donor representative, Addis Ababa, Ethiopia. July 11, 2017.
[82]Interview 148. Ethiopian Investment Commission representative. Addis Ababa, Ethiopia. August 3, 2017.
[83]Interview 123. Multilateral donor representative. Addis Ababa, Ethiopia. July 12, 2017; Interview 132. Bilateral donor representative. Addis Ababa, Ethiopia. July 18, 2017.
[84]Interview 125. Bilateral donor representative. Addis Ababa, Ethiopia. July 23, 2017.
[85]Abdu 2017.
[86]Interview 159. Ministry of Finance representative. Addis Ababa, Ethiopia. August 15, 2017.

Ethiopian context, this new openness to private investment and PPPs is a noteworthy development. Until now, key sectors have remained closed to private investment, foreign investment is tightly regulated, and key projects in the government's Growth and Transformation Plans have all been publicly planned and executed.

A final area where negotiations over economic policy began to shift in line with donors' preferences was on state-owned enterprises (SOEs). Though Ethiopia underwent a wave of privatizations in the 1990s, state- and party-owned enterprises remain central to the EPRDF's economic model, and are dominant in most sectors.[87] Any changes to SOE governance therefore go to the heart of the EPRDF's developmental philosophy. However, SOEs have also been at the core of Ethiopia's expanding public debt burden. Almost all non-concessional debt that the government has taken on, including for example to construct the Addis-Djibouti railway, has been borrowed by SOEs such as the Ethiopian Railway Corporation, but with a guarantee from the federal government. Though SOEs are nominally controlled by the Ministry of Finance on the debt they take on, both the IMF and World Bank have questioned the extent of central authority over SOE borrowing.[88]

Spurred by donor initiatives, the government introduced a number of reforms to SOE governance, making changes to its long-standing economic model of relying on state- and party-owned enterprises. In early 2017, the Ministry of Finance announced a new mandate on SOE debt, which outlined that all SOE borrowing would have to be approved by the Ministry of Finance. This substantially curtailed the autonomy of SOEs. In 2017, the Prime Minister appointed a group of advisors to advise on restructuring the governance of SOEs. Donors have been a key part of this process, and one donor representative explained that the advisory council was a good context in which to advocate for SOE privatization, taking advantage of the government's current openness to reform.[89] Another donor representative explained that the government's debt constraints offered a crucial window of opportunity in negotiations, "They [the government] will hit a constraint very shortly with the debt.

[87]Weis 2015.
[88]See, for example IMF 2015.
[89]Interview 143. Bilateral donor representative. Addis Ababa, Ethiopia. July 27, 2017.

You need to be an opportunist in a good way, to push them in a direction in this situation."[90] Though reforms were only small steps, donor representatives described a rebalancing in the relationship with the government due to the government's greater need for concessional finance and narrowing of alternatives. That several donors saw this moment as a key window of opportunity for influencing government policy speaks to the balance of influence that previously prevailed when the government accessed a wider portfolio of external finance.

6.5 Conclusion

Ethiopia is a case with low levels of political contestation and high strategic significance to traditional donors. The theoretical framework expects that countries like this will have the greatest success in translating a diverse portfolio of external finance into greater negotiating leverage with traditional donors, since they will be unconstrained in their borrowing choices and valuable to donors. In line with expectations, the Ethiopian government was more successful in achieving its preferred outcomes in negotiations with traditional donors when it had access to alternative sources of finance. In Ethiopia, domestic politics shaped the variety of finance the government took up, as well as donors' responses to the government's diversified portfolio. The EPRDF regime availed itself of the full range of available external financing, borrowing from China and other new bilateral donors, issuing a Eurobond and syndicated loans. The domestic political context enabled this, since the government was relatively unconstrained in its borrowing choices, not challenged by a vocal opposition to account for dependence on one or another creditor. Furthermore, the targeted nature of Ethiopia's borrowing and spending also meant that traditional donors were less likely to worry about the moral hazard implications of responding to outside options by accommodating recipient preferences.

In addition, the country's strategic significance to its donors shaped how these responded to the country's reduced dependence on their funds. When responding

[90]Interview 153. Bilateral donor representative. Addis Ababa, Ethiopia. August 7, 2017. Emphasis added.

to the Ethiopian government's access to outside options, donors clearly weighed the country's importance. The country's geopolitical importance increased the salience of the government's closer relationship with China and the government's ability to "deliver" development heightened the value of a close relationship with the government. Under these conditions, the government was able to translate its access to into greater influence over negotiations.

The EPRDF government pursued a deliberate strategy of diversifying its financing options, signalling its reduced dependence, and playing potential lenders off each other to secure more favourable negotiating outcomes. Specifically, the government received greater leniency in the application of formal rules over the debt ceiling, muted donors' criticism of political rights violations, and gained support for its economic policies.

However, when access to alternative finance narrowed as the country faced increasing debt constraints, the balance in negotiations appeared to shift yet again. As the government became more dependent on concessional finance, traditional donors were more successful in securing government commitment to economic reforms for which they had long advocated. The variation over time in the Ethiopian government's access to alternatives shows how conditions have to align for successful financial statecraft. This includes not only a diversified portfolio of external finance, but also favourable conditions with respect to strategic significance and domestic politics. The role of domestic political contestation in shaping the effects of alternative finance becomes even clearer when contrasting Ethiopia with the Kenyan case in the following chapter, where domestic political contestation was a clear constraint on the effectiveness of the government's financial statecraft.

7

Kenya: Uneven financial statecraft

In gleaming office towers in downtown Nairobi and extensive compounds in the city's suburbs, diplomats and donor officials plan, negotiate, and oversee development programmes in Kenya and countries across the region. The choice of Kenya as a seat for many donors' regional offices and the African headquarters of the United Nations is no coincidence. The country is considered by many donors and foreign partners as an African hub, a commercial gateway to East Africa, and a strategically important ally in the region. This importance of Kenya to outside forces has long shaped relations between the country and its donors and has, as I show in this chapter, amplified the effects of Kenya's more recent diversification in external finance, leading to moderate successes in financial statecraft.

Like other sub-Saharan African countries, Kenya's access to alternative finance expanded in the mid- to late-2000s. Though Kenya did not receive debt relief from traditional lenders in the 2000s, unlike Ghana and Ethiopia, it nonetheless experienced an increase in lender interest from the late 2000s onwards. This includes China as an important bilateral lender, as well as private lenders attracted by Kenya's open and diversified economy. These alternatives substantially diversified Kenya's portfolio of external finance.

The Kenyan case allows me to further parse the relationship between a country's access to alternative finance and its influence in negotiations with traditional

donors. I find that in Kenya the government was moderately successful in efforts at financial statecraft, leading to certain negotiation outcomes aligning more closely with the government's preferences. In particular, traditional donors muted their criticism of the government on issues of human and political rights in line with government preferences. I argue that this change in negotiation outcomes is due to the government's diversified portfolio of external finance, together with the strategic importance that many traditional donors place on their access to the government.

However, there were limits to the success of Kenyan financial statecraft. On issues of economic management and financial accountability, the outcomes of donor-government negotiations remained broadly in line with donors' interests. Furthermore, donors made few changes to the procedures for disbursing and evaluating traditional donors' aid to bring them in line with government preferences for more rapid and efficient aid delivery. Donors' reluctance to loosen these terms of financing in line with government preferences was partly shaped by their concerns about moral hazard and financial irresponsibility associated with alternative finance. Kenya's highly fractious and contested domestic political context, and the associated patterns of borrowing and spending, informed donors' concerns about how the government deployed alternative finance. Concerned that patronage spending put repayment of their own loans at risk, traditional donors tightened their scrutiny of financial management, rather than loosening it to meet government preferences.

By contrast to Ethiopia, the success of financial statecraft in Kenya was diminished by domestic political contestation. The distributive spending patterns associated with Kenya's competitive clientelist politics muted donors' willingness to accommodate government preferences, undercutting the bargaining power obtained from access to alternatives. Furthermore, as in Ghana, a vocal opposition foreclosed certain financing options, limiting the breadth and attractiveness of outside options available to the government. In Kenya, vociferous opposition critique of Eurobond borrowing drove the government to choose more expensive but less politically toxic commercial financing options.

To make my argument about Kenya's moderate success in financial statecraft, I draw on evidence collected in over 50 interviews with government officials in the National Treasury and the Central Bank of Kenya, donor representatives in Nairobi and Washington D.C., and journalists and civil society representatives in Nairobi. As I outline in further detail in Table A.2 in Appendix A, I achieved saturation across the four donor and government categories, including bilateral donors, multilateral donors, and the resource mobilisation and debt management units in the Kenyan National Treasury. The response rate among government officials was high (85% of interview requests were granted) and most non-respondents among donor officials referred me to other contacts within their organisation (among donors, 74% of interview requests were granted).

I complement the interview data with evidence from media coverage in Kenya's largest English-language newspapers, the Daily Nation, the Standard, and the EastAfrican, as well as drawing on donor reports, grey literature, and reports in the international financial press. Kenya's free and vibrant press and open culture of political debate make it an accessible place for researchers. By contrast to Ethiopia, interview respondents were much more willing to meet and openly share their experiences and opinions. However, the culture of political debate also means that respondents' assessments need to be weighed according to their position in the political landscape, given the potential for bias. Furthermore, despite openness in domestic political debates, relations with donors are sensitive, and many government and donor respondents only agreed to interviews under conditions of anonymity. To preserve the anonymity of interviewees, I cite interviews with reference to interviewees' category and the date of the interview.

This chapter proceeds as follows. I begin by outlining the government's constraints with respect to the domestic political context in Section 7.1. High levels of contestation, both within governing coalitions and among rival political parties, create a political environment of fractious and vulnerable coalitions with very short time horizons. In Section 7.2 I identify traditional donors' interest in access to the Kenyan government, which increases their incentives to respond

to Kenya's reduced dependence by accommodating Kenyan preferences. I map the recent history of government-donor relations in Section 7.3, which provides a brief overview of the government's access to different forms of finance and the important areas of disagreement in donor-recipient negotiations. In Section 7.4, I provide evidence that Kenya's access to alternative finance has altered aspects of the government-donor relationship, especially negotiations over governance and human rights, though donors' concerns about moral hazard dampened the success of financial statecraft with respect to financial management. Section 7.5 concludes.

7.1 Government constraints: Kenya's contentious politics

Kenya's politics are characterised by shifting and fractious coalitions that combine politicians with different regional and ethnic power bases. Since the return of multi-party electoral competition in the 1990s, elections have been hotly contested, occasionally fraught with violence, and increasingly expensive. Not only do elections feature high-stakes competitions between political rivals, but the parties themselves are loose and fractious coalitions of elites relying on extensive patronage networks to win votes and secure their hold on power.

In this way, Kenya's political context is very different from Ethiopia's. While political elites in Ethiopia operate with long time horizons, fairly secure in their hold on power and confident they will have the time to carry out intended development projects, politicians in Kenya face greater contestation and operate under much shorter time horizons. These features of Kenya's competitive clientelist politics underpin the government's borrowing and spending choices, narrowing the scope for financial statecraft. Many of the key features of Kenyan politics — the highly personalized nature of political competition, ethnicity as the salient cleavage, and a core tension between nationalism and decentralization — were established in the years immediately prior to and after independence from the British in 1963, and solidified in the following decades. I therefore briefly discuss the emergence of

the Kenyan political system in the decades after independence before describing contestation under the contemporary multiparty system.

7.1.1 Post-independence politics

Contention and competition in Kenyan politics operates primarily along ethnic lines.[1] The origins of this lie in foundational debates carried out in the early 1960s over the extent of centralization in the soon-to-be-independent Kenyan state. The Kenya African National Union (KANU), headed by Jomo Kenyatta and supported by Kenya's larger ethnic groups, including the Kikuyu, Luo, and Kamba, advocated a state with substantial central authority. By contrast, the Kenya African Democratic Union (KADU), which was based on the support of Kalenjin and other smaller ethnic groups, advocated for greater decentralisation, or *majimbo* (regionalism).[2] These differences set up the key cleavages in Kenyan politics for the following decades.[3] Kenyatta and KANU won the 1963 independence election, leading Kenya into independence and establishing strong and centralized state, what Branch and Cheeseman refer to as the "bureaucratic-executive state."[4]

In the following decades, two key patterns emerged that have continued to mould Kenyan politics. First, coalitions proved to be fractious and loosely held together, based largely on personal power bases and liable to splinter. Second, political elites used their position of power for personal enrichment and the transfer of wealth to connected individuals, cementing the arrangement that wealth is both a spoil of political power and a requirement to acquire and retain political power.

Illustrating the fragility of coalitions, the opposition KADU voluntarily dissolved as a party soon after the 1963 election, folding its deputy leader Daniel arap Moi into the governing KANU party and bringing the support Kalenjin co-ethnics with him. Furthermore, tensions emerged within KANU about the broad orientation

[1] The main ethnic groups in Kenya are (in decreasing order of size) Kikuyu, Luo, Luhya, Kamba, and Kalenjin.

[2] Hornsby 2012, pp. 80-83.

[3] The relationship between ethnicity and centralization preferences came from the key issue of land redistribution in post-independence politics. To KADU supporters, decentralization was necessary to ensure communal ownership of the land.

[4] Branch and Cheeseman 2006.

orientation of post-independence politics. While Kenyatta and his immediate advisors preferred centrist economic policies and an alignment with the West in the Cold War, a group within KANU around Oginga Odinga sought a different course, advocating for socialist policies and a closer relationship with China. The "radicals" resigned from the party in 1966 and went into the opposition in the newly formed Kenya People's Union (KPU).[5] These defections triggered the "Little General Election" of 1966, which highlighted the personalization and loyalties of Kenyan politics that would repeat in subsequent electoral contests. Odinga marshalled the support of his co-ethnic Luos and was dominant in his home region of Central Nyanza, but this was insufficient to outstrip the Kikuyu support for Kenyatta and the Kalenjin vote that Moi delivered for KANU.

On the matter of clientelist distribution, Kikuyu elites benefited enormously from the dominant position of Kenyatta and KANU throughout the late 1960s and 1970s. In particular, a small circle from Kenyatta's home district of Kiambu enjoyed considerable economic privileges, acquiring access to land and key government contracts. Ajulu argues this "Kiambu bourgeoisie" cultivated their Kikuyu identity as a means of defending themselves from critiques of their personal enrichment, emphasising ethnic allegiance to diffuse class tensions and claim their wealth was a sign all Kikuyus benefited under Kenyatta.[6] This ethnicization increased antipathy between Kikuyus and Luos, the latter of which aligned themselves with Oginga Odinga.

When Uhuru Kenyatta died in 1978, he was succeeded by his Vice President, Daniel arap Moi, who ushered in a new era in Kenyan politics, tightening his grip on power with an increasingly authoritarian attitude towards the opposition. Crucially, Moi exacerbated the ethnicization and informalization of Kenyan politics, surrounding himself with Kalenjin co-ethnics and employing autocratic tools to extract wealth for redistribution to Kalenjin supporters.[7] Moi formalised his grip

[5] Hornsby 2012, pp. 158-162.
[6] Ajulu 2002.
[7] Roessler 2005.

on power in 1982 with an amendment to the Kenyan Constitution that established a de jure one party state.

7.1.2 Multipartyism and contentious electoral competition

A decade later, the transition to multi-party elections in the early 1990s further compounded key dynamics of the Kenyan political context. Electoral competition was ethnicized, leading to ethnic violence, and the winner-takes-all nature of elections accelerated clientelist distribution. Furthermore, since relying on a single ethnic group does not provide the the majority to win elections, both the government and opposition relied on coalitions, but these were often alliances of convenience between ethnic power brokers, liable to split apart without the right inducements.[8] These dynamics help to explain the different use of external finance in Kenya than in Ethiopia, and donors' different responses to the two countries' diversification in financing sources.

The transition to multipartyism in the early 1990s came about in response to demands from Kenyan civil society and international donor pressure, especially on the part of the United States.[9] Moi legalized opposition parties in 1991, and in 1992 Kenya held its first multi-party election since 1966. In what would come to be a recurring dynamic, the opposition struggled to unite behind a single candidate to challenge Moi, who could draw on the tools of the state to intimidate the opposition. Oginga Odinga headed the Forum for the Restoration of Democracy (FORD), which soon fragmented into two separate parties, while Mwai Kibaki established the Democratic Party.[10] With the opposition splintered across three parties, Moi's KANU won the 1992 election and held onto power, going on to also win the 1997 elections, by which point the opposition had further fragmented into five separate parties.

Even as institutions of electoral competition were being put in place, Moi and KANU heightened ethnic tensions and encouraged the establishment of gangs and

[8] Arriola 2013.
[9] Brown 2001; Roessler 2005.
[10] Throup and Hornsby 1998.

militias to intimidate opposition and violently extract rents.[11] The last years of Moi's rule under multi-partyism were a period of increasing state informalisation, as Branch and Cheeseman explain, "...democracy proved expensive. The need to fund costly election campaigns provided an additional...motivation for spiralling corruption."[12] Informal accumulation accelerated and the 1992 and especially 1997 elections were marred by violence, as militias set up by regional powerbrokers forced voters to return to their "ethnic homelands" to vote.

Elections in the years after term limits Moi was forced to step down in 2002 continued these dynamics, particularly with respect to ethnicized violence and the fractiousness of coalitions. In 2002, the opposition largely lined up behind a single candidate, Mwai Kibaki, to challenge Moi's designated successor, Uhuru Kenyatta, the son of independence President Jomo Kenyatta.[13] The unity of the opposition during the election allowed them to win, ousting KANU after almost 40 years in power.[14] However, within a short time, the now-governing National Rainbow Coalition fragmented over proposed constitutional reforms that had been promised to resolve the central-local tension in Kenyan politics by devolving more authority from the centre to regional bodies.[15] When Raila Odinga defected from the governing coalition to successfully campaign against the constitutional reform in a national referendum, this again realigned coalitions ahead of the 2007 elections.

The violent aftermath of the 2007 elections underlined how central ethnic identities were to political mobilization. When Kibaki was declared winner of the very close presidential election amidst allegations of electoral malfeasance, Luo, Kalenjin and other opposition supporters targeted Kikuyu who were believed to have supported Kibaki. In the Central Rift valley, Kikuyu-dominated militias carried out revenge attacks against ethnicities believed to have supported the opposition.[16] 1,400 people are estimated to have died in the ensuing violence and 600,000 Kenyans were

[11] On ethnic mobilisation within the internal security apparatus in the an1990s under Moi, see Hassan (2016).
[12] Branch and Cheeseman 2008, p. 12. See also Mueller 2008.
[13] Barkan 2004; Bedasso 2015.
[14] Arriola 2013, pp. 195-207.
[15] Cheeseman et al. 2014, p. 5.
[16] Cheeseman et al. 2014.

internally displaced in the two months after the election.[17] The unrest was brought to an end through mediation by the African Union and former UN Secretary-General Kofi Annan and the creation of a grand coalition government that brought Raila Odinga into the government, with Kibaki as President, and included the promise of a new constitution with greater decentralisation of power.[18]

The post-election violence of 2007-8 also generated surprising political coalitions. In 2010, the International Criminal Court (ICC) indicted both Uhuru Kenyatta and William Ruto for their roles in opposite sides of the post-election violence.[19] Both Kenyatta and Ruto resisted the ICC's involvement in the case and declared the charges to be a form of overreach by international institutions. Having previously been on opposing sides, Kenyatta and Ruto joined forces and created the "Jubilee Alliance" to contest the 2013 election, going on to win.[20] As Cheeseman et al. describe it: "a salient feature of Kenyan multi-partyism has been the ephemeral nature of political parties. Political change — and continuity — has revolved around the manoeuvrings of prominent personalities who have claimed the role of ethnic and regional power-brokers, and who create parties often specifically for the purpose of elections."[21]

7.2 Minimal donor constraints: Kenya's importance

In Kenya, traditional donors placed considerable value on their access to the government, making them less constrained in their ability to accommodate government preferences in negotiation. While Ghana's importance to its traditional donors has declined over time, Kenya has been an important partner for many Western donors since the Cold War, its significance, if anything, increasing over

[17] Brownsell 2013.

[18] Juma 2009.

[19] Ruto allegedly incited violence on the part opposition-affiliated groups, while Kenyatta allegedly encouraged violence by *mungiki*, majority-Kikuyu gangs who carried out revenge attacks on opposition supporters. The charges against both were confirmed in 2012. The ICC case against Kenyatta was later withdrawn in 2014 and the case against Ruto was withdrawn in 2016.

[20] G. Lynch 2013.

[21] Cheeseman et al. 2014, p. 5.

time. Like Ethiopia, it has become an important counterpart in the US-led "Global War on Terror," making it a geostrategic partner particularly for the US. For almost all traditional donors, the relationship with the Kenyan government is also important for commercial reasons. In 2017, Kenya's GDP was the fifth largest in sub-Saharan Africa, after Nigeria, South Africa, and oil rich Angola and Sudan. Kenya is a commercial hub for the East African sub-region, host to the regional headquarters for a number of foreign companies and with the deepest financial sector of neighbouring countries. Together these factors make Kenya an important counterpart for traditional donors.

7.2.1 Security and geostrategic interests

The relationship with the Kenyan government is important for the security interests of traditional donors for a number of reasons. First, Kenya's relative stability makes it an "anchor" in an otherwise tumultuous region. Second, Kenya's response to terrorism both domestically and in the region has become an important part of Western donors', especially the US', strategy for international counter-terrorism. Furthermore, the stationing of American and British troops in Kenya provides an important basis for missions in the broader region. Finally, Kenya's hosting of refugees from the region has made the government an important counterpart in European countries' efforts since 2015 to reduce the numbers of refugees arriving in Europe.

Almost all donor respondents stressed the country's strategic importance, with most pointing to the value of a stable and predictable counterpart by comparison to Kenya's neighbours. As one donor official put it, Kenya "is one of a few relatively stable countries in an unstable region. Somalia, even Ethiopia and Tanzania are kind of falling apart. From that perspective, Kenya is politically strategic."[22] Kenya's importance to its donors extends beyond the subregion, with Barkan explaining, "Along with Nigeria and South Africa, Kenya is one of three 'anchor states' in sub-Saharan Africa — countries that are key to the stability of the region because of location and resources."[23] Kenya's stability relative to the region leads donors to

[22]Interview 32. Multilateral donor representative. Nairobi, Kenya. February 6, 2017.
[23]Barkan 2004.

place greater value on the relationship, and is likely to give the government some leeway, as one donor official suggested when they described Kenya as "the only sane, stable country in the region, given the fragility of Somalia and the threat of terrorism," meaning that donors "might be willing to look the other way."[24]

In addition to acting as stable counterpart in a volatile region, Kenya's response to the domestic and regional threat of terrorism since the early 2000s has drawn the attention of donors and enhanced the importance of engagement with the Kenyan government. In 1998, al-Qaeda bombed the US embassy in Nairobi, killing over 213 people. Three years later, al-Qaeda attacked two separate targets in the Kenyan port city of Mombasa. In the post-9/11 period, Kenya therefore became a substantial recipient of US military assistance as part of the Global War on Terror, also participating in the US-funded Combined Joint Task Force for the Horn of Africa.[25] Though the Bush administration was occasionally frustrated by Kenya's perceived unreliability in complying with the Global War on Terror, particularly in failing to pass domestic anti-terrorism legislation, Kenya was seen as key for ensuring regional security and addressing potential threats to global security. A 2009 US diplomatic cable notes that "no country between Cairo and Capetown is more important [to the US] than Kenya."[26]

Kenya's position as an important ally against terrorism was further enhanced in 2011 when Kenya invaded Somalia with the stated goal of pushing al-Shabaab back from the Somali-Kenyan border.[27] Kenya's efforts in Somalia were eventually folded into the African Union-mandated and EU-funded AMISOM mission, further enhancing the legitimacy of its intervention. Kenya has faced considerable repercussions for its activities in Somalia as al-Hijra, the Kenyan wing of al-Shabaab, has carried out repeated attacks in Kenya, most dramatically the Westgate mall attack of 2013, in which more than 60 people were killed in an upscale shopping complex in central Nairobi.

[24]Interview 2. Multilateral donor representative. Nairobi, Kenya. January 18, 2017.
[25]Fisher 2013, p. 6.
[26]Cited in Fisher 2013, pp. 12-13.
[27]Anderson and McKnight 2014.

The Kenyan government's cooperation with the Global War on Terror makes it an important counterpart for donors, who occasionally linked the country's counter-terrorism efforts to the nature of their engagement with the government. For instance, one donor official explicitly connected Kenya's role in combating terrorism to the donor community's stance on Kenya's growing public debt, saying, "We have to take into account other factors [in responding to Kenya's debt], for instance Al-Shabab. We cannot put Kenya under too much stress."[28] Similarly, a US official explained that the US' interest in relations with the Kenyan government means the US is unlikely to withdraw in response to concerns about economic mismanagement, saying, "USAID funding goes to countries where the US has a strategic interest, so USAID is sticky in ways that other funding isn't. Even if the debt became less sustainable, it wouldn't change our presence in Kenya."[29]

Given Kenya's geopolitical position and role in counterterrorism, both the UK and the US maintain permanent military bases in the country. These installations further increase the donors' reliance on the government, enhancing the government's room to manoeuvre in recipient-donor negotiations. For instance, the British Army operates a permanent training unit in Lakipia country, where up to 10,000 British troops per year receive military training. For its part, the US military maintains a base on the coast, close to the Somali border, from which it operates training missions for the Kenyan military and is alleged to launch reconnaissance and drone flights into Somalia.[30]

Finally, Kenya's strategic importance to European donors has further increased with the politicization of refugee arrivals in the EU since 2015. As a host to over 400,000 refugees, especially from South Sudan and Somalia, Kenya is valuable to European donors for its role in limiting the numbers of refugees departing Kenya for Europe. In 2016, the Kenyan government announced it was considering closing the

[28]Interview 29. Bilateral donor representative. Nairobi, Kenya. February 2, 2017.
[29]Interview 34. Bilateral donor representative. Nairobi, Kenya. February 8, 2017.
[30]Turse 2018.

enormous Dadaab complex of camps, home to more than 200,000 refugees, likely an effort to attract the attention of donors and the UN.[31]

The Kenyan government clearly recognizes that these multiple security interests of traditional donors puts them in an advantageous position when negotiating with donors. Explaining why Western donors have remained active in the country, even in the face of corruption scandals and mounting alternatives to traditional development finance, one National Treasury official said, "Even the donors have their own interests, so they want to stay involved."[32] Another put it more bluntly, highlighting the security interests that mean donors take a softer line on human rights issues, "Some of them don't want to put us in a corner. They have put their soldiers here, so they don't want to threaten us...so they end up not questioning so much our human rights issues."[33]

7.2.2 Commercial interests

Kenya's importance to its traditional donors is further enhanced by the country's attractiveness as a commercial hub in East Africa, with several international firms basing their regional headquarters in the country. Maintaining good relations with the Kenyan government is important for the commercial diplomacy that facilitates the operations of these firms in Kenya, giving donors a particular interest in their aid and development operations that grant them access to the government. For instance, a Japanese aid official explained, "We're really focusing on how we can get the Japanese private sector into the government system. We're looking into our aid modalities and seeing how we can get Japanese companies into the opportunities that might arise here."[34] Others noted the importance of Kenya as an export destination for European and other traditional donor countries, given the size of the Kenyan market.[35]

[31] Lischer 2017.
[32] Interview 20. National Treasury representative. Nairobi, Kenya. January 30, 2017.
[33] Interview 39. National Treasury representative. Nairobi, Kenya. February 10, 2017.
[34] Interview 1. Bilateral donor representative. Nairobi, Kenya. January 18, 2017.
[35] Interview 32. Multilateral donor representative. Nairobi, Kenya. February 6, 2017.

More recently, the Kenyan government has embarked on a deliberate effort to position Kenya as an African financial hub, building on its comparatively deep domestic financial sector.[36] This effort, including regulatory reforms and investment incentives, has attracted a growing number of international firms and further strengthened the position of Kenyan banks.[37] A donor official explained that the government was able to use this position to its advantage: "The government is aware [of how important it is], the private sector is aware, increasingly Kenya is being sold as the key to East Africa. The pitch is that you not only get access to Kenya, you get access to the whole region through an attractive market."[38] Together with the country's geostrategic importance, this commercial attraction for traditional donors places the Kenyan government in an advantageous negotiating position.

7.3 Aid and development finance in Kenya

In this section, I describe variation over time in the composition of Kenya's portfolio of external finance, as well as the main areas of divergence in the government's negotiations with traditional donors. Though my analysis of Kenya's financial statecraft focuses on the mid-2000s onward, when Kenya's portfolio of external finance began to diversify, I briefly describe here the preceding decade, which highlights donors' greater negotiating leverage when Kenya was more dependent on traditional donor funds. During all of these periods, the main areas of disagreement in government-donor negotiations were issues of governance and democratization, as well as financial management and corruption. The top bilateral donors in Kenya since the mid-1990s have been the US, France, Germany and Japan, as Table 7.1 shows. The table shows the significant increase in US donor aid to Kenya in the 2000s and 2010s, which coincides with Kenya's status as an important African partner in the Global War on Terror, amplified in 2011 by Kenya's invasion of Somalia. The data also charts Kenya's continued importance to donors in the 2010s, with total commitments for the seven years 2011-2017 exceeding those in the decade prior.

[36] te Velde et al. 2015.
[37] Deloitte 2016.
[38] Interview 44. Multilateral donor representative. Nairobi, Kenya. February 14, 2017.

Table 7.1: Total commitments of top DAC-reporting donors to Kenya, 1995-2017 (millions 2016 USD)

	1995-2000		2001-2010		2011-2017	
	Donors	Total	Donors	Total	Donors	Total
1	WB	1,163	US	4,359	US	10,935
2	UK	605	WB	2,616	WB	9,753
3	EU	540	Japan	1,565	AfDB	3,310
4	Japan	336	France	1,135	Japan	3,230
5	US	263	EU	1,099	France	2,352
6	Germany	234	UK	934	EU	2,299
7	Netherlands	167	Germany	698	Germany	1,719
8	AfDB	163	AfDB	676	UK	1,628
9	France	138	Denmark	492	IMF	1,106
10	Sweden	110	IMF	429	Denmark	798
11	Denmark	91	Sweden	347	Sweden	746
12	IMF	59	Finland	205	Canada	488
13	Canada	56	Netherlands	201	Norway	416
14	Belgium	50	Canada	196	Netherlands	375
15	Finland	30	Belgium	147	Finland	370

7.3.1 1990-2002: The transition to multiparty democracy

In the late 1980s and early 1990s, Kenya was aid dependent, reliant almost exclusively on foreign aid from traditional donors. In 1990, for instance, ODA from DAC-reporting donors made up 38% of imports of goods, services, and primary income, compared to a 20% average for sub-Saharan Africa that year.[39] This aid dependence enabled donors to exert considerable pressure on Moi to encourage the transition to multi-party competition. The relationship between traditional donors and the Kenyan government in the 1990s was shaped by this transition, with most negotiations focusing on political liberalization, as well as disputes over the implementation of structural adjustment reforms and high-level corruption allegations.

Democratization and political reform were at the forefront of relations between traditional donors and the government. The US, in particular, placed democratization at the centre of its engagement with the Kenyan government, making

[39] World Bank, World Development Indicators.

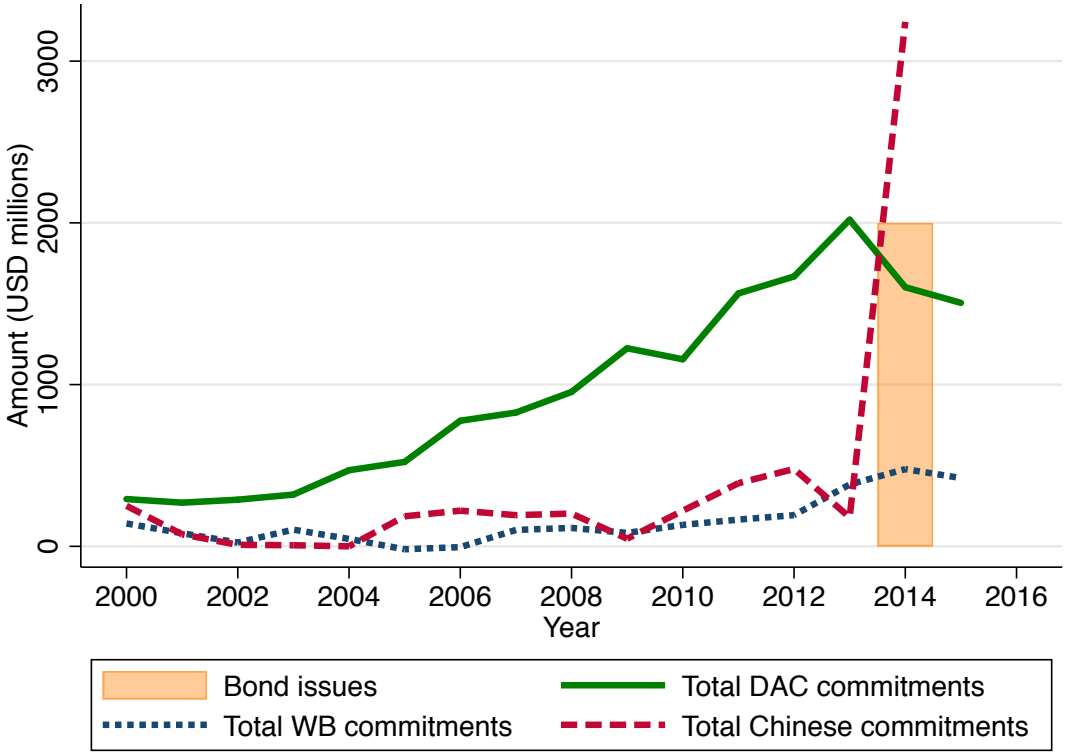


Figure 7.1: Kenya's portfolio of external finance, 2000-2016

aid disbursement in 1991 contingent on governance and human rights reforms.[40] Following the lead of the US and in response to highly publicized human rights violations, traditional donors collectively suspended all aid in late 1991 pending improvements in human rights and democratizing reforms.[41] These measures had a significant impact on Moi, who legalized opposition parties within weeks of donors' suspension of aid.

Despite political reforms, disagreements between traditional donors and the government repeatedly broke out out over course of the 1990s over the depth of these reforms, as well as corruption and financial management issues. In the run-up to the 1997 election, the IMF, World Bank, EU and a number of bilateral donors again froze their aid, only to resume their funding after the election when they had been assuaged by some economic reforms.[42] *The Economist* memorably described

[40] Roessler 2005.
[41] Cohen 2003.
[42] Brown 2001.

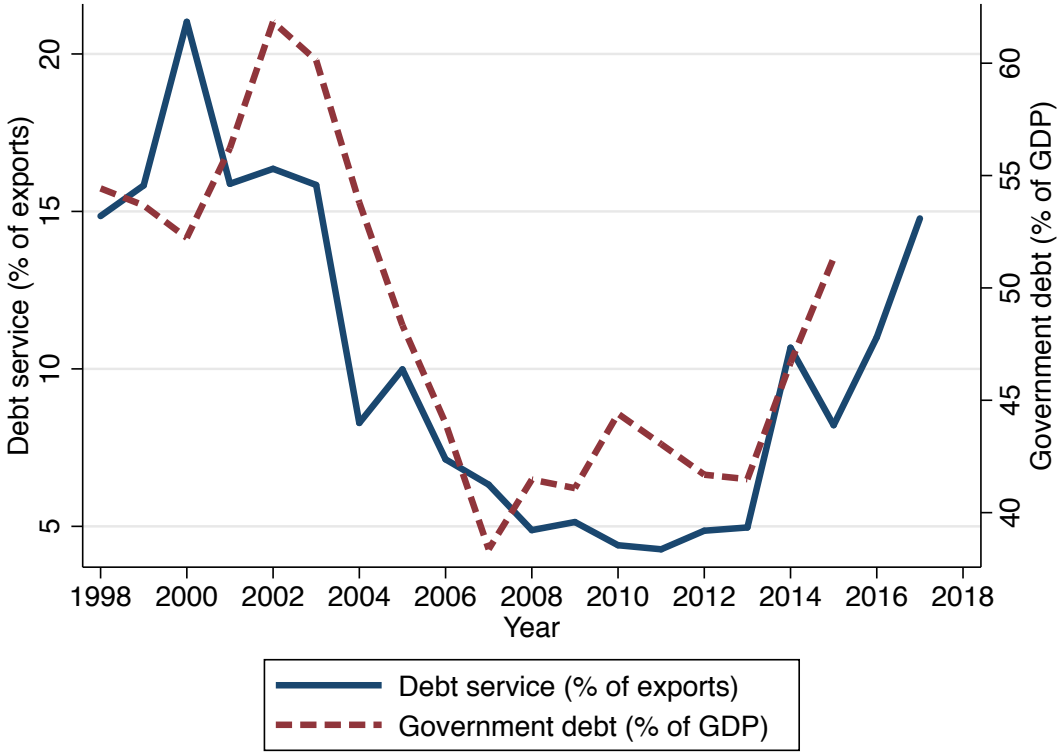


Figure 7.2: Kenya's debt sustainability indicators, 1998-2016

this pattern between the government and donors in the 1990s as follows,

> Over the past few years Kenya has performed a curious mating ritual with its aid donors. The steps are: one, Kenya wins its yearly pledges of foreign aid. Two, the government begins to misbehave, back-tracking on economic reform and behaving in an authoritarian manner. Three, a new meeting of donor countries looms with exasperated foreign governments preparing their sharp rebukes. Four, Kenya pulls a placatory rabbit out of the hat. Five, the donors are mollified and the aid is pledged. The whole dance then starts again.[43]

During this period, the government's dependence on traditional donor finance meant it made efforts to appear to satisfy donor requests for governance reforms, even as it relied on delay and evasion tactics to avoid particular reforms.

Furthermore, a number of high-profile corruption scandals in the 1990s placed issues of transparency and financial management on the agenda of donor-recipient negotiations. Chief among these was the Goldenberg scandal, in which the government paid export compensation to a company fraudulently claiming to export gold

[43]The Economist 1995.

and diamonds.[44] Concerns about transparency and financial management recurred in donor negotiations with the Kenyan government over the subsequent decades.

7.3.2 2002-2007: The Kibaki period

When Mwai Kibaki's NARC party won the 2002 election ahead of Moi's anointed successor, Uhuru Kenyatta, Kibaki's anti-corruption and governance pledges were greeted with enthusiasm by the country's traditional donors, as they had been by voters. Traditional donors lauded the country's first turnover of power since independence, optimistic about the potential for genuine governance reforms. A National Treasury official described the change in the relationship at the time, "In 2002, the new administration won on governance reforms and there was a phase of goodwill, with donors re-energized."[45] The new administration was also more confident in its engagement with donors, using its mandate to take greater ownership in aid negotiations, as a donor representative explained, "After the Moi era...you see the government really putting the donors in their place and almost trying to take charge, unlike before when the donors were really taking charge of a lot of development."[46] During this time, the Kenyan government had access to few alternative sources of external finance, and traditional donors increased their aid allocations in response to the country's growing role in the Global War on Terror and to reward the putative reform efforts of the Kibaki government, see Figure 7.1.

Nevertheless, the relationship between the government and donors continued to be strained by allegations of corruption and concerns about financial management. When the Anglo-Leasing scandal came to light in 2004, it revealed that falsified government contracts were extended not only in Moi's government, but also under Kibaki's administration, despite its anti-corruption platform.[47] The revelations soured relations with donors, who increasingly lost trust in the government's transparency and financial management systems. The British High Commissioner at the time colourfully expressed donors' frustration, "Evidently the practitioners

[44] Vasagar 2006.
[45] Interview 42. National Treasury representative. Nairobi, Kenya. February 13, 2017.
[46] Interview 1. Bilateral donor representative. Nairobi, Kenya. January 18, 2017.
[47] Wrong 2009.

now in government have the arrogance, greed and perhaps a desperate sense of panic to lead them to eat like gluttons. But they can hardly expect us not to care when their gluttony causes them to vomit all over our shoes."[48] Donors' lack of faith in the government's financial management structures led them to increasingly shy away from budget support, compounded by the government's unwillingness to engage in a dialogue on governance issues that donors expected in connection with direct transfers to the government's budget.[49]

7.3.3 2007 onward: Post-election violence, the ICC case, and increasingly diversified finance

The election of 2007 and the violence that roiled Kenya in the following months cemented issues of governance and political rights in the donor-recipient relationship. Furthermore, shaken by the corruption scandals of the early 2000s, donors focused their efforts on financial management reforms, which were often seen as intrusive by the government. During this time, Kenya's increasing access to alternative forms of finance reduced the government's dependence on its traditional donors, a trend that accelerated with the Kenyatta administration from 2013, see Figure 7.1.

The 2007 election was a turning point in the relationship between the Kenyan government and traditional donors. Shocked by the violence that had broken out, donors coordinated to withhold portions of their aid to successfully convince Kibaki to accept a power-sharing agreement.[50] Those donors with the last remaining budget support programmes withdrew them during the 2007-8 political crisis, and did not return them afterwards, despite the fact that the Kenyan government expressed a clear preference for predictable budget support aid.[51] The EU was the only donor still providing budget support in the late 2000s and it noted that disputes over governance conditionality significantly worsened the relationship with the government.[52]

[48] Munnion 2004.
[49] Prizzon and Hart 2016, p. 22.
[50] Brown 2009.
[51] Mwega 2010.
[52] European Commission 2014, p. 9.

Donors' concerns about human rights and governance in Kenya were further exacerbated by the response to the 2010 ICC indictment of leading figures in the post-election violence. The "alliance of the accused" of Ruto and Kenyatta in the 2012 election signalled a rejection of the ICC process to establish accountability for the crimes of 2007-8.[53] Donors were uncomfortable with the candidacy of two men indicted for war crimes and, as Cheeseman et al. explain, "...more than one diplomat stumbled into policy statements that were vague, but could be interpreted as threatening. Jubilee readily seized these opportunities to present Kenyatta and Ruto as victims of an international conspiracy by 'the West'."[54]

The newly elected Kenyatta administration largely rebuffed donors' efforts to engage the government on governance and human rights issues, including through a pivot to Chinese finance announced in 2013 as the "Look East" policy. Kenyatta and Ruto cast the ICC case in neocolonial terms, using it to foster nationalist sentiment among voters. This rhetoric had a lasting effect on the relationship between the government and traditional donors, as one donor official explained,

> With the current government coming in, there was a huge change in the landscape. Because...this is a government that came in with a lot of backlash from the international community. So it has put the relations with the donors in a kind of bind. The donors don't have the kind of leeway that they used to have.[55]

Governance issues were thus a clear area of divergence in the donor-recipient relationship, but the government largely managed to push back against donors' requests. I explain in the following section how the government's access to alternative finance enabled this outcome.

In addition to these governance issues, negotiations between donors and the government during this period focused on corruption, financial management and politicized spending. In particular, donor officials were concerned that weak financial oversight structures allowed for politicized distribution to hold together the governing coalition. As one donor put it, describing the Kenyan government's appetite for

[53] G. Lynch 2013.
[54] Cheeseman et al. 2014, p. 9.
[55] Interview 1. Bilateral donor representative. Nairobi, Kenya. January 18, 2017.

external finance, "When there is a need for funding, it is because of political concerns."[56] Another donor representative emphasized that donors needed to be cautious in approving projects, since electoral calculations entered into the government's funding requests, "...we also have to be careful about allocating funds, because they may push you to allocate funds to where votes are coming from, in specific geographic regions."[57] This donor apprehension was further heightened by the government's increasing use of alternative finance, with a concern that new creditors were less careful in monitoring the government's allocation of funds, leading to moral hazard problems.

During this time, Kenya accessed a much wider diversity of external finance than it had in preceding years, reducing its dependence on traditional donors and strengthening its hand when negotiating with these donors. As a donor official put it, "Kenya is an interesting case, because they are well courted. Somehow they have a choice [of lenders]. That is not the case everywhere. So they can indicate their preferences...there is a degree of competition."[58] The government's appetite for alternative finance was driven by an interest in development interventions that traditional donors would not fund, as well as access to flexible finance that allows politicians to meet the short-term demands of the electoral cycle. Explaining the government's deliberate efforts to cultivate access to alternative sources of finance, a former Central Bank official explained, "There's political pressure to complete projects, which makes rapid financing attractive."[59] Political contestation not only encouraged the government to seek out flexible alternative finance, it also at times foreclosed financing options as the opposition politicized the government's reliance on particular sources of funding.

Though Kenya took up Chinese financing later than other African countries, the country has become one of the leading African borrowers from China since the late 2000s, as Figure 7.1 shows. In 2013, the Kenyatta government accelerated the

[56]Interview 29. Bilateral donor representative. Nairobi, Kenya. February 2, 2017.
[57]Interview 32. Multilateral donor representative. Nairobi, Kenya. February 6, 2017.
[58]Interview 54. Multilateral donor representative. Nairobi, Kenya. April 5, 2017.
[59]Interview 40. Former Central Bank of Kenya official. Nairobi, Kenya. February 13, 2017.

trend begun by the preceding Kibaki administration, cultivating closer ties with China and drawing on Chinese finance for landmark infrastructure projects. The most prominent of these was the 2014 3.75 billion USD railway project connecting the capital Nairobi to the port city of Mombasa, the Standard Gauge Railway (SGR). The government's interest in Chinese financing has been driven by three factors. First, the lack of governance conditionality attached to Chinese loans was particularly attractive in the context of the ICC cases against President Kenyatta and Deputy President Ruto. Second, the size and infrastructure focus of Chinese lending matched the government's priorities and enabled it to carry out politically salient projects, including tactically influencing the geographic allocation of projects. Finally, as in Kenya and in Ghana prior to 2012, Chinese financing was prized for the speed and ease in accessing loans, especially compared to traditional donors.

In addition to bilateral loans, the Kenyan government turned to bond markets for external finance during this period, entering international bond markets for the first time in June 2014, when it issued the largest ever debut African bond.[60] The bond subsequently came under domestic challenge, with the opposition alleging from 2015 that the government had misappropriated bond proceeds. The issue consisted of a 500 million USD five-year bond at a 5.875 per cent yield and a 1.5 billion USD 10-year bond at an interest rate of 6.875 per cent. These rates were competitive, lower than expected and lower than the rates that Ghana and Zambia paid that same year for their 12- and 10-year bonds. There was large appetite for the Kenyan bonds, which were four times oversubscribed, and Kenya returned to the markets later in 2014 to "re-open" the bond to raise a further 750 million USD.[61]

The government's motivation in pursuing international bonds was to gain access to large sums of flexible financing that could be rapidly disbursed to achieve political priorities.[62] A lawyer in the Attorney-General's office involved with the preparation of the Eurobond said issuing the bond made it "clear that the money

[60]Manson and Blas 2014.
[61]Reuters 2014b.
[62]Prizzon and Hart 2016, p. 14.

was there in the markets, to feed an immediate need."[63] Commentators suggested the flexibility of bond market financing came from the lack of investor scrutiny. As a donor official described it, "the markets are at a level where 'as long as I know I'll get my money back, I don't care,' so they're not following that closely where the money goes. The government also doesn't encourage market scrutiny, they would prefer there wasn't market scrutiny."[64] Furthermore, as in Ghana and in Ethiopia, the Eurobond was seen as an appropriate reflection of Kenya's rising status, with government officials referencing the oversubscription of the Eurobond as an indication of market confidence.

The subsequent politicization of the 2014 Eurobond is illustrative of how political contestation shapes the government's choice of finance and opportunity for financial statecraft. From 2015 onwards, Raila Odinga and other opposition figures targeted the government's use of Eurobond financing, alleging that large amounts of the bond proceeds had been misappropriated. Odinga took the unusual step of addressing international investors directly in October 2016, warning that any further bonds issued by the Kenyatta government would be declared "odious debt" and not honoured by a future Odinga government.[65] These opposition corruption allegations amid an election campaign had a direct influence on the government's choice of external finance, leading the government to take on a number of smaller but more expensive syndicated loans to avoid returning to the Eurobond markets. A Kenyan journalist explained, "The trick [politically] with the syndicated loans are the amounts. Syndicated loans are smaller amounts, while a Eurobond is one big amount."[66] A donor official echoed the assessment that government's choice of financing reflected political calculations, "The only reason they chose to go for the syndicated loan rather than a Eurobond is because of the opposition attention to the Eurobond."[67]

[63]Interview 21. Attorney-General's Office representative. Nairobi, Kenya. January 30, 2017.
[64]Interview 44. Multilateral donor representative. Nairobi, Kenya. February 14, 2017.
[65]Sammy 2016.
[66]Interview 9. Kenyan journalist. Nairobi, Kenya. January 23, 2017.
[67]Interview 50. Multilateral donor representative. Washington DC. February 27, 2018

7.4 Financial statecraft of debtors in Kenya

In Kenya, the effect of the government's access to alternative financing on the relationship with traditional donors has been mixed. On the one hand, the government was largely successful in getting donors to dampen their criticism of the government's governance track record and shy away from political issues in their negotiations with the government. On the other hand, donors persisted with a public financial management reform agenda intended to curb opaque and unaccountable spending, despite the government's reluctance. This difference in the success of financial statecraft compared to Ethiopia is largely attributable to differences between the two countries in government constraints. Both countries benefited from their importance to donors, with donors particularly eager to ensure continued access to the government as the government's dependence on traditional donor funding diminished. In Kenya, however, donors' awareness of the domestic political economy of patronage distribution made them more concerned about the moral hazard of alternative finance. Worried that alternative finance might be spent in ways that could imperil repayment, traditional donors were unwilling to adopt a more relaxed stance with respect to public financial management. Furthermore, as in both Ghana and Ethiopia, the government achieved mixed success in altering donors' formal aid disbursement procedures in line with their preferences.

I first discuss in Section 7.4.1 the extent to which both the government and traditional donors saw Chinese lending and bond market finance as an outside option with the potential to affect negotiations between donors and the government. I then explain in Section 7.4.2 how the presence of outside options did alter the negotiation outcomes on political rights and governance issues, marking a success in financial statecraft on the part of the Kenyan government. Furthermore, the government has been able to shape some of the procedural and financial terms of loans from traditional donors now that it has access to alternatives. However, this success has only been partial, and donor were less likely to compromise on issues of public financial management.

7.4.1 Alternative finance as an outside option

As outlined in Chapter 2, I expect alternative finance can change the outcomes of recipient governments' negotiations with their traditional donors because it provides an outside option that reduces the government's dependence on traditional donor funds. In this section I describe how both Kenyan government officials and donor representatives saw Chinese loans and bond market finance as an outside option. When alternative external finance was seen as different from traditional donor funds in focus or its terms this difference was understood to place pressure on traditional donors. An exception to this were smaller bilateral donors, whose more specialized development programmes entailed a narrower relationship with the recipient government that was less likely to be disrupted by the government's turn to alternative finance.

Kenyan government officials clearly saw new sources of finance as an alternative to traditional donors and their development finance. This was particularly true for the growing relationship with China and other bilateral donors, with several government respondents referencing, unprompted, the competition among "old" and "new" donors. For example, an official responsible for the government's negotiations with the World Bank noted the relationship with the World Bank had been affected by the fact that "...the government is moving towards the East...With the East, the way the money is spent is up to the government, that's why the Bank feels a bit threatened."[68] Describing how such competition emerges, one government representative explained, "If one donor takes up a big chunk of the space in the debt ceiling, that limits how much more can be taken up by other donors."[69] Particularly for large infrastructure projects, China was seen as an alternative with the potential to replace traditional donors, reducing the reliance on multilateral funders. A parliamentary official described the dynamic as follows, "China has become big for infrastructure. Earlier on, the bulk of infrastructure spending used to come from the World Bank, and this has dampened a bit, perhaps because

[68]Interview 5. National Treasury representative. Nairobi, Kenya. January 20, 2017.
[69]Interview 35. National Treasury representative. Nairobi. Kenya, February 8, 2017.

of the PFM [public financial management] conditions...China is more concerned about the fact that you use a national contractor."[70]

Similarly, government officials drew comparisons between bond market finance and traditional donor aid, highlighting how bond market finance met a demand for flexible and predictable financing. As one National Treasury official noted, "In a way, the Eurobond affects the relationship with donors...if I borrow and I get friendly terms, then I prefer that."[71] Another official echoed this point, commenting on the difference between the Eurobond and the lengthy approval processes for traditional donor funds, "Now, donors have realized that predictability is major concern. Even with a signed agreement with donors, conditions precedent will affect the release of funds."[72]

Among donors, representatives of multilateral agencies and bilateral donors with large programmes in Kenya were likely to echo the government's view that new creditors acted as an outside option. Some donor representatives made explicit that traditional donors stood to lose from growing Chinese lending, as in the case of one official who commented that Kenya's appetite for Chinese debt came "at the expense" of more traditional lenders, "Chinese money may be expensive, but Kenya is considering it attractive because not only the cost of financing matters...Kenyan bilateral debt from China is growing, at the expense of the OECD or the Paris club."[73] Another donor official described the impression that if the UK, the US, or Bretton Woods institutions are "twisting the arm too tightly, then the country will go look elsewhere, perhaps go to China."[74] The representative of one long-standing donor explained that increasing financing from China was undercutting the conditionality of some traditional donors, "The government has decided for economic and political reasons to diversify its partnerships, and China has conveniently grabbed the opportunity...Now this is to the disadvantage for both the European donors and

[70]Interview 47. Parliamentary official. Nairobi, Kenya. February 15, 2017.
[71]Interview 6. National Treasury representative. Nairobi, Kenya. January 20, 2017.
[72]Interview 28. National Treasury representative. Nairobi, Kenya. February 1, 2017.
[73]Interview 29. Bilateral donor representative. Nairobi, Kenya. February 2, 2017.
[74]Interview 2. Multilateral donor representative. Nairobi, Kenya. January 18, 2017.

Japan. Not disadvantage, exactly, but the shift to China parallels some of the conditions Western countries put on the government."[75]

Donors' concerns about the government's access to alternative finance focused on the relative prestige of their development projects and the extent of their access to the Kenyan government. For instance, one donor official described the reaction of others in the donor community as follows, "of course [there is competition], it's for the government to decide how to handle this. China is funding the SGR, which none of the traditional donors would have funded. That relegates traditional donors to building schools and clinics."[76] The reference to "relegating" traditional donors to less prestigious projects reflects donors' concern that they would lose status and access as the government increasingly drew on alternative creditors. To traditional donors, the government's pursuit of alternative finance was also a deliberate strategy to signal its greater independence from traditional donor funds. One donor representative, for example, noted that although the government "will never tell you, it [borrowing from China] is a way for them to put pressure on us."[77]

The exception to donors' perception of alternative finance as an outside option were smaller bilateral donors, whose specialized aid programmes meant they had less to lose in terms of access to the government. For donors who provide specialized development programmes in social sectors unlikely to be replicated by China or paid for by commercial finance, the government's turn to alternative finance was thought to have less of an impact on the relationship with the government. For instance, a representative from a Scandinavian donor explained that they did not see themselves competing with new creditors, "China is definitely changing things, but for us it's not changing, because we're not in infrastructure."[78] Though the US is a much larger donor and in some areas did stand to lose through a growing dependence of the Kenyan government on alternative creditors, its focus on the health sector meant it was also partly insulated through specialization. As an official at USAID

[75]Interview 1. Bilateral donor representative. Nairobi, Kenya. January 18, 2017.
[76]Interview 30. Multilateral donor representative. Nairobi, Kenya. February 2, 2017.
[77]Interview 29. Bilateral donor representative. Nairobi, Kenya. February 2, 2017.
[78]Interview 41. Bilateral donor representative. Nairobi, Kenya. February 13, 2017.

explained, "as of yet, China isn't a form of competition for USAID. Primarily, that's because Chinese funding goes into infrastructure, whereas USAID goes into healthcare."[79] Although most donors saw alternative financing sources as an outside option that had a bearing on their relationship with the government, specialization meant that some donors were less affected by this.

7.4.2 Outside options and the partial success of financial statecraft

I find that the government achieved mixed results in changing traditional donors' procedures for disbursing and monitoring aid, that it was more successful in easing pressure on governance conditionality, but largely unsuccessful in removing financial management issues from the donor-recipient relationship.

In large part, this lack of success on issues of financial management was because donors were concerned about the moral hazard of the government's uses of alternative finance. In Kenya's political environment, with frequent accusations of corruption and politicized distribution, donors worried that alternative finance was enabling unsustainable spending, potentially putting their own repayment at risk. Therefore, on issues of public financial management, donors did not accommodate the government's preference for greater flexibility, instead insisting on reform measures. In other areas of the donor-recipient relationship, by contrast, the government was able to benefit from its value to traditional donors to translate alternative finance into preferred negotiation outcomes. Not willing to lose their access to the government over sensitive political issues, donors responded to the government's preferences by muting their criticism of the government's political rights record. I first describe the government's tactics to improve their negotiating position with their diversified portfolio of external finance, before describing negotiation outcomes across three areas of disagreement between donors and the government, tracing these outcomes to the domestic contestation and significance in the Kenyan case.

[79]Interview 34. Bilateral donor representative. Nairobi, Kenya. February 8, 2017.

As in Ethiopia and more so than in Ghana, the Kenyan government intentionally altered its tactics toward traditional donors in response to alternatives that have become available. Though this was not expressed as part of a written strategy, National Treasury officials explained they were more likely to compare financing offers across different funding sources and request more preferable terms from traditional donors. For instance, one official explained, "we now look at concessional financing in a new light, we have realized that in some cases, cheap is expensive...What the traditional development partners will see is a pushback from the government in terms of what it will accept."[80] A donor official corroborated this point, saying the National Treasury had been more careful about what it agreed to with traditional donors, suggesting this might be because the government could draw on other funding options, "Today, maybe because they have more options, maybe also because they have more capacity, they are more keen on the terms, scrutinizing them closely."[81]

The government's increased caution and scrutiny in evaluating traditional donor aid was mostly focused on the procedural and technical aspects of traditional donors' development finance. Officials explained they were more likely to negotiate over the disbursement and review processes with traditional donors, now that they had access to alternative sources of finance where transaction costs are lower. Donor representatives explained that the declining dependence of the government on donors, both due to new forms of finance and growing tax revenues, put the government in a stronger position to negotiate. Reflecting a broader view, one donor official noted, "...they [the Kenyan government] can play very hard. Even if they don't explicitly play hard, they can just ignore [donors]."[82] The access to outside options thus changed the government's behaviour in aid negotiations with traditional donors, leading them analyse donors' offers more carefully and to negotiate more assertively.

As in Ethiopia, there was only limited accommodation of the government on the formal mechanisms that determine aid procedures. However, there were a few instances where traditional lenders appeared to be moderating formal processes to

[80]Interview 16. National Treasury representative. Nairobi, Kenya. January 25, 2017.
[81]Interview 25. Bilateral donor representative. Nairobi, Kenya. February 1, 2017.
[82]Interview 46. Bilateral donor representative. Nairobi, Kenya. February 14, 2017.

meet the government's preferences. For instance, a World Bank official in Nairobi noted that "...you might hear complaints about bureaucratic delays at the Bank," especially in comparison to other lenders, and explained that the World Bank had recently introduced an automatic tracking system for governments to monitor the review and approval of a loan.[83] This rather small modification to the Bank's procedures was rolled out globally and not specific to Kenya, but is indicative of the pressure on donors to respond to recipient preferences.

A further instance of procedural adjustments to meet the government's preferences was the IMF's willingness to provide a large precautionary loan in 2015 of ca. 700 million USD, which later increased to 1.5 billion USD. The loan combined funding from the Standby Credit Facility designed for developing countries with the Standby Arrangement to be able meet the government's preferred financing amount. Observers suggested that eligibility rules had been "bent" to secure Kenya access to the large blended loan facility.[84] Though the IMF's readiness to provide Kenya with such a sizeable precautionary loan was in part a product of Kenya's exposure to international markets, the loan also gave the IMF access to the government at a time when the government was increasingly drawing on alternative funding sources. The conditions attached to the IMF loan were a means for traditional donors to impose constraints on the government's spending as the government turned to commercial finance, especially in the run-up to the 2017 election.

In most cases, however, the government was unsuccessful in its efforts to leverage access to alternative finance into changes in the formal processes of traditional donor aid. An official at the National Treasury explained, "Donors are aware that there are alternatives. It comes up in conversation all the time...But, traditional donors have maintained their aid attitude the same, new partnerships have not changed the attitude of traditional donors."[85] In particular, government respondents stressed that donors failed to bring their aid in line with aid effectiveness principles preferred by the government, such as narrowing their sectoral focus. Since 2014, the

[83]Interview 37. Multilateral donor representative. Nairobi, Kenya. February 9, 2017.
[84]Interview 24. NGO representative. Nairobi, Kenya. February 1, 2017.
[85]Interview 6. National Treasury representative. Nairobi, Kenya. January 20, 2017.

National Treasury has used the Kenya External Resources Policy (KERP) to guide its relationship with donors. The policy requires that donors "are actively engaged in at most four sectors to avoid fragmentation of aid and duplication of efforts."[86] However, many donors acknowledged that they continued to operate in more than four sectors, and that compliance with this part of the policy was low. One official from the National Treasury explained that although "the KERP is encouraging donors to narrow, I have not seen the impact of that on donor behaviour."[87]

The government was more successful in leveraging its access to alternatives into informal adjustments on governance issues where the government's preferences diverged from donors. Mostly, this manifested as donors removing governance concerns from the agenda of donor-recipient negotiations, in the awareness that sensitivity around these issues was motivating the government to seek out alternative sources of funding. This was particularly evident in the aftermath of Kenyatta's "Look East" policy, when traditional donors became much more cautious about discussing domestic governance issues. As one Kenyan observer put it,

> I think to start with, the UK and other partners didn't know how to interpret it [the "Look East" rhetoric]. I don't know if they panicked...but there was a softening of the approach. And I think that's one of the reasons that you could consider the rhetoric succeeded. They were too careful after that not to look like they are following a political agenda. So even issues that domestically the West has always had as irreducibles, suddenly were happening [in Kenya], but people were watching [and letting them happen].[88]

Traditional donors paradoxically muted their criticism of the government on governance issues in the aftermath of the ICC indictment of Kenyatta and Ruto, precisely when divergence between the government and donors increased. They did so at least partly in response to Kenyatta's move to "Look East."

Donors' willingness to accommodate the government's preferences with a more reserved approach to governance issues was in large part driven by the government's reduced dependence as it turned to alternative finance. Commentators, such as

[86]Government of Kenya 2014, p. 2.2.2.1.
[87]Interview 39. National Treasury representative. Nairobi, Kenya. February 10, 2017.
[88]Interview 7. Think tank researcher. Nairobi, Kenya. January 20, 2017.

this Kenyan journalist, suggested that donors' caution arose from their interest in continuing their development operations and retaining a relationship with the government,

> It [the government's access to alternatives] has really eroded what they [traditional donors] used to consider their leverage. So you will find that they [traditional donors] are now becoming poodles of the government...people from the IMF and World Bank used to make objective statements about the economy, policy, and so on, now they don't. Now, especially with this [Kenyatta] government, which has got a very thin skin, they don't criticize...They're being poodles because *they want to lend*.[89]

This analysis of donors as "poodles of the government" is shaped by this journalist's opposition to the Jubilee administration and frustration with a perceived failure on the part of donors to hold the government to account. Nonetheless, it is indicative of how dynamics between traditional donors and the government have changed since the government gained access to new forms of financing. The government acquired a credible outside option, and in response, some donors were willing to meet the government's preference for a diminished focus on governance issues.

For Kenyan officials, removing governance concerns from the dialogue with donors was a success, aligning more closely with the government's preferences for greater autonomy and facilitating technical engagement. For instance, one government official tasked with the day-to-day management of donor funds explained how engagement with donors had changed from the late 2000s onwards, "It works better when we separate politics from development, which we did after 2006-7. Here, at this level, we don't discuss politics with DPs. If they need to discuss politics, they go higher."[90] Similarly, an IMF official explained the Fund's willingness to remove governance issues from their engagement with the Kenyan government in order to meet the government's preferences and facilitate an easier working relationship, "In 2000-2010, the focus of the Fund in Kenya was on governance and this put us on shaky ground with the government, this poisoned the relationship with no clear pay-off. So, we've moved away from direct governance issues towards PFM

[89]Interview 10. Kenyan journalist. Nairobi, Kenya. January 23, 2017. Emphasis added.
[90]Interview 38. National Treasury representative. Nairobi, Kenya. February 10, 2017.

[public financial management], so the relationship has improved, even though the indicators on governance issues haven't changed much."[91]

The government was much less successful in using its access to alternative finance to persuade donors to meet its preferences on substantive policy issues relating to public financial management. In this area, traditional donors responded to the government's access to outside options by increasing their scrutiny of government policy and tightening their conditionality. This outcome is in large part explained by the Kenyan government's constraints, i.e. the extent of domestic contestation, which contributed to donors' concerns about the government's spending and the sustainability of its debt. Concerned that the government's access to alternative finance was enabling unsustainable spending in response to distributive pressures, donors worried that alternative finance risked putting their repayment at risk. They were therefore much less willing to accommodate the government's preferences for autonomy and independence when it came to financial management.

The Chinese-funded Standard Gauge Railway (SGR) typified donors' concerns about the government's use of alternative finance, with donors suggesting it was overpriced, poorly managed, and rushed for electoral purposes. As one donor official put it, "I don't fault the Kenyan government for taking advantage of attractive financing in the short term, but the SGR financing was on bad terms...[and] the SGR is a terrible boondoggle."[92] Another donor representative made clear how donors' evaluation of the SGR led them to draw distinctions between their own development finance and alternative Chinese finance, explaining that his agency "...considers economic viability...for instance, we wouldn't fund the SGR. We don't have the funds for loans of that size, and it wasn't economically viable."[93] Donors' scepticism was not unique to the SGR, nor to Chinese loans. Other donors worried that the flexibility of market finance was enabling unsustainable spending. As one donor official put it, "...market financing should make corruption harder...private

[91]Interview 50. Multilateral donor representative. Washington DC. February 27, 2017.
[92]Interview 34. Bilateral donor representative. Nairobi, Kenya. February 8, 2017.
[93]Interview 37. Multilateral donor representative. Nairobi, Kenya. February 9, 2017.

funding should introduce more discipline. But that hasn't been the case in Kenya. It seemingly hasn't prevented corruption."[94]

For donors whose development finance in Kenya is in large part in loans, such as the US, Japan, France, or Germany, the government's uses of alternative finance also raised concerns about repayment of their debts. One donor representative explained the concern about the government's pattern of borrowing. "Of course there is, can I call it fear? Or at least some apprehension, that there is some alternative finance...development partners are concerned, deeply concerned about the return on investment."[95] This concern about moral hazard underpinned donors' unwillingness to relax their stance on public financial management, despite the government's preferences. As a donor official explained,

> I am not saying we should make our projects quicker or less vigilant, but what we need to do is make clear to Kenya that there can be disasters from Chinese-financed projects...We have some concerns...about the quality of debt management, because *we also have an interest in being repaid.*[96]

Others drew attention to how alternative finance fed the electoral budget cycle, a trend that was perceived to have intensified with the Kenyatta administration in 2013, which had increased borrowing from China to fund politically salient infrastructure projects.[97]

In response to these concerns, traditional donors increased their focus on economic governance, putting pressure on the government to reform debt management, procurement processes, and public investment planning. The US placed an official from the US Treasury with the Kenyan National Treasury to assist with debt management and the World Bank took the lead in setting up a programme to encourage reforms in public financial management. The appraisal document for the programme, agreed in September 2017, lays out the concerns in stark terms,

[94]Interview 2. Multilateral donor representative. Nairobi, Kenya. January 18, 2017.
[95]Interview 1. Bilateral donor representative. Nairobi, Kenya. January 18, 2017.
[96]Interview 29. Bilateral donor representative. Nairobi, Kenya. February 2, 2017. Emphasis added.
[97]Interview 32. Multilateral donor representative. Nairobi, Kenya. February 6, 2017.

> Kenya still faces significant governance challenges that are symptomatic of institutional and systemic weakness...public procurement and contracting reforms have not contributed significantly to reducing and/or preventing corruption in Kenya...There remains no coherent system for making decisions on selection and prioritization of public investments on the basis of public policy objectives.[98]

The government's access to new forms of finance amplified donors' concerns that politically motivated spending and weak institutions could lead to an unsustainable build-up of debt, potentially imperilling repayment of debt owed to traditional donors. In response, donors stepped up their pressure on the government to implement reforms to economic governance, despite the government's preference for greater autonomy in this area.

In Kenya as in Ghana, donors' concerns about *how* alternative finance was being spent undercut efforts at financial statecraft, leading donors to increase their pressure on the government on issues of financial management, rather than decreasing it. This demonstrates the importance of the domestic political context in shaping the effectiveness of debt-based financial statecraft.

7.5 Conclusion

In Kenya, the government had a mixed record in translating its access to alternative finance into negotiation outcomes aligned with its preferences. While donors muted some of their criticism on governance and political rights to retain access to an important partner in the wake of Jubilee's "Look East" policy, they also increased reform efforts on financial management issues. The government's diversification of its portfolio of external finance included both international bond market finance and, especially from the 2010s onward, Chinese loans. The government's reduced dependence did appear to have some effect on the outcomes of negotiations with traditional donors. On issues related to governance and human rights, donors became more circumspect in their public criticism of the government after 2013, despite the non-compliance of the Kenyan President and Deputy President with the

[98] World Bank 2017, pp. 2-3, 94.

ICC's international investigation. This appeared to be in large part due to donors' reluctance to endanger their relationship with the government, especially as the government reduced its dependence on traditional donor funds.

However, the government was not entirely successful in influencing negotiation outcomes in line with its preferences. In the domain of corruption and financial management, donors increased their pressure on the government despite Kenya's access to alternative finance. Here, domestic contestation and political economy played a substantial role. Fearful that the government's spending patterns with respect to alternative finance could put Kenya in financial difficulty and imperil the repayment of their own loans, donors insisted on financial management reforms to strengthen oversight. The difference between Kenya and Ethiopia thus illustrates the influence of domestic political contestation on variation in the success of financial statecraft. Where such contestation is high and drives up clientelist spending, as in Kenya, moral hazard concerns will inhibit donors' responsiveness to recipient preferences in negotiation.

8

Ghana: Unsuccessful financial statecraft

As the first sub-Saharan African state to regain independence from colonial rule in 1957, Ghana has played a prominent role in modern Africa's political history. In foreign relations as well, Ghana has historically been a leader on the African continent, enjoying a privileged relationship not only with the former colonial metropole, London, but also with other traditional partners. In the 1980s, Ghana was a model student of the economic reforms advocated by international financial institutions, currying favour with donors. A decade later, with the transition to multi-party democracy, Ghana became one of the standard-bearers of the "third wave" of democratisation in Africa, aligning with donors' interest in good governance at the time. Given this history of close relations with donors, Ghana might be expected to do well out of the new constellation of available finance, using the strength of its existing ties to traditional donors while courting new sources of finance. And yet, of the three case studies in this thesis, Ghana was the least effective at the financial statecraft of debtors. In fact, in Ghana, the government's increasing reliance on alternative sources of finance was associated with worsening relations with traditional donors in some periods. The surprising failure of this one-time donor darling to extract bargaining leverage from its external financing is a telling case, demonstrating the important mediating effect of both domestic political contestation and strategic significance.

In Ghana, domestic political contestation goes a long way to explaining the government's choices over external financing, as well as traditional donors' responses to those choices. Ghanaian politics are structured around two political parties that have, since the return of multiparty democracy in 1990, contested closely fought elections and alternated in power three times. This electoral competition is combined with intense jockeying for power within each of the parties, leading to a high demand for distribution to both win elections and keep within-party coalitions together once in power. This demand for distributive spending has, in turn, shaped successive governments' choices with respect to external finance, leading, as in Kenya, to an appetite for flexible financing that can be deployed very quickly, especially around elections.

This pattern of borrowing and spending has introduced a clear constraint on financial statecraft. Concerned that the government was using alternative funding sources to finance patronage expenditure and worried this could compromise debt sustainability, traditional donors reacted to the government's increasing reliance on alternative finance with a hardened negotiating position. Furthermore, as in Kenya, the government's access to external finance was heavily politicized, constraining the government's choices. Political tensions over Chinese involvement in illegal gold mining made it challenging for the government to pursue large amounts of financing from China after 2013, foreclosing an outside option that could have potentially increased its leverage with traditional donors. This illustrates, as in Kenya, the contingency that domestic political contestation introduces into the government's demand for external finance, which then shapes the government's ability to successfully deploy the financial statecraft of debtors.

The Ghanaian government's difficulty in translating access to outside options into greater bargaining leverage with its traditional donors is also associated with Ghana's declining importance to traditional donors over this period. Ghana has historically been valuable to donors and occasionally received more lenient treatment as a consequence, as illustrated by Ghana's experience with structural adjustment and other donor conditionality in the 1980s and 1990s. Even at the beginning of

the period under study, as Ghana was beginning to access to alternative funding sources in the form of Chinese loans in the mid-2000s, the country was often held up by traditional donors as a model for other countries.

However, Ghana's value for traditional donors has historically come from the country's role as an attractive exemplar of the success of development policies, as a politically and economically liberal county that provided useful illustration for donors of the efficacy of their recommendations. Ghana's value to traditional donors has been associated with its policy choices and been more symbolic in nature, especially when compared to the strategic importance of Ethiopia and Kenya linked to counter-terrorism operations and stability in the Horn of Africa. During the unfolding of the 2013 macroeconomic crisis in Ghana, donors were increasingly frustrated with what they saw as "slippages" on reform commitments in public financial management and the government's lack of fiscal discipline. The persistence of politically-motivated spending patterns increasingly undermined Ghana's status as a "success story." The value traditional donors' placed on their relations with the Ghanaian government waned as the economic crisis worsened and traditional donors became increasingly frustrated with the government's lack of engagement with donors' policy recommendations. As the value donors placed on their relationship with the government declined, so too did the bargaining leverage the government could derive from a reliance on alternative funding sources.

To make my argument about Ghana's lack of success with the financial statecraft of debtors, I draw on interview evidence from over 60 interviews, a third of which were conducted September-October 2013, and two-thirds of which stem from April-May 2017. These two periods of data collection give me an insight into the change in relations between the government and traditional donors over the time under study, highlighting the decline in the value donors' placed on their access to the government. I was able to achieve saturation across the four most important categories of interviewees, i.e. bilateral donors, multilateral donors, and resource mobilisation and debt management officials in the Ministry of Finance and Economic Planning. More details are available in Table A.3 in Appendix A. The high response

rates among interview respondents give me considerable confidence that I have an unbiased sample of donor and government perspectives. 86% of Ministry of Finance officials and 84% of donor representatives agreed to interview requests and several donor officials who declined interview requests referred me to others in their organization. Given the changes in political administration in Ghana during the period under study, I also interviewed former deputy Finance Ministers from the two previous administrations.

The interview data is complemented with media reporting from Ghana's largest media sources, the Daily Graphic newspaper and Citi FM radio, as well as donor reports and the international financial press. As in Kenya, public debate in Ghana is free and open and information about politics is widely available. However, relations with donors are sensitive and they became especially so as the relationship worsened. Therefore, most respondents spoke with me only on the condition of anonymity, and I cite interviews in the chapter with reference to the category of interview and the date of the interview, avoiding further identifiers that would allow readers to establish interviewees' identity.

The chapter proceeds as follows. Section 8.1 describes the nature of government constraints in Ghana, outlining patterns of domestic political contestation that shape the government's demand for finance and engagement with donors. I then turn to the supply side, describing in Section 8.2 the value donors attached to their relationship with the government, highlighting how this diminished over time, becoming an increasing constraint to financial statecraft. In Section 8.3 I briefly map the government's portfolio of external finance and variation in issues under negotiation between the government and donors, contextualizing the disagreements in which the government could seek to leverage its access to alternative finance. Section 8.4 demonstrates that Ghana has been relatively unsuccessful at financial statecraft, showing how political contestation and donors' waning interest have made it hard to translate access to alternative finance into preferred outcomes on issues of economic policy and financial management. Section 8.5 concludes.

8.1 Government constraints: Ghana's competitive clientelism

Ghana's politics are characterized by close and fierce electoral competition between two main political parties. The most important features of Ghana's politics for understanding successive governments' choices over external finance and effectiveness at financial statecraft are the following. The two-party system means the opposition poses a credible electoral threat, giving incumbents a short time horizon and incentivising skewed public goods provision that could aid re-election. Furthermore, elections themselves are enormously expensive, giving incumbents an advantage, and further increasing the attraction of flexible financing that can cover expenditures when election-related expenses begin to take priority in the electoral budget cycle. This inter-party competition is combined with considerable intra-elite contestation within the parties, with competing politicians within parties resting on separate power bases. This further shortens the time horizons of politicians, who face not only credible electoral opposition but also factional contestation within their party. Finally, the existence of a credible opposition, together with a vibrant media landscape, make incumbent governments vulnerable to the politicisation of borrowing choices. I briefly describe the origins of Ghana's two-party system during decolonisation and the post-independence period before turning to the patterns of contestation in the contemporary multiparty era.

8.1.1 Post-independence politics

As the British prepared to hand over political authority in the late 1940s and early 1950s, two political groupings emerged that continue to shape Ghanaian politics in the present day.[1] First, a nationalist party, the Convention People's Party (CPP), led by Kwame Nkrumah, supported by trade unionists and with a political identity based on mass appeal. Second, a cluster of newly educated elites, led by J. B. Danquah, who formed a coalition with neo-traditional[2] and landed

[1] The following is largely based on Whitfield (2009b) and Whitfield (2018).

[2] "Neo-traditional" refers to chiefs who derived their political authority in part from their recognition and incorporation into colonial political structures.

elites to fend off the success of Nkrumah's CPP.

With the backing of the departing British authorities, Nkrumah's CPP won a series of elections in the run up to independence in 1957, and governed Ghana in its first years of independence. As a celebrated pan-Africanist and leader of the first African state to regain independence from colonial rule, Nkrumah faced high expectations from both domestic and international audiences.[3] Within a number of years, however, fraught competition with a frustrated opposition led Nkrumah to suspend electoral competition and rely on increasingly authoritarian tactics,[4] until the government was overthrown by a bloodless coup in 1968. Though the 1968 coup at first led to the restoration of constitutional authority and enabled the election of Kofi Busia of the opposition, it was ultimately followed by more than two decades of alternating political instability and military rule.

This period of political instability and uncertainty from the late 1960s onward was characterised by intense intra-elite competition, which led to both "status-driven patterns of political action"[5] and increasingly illiberal treatment of the opposition.[6] This proved fertile ground for a 1979 coup led by Jerry Rawlings that cast itself as a "revolution" and shocked Western observers with the extreme measures deployed in the name of severing the influence of previous, corrupt administrations.[7] As Rawlings' Provisional National Defence Council (PNDC) held onto power throughout the 1980s, observers were surprised to discover that a military regime justified on revolutionary grounds was a willing implementer of structural adjustment reforms.[8]

Ghana's transition to multiparty electoral competition in the early 1990s was broadly similar to that in Kenya. Facing increasing domestic pressure as well as economic constraints from a large debt burden and unfavourable cocoa prices, Rawlings was responsive to international donor influence and agreed to hold multiparty elections in 1992.[9]

[3] Apter 1968.
[4] Austin 1962.
[5] Whitfield 2005a.
[6] Goldsworthy 1973.
[7] Hansen and Collins 1980.
[8] Nugent 1996.
[9] Green 1995.

8.1.2 Multipartyism and contentious electoral competition

Since the return of multiparty elections in 1992, Ghana has effectively been a two-party political system, with the parties alternating in power three times. These two parties are heirs to the political traditions and elite networks described above.[10] The roots of the New Patriotic Party (NPP) lie in the Danquah-Busia tradition, the coalition of neo-traditional and newly educated elites established in the decolonisation period. Broadly conceived, this political tradition is understood in Ghana as "elitist, ethnically exclusive (predominantly Ashanti and Akyem sub-groups of the Akan), liberal-democratic and right-wing."[11] The NPP's chief competitor, the National Democratic Congress (NDC), has acquired the mantle of Kwame Nkrumah's broadly left-leaning mass political tradition, since the support base of Nkrumah's original party, the CPP, has collapsed.[12] The "Nkrumahist tradition" that the NDC has taken on "is perceived in Ghanaian popular imagination as ethnically and socially inclusive, broad-based, populist and left-wing."[13]

The return of electoral competition has introduced a pattern of electoral budget cycles as incumbents execute projects and distribute public benefits in the run-up to election. Already in 1992, the NDC was alleged to have "bought" the election through carefully timed salary increases for public sector workers and spending measures in rural areas.[14] Elections themselves are increasingly costly, creating an appetite for fungible resources that can be deployed to meet budgetary expenditures as election costs increase. Nugent cites a winning NPP candidate from Berekum in the 2000 election, "...elections are not for the poor. It is an extremely expensive enterprise."[15] In the 2004 election, for example, the NPP was estimated to have spent at least 30 million USD, and up to 100 million USD, on election-related costs.[16]

[10] Osei 2015; Whitfield 2009b, 2018.
[11] Whitfield 2009b, p. 629.
[12] Green 1995; Osei 2015, p. 544.
[13] Whitfield 2009b, p. 629.
[14] Green 1995, p. 579.
[15] Nugent 2001, p. 408.
[16] Africa Confidential 2004; Daddieh and Bob-Milliar 2012.

Though both parties can largely rely on stalwart voters in their heartlands – the Volta region for the NDC and Ashanti regions for the NPP – competition is fierce in swing regions, and even in the heartlands, support is not a given.[17] The presence of a credible opposition has led to short time horizons for politicians. Whitfield points out the paradox that increased accountability through the ballot box has also meant more short-termist politics, "On the one hand, the prospect of elections pressures politicians to deliver immediate benefits. On the other, political leaders need to deliver sustainable benefits like employment and increased income...and this requires long-term thinking and strategies which may not have immediate effects."[18]

Furthermore, politicians face not only competition from the opposition but also challenges from within their own parties, which create pressures for clientelist distribution to retain their position within the party. This internal fragmentation and the associated demands for distribution are not cast in the same sharply ethnicised terms as in Kenyan politics, but do take on a regional character. Abdulai and Hickey show that in both NDC and NPP governments, regional factions with greater influence were able to redirect resources to their home regions, explaining that with more competitive elections, "elected politicians have come under increased pressure to provide their communities with public goods, which leads them to pressurize bureaucrats to distribute public resources in line with their political agenda rather than planned policy strategies."[19] Whitfield describes this internal distributional contest as follows, "High intra-party competition led to politicization within the party over the allocation of resources to ministries, projects, and geographical places in the country, as elites vied for a distribution that not only benefited the party as a whole but more importantly their electoral prospects individually."[20]

The intense pattern of political contestation has affected the strength of budgetary and other bureaucratic institutions. Killick refers to Ghana's budgetary process as a "façade" and "so weak as to be essentially ritualistic."[21] This view

[17] Fridy 2006.
[18] Whitfield 2009b, p. 640.
[19] Abdulai and Hickey 2016, p. 65.
[20] Whitfield 2018, p. 116.
[21] Killick 2005.

is echoed by donor officials in Accra, one of whom said, "The budget is a fiction. They'll end up spending what they are able to raise."[22] Describing this process, another donor official explained, "The Minister of Finance has had a situation where the budget is set and then people will go directly to the President to ask for financing. Executive strength and executive discipline is missing...This [NPP] government [elected in 2016] will also struggle with this because they have so many ministers and each of them promises something and then they will go to the Finance Minister and pressure."[23]

Bureaucrats in the Ministry of Finance who acknowledged the existence of the electoral budget cycle pointed out that this pressure was a consequence of the electoral system, and one faced by both parties. As one official put it, "The deficits don't come from buying votes. We have a competitive election system...every time there is an election, trade unions go on strike and they are a strong force in elections. That is a structural, systemic feature of elections in this country that no party is in a position to be able to control."[24] A donor official commented sympathetically, highlighting the spending citizens can convince the government of in election years, "The electorate has also gotten into a position where election years are the only time that their development needs are attended to...both sides play that game in election years."[25]

This account of Ghana's competitive clientelist political system reveals a number of features that have shaped governments' preferences with respect to external finance, as well as governments' negotiations with traditional donors. First, incumbents operate with short time-horizons, knowing there is a credible electoral threat from the opposition. This enhances the appeal of financing that is quickly disbursed. Second, within-party competition creates demands for clientelist distribution, particularly of a regional nature, to hold onto positions of influence. These dynamics create an appetite for flexible financing that, even if not directly

[22]Interview 61. Bilateral donor representative. Accra, Ghana. April 20, 2017.
[23]Interview 71. Bilateral donor representative. Accra, Ghana. April 27, 2017.
[24]Interview 92. Ministry of Finance representative. Accra, Ghana. May 5, 2017.
[25]Interview 72. Bilateral donor representative. Accra, Ghana. April 28, 2017.

deployed for these ends, is sufficiently fungible to free up resources elsewhere. Finally, the contentious political climate makes incumbents vulnerable to the "weaponization" of borrowing choices by the opposition, meaning that borrowing choices can also be driven by the public optics of choosing one lender over another.

8.2 Donor constraints: Ghana's waning importance

As I outline in chapter 2, I expect countries' success in translating alternative finance into greater leverage to vary with traditional donors' interest in maintaining a relationship with the recipient government. A key constraint on donors' willingness and ability to accommodate recipient preferences in negotiations is their interest in a relationship with the recipient government. In the case of Ghana, it would initially appear that conditions were favourable for a successful exercise of financial statecraft, since the country has long been a "donor darling," enjoying a position of prominence in several donors' portfolios. However, Ghana's importance to donors has historically been premised on the country's development performance and enthusiasm for reform, rather than geopolitics, making it vulnerable to shifts in donors' perception of the country's development policy.

Ghana's economic crisis and the associated "policy slippages" in 2013 strained the relationship with influential traditional donors and undermined Ghana's importance to these donors. Therefore, when Ghana turned to alternative forms of finance, the government found it was less able extract leverage from this than either Kenya or Ethiopia. I describe three bases of donors' interest in Ghana below: democratic credentials, commercial importance, and economic policy. I show that while Ghana's democratic appeal persists, and its commercial importance had the potential to be enhanced by the discovery of oil and gas deposits, donors' increasing disappointment over economic policy weakened Ghana's attraction. By the end of the period under study, traditional donors were still interested in maintaining a relationship with the government, but no longer willing to be as lenient as previously to secure that relationship.

8.2.1 Democratic credentials

As an example of multiparty democracy in sub-Saharan Africa, Ghana has been attractive to traditional donors since the early 1990s, and this basis for donor interest persisted throughout the period under study. Ghana's 1992 transition to competitive multiparty elections under the PNDC was celebrated as part of the 1990s "third wave" of democratization. The country's status as a democratic symbol was further solidified when Ghanaian institutions proved to be robust even during challenging times, while other countries that had also undergone transitions to multiparty elections, such as Kenya or neighbouring Côte d'Ivoire, succumbed to political violence or sustained conflict.

When asked to explain their interest in development cooperation in Ghana, almost all representatives of traditional donor agencies pointed to the country's democratic track record. For instance, one donor representative suggested that democracy is a "ticket" Ghana can use to its advantage, "DPs love Ghana, largely because of democracy. That's the big ticket Ghana has, democracy...Also, their elections are not violent."[26] Another donor representative alluded to the importance of Ghana's democratic stability in the subregion, also as an ideal for neighbouring countries, "[Ghana is] peaceful, it has democratic processes, it's a model within West Africa."[27]

Ghana's democratic institutions encourage a certain leniency on the part of donors. This is in large part due to the symbolic importance of Ghana as an example of democratic consolidation. As one donor put it, "Ghana is a country that people [in the donor community] look to, that they expect to do well, given its democracy. There is a sense that *we need to make things go well in Ghana*."[28] An official from a European donor country explained that the importance of the relationship with Ghana was established at very senior levels in the donor country government, leading to considerable flexibility toward the government, "Even if

[26]Interview 55. Multilateral donor representative. Accra, Ghana. April 4, 2017.
[27]Interview 62. Bilateral donor representative. Accra, Ghana. April 20, 2017.
[28]Interview 57. Multilateral donor representative. Accra, Ghana. April 6, 2017. Emphasis added.

all the funds were misappropriated, we wouldn't leave from one day to the next. [Our head of government] would say no."[29]

8.2.2 Commercial importance

Ghana's significance to its donors is also shaped by the interests of donor country firms in Ghana, though Ghana is unable to benefit from the same status as a regional economic hub that Kenya holds in East Africa. With Nigeria unquestionably holding the position of regional economic hub in West Africa, Ghana's economic appeal for donors stems from its exports and natural resource endowments, i.e. cocoa, gold, and (since 2007) oil and gas. Donor countries whose firms are active in these sectors, either through investments in extraction or as buyers of Ghanaian exports, have a particular interest in maintaining close relations with the Ghanaian government, including through aid relations. For instance, despite Switzerland's comparatively small global aid budget, it has been active as an aid donor in Ghana in part because of Swiss firms' interests in the cocoa sector. Though Switzerland's allocations are much smaller than those of large bilateral donors (see Table 8.1), the country has taken an active leadership role in the donor community.

Ghana's discovery of oil and gas in 2007 initially promised to heighten its commercial appeal. For firms that became active in extraction and processing of oil and gas in Ghana, the discovery did enhance the importance of the country. Donor representatives reported that US interest in access to the Ghanaian governments were enhanced by the commercial interests of US firms in the energy sector. As one donor official put it, "The Americans have a substantial strategic interest in Ghana...They've become very engaged in the energy sector and they want to remain there. It's less an economic interest than a strategic interest."[30] However, the volumes of oil extracted and processed in Ghana have so far failed to meet the optimistic expectations raised in 2007 and 2008, and oil and gas production has done less to raise Ghana's commercial importance than initially anticipated.[31]

[29]Interview 74. Bilateral donor representative. Accra, Ghana. May 2, 2017.
[30]Interview 74. Bilateral donor representative. Accra, Ghana. May 2, 2017.
[31]Africa Confidential 2014.

8.2.3 Economic policy and slippages

A large part of Ghana's historic importance to traditional donors, particularly the World Bank and the IMF, was driven by the country's early adoption of economic reforms recommended by international financial institutions in the 1980s. Valuable as a case study of the economic success of such reforms, Ghana was generously supported to ensure it could continue to act as an example for others. This appeal was not only symbolic. Despite Ghana's subsequent backsliding on some policy issues, the country largely implemented reforms and offered donors a reliable counterpart that could be expected to "deliver" development policy. However, Ghana's significance on the basis of policy implementation waned considerably over the course of the 2010s, especially as donors attributed the 2013 economic crisis to economic mismanagement and governance failures.

Rawlings' PNDC regime surprised numerous observers in the 1980s with its comprehensive embrace of IMF-recommended structural adjustment reforms.[32] Though the government engaged in strategic backsliding and non-implementation of the most contentious reforms, Ghana soon earned a reputation as a quick reformer.[33] This reputation gave the country access to considerable resources from the IMF and the World Bank. As Herbst notes about the Ghanaian experience, "The lessons for African countries is that it is important to be the second or third fastest reformer rather than the twentieth. In a world where countries increasingly compete on the basis of economic reform, those African countries that act quickest will naturally be better off."[34] International financial institutions continued to lend to Ghana both as a reward for economic performance and an effort to bolster the trajectory of a country that came to be identified as a success story.[35]

Ghana's success story identity, reputation as a reliable policy implementer, and related importance to donors persisted beyond the structural adjustment era and into the 2010s. A former Ministry of Finance official described the incentives

[32]Nugent 1996.
[33]Whitfield and Jones 2009.
[34]Herbst 1993, p. 133.
[35]Kahler 1993, p. 379.

for donors to continue supporting the government to demonstrate the long-term effectiveness of development policies,

> Because Ghana very early on was being touted as a success story, DPs are trying to continue to prop Ghana up as a success story whereas Ghana is not really that much of a success...*DPs need to continue to prop us up to prove that all that they've been doing for Ghana has been worth it* and it's good and it's working. Even when it's not.[36]

Donor representatives also acknowledged this dynamic. One representative suggested that Ghana's symbolic importance had historically given it an upper hand with donors, "The question is, who is more dependent on whom? And I think in Ghana the donors are more dependent on Ghana than the other way around."[37] This illustrates how the value donors place on their relationship with the government can potentially rebalance asymmetric relationships, giving a weaker actor greater influence in negotiations. A donor official explained how this relationship had led donors to be lenient with the government in the run-up to the 2013 crisis, "Ghana has stood out in the region. DPs also need to hold someone up as a star, need to show someone as an example of success in the region, and who [else] are you going to pick as an example? We are also to blame [for the government's policies]."[38]

However, Ghana's donor darling status rested on donors' understanding of the country as a successful reformer with an effective economic policy. As Ghana entered a prolonged period of economic crisis in 2013, donors attributed this in large part to 2012 election-related expenditures and questioned Ghana's status as an economic policy success story. As one donor representative put it, "The idea of Ghana as a rising star of West Africa has suffered a bit in the context of the economic crisis."[39] Furthermore, the shortcomings in public financial management also dampened donors' broader appraisal Ghana's governance structures, as a donor official described, "...sliding down on the governance slope has been happening in Ghana for a while, but it has been much more felt recently."[40]

[36]Interview 118. Former Ministry of Finance representative. Accra, Ghana. October 9, 2013. Emphasis added.
[37]Interview 70. Bilateral donor representative. Accra, Ghana. April 27, 2017.
[38]Interview 85. Multilateral donor representative. Accra, Ghana. May 4, 2017.
[39]Interview 70. Bilateral donor representative. Accra, Ghana. April 27, 2017.
[40]Interview 60. Bilateral donor representative. Accra, Ghana. April 19, 2017.

Of course, there was variation among donors in how much Ghana's status and symbolic significance declined during the period under study. However, it was particularly those donors that had invested in Ghana's success that were most frustrated by what they saw as economic mismanagement. For instance, officials in the donor community reported the UK was taking a much more critical stance towards the government. One donor representative attributed Ghana's historic success with donors in part to the support of the UK, but noted that British engagement with the government shifted, saying, "The UK is very good at leveraging in [sic] international institutions, advancing the interests of these countries [including Ghana]...But now, the UK is very rough, very hard on Ghana, more demanding than they used to be."[41]

Ghana's importance to donors had been premised on government policy delivering development outcomes and thereby acting as both a reliable counterpart and a symbol for the effectiveness of donor policy recommendations. Changed relations between donors and the government after the crisis were not simply a response to poor economic performance, but also a reflection of the fact that the crisis undermined the narrative of effective, donor-supported economic policy that had so long contributed to Ghana's appeal for donors. Ghana's significance to its traditional donors changed during the period under study, providing variation I exploit to understand how the importance donors attach to their relationship with a recipient government shapes the government's ability to exercise financial statecraft.

8.3 Aid and development finance in Ghana

To explain the Ghanaian government's experience with financial statecraft, I briefly describe the variation over time in the government's portfolio of external finance and the main areas of disagreement between the government and traditional donors. This allows me to subsequently analyse whether greater diversity in Ghana's portfolio of external finance affected the government's relationship with its traditional donors. The most significant areas of divergence in donor-government negotiations were

[41] Interview 83. Bilateral donor representative. Accra, Ghana. April 4, 2017.

over public financial management, such as arrears owed to state-owned enterprises, and economic policy, such as fuel subsidies. By contrast to Ethiopia and Kenya, there were few disagreements over issues of governance or human rights.

The overview of Ghana's financing landscape and aid negotiations is broken into three periods. First, in the 2000s, Ghana was largely dependent on traditional donor aid, especially on debt relief under the Highly Indebted Poor Countries (HIPC) initiative, and negotiation with traditional donors happened in the context of a budget support arrangement. Second, in 2010-2013, Ghana began to access an increasing diversity of external finance and the country's transition to lower middle income country (LMIC) status shaped the relationship between government and donors. Finally, from 2013 onward, the government demonstrated an ability to shift to bond market finance and the relationship between the government and most traditional donors deteriorated, prompted by a mutual sense of neglect as the country grappled with a prolonged economic crisis.

Since the 1990s, the leading bilateral donors in Ghana have been the US, the UK, Germany, Japan and Denmark, as Table 8.1 shows. The World Bank has been the top provider of official development assistance, and other multilateral donors such as the African Development Bank and the EU have increased in importance since the 2000s. Table 8.1 and Figure 8.1 show that absolute volumes of overseas development assistance from traditional donors held constant or grew over the last three decades. However, the relative importance of traditional donors' aid has declined over time. While official development assistance accounted for almost 20% of GDP in the early 1990s and around 10% of GDP in the 2000s, it came below 5% of GDP in the 2010s.[42]

8.3.1 2001-2010: Aid dependence and cooperation under budget support

In the 2000s, relations between the Ghanaian government and traditional donors were aligned around two efforts largely initiated by donors. These efforts led to close cooperation between government and donors over policy issues that were

[42]World Bank World Development Indicators.

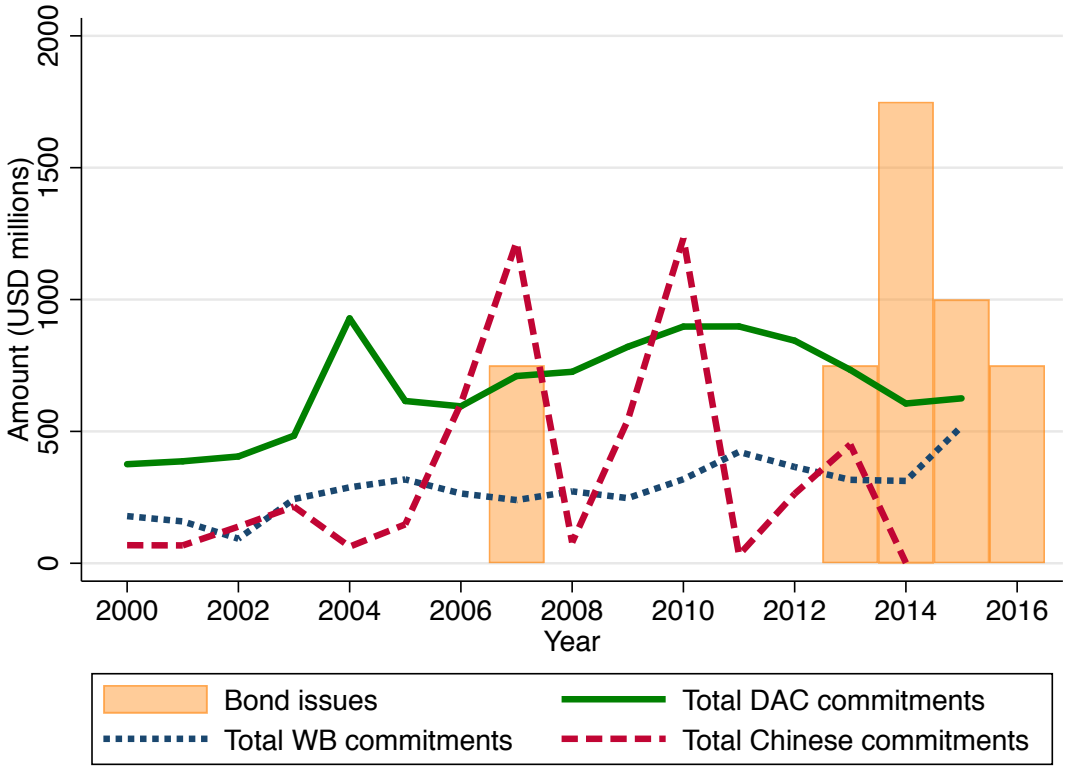


Figure 8.1: Ghana's portfolio of external finance, 2000-2016

important to donors and were premised on frequent and detailed exchanges with the government. Furthermore, negotiations took place against the backdrop of few alternative funding sources, with the government largely dependent on traditional donors for external finance and debt relief. The first of these donor initiatives was the Highly Indebted Poor Country (HIPC) programme, under which Ghana received debt relief from multilateral lenders in exchange for agreed reforms. Starting in 2001, Ghana worked closely with the World Bank and IMF to design the "Ghana Poverty Reduction Strategy" to meet requirements for debt relief, which it received in 2002 and 2004 (see Figure 8.2).

The second process that shaped government-donor relations during this time was the creation of the multi-donor budget support (MDBS) mechanism in 2003. This arrangement consisted of a group of up to eleven donors pooling funds and contributing them directly to the Ghanaian budget.[43] Though budget support

[43]These donors are the African Development Bank, Canada, Denmark, the EU, France, Germany, Japan, the Netherlands, Switzerland, the UK, and the World Bank.

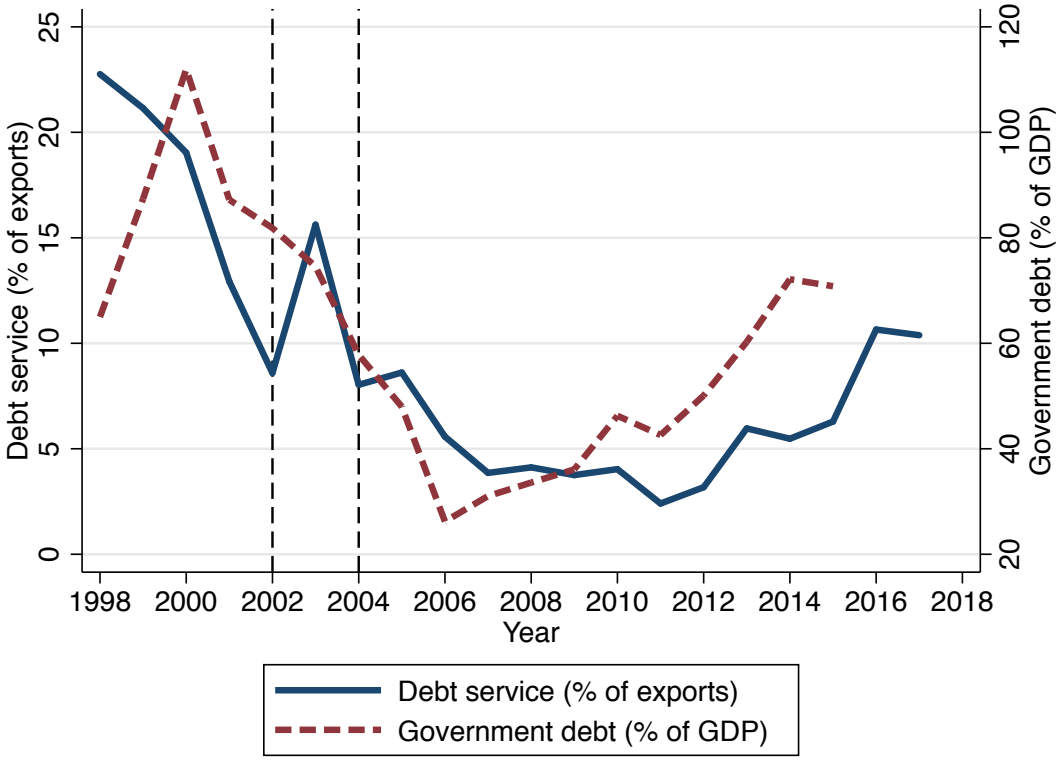


Figure 8.2: Ghana's debt sustainability indicators, 1998-2016
The decision and completion point for donors' debt relief were 2002 and 2004, respectively

became a popular approach across developing countries in the mid-2000s, Ghana was among the first to introduce such a mechanism, demonstrating donors' confidence in the country's governance structures.[44] The MDBS released funds twice annually, with the first tranche dependent on "satisfactory macroeconomic management" and the second payment consisting of a "performance payment" released upon completion of pre-agreed policy measures.[45] For donors, the motivation to set up the MDBS was the frequent, high-level dialogue with the government on policy issues, while the government appreciated the greater predictability and lower transaction costs of scheduled budget support. Many donors shifted large sums of their development finance into the MDBS arrangement in the 2000s; in 2009, 85% of the UK's aid

[44]The World Bank-EU evaluation of budget support refers to "Ghana's position as a pioneer in innovations related to development aid in the late 1990s/early 2000s." EU and World Bank 2017, p. 25.

[45]Killick and Lawson 2007.

Table 8.1: Total commitments of top DAC-reporting donors to Ghana, 1995-2017 (millions 2016 USD)

	1995-2000		2001-2010		2011-2017	
	Donors	Total	Donors	Total	Donors	Total
1	WB	1,431	WB	3,343	WB	5,831
2	UK	782	US	1,814	US	3,543
3	Japan	542	UK	1,700	UK	2,079
4	EU	505	Japan	1,405	Japan	1,860
5	US	339	EU	1,063	AfDB	1,846
6	Germany	296	Netherlands	1,038	EU	1,509
7	Netherlands	264	AfDB	1,028	IMF	1,485
8	AfDB	242	Germany	801	Netherlands	1,209
9	Denmark	216	Canada	731	Germany	1,179
10	Canada	172	Denmark	723	Canada	1,126
11	France	134	IMF	694	France	1,118
12	Spain	54	France	664	Denmark	953
13	IMF	47	Spain	189	Switzerland	283
14	Austria	32	Switzerland	129	Korea	225
15	Sweden	21	Belgium	121	Spain	186

allocation in Ghana was in the form of budget support.[46]

During this time, government and donors negotiations focused particularly on economic policy, especially public sector and energy reform, with donors having considerable influence over negotiation outcomes. For instance, the government and donors disagreed on the pace of withdrawing fuel subsidies, with the government reluctant to commit to a rapid adjustment in the price of fuel, fearing the public response. Nonetheless, when the government agreed the Ghana Poverty Reduction Strategy with the MDBS and IMF, this included commitments to rapidly remove the subsidy. Donors report being satisfied with the outcome of negotiations at the time, suggesting this was partly driven by the government's reliance on traditional donor finance. As one donor put it, "...the cooperative spirit of the MDBS came at a time before [the transition to] LMIC [status], before [the discovery of] oil, when *Ghana felt more that it was a developing country.*"[47] Nevertheless, the breadth and diversity of the agreed reform targets reflected the wide range of interests of the donors in the MDBS, allowing the government to avoid highly-focused reform

[46]EU and World Bank 2017.

[47]Interview 70. Bilateral donor representative. Accra, Ghana. April 27, 2017. Emphasis added.

pressure on the most sensitive issues.[48] Moreover, as an EU evaluation notes, donors were sometimes flexible in the evaluation of the government's reform efforts because they enjoyed the extensive access to the government that the MDBS provided,

> ...the tendency of the DPs has been to be accommodating in the assessment of the scope and pace of country reform processes largely due to their overall satisfaction with the open dialogue GoG [Government of Ghana] maintained with them during 2005-2010 and the positive evolutions Ghana experienced in a number of areas particularly important for them (e.g. democracy, freedom of expression, growth, poverty reduction).[49]

The alignment of donors and the government on governance issues also lessened donor pressure on issues of economic policy.

On procedural issues, such as the review mechanisms of the MDBS, disagreements were resolved largely in line with the preferences of donors during this period. For instance, government officials were concerned that the phased tranche structure of the MDBS gave donors considerable leverage if they withheld funds, as they did in 2006, considered doing in 2008, and ultimately did again in 2013-2014.[50] Furthermore, government officials noted that donors had considerable influence in the drafting of policy documents.[51] A government official explained that the dependence on traditional donor funds and the structure of debt relief initiatives, which were established globally, gave the government little room to shape these procedural matters in line with their preferences, "the choices that were available to Ghana were limited at that time, because you are prescribed to respond to these things [HIPC and MDBS]. In terms of negotiations, it tilted more towards donors, who were giving the relief."[52]

Toward the very end of this period, however, the government began to access alternative sources of external finance, reducing its dependence on traditional donors,

[48] Woll 2008, p. 74.

[49] EU and World Bank 2017, p. 29.

[50] Killick and Lawson 2007; Interview 55. Multilateral donor representative. Accra, Ghana. April 4, 2017.

[51] Whitfield 2005b.

[52] Interview 105. National Development Planning Commission representative. Accra, Ghana. September 27, 2013.

a trend that accelerated in the 2010s. The NPP government (2000-2008) issued Ghana's first Eurobond in 2007, becoming one of the first sub-Saharan economies to enter the international bond markets (see Table 8.2). The debut was well received by investors, four times oversubscribed and at a lower interest rate than Nigeria's bond issued the same year.[53] For the government, the main appeal of bond financing was its flexibility. In particular, government officials favourably compared investors' disinterest in policy choices to donors' careful scrutiny. An advisor to the Ministry of Finance explained, "You would think that investors care [about how funds are spent], wouldn't you? But they don't, they're just hunting yield. One of the nice things about the Eurobond markets is that no one polices your use of funds."[54]

In addition to bond market finance, the government started to access Chinese loans toward the end of this period. Figure 8.1 shows the increase in Chinese financing commitments over the course 2000s. According to both the AidData and CARI databases of Chinese development finance, Ghana was one of the top recipients of Chinese finance in the 2000s, above the African average in most years. As early as 1993, an NDC-linked company run by Jerry Rawlings' wife Nana Konadu Agyeman Rawlings received part of an 18 million USD concessional credit from China.[55] As Chinese financing to the continent expanded in the mid-2000s, Ghanaian governments, under both the NPP and NDC, financed a number of important infrastructure projects with loans from the China Development Bank and China ExIm Bank. The NPP negotiated a loan for the Bui dam that was emblematic of the perceived benefits of Chinese finance. Agreed in 2007, the 562 million USD loan from the China ExIm Bank financed the construction of a large hydroelectric dam on the Black Volta river intended to address persistent deficits in Ghana's energy supply. Expanding Ghana's electricity generation capacity had become particularly urgent as fuel costs increased and the World Bank was unwilling to finance a project that had been criticized by environmental groups.[56] The willingness

[53]Chung 2007.
[54]Interview 63. Ministry of Finance representative. Accra, Ghana. April 20, 2017.
[55]Tsikata et al. 2008, p. 24; Whitfield 2018, p. 109.
[56]McCaskie 2008.

of Chinese lenders to fund potentially sensitive interventions thus made the project possible.[57] When the NDC took over power in 2008, it too negotiated a series of bilateral Chinese loans and in 2009 announced a 3 billion USD loan with the China Development Bank for a variety of infrastructure and energy projects.

8.3.2 2010-2013: Alternative finance and the transition to lower middle income country status

In November 2010, Ghana released new GDP estimates after a statistical revision. The revised estimates put Ghana's 2010 GDP per capita at 1,363 USD, a considerable jump from the earlier estimate of less than 800 USD.[58] This statistical update led Ghana to advance unexpectedly to lower middle income country (LMIC) status, shaping negotiations between the government and donors in subsequent years. On the part of the government, the reclassification bolstered confidence prompted by increasing access to alternative finance, leading it to take a more assertive line when negotiating policy priorities with traditional donors. On the part of some bilateral donors, the reclassification combined with domestic pressure on aid budgets after the global financial crisis to dampen aid commitments. Disagreements between donors and the government during this time continued to focus primarily on economic policy, especially public sector reform. Donors were concerned about persistent arrears to state-owned energy companies and the government's decision to increase civil servants' wages in 2012 through a reform to the public salary structure.

This period marked the height of Ghana's access to Chinese finance. Government officials reflecting on the time commented on the appeal of Chinese development finance compared to what were perceived as cumbersome and potentially intrusive financing agreements with traditional donors. As an official participating in negotiations on behalf of the Ghanaian National Development Planning Commission explained,

> China was ready to make available...an almost unlimited amount of resources with no conditions whatsoever. So, what has happened is that

[57] Kirchherr et al. 2016.
[58] Moss and Majerowicz 2012.

> government attention has begun to shift from the traditional partners towards the Chinese. Since the government recognized that the Chinese probably offered the best option for its infrastructure needs or investment needs at this time. From 2009 up until about 2012 most of the attention of government was on the Chinese.[59]

Recounting the benefits of Chinese financing, government officials often drew attention to the scale of Chinese loans, with one representative commenting, "In terms of volume, China is essential."[60] Furthermore, the speed of financing was touted as a benefit, especially to meet urgent political priorities, and one government official explained, "Funding from China is attractive, because it's 'bang' money. It comes: 'bam', and then you can really do something."[61] Traditional donors recognised this appeal of Chinese finance for the government, noting the attraction of rapidly disbursed funds with few policy conditions attached. As one donor representative put it, describing the government, "They want quick money. Going through the MDBS or through a regular loan with the [World] Bank they have to go through many processes...So that takes time. With other people, there's no questions asked."[62]

Meanwhile, the relationship with traditional donors was shaped by the country's transition to LMIC status. In an effort to address potential challenges associated with this transition, the government and donors agreed on a number of policies intended to guide the relationship, including a 2010 governmental Aid Policy and a 2012 "Compact" between donors and the government.[63] Both of these efforts faltered. The Aid Policy was never approved by the Cabinet and both sides accused each other of failing to adhere to principles outlined in the Compact.

Donors' and the government's explanations for the worsening relationship diverged considerably. Government officials stressed that donors were less willing to provide development finance, especially attractive budget support grants, after

[59]Interview 105. National Development Planning Commission representative. Accra, Ghana. September 27, 2013.
[60]Interview 114, Ministry of Finance representative. Accra, Ghana. October 7, 2013.
[61]Interview 118, Former Ministry of Finance representative. Accra, Ghana. October 9, 2013.
[62]Interview 111. Multilateral donor representative. Accra, Ghana. October 4, 2013.
[63]EU and World Bank 2017.

Ghana's income reclassification. As one government official explained, "The moment we got to LMIC, the government knew very well there would be challenges. Then we signed the Compact, which was never adhered to. That was part of why we went to alternatives, including the BRICS...and went looking to the Eurobond markets...If the Compact had been adhered to, we would not have needed to go for alternatives."[64]

By contrast, traditional donors perceived the government to be losing interest in relations with donors in light of the country's new income status, a phenomenon exacerbated by the access to alternative finance. A donor representative explained,

> I think the Ghanaians are too easy on themselves. Ghana is not the first country that transitioned to LMIC status...so it's not like the relationship needed to change. We really tried so many different ways to stay in contact with the government. 'Would you prefer smaller meetings, or larger meetings? What kind of dialogue would you prefer?'...I think Ghana found it exciting that they could [instead] access financing on international markets. It's much easier and it involves lots of travel.[65]

To traditional donors, the worsening relationship with the government was a function of the government's disengagement.

The consequence of this divergence for aid negotiations was that discussions about politically sensitive subjects, especially around economic policy, became increasingly heated. The EU and World Bank-commissioned evaluation notes, "...the space for frank and open dialogue between MDBS partners [donors and the government] shrunk [sic] considerably in the period 2009-2013...Consensus between DPs and with GoG on sensitive issues, such as the appreciation of government measures to improve the macroeconomic situation, became increasingly difficult to achieve."[66] For instance, these disagreements focused on the government's choice to transition public sector wages to a single-spine salary structure in 2012, increasing the wage bill to 72.3% of all tax revenues.[67]

[64]Interview 73. Ministry of Finance representative. Accra, Ghana. April 28, 2017.
[65]Interview 74. Bilateral donor representative. Accra, Ghana. May 2, 2017.
[66]EU and World Bank 2017, p. 37.
[67]Mann 2012.

8.3.3 2013 onward: Bond market finance and deterioration in the government-donor relationship

From 2013 onwards, the relationship between the government and traditional donors worsened further. The backdrop to this was the 2012-2013 macroeconomic crisis, exacerbated by the election-related spike in government spending in 2012. The World Bank and the EU chose not to disburse their budget support in 2013 and were joined in 2014 by almost all bilateral donors, bringing budget support contributions from over 300 million USD in 2012 down to near zero in 2014.[68] Though the political economy drivers underlying government borrowing and spending had been present at least since the early 1990s, the 2013-2013 crisis led to the culmination of mounting donor frustration, introducing a heretofore unknown tension in the relationship. Disagreements between the government and donors focused not only on choices of economic policy but also on the institutions of financial management, increasingly scrutinising the mechanisms for budgeting and oversight. The government's portfolio of external finance crucially shifted during this period, with Chinese loans waning in importance as they became politicized and the government increasingly turning to international bond markets.

The NDC government's attitude towards Chinese financing shifted in its second term (2012-2016), when friction over the terms of a major loan and controversies over Chinese migrants' illegal mining led to a cooling of the relationship with China. Figure 8.1 shows the decline in Chinese finance commitments in the 2010s.[69] Opposition critiques played a significant part in this. During parliamentary debates in 2011 and for months afterwards in the press, the NPP attacked the terms of 3 billion USD loan the NDC government had agreed with the China Development Bank (CDB). In particular, the government came under fire for agreeing to pay commitment fees on the entirety of the loan, even as only portions of the loan had

[68] MacCarthy 2016.

[69] The CARI data, which extends beyond the 2014 end point for the AidData data, confirms that Chinese loans in Ghana remained low in the latter half of the 2010s.

been disbursed.[70] These opposition attacks illustrate how political contestation can foreclose particular forms of external finance, narrowing the range of outside options available for financial statecraft.

This opposition challenge over the terms of Chinese loans combined with an ongoing political scandal over illegal mining to make relations with China particularly challenging for the government during this time. In the early 2010s, growing environmental damage from small-scale gold mining, known as "galamsey," drew attention to the participation of Chinese migrants in such unregistered, illegal mining in Ghana.[71] Faced with opposition accusations that it had enabled the entry of Chinese migrants and turned a blind eye to illegal mining activities, the NDC government hardened its stance towards China and the relationship grew increasingly strained. In July 2014, the government announced it would not be taking up the second half of its 3 billion USD CDB loan, citing inability to reach an agreement with the Chinese creditor.[72] One parliamentarian suggested that difficulties with the loan had been connected to the government crackdown on Chinese participation in galamsey, "You have to understand there are political interests too, the Chinese are involved in galamsey, and they have those interests to defend."[73] After this, the appeal of Chinese finance as an alternative source of external finance was considerably diminished for the NDC. As one Ministry of Finance official put it when asked about different forms of finance, "I intentionally didn't mention China when you asked about new sources of financing...no one is Father Christmas to be giving you money like that."[74]

While Chinese lending dropped off as an alternative source of finance during this time, the government rapidly expanded its borrowing in international bond markets, as Figure 8.1 and Table 8.2 show. The government returned to the markets every

[70] CitiFM 2011. Note that commitment fees are a common feature of loans, including of multilateral development banks. However, because the CDB loan was slow to be disbursed, the government was paying commitment fees for an extended period of time without the loan being disbursed.

[71] Hilson et al. 2014; Teschner 2012.

[72] Reuters 2014a.

[73] Interview 59. Parliamentary representative. Accra, Ghana. April 7, 2017.

[74] Interview 64. Ministry of Finance representative. Accra, Ghana. April 21, 2017.

year between 2013 and 2016, though the terms of financing grew more expensive as the economic crisis worsened. However, bond finance was appealing to the government for both its volumes and flexibility. A survey of Ministry of Finance officials found, "Despite the cost of Eurobonds...vis-à-vis marginally less costly offers from official lenders, the government of Ghana favours this source of development finance given relative volumes, flexibility in use, and the absence of conditionality."[75] Furthermore, government officials expressed a preference for bond market finance to provide large volumes of rapid financing for substantial investments, particularly in infrastructure. One government official explained,"...given the requirement to develop our infrastructure, we thought we should consider these other sources...we need huge sums, which the traditional donors won't give you."[76]

While officials stressed the appeal of large volumes of finance for transformational investments, Ghana's persistent deficits from recurrent expenditure also made flexible financing attractive. As an advisor to the Ministry of Finance put it, "We're running a primary budget deficit, so it's not magic to see that Ghana is borrowing for consumption spending."[77] A 2018 IMF report included Ghana in a list of countries where debt accumulation has mostly been driven by larger fiscal deficits associated with unexpected current spending, rather than capital investments.[78] These spending patterns are driven by the political pressures outlined above, with bond market financing attractive in part for allowing the government to smooth the costs of the electoral budget cycle.

[75]MacCarthy 2016, p. 24.
[76]Interview 65. Ministry of Finance representative. Accra, Ghana. April 21, 2017.
[77]Interview 63. Ministry of Finance representative. Accra, Ghana. April 20, 2017.
[78]IMF 2018, p. 40.

Table 8.2: Ghana's Eurobond issues

Year	Volume (millions USD)	Maturity	Yield
2007	750	10	8.500
2013	750	10	7.875
2014	1,000	12	8.125
2015	1,000	15	10.750
2016	750	5	9.250
2018	1,000	10	7.627
2018	1,000	30	8.627

As the government shifted a substantial portion of its portfolio of external finance to include bond market finance, negotiations with donors grew increasingly strained. Donors' preferences in negotiations expanded to focus not only on stabilizing macroeconomic efforts but also reforms to bring greater discipline to borrowing and spending.[79] Donors' assessment was that political pressures had led to irresponsible spending in the months prior to the 2012 election. As one donor official explained, noting that 2013 was a more pronounced version of dynamics that recurred in election years, "2013 was different because it was the same situation in terms of an election year, but to add to the political economy, it was the same administration and they didn't want to shoot themselves in the foot and admit there was a problem."[80]

By contrast, the government interpreted donors' decision to suspend aid as a withholding of aid funds at precisely the moment they were needed the most, in the midst of an economic crisis caused in its view largely by exogenous commodity price shocks. Government officials explained their turn to alternative financing as driven by necessity; in the absence of donor funding, the government had to turn to the markets. A government official articulated this view, "I don't know which one came first, whether the Eurobond affected the DPs or DP behaviour led the government to go to the Eurobond...but if you're not giving me money, then why should you be jealous if I go somewhere else?"[81]

Furthermore, government officials recounted what they saw as unreasonable donor expectations about access to the government in exchange for aid,

[79]Interview 68. Ministry of Finance representative. Accra, Ghana. April 25, 2017.
[80]Interview 93. Multilateral donor representative. Accra, Ghana. May 8, 2017.
[81]Interview 68. Ministry of Finance representative. Accra, Ghana. April 25, 2017.

> If the amount is dwindling and [donors] come with so many conditions and triggers, and we are meeting so often, is it worth it?...The DP thinks 'I am giving X amount of money and so I must have discussions, must meet with the Minister'...but the government felt the amounts were so paltry. I remember a discussion when the Minister and some Directors were saying that just by closing tax revenue loopholes that could allow us to raise the money elsewhere.[82]

The availability of alternatives made government officials less willing to fulfil the administrative requirements associated with traditional donors' development finance.

Disengagement of both donors and the government from the mechanisms for negotiation and coordination led to a worsening of the relationship. As one donor representative put it, "During that time, the relations between the government and donors really deteriorated."[83] Once Ghana agreed to an IMF programme in 2015, the Fund took over negotiations with the government over macroeconomic targets. Nonetheless, most traditional donors decided to end their budget support contributions after disbursing the withheld funds from the previous two years. Given the strained relations with the government, donors were content to leave macroeconomic oversight to the IMF, and in light of concerns about election-related spending ahead of the 2016 election, most donors were cautious to release any new funds.

8.4 Financial statecraft of debtors in Ghana

In Ghana, the government was less successful in its attempts at financial statecraft than either Ethiopia or Kenya. Despite a few early successes, when donors made accommodations to the processes for disbursing aid and approved an infrastructure project similar to those financed by China, the government was not consistently able to translate its access to alternatives into preferred negotiating outcomes with traditional donors. In part, this was because opposition politicization of the relationship with China foreclosed subsequent Chinese loans, limiting opportunities for financial statecraft. Most importantly, donors worried that new financing,

[82]Interview 68. Ministry of Finance representative. Accra, Ghana. April 25, 2017.
[83]Interview 71. Bilateral donor representative. Accra, Ghana. April 27, 2017.

particularly later sovereign bonds, was being absorbed by clientelist distributive spending, leaving donors inclined to double down on the conditions attached to their development finance. Finally, as Ghana's economic crisis diminished its symbolic significance to traditional donors, donors were even less willing to make compromises in negotiation.

Unlike in Ethiopia, donors in Ghana were concerned about the moral hazard of the government's access to alternative finance, given how domestic contestation shaped patterns of borrowing and spending. As in Kenya, the government was vulnerable to the politicization of financing sources by the opposition, tying the government's hands in the outside options that it had available. Unlike Kenya and Ethiopia, Ghana's significance to traditional donors declined over the period under the study, making donors less likely to accommodate the government, despite the government's access to alternatives. In Kenya and Ethiopia, donors prized their access to the government for geostrategic and commercial reasons, leading them to worry that new forms of finance could undermine their relationship with the government. In Ghana, by contrast, donors had valued their access to the government in large part to contribute to the "success story" of Ghana's development. When the economic crisis undermined the narrative of Ghana's success, donors became less willing to pay the price of concessions to stay close to the government.

In Section 8.4.1, I show that new forms of financing were seen by the government as an outside option to traditional donors' finance. I demonstrate that, initially, traditional donors also saw new forms of finance, especially Chinese lending, as an outside option that could put competitive pressure on their own relationship with the government. However, when relations cooled between the government and Chinese lenders, traditional donors again felt more secure in their position.

I then show in Section 8.4.2 that the government made a few efforts to strategically play lenders off against each other, but that the difficulty in prioritizing among development projects made it harder to exploit competition among donors and creditors. While there were early instances when negotiation outcomes aligned with the government's preferences, ultimately donors responded to the macroeconomic

slippages by tightening the terms of their finance. Especially on issues of economic policy and financial management, negotiation outcomes ultimately aligned more closely with donors' preferences than with those of the government.

8.4.1 Alternative finance as an outside option

When Ghana agreed its first large loans with China, Ghanaian officials clearly saw Chinese finance as an alternative to traditional donor finance, and one that compared favourably to the perceived inefficiencies and strictures of traditional donor aid. As one government representative explained, noting the change of perspective as alternative finance became available, "It used to be that we took all our aid from the UK, because we thought it was the best. But now, if you're dallying, we go to China."[84] Another government official described how the turn to Chinese finance was prompted in part by the demands of traditional donors in negotiations,

> I thought the donors were too hard...For instance when the MDBS was in place, they would not disburse...The government then went to China and got this 3 billion USD loan and that also didn't go down well with the donors...there was an element of mistrust...they [donors] were doing things that the government was not comfortable with, and they [the government] went looking for alternatives.[85]

Where there were differences between Chinese and traditional donor finance, these differences made Chinese financing more attractive, and should have set the government up well to be effective at debt-based financial statecraft.

Donor officials acknowledged that new external finance was a potential alternative to the development finance they were able to provide. For instance, one donor official recounted difficulties in finalizing a Millennium Challenge Corporation project and explained that access to Chinese finance was shifting the government's expectations about the terms of development projects, "They [the government] want to have a lot more flexibility with the funds than we're able to give...the Chinese are able to be more flexible."[86] Another donor explained that traditional donors in the

[84]Interview 108. Former Ministry of Finance representative. Accra, Ghana. October 2, 2013.
[85]Interview 73. Ministry of Finance representative. Accra, Ghana. April 28, 2017.
[86]Interview 62. Bilateral donor representative. Accra, Ghana. April 20, 2017.

MDBS worried that the government's access to Chinese finance would undermine reform efforts traditional donors had championed, "On the donor side there was some skepticism, also some unease, because China was not as strong in terms of corruption, sticking to reforms...but government was very gung-ho...The MDBS as a whole raised concerns, but the response was 'yes, but we want to develop faster, our population deserves more'."[87]

Most importantly, donors worried that the government's turn to Chinese finance would undermine their access to the government. For instance, one donor representative described how their relationship with the government may be diminished, even if access to alternative creditors did not fully crowd out traditional donors, "I wouldn't say they [new creditors] were seen as a danger because there's enough potential here for projects to finance. What was concerning, of course, is that *we felt that we were no longer being taken as seriously as the new creditors*."[88] Given the constraints on the government's time and donors' interest in access to the government, the government's relationship with China stoked fears that donors would lose their privileged access.

However, this potential basis for financial statecraft was undercut when the government's relationship with China cooled in the face of opposition critique about the terms of Chinese development finance and the galamsey scandal. One government official recounted both how access to Chinese loans initially motivated traditional donors to offer attractive terms and how the potential for leverage dissipated when the government was not able to conclude the high-profile 3 billion USD loan from the China Development Bank. He said,

> There were several attempts to get our traditional DPs to fund big infrastructure projects and they didn't actually seem interested...*so the signal government wanted to send was 'ok, if you traditional partners aren't interested, others are interested'*...That [the CDB loan didn't go well] also allayed the level of discomfort of our traditional donors...they could say 'well, you've gone East, but unfortunately for you the total amount you were envisaging didn't get filled.'[89]

[87]Interview 72. Bilateral donor representative. Accra, Ghana. April 28, 2017.
[88]Interview 70. Bilateral donor representative. Accra, Ghana. April 27, 2017. Emphasis added.
[89]Interview 79. Ministry of Finance representative. Accra, Ghana. May 2, 2017. Emphasis added.

Similarly, another government official recounted how the public suspension of the CDB loan undermined the ability to use Chinese finance as a form of leverage, "China coming on board...strengthened government's position...between 2009 and 2012 I would say that the balance of negotiations were stronger on the side of Ghana. However, what we have seen beginning to happen now in 2013 is the balance turning a bit back to the middle. In the sense that there have been some frustrations in terms of what is expected to come from China."[90]

Donors recognized that the diminished relationship between Ghana and China again increased the government's reliance on traditional donors. As one donor representative described it, "...finding alternatives was big and China was big. That also distracted them from donors at the time...but that never really materialized."[91] A donor official interviewed in MacCarthy's 2016 report on development finance in Ghana uses the analogy of a straying lover to describe the government's renewed reliance on traditional donors after the dalliance with China, "GoG was forced to go back to its old well-known boyfriend that it deserted."[92]

When explaining the choice to enter international bond markets, government officials drew explicit comparisons between commercial financing and traditional donor development finance in terms of the volume, speed, and flexibility of financing. For instance, one observer explained, "Ghana is becoming a country that feels they should decide themselves what to do...Debt has become the answer if DPs will not pay for what you want to do."[93] An advisor to the government noted that Eurobond financing could meet the same demands as donor aid, but with fewer administrative burdens, "The transaction costs associated with donor funding are too high. Going from conception of the project idea to disbursement takes three years with the donors. African countries have realized it's faster to go to the capital markets."[94]

[90]Interview 105. National Development Planning Commission representative. Accra, Ghana. September 27, 2013.
[91]Interview 93. Multilateral donor representative. Accra, Ghana. May 8, 2017.
[92]MacCarthy 2016, p. 51.
[93]Interview 55. Multilateral donor representative. Accra, Ghana. April 4, 2017.
[94]Interview 63. Ministry of Finance representative. Accra, Ghana. April 20, 2017.

By contrast, donors largely interpreted the government's turn to international bond markets in light of domestic spending pressures and perceived fiscal indiscipline. One donor official described his assessment of the relationship between the domestic political economy and Eurobond financing, "External finance has played a direct role in the economic management flaws and slippage in the last year [2016, an election year]...If the money is available, Ghana will find a way to spend it."[95] The World Bank- and EU-commissioned evaluation of multi-donor budget support in Ghana is blunt in its appraisal of the connection between politically-motivated spending, commercial borrowing, and the economic crisis in Ghana, "Macroeconomic imbalances were mainly related to structural factors (e.g. weaknesses in the PFM system), as well as a number of questionable policy choices (e.g. increase in commercial borrowing) and political decisions (e.g. expenditure slippages in election years)."[96] This concern about moral hazard affected donors' willingness to accommodate recipient demands in negotiations, as I explain next.

8.4.2 Outside options and the limited success of financial statecraft

The background conditions for financial statecraft were present in Ghana, with the government reducing reliance on traditional donors by accessing Chinese finance and bond market finance. Nevertheless, the government was ultimately unable to achieve its preferred outcomes in negotiations with traditional donors. This is because of the effect of the moderating variables in the Ghanaian case: (1) donors worried about the moral hazard implications of the government's borrowing and (2) as Ghana's symbolic importance declined for traditional donors, they were less willing to make accommodations. This accords with my theoretical expectations that the success of financial statecraft depends on enabling conditions in domestic politics and donor-recipient relations. The government was unsuccessful in achieving its preferred negotiation outcomes on the procedures for disbursing aid, economic policy, and financial management, the main areas of disagreement between the government

[95]Interview 61. Bilateral donor representative. Accra, Ghana. April 20, 2017.
[96]EU and World Bank 2017, p. x.

and donors. I first briefly describe the government's deliberate efforts (and lack thereof) in leveraging alternative finance into preferred negotiating outcomes and then describe how negotiation outcomes aligned with donor preferences, despite the government's access to alternatives.

In the first half of the period under study, the government made an effort to actively leverage the relationship with China in its communications and negotiations with traditional donors. A representative at the National Development Planning Commission recounted how the turn to alternatives was deliberately communicated to traditional donors,

> Initially, in 2009 the posture of government was '*If we don't get what we want from you, we'll go to China*'. That was the idea. And then the development partners started complaining actually...They raised the concept of free rider, they said 'We've been with you through thick and thin, and now your economy is doing well, and now you're going to China'. And they felt that they had been stabbed in the back...So, you could say that initially it was more threatening.[97]

Donors recounted how the government strategically cultivated the relationship with China in part to put pressure on the terms traditional donors attached to their development finance. In particular, traditional donors saw the government using the relationship with China to advance their preferences on the mechanisms for disbursing development finance, requesting lower transaction costs and fewer conditions attached to budget support. As one donor official explained, "It seemed that a lot of attention was given to securing this Chinese loan. And it was useful...as a bargaining position towards the development partners...We got a little bit the message, 'Well, ok, we are keen to get your money from the general budget support, but we have also other options'."[98] Another donor representative echoed this assessment that relationships with new donors were used as a basis for leverage, saying, "The MDBS was a very strong group. Its leverage and decision-making capacity was very big. And then *when we said we would not disburse, the government*

[97]Interview 105. National Development Planning Commission representative. Accra, Ghana. September 27, 2013. Emphasis added.

[98]Interview 112. Bilateral donor representative. Accra, Ghana. October 7, 2013.

started playing divide and rule [with us]...You started to see state-to-state agreements with Brazil for infrastructure, with the Turkish, with China."[99]

Despite these efforts with respect to Chinese finance, the lack of a clear government strategy toward traditional donors or development projects undermined the government's efforts to actively foster competition among donors.[100] One government official explained how the lack of a clear policy tipped the balance of negotiations in the favour of traditional donors, "We don't have these clear guidelines. The Aid Policy was never passed, so it's all informal...Sometimes I suspect that DPs, if they notice a unit is particularly strict, they'll go look for a desk that is laxer."[101] One government official suggested that the failure to leverage access to alternatives into preferred negotiating outcomes with traditional donors was a consequence of lacking prioritization, "I don't know whether we as Ghana are really sitting down to look at what we ourselves want...I think we should be very clear about the way we want to deal with different donors. *We're not playing anybody against each other.*"[102]

Most respondents pointed to domestic political economy dynamics to explain why the government's approach to external finance has remained largely ad hoc. For instance, a Member of Parliament on the Finance Committee explained,

> We want their funds more than they want to lend to us. Sometimes the government is so desperate, elections are approaching and they need to fund their projects...So it's not for lack of technical capacity, it's not that they don't know what the loans mean, it's that there's political pressure.[103]

A Ministry of Finance official outlined the consequences of this for negotiations with traditional donors, "I would say it's been a failure on our own part...Under normal circumstances when you approach a DP you should be very certain what you want, but because there is a vacuum, the DP gets to set the agenda."[104]

[99]Interview 85. Multilateral donor representative. Accra, Ghana. May 4, 2017. Emphasis added.
[100]MacCarthy 2016, p. 32.
[101]Interview 78. Ministry of Finance representative. Accra, Ghana. May 2, 2017.
[102]Interview 118. Former Ministry of Finance representative. Accra, Ghana. October 9, 2013. Emphasis added.
[103]Interview 59. Parliamentary representative. Accra, Ghana. April 7, 2017.
[104]Interview 79. Ministry of Finance representative. Accra, Ghana. May 2, 2017.

Another government official echoed this point, saying, "the government hasn't prioritized within the priority list, so that gives donors the freedom for their projects, projects that might not be the highest priority for the government right now."[105] Donors similarly recognized these dynamics, attributing them to a lack of planning capacity and the political preference for spending flexibility. In practice, this meant that donors had considerable influence over the outcomes of aid negotiations, "Often we ask them 'which do you want?' and then they pick. We propose projects and they choose."[106]

Donor officials observed this phenomenon, and suggested they would have been willing to offer better terms, had the government pushed harder in negotiations. One donor representative recounted that the government "did not push for it [the MDBS] to be more attractive, because they thought the other [sources] were easier...The numbers being mentioned [from the alternative sources] were just too attractive...Development is a business of negotiation, *if that government had negotiated more, they would have gotten better terms.*"[107] Another donor official suggested that the government did not make enough use of its donor darling status when Ghana's reputation was still intact, "Ghana was often the donor darling...I don't think Ghana knew it well enough to use that significance as leverage...if the government truly understood the pressure donors were under to disburse [funds], they would have used that. They have information, but they're not using it well enough."[108]

On the first area of disagreement between government and donors, the procedural mechanisms for disbursing and reviewing development finance, Ghana had a mixed record of financial statecraft. While there were a few successes in securing more flexible finance from traditional donors, donors' procedures still largely proved too rigid to alter in line with government preferences. The government's most notable negotiation success in this area was a 2015 World Bank 700 million USD financial

[105]Interview 78. Ministry of Finance representative. Accra, Ghana. May 2, 2017.
[106]Interview 62. Bilateral donor representative. Accra, Ghana. April 20, 2017.
[107]Interview 72. Bilateral donor representative. Accra, Ghana. April 28, 2017. Emphasis added.
[108]Interview 93. Multilateral donor representative. Accra, Ghana. May 8, 2017.

guarantee to assist with the construction of the Sankofa natural gas plant. The guarantee gave the government cheaper access to flexible market-based finance for a priority project, without the phased disbursement structure of budget support or most World Bank loans. It therefore met the government's preferences for greater flexibility and speed in development finance. The choice to offer the guarantee was interpreted by many in donor circles as a response to the Chinese-financed Atuabo gas processing plant, which had been initially planned with the World Bank, but the government had transferred to a Chinese creditor. Explaining the origins of the guarantee for the Sankofa gas project, an official from the World Bank explained, "The Bank was also thinking, *how much do we really bring to the table?*...The least we can do is help the country to access markets."[109] Referencing the same project, an advisor to the government noted, "I think DPs realize they are at a competitive disadvantage with the speed that African countries are going to the market...I sense that DPs are trying to streamline their operations."[110]

On balance, however, the Ghanaian government was less successful in shifting the mechanisms for disbursing development finance, despite its reduced reliance on traditional donors. As in Ethiopia and Kenya, part of the challenge was that multilateral donors, in particular, are bound by strict internal guidelines that make it harder for them to respond to the government's requests for flexibility. As one government official explained, "...those negotiations are more or less cosmetic...With the World Bank, no matter what you negotiate for, you can't change the World Bank systems."[111] Another government official noted the inflexibility of World Bank approaches, "Once the Bank develops instruments, they insist on using them in the country, and we find it hard to push back on this because they are the ones giving the money...Because someone higher up [at the Bank] has decided it will be a P4R [Program for Results Financing, a lending instrument], they will push for P4R even if our bosses are not enthusiastic about this."[112]

[109]Interview 81. Multilateral donor representative. Accra, Ghana. May 3, 2017. Emphasis added.
[110]Interview 63. Ministry of Finance representative. Accra, Ghana. April 20, 2017.
[111]Interview 58. Ministry of Finance representative. Accra, Ghana. April 7, 2017.
[112]Interview 64. Ministry of Finance representative. Accra, Ghana. April 21, 2017.

The second area where government preferences diverged from those of donors was on economic policy, particularly public sector reform. In this domain, the government was largely unsuccessful in using its access to alternative finance as a basis for greater influence over negotiation outcomes. The disagreement largely manifested in different interpretations of the causes, and appropriate responses, to the 2013 economic crisis. As Ghana's currency plummeted and the economy shrank, donors saw the government's deficit spending in the run-up to the election, especially the massive expansion of the public sector wage bill, at fault. For its part, the government attributed the crisis to exogenous shocks, particularly the fall in commodity prices. The government attempted to persuade donors to continue their budget support to bolster the economy during the crisis and to give the government flexibility in addressing the crisis. It developed what it called a "home-grown" fiscal consolidation programme to address the causes of the crisis.[113] The government's clear preference was to implement its own solutions to the crisis, focusing especially on increasing tax collection to narrow the deficit. As a former Deputy Finance Minister put it,"The IMF doesn't say things we don't already know. We think we are better off without them...I did my PhD in Economics, do I need these young IMF staffers coming to tell me to lower the deficit, lower inflation? Everyone knows it's better to have lower deficits, lower inflation."[114]

However, donors were unwilling to meet the government's preferences on economic policy during the crisis. Donors withheld their budget support from the MDBS in 2013 and 2014, insisting the government enter an IMF programme before they continue with aid disbursements. Facing this pressure, in 2015, the government signed a three-year agreement with the IMF, which included a commitment to restraining the public sector wage bill, one of the most sensitive areas of government economic policy.

The government failed to achieve preferred flexibility in economic policy during this time, despite having access to alternative finance (issuing bonds in international markets in 2013, 2014, 2015, and 2016). This is due in large part to donors'

[113]Government of Ghana 2016, p. 5.
[114]Interview 59. Parliamentary representative. Accra, Ghana. April 7, 2017.

concerns about how alternative finance was being used. Donors were apprehensive that commercial finance would continue to facilitate large deficits and that this would contribute to greater financial instability, as well as potentially imperilling the government's repayment of loans owed to traditional creditors. In this context, donors were wary of giving the government too much flexibility. As one donor official explained, "They [the government] had to fund their election promises in 2012. The single spine salary structure was very expensive...This then also *led donors to tighten their conditions and become more demanding*."[115] A government official explained with reference to the African Development Bank, "For the AfDB it meant that they don't want to give us concessional funds if we can go to the market...That is what led to the collapse of the MDBS. Most of them were giving grants and they thought, 'Why should we give you grants, if we see you going to the market?'."[116]

Furthermore, while Ghana had in previous decades been able to rely on its importance to donors to gain greater flexibility in donor demands, this reserve of donor lenience had dissipated with the government's diminished value for donors. The government was perceived to be increasingly inaccessible for donors, more interested in securing market finance, and failing to deliver the reliable economic reforms that had been the basis of the country's importance to donors. In this context, donor representatives insisted that economic policy issues had to be resolved, even if it meant going against the government's preferences. Though putting pressure on the government to join an IMF programme further worsened the relationship and reduced the quality of donors' access to the government, this access had already diminished in value for most donors.

The final domain of donor-government divergence was over financial management. While disagreements over economic policy were over substantive issues such as the appropriate size of the public sector wage bill, negotiations on financial management focused on the institutions and structures for overseeing public finance, including borrowing, budgeting, and paying contractors. The revelation in 2013 that the government had made extensive unbudgeted payments in the 2012 election year

[115]Interview 71. Bilateral donor representative. Accra, Ghana. April 27, 2017. Emphasis added.
[116]Interview 69. Ministry of Finance representative. Accra, Ghana. April 25, 2017.

exacerbated donors' distrust of Ghana's financial management systems and prompted donors' efforts to compel the government to reform. While senior Ghanaian bureaucrats agreed on the need to strengthen government systems, donors' focus on public financial management in 2013-2015 was seen as misplaced given the immediate urgency of the crisis.

In 2015, Ghana signed a Public Financial Management Reform project focused on improving "budget management, financial control and reporting."[117] Bureaucrats in the Ministry of Finance described the programme as largely developed by the World Bank, reflecting the Bank's reform priorities. As a donor official described it,

> The concern for everybody has been the cycle of debt accumulation before, during and after elections. There was hope that this wouldn't happen in 2016 because of the IMF program, but those of us who have been here for years knew it was going to happen and that's what happened...that tells you the weakness of the systems in place. That's why the Bank is supporting PFM [public financial management].[118]

Officials from the debt management unit in the Ministry commented that while the programme had been useful for accessing some World Bank funds, the project was not aligned with the government's priorities in this area.

In the sphere of financial management, the government was unable to use its access to alternative finance to achieve its preferences. This is because donors saw stronger financial management as an insurance against precisely the politicized spending they feared alternative creditors to enable in Ghana's political context. Concerned about how Ghana's political economy was shaping uses of new finance, donors were unwilling to accommodate the government's preference for greater autonomy on issues of financial management.

8.5 Conclusion

A simple bargaining framework would predict that an actor's access to outside options will lead to a stronger negotiating position and increase the likelihood of

[117] World Bank 2015, p. 7.
[118] Interview 81. Multilateral donor representative. Accra, Ghana. May 3, 2017.

negotiation outcomes more closely aligned with the actor's preferences. However, the Ghanaian case illustrates that decreased dependence on traditional donors alone did not increase the negotiating power of the Ghanaian government vis-à-vis traditional donors and did not always enable the government to move negotiations toward its preferred outcomes. The Ghanaian case demonstrates the conditional nature of the financial statecraft of debtors. In the case of development finance, outside options do not directly translate into preferred outcomes. Instead, a number of conditions have to align. Traditional donors have to value their access to the recipient government sufficiently to be willing to make accommodations in the face of reduced dependence and have enough confidence in government systems not to worry about repayment.

In Ghana, these conditions failed to align, making it challenging for the government to translate Chinese loans and bond market access into preferred aid agreements with traditional donors. First, political contestation shaped which forms of finance the government was able to draw on. The opposition challenged the incumbent government on its relationship with China in the midst of an illegal mining scandal, forcing the government into the defensive and foreclosing some opportunities for financial statecraft. Furthermore, the domestic political economy also shaped the spending choices of the Ghanaian government, leading the government to use newfound access to international bond markets to expand recurrent spending, particularly in the run-up to the 2012 and 2016 elections. This shaped traditional donors' responses to the government's reduced dependence. Concerned about the moral hazard of flexible commercial debt, traditional donors were unwilling to make accommodations and instead adopted a tougher stance on issues of economic policy and financial management. Finally, Ghana's importance to traditional donors had rested on the symbolic significance of the country as a "success story" of economic reforms. When the economic crisis of 2013 undermined this narrative of Ghana's success, some donors also re-assessed the value of an accommodating stance towards the government, and introduced firmer conditions rather than meet the government's requests for flexibility.

9
Comparing the cases

The three case studies demonstrate how countries' access to a wider portfolio of external finance affects the outcomes of their negotiations with traditional donors. In each of the cases, I have shown that new forms of finance act as alternatives to traditional donor finance, giving recipient governments a potential increase in negotiating power.

To fully test my argument that variation in the success of debt-based financial statecraft is attributable to the moderating variables of political contestation and recipient significance, I must compare *across* the three cases. While in some instances, especially in the Ghanaian case, within-case temporal variation allowed me to demonstrate the influence of the moderating variables, the differences across the case studies fully illustrate the theory. The individual cases reveal the varying association between alternative finance and negotiation outcomes with traditional donors and they evince the mechanisms underlying this association, i.e. recipient governments' reduced dependence on traditional donors and donors' accommodation of recipient requests to retain access to the government. The interview evidence in each of the cases further shows how donors were (or were not) sensitive to domestic political contestation and recipient country significance in making accommodations to recipient requests. However, it is only by comparing a case with extensive political contestation (Kenya or Ghana) to one with less political contestation (Ethiopia)

and a case with substantial recipient significance (Kenya or Ethiopia) to one with less significance (Ghana) that I can demonstrate the importance of these variables in shaping the outcome of donor-recipient negotiations.

In this chapter, I therefore draw together the evidence from the three preceding cases to show the *conditional* nature of successful financial statecraft of debtors. Directly comparing the cases reveals the key role played by both domestic political contestation and recipient significance in determining whether alternative finance translates into greater leverage in negotiations with traditional donors.

With respect to political contestation, governments in Ghana and Kenya were hamstrung by the politicization of certain borrowing choices, narrowing the range of alternative options available and limiting the reduction in dependence on traditional donors that these new options promised. Moreover, the patterns of politicized spending associated with alternative finance in Ghana and Kenya stoked donors' concerns about repayment risk and moral hazard, making them more reluctant to accommodate recipient requests. In Ethiopia, by contrast, the limited scope of political contestation gave the government more freedom in choosing external finance and dampened donor concerns about politicized or wasteful spending. I discuss below how applicable these findings are to other cases.

With respect to recipient significance, donors in Kenya and Ethiopia were particularly keen to retain their access to the recipient government, saw the governments' reduced dependence on traditional donor funds in this light, and therefore were more responsive to the governments' access to alternative finance. On the other hand, in Ghana, a close relationship with the government lost its importance for donors when they became increasingly sceptical of the government's economic policy choices. These donors were then less willing to pay the cost of retaining access to the government, failing to make accommodations to meet the Ghanaian government's demands, instead tightening the conditions on their aid out of concerns about patterns of spending.

In addition to spelling out how cross-case variation provides support for my argument on the conditional nature of financial statecraft of debtors, I report

insights that arise inductively from the case studies and nuance the theoretical framework. For instance, the case studies reveal that negotiation outcomes were more likely to shift in line with recipient preferences when the accommodation was informal or under the control of in-country aid agency and diplomatic staff. This is not because such informal accommodations are cheap talk, but because formal rules and procedures for multilateral lending make it hard for donors to offer different terms to different recipients. For multilateral donors to accommodate recipient preferences with respect to the procedures for approving and disbursing loans, the donors must make global changes to their lending procedures, a slow and costly process that is less likely than, for example, individual bilateral donors muting their criticism of the recipient government's political rights record.

This chapter proceeds as follows. Section 9.1 briefly describes variation in the dependent variable across the three cases. I compare the number of issues important to the government that were resolved in line with government preferences, allowing me to appraise the relative success of financial statecraft of debtors in each of the three countries. Section 9.2 discusses the role of political contestation in shaping this relative success of financial statecraft, while Section 9.3 discusses the influence of recipient significance. Finally, Section 9.4 pulls together insights from across the case studies that nuance the theoretical framework, pointing to the role of government strategy (Section 9.4.1), formal and informal adjustment (9.4.2), commercial competition among donors (9.4.3) and the consequences of growing indebtedness for financial statecraft (9.4.4).

9.1 Variation in the financial statecraft of debtors

I first describe the outcomes across the three cases to then discuss how these are associated with the presence or absence of the two moderating variables in the following sections. The dependent variable is operationalized the same way across the three cases, i.e. is the government successful in achieving its preferred outcomes in negotiations with donors? However, the exact measurement of this variable differs across the cases, since different issues are important to governments in each of the

Table 9.1: Key issues under negotiation and outcomes, across the three cases

Issue	Ethiopia	Kenya	Ghana
Governance and political rights	⇑	⇑	
Macroeconomics and development policy	⇑		⇓
Financial management and corruption		⇓	⇓
Aid procedures	∼	∼	∼

Outcomes are denoted as follows:

⇑ indicates an outcome aligned with recipient government preferences

∼ indicates a neutral or mixed outcome

⇓ indicates an outcome diverging from recipient government preferences

three countries and the extent of alignment with donors on key issues also varies. To assess which governments were more or less successful at financial statecraft of debtors, I need to determine how effective governments were in achieving their preferences on issues that were most important to them *and* where they disagreed with donors. In the case of Ghana, for example, negotiation outcomes on democratic governance and political rights are unlikely to be informative about the extent of the government's negotiating power, since the government's and donors' preferences on these issues are closely aligned.

To simplify the comparison across cases, I group disagreements between donors and recipients into the four leading categories of issues under negotiation: (1) governance and political rights, (2) macroeconomic and development policy, (3) financial management and corruption, and (4) the procedures for managing grants and loans. Table 9.1 shows these issues and the outcomes across the three cases. While donors and recipient governments in practice negotiate over a much broader range of issues (see Section 2.1 in Chapter 2), these four issues capture the most contentious and frequently occurring issues across all three cases.

Tallying the outcomes across these main issues reveals Ethiopia to have been the most successful at achieving preferred negotiating outcomes, while Kenya achieved more moderate successes, and Ghana was largely unsuccessful in achieving its preferred negotiation outcomes with traditional donors.

In both Ethiopia and Kenya, the government disagreed with donors' stances on democratic governance and political rights, while donors and the government

were more aligned on these questions in Ghana. In Ethiopia, traditional donors, particularly European donors, have long been frustrated with the limits imposed by the government on opposition activity. These concerns were exacerbated by the heavy-handed approach the government applied towards protesters in the 2016 and 2017 protests. However, most donors were cautious in their public statements on the government's reaction to the protests and only one donor appears to have halted their aid disbursements. Donor officials explained their reticence was due to the government's known sensitivity on this issue, compounded by the fact that the government had access to alternative financing sources, making the government more confident when engaging with traditional donors on this question.

The Kenyan government was similarly able to push back against donor critiques of domestic governance in light of its access to alternative finance. Despite donor concerns about the protection of political rights in Kenya, donors' public criticism of governance concerns became more muted with the ICC process from 2010 onward. In part, this was because donors increasingly saw dialogue on governance as obstructing successful negotiation on other issues, including public financial management. Donors' belief that it was not worth losing access to the government was further strengthened by Kenya's "Look East" policy announced in 2013. In both Ethiopia and Kenya, donors dampened their public criticism of governance and political rights issues because they perceived that government sensitivities around these issues might impede their access to the government. Furthermore, the Kenyan and Ethiopian governments' access to alternative financing sources that did not require dialogue on political issues strengthened the governments' hands in reshaping the engagement with traditional donors on these issues.

On macroeconomics and development policy, both Ethiopia and Ghana diverged from donors' preferences, though in different ways. By contrast, in Kenya, the government has largely aligned with the macroeconomic and development policy prescriptions of traditional donors, leaving little to negotiate over in this domain. In Ethiopia, the government has long seen itself at odds with the traditional donor orthodoxy on economic reform. Relations between the government and the IMF

worsened to the point that the IMF did not maintain a resident representative in Addis Ababa for a number of years in the late 2010s, unusually for a country of Ethiopia's size. However, the government has been able to attract a majority of traditional donors, especially the UK and the World Bank, to support aspects of its state-led development agenda. In part, donors have been persuaded of the effectiveness of the Ethiopian development model and are also globally more receptive to policies targeted at economic transformation than in previous decades.[1] Nevertheless, the government's access to alternative finance that is supportive of this development model has also been key. Donor officials explained that the Ethiopian government had clearly communicated its preferences with respect to development policy and signalled it would be able to fund interventions through other means if donors were not willing to finance relevant projects. Access to alternatives thus enhanced the Ethiopian government's ability to persuade traditional donors to support preferred development policies.

In Ghana, the disagreement between donors and the government over macroeconomic policy was different. Donors and the government did not disagree about the development framework underpinning policy choices, as in Ethiopia. Instead, donors disapproved of the government's process of economic policymaking, even while they agreed on fundamentals of economic policy. In particular, donors were concerned about what was seen as failing macroeconomic discipline, i.e. recurrent fiscal deficits, electoral budget cycles, and poor prioritisation of investment projects. Government officials saw these donor concerns as intrusive and a misattribution of the cause of the 2013 crisis, which the government instead largely ascribed to worsening commodity prices.

Unlike in Ethiopia, Ghana was unable to sway donors on this issue. Traditional donors in the multi-donor budget support mechanism withheld their aid until Ghana agreed to enter an IMF programme in 2015. Donor officials explained that macroeconomic policy came to dominate all other issues in dialogue with the government. In part, this different outcome in the Ghanaian case is a function

[1] Noman and Stiglitz 2015; Whitfield et al. 2015.

of Ghana's 2013 economic crisis, which made the country more dependent on the concessional finance offered by traditional donors. It is also importantly a function of how domestic political contestation shaped borrowing and spending choices in Ghana, in that traditional donors were wary of how alternative finance might imperil Ghana's repayments of its debts owed to traditional donors.

Turning to the third issue, both Kenya and Ghana were unsuccessful in resolving their disagreements with donors over financial management and corruption. Unlike disagreements over macroeconomic policy, these disputes did not revolve around policy and spending choices, but rather the execution and oversight of those choices, and the concern that there were corrupt "leakages" in the system. In Ethiopia, by contrast, donors generally expressed confidence in financial management. In Kenya, donors dedicated a significant portion of their engagement with the government to raising issues surrounding procurement, public financial management, and potential corruption. Kenyan politicians were rhetorically committed to a similar opposition to corruption and civil servants expressed an interest in rooting out corruption, but donors' pressure in this area was sometimes seen as intrusive and ill-informed. Nonetheless, donors have been largely successful in supporting a public financial management reform agenda in Kenya. This was in large part because traditional donors have concerns about repayment in light of the government's turn to alternative forms of finance. Donors in Kenya have prioritised public financial management despite the government's sensitivities in this area because they fear that intransparent spending using alternative financing sources may imperil their own repayment.

In Ghana, the outcome of negotiations over financial management has similarly aligned largely with the interests of donors. In light of worries about politicized spending, donors raised concerns not only about macroeconomic policy and spending allocations, but also about the oversight and management of spending. For instance, in 2014, donors criticized the government over substantial payroll irregularities in the public sector. A part of the large 2012 civil service wage increase included fraudulent payments to deceased or non-existent civil servants. While at high levels, Ghanaian

politicians were rhetorically committed to improving financial management, most in the Ministry of Finance saw the focus on financial management as intrusive and misguided in the midst of the country's economic crisis. Nevertheless, outcomes in this area were largely aligned with donors' interests. For instance, Ghana agreed to a large public financial management reform project with the World Bank in 2015, including a focus on debt management. Government officials described the programme as shaped by donor preferences.[2]

Across all three of the case study countries, recipient governments experienced mixed success in bringing procedures for aid disbursement in line with their preferences. In all of the three, there were individual projects where the government received more attractive or preferred terms in light of access to alternative finance. In Ethiopia, for instance, the World Bank took a lenient approach in response to the government's breaching of the debt ceiling, while donor officials in Kenya stressed efforts to speed up the process of applying for and disbursing loans. In Ghana, the World Bank provided a guarantee for the Sankofa gas plant, seemingly in direct response to China's financing of a similar project. Thus, there were some indications of donors adjusting the speed and flexibility of their financing in response to recipient governments' reduced dependence on traditional development finance. However, these adjustments were outweighed by the many other areas were institutional rules impeded the ability of donors, especially multilateral donors, to respond to recipient preferences. I discuss the differences between formal and informal accommodations further in Section 9.4.2 below.

Governments thus varied in their ability to achieve their preferred negotiation outcomes with donors. Ethiopia was most successful in achieving its preferred outcomes. In line with expectations of the theory, Ethiopia's effectiveness diminished somewhat when it became increasingly reliant on concessional finance as it faced greater debt constraints. Kenya had a more mixed track record with financial statecraft. While some donors moderated their public criticism of political rights and governance issues, they increased their focus on financial management and

[2]Interview 65. Government official. Accra, Ghana. April 21, 2017.

corruption issues, despite resistance from some areas of the government. Finally, Ghana was largely unsuccessful in shifting negotiation outcomes in line with its interests, especially once it no longer drew on Chinese finance post-2013.

It is worth noting that variation in achievement of preferred outcomes is also correlated with the issue area. Governments were more successful in shifting donor demands on governance and political rights in light of their access to alternatives than they were in altering donor requests on financial management. In part, this is due to the different actors and processes involved in making these adjustments. The informal mechanisms by which bilateral donors shift their response to domestic political developments are often more flexible than the formal processes for review and disbursement of aid. Furthermore, concerns about financial management were often explicitly linked to the government's uses of alternative finance, such that traditional donors were less likely to make accommodations in this area because of the government's reduced dependence. Variation in the overall track record of success of financial statecraft, however, is due to recipient and donor constraints that affected how the government's reduced dependence translated into greater negotiating leverage. I turn to these constraints next.

9.2 Role of recipient constraints: political contestation

The extent of domestic political contestation varies across the three case studies. In Kenya and Ghana, governing politicians faced both external challenge and contestation internal to the governing coalition. By contrast, in Ethiopia, governing politicians were fairly insulated from external challenge, though internal competition increased over time, ultimately leading to the 2018 rise of Abiy Ahmed in the EPRDF. Crucially, both internal and external contestation mattered for governments' success in financial statecraft since both affect governments' security, time horizons, and spending patterns. Particularly with respect to distributive spending, in both Kenya and Ghana spending was more likely to be motivated by retaining key support bases within the governing coalition than paying off external challengers. These

patterns of competition and spending, in turn, influenced the portfolio of external finance that governments were able to access, as well as how traditional donors responded to these choices of external finance.

First, the Kenyan and Ghanaian cases demonstrate how political contestation affects governments' portfolios of external finance. In Kenya, vocal opposition critique led Kenyatta's Jubilee government to eschew international bond markets in the later years of its first term, turning instead to more expensive syndicated bank loans. As the 2017 election drew closer and opposition leader Raila Odinga challenged the government over corruption allegations associated with the 2014 Eurobond, the Kenyatta government preferred to borrow through syndicated loans, which attracted less attention due to their smaller denominations. This illustrates how political contestation introduces contingency into governments' choice of external finance, with governments finding their hands tied by opposition challenge.

In the same way, the NDC government in Ghana, though initially optimistic about Chinese finance, reduced its reliance on Chinese loans in the early 2010s after sustained opposition critique. Furthermore, the relationship with China became politicized by both the opposition and members of the ruling coalition with the scandal over illegal Chinese gold mining. Here too, the government found itself with a narrower portfolio of external financing, with options curtailed by politicization. These dynamics were accentuated in Kenya and Ghana by a vibrant press environment that reported on the government's borrowing and plans for future debt. In Ethiopia, by contrast, journalists described knowing little of the government's intentions to borrow until loans were announced. Ethiopia's 2014 Eurobond was issued without public discussion about the merits of entering the international bond markets, leaving no room for concerted critique.

Second, differences in political contestation between Kenya, Ghana, and Ethiopia also illustrate how spending patterns affect governments' ability to use a broadened portfolio of external finance as a basis for leverage in negotiations with traditional donors. New forms finance were considered attractive in both Kenya and Ghana because they enabled flexible spending that allowed the government to meet

distributive demands. As a journalist put it in Kenya, "The question is what is the government borrowing for? They're borrowing for recurrent expenditure, borrowing money they give to counties."[3] Donors responded to the governments' turn to alternative finance in light of these politicized spending patterns. In particular, they raised concerns that financial management structures were weak, with technocrats in the Kenyan National Treasury or Ghanaian Ministry of Finance unable to restrain spending pressures. In this environment, the turn to alternative finance was seen as a potential risk to the repayment of traditional donors, which in Kenya and particularly in Ghana outweighed recipients' reduced dependence on traditional donors.

Comparing the Kenyan and Ghanaian cases with the Ethiopian case demonstrates that what governments borrow *for* shapes the leverage they are able to extract from their access to alternative finance. The broad expectation of the financial statecraft of debtors is that donors make accommodations to recipient preferences to retain their access to the government. However, when donors and creditors fear that alternative finance is enabling spending patterns that put repayment at risk, then they have incentives to push the government to improve financial management and alter macroeconomic policies, even if this is against recipient government preferences. For instance, in Kenya, most traditional donors saw the standard gauge railway, financed by China, as an overpriced and rushed project targeted at voters in the 2017 election. Given their concerns about unsustainable debt build-up and unauthorized leakages, they pushed the government to accept a debt management reform project and publicized concerns about financial management. Donors were particularly likely to push the government on those areas of institutional reform that would protect against the perceived risks of flexible alternative finance. Thus, in Kenya, donors were more willing to be conciliatory on questions around governance and political rights in the face of the government's "Looking East," while focusing attention on financial management and corruption issues.

Why did governments in Ghana and Kenya accept these projects, leading to negotiation outcomes less aligned with their preferences? The theoretical expectation

[3]Interview 9. Kenyan journalist. Nairobi, Kenya. January 23, 2017.

is that access to alternative finance reduces governments' dependence on their traditional donors, leaving them freer to reject deals that are not aligned with their preferences. While the governments in each of the case studies did in fact lower their dependence on traditional donors, they were not completely independent of traditional donor funding. In particular, the distributive demands on the Kenyan and Ghanaian governments increased their willingness to accept funding even if it was not perfectly aligned with government preferences. Traditional donors in Kenya and Ghana report that the government was often unable to prioritize among projects and eager for funds to meet political objectives, leaving donors more room to shape negotiation outcomes. By contrast, in Ethiopia, the government had a much stronger prioritization of development projects and was more likely to insist on a particular project design, indicating it would turn to China for funding if traditional donors were unable to meet these requests.

These differences in success of financial statecraft between Kenya, Ghana, and Ethiopia are due to political contestation, rather than more narrowly institutional attributes such as regime type, though certain mechanisms are associated with regime type. For instance, the free and vibrant press in both Ghana and Kenya that amplified critiques of alternative finance and thereby narrowed options for financial statecraft is a feature of the democratic environment in those countries. However, the case studies illustrate that it is not only the external challenge of democratic opposition that drives distributive spending pressures that can hamper governments' attempts at financial statecraft. In Ghana a large part of spending was motivated by shoring up the support of existing members of the governing coalition.[4] In Kenya, too, the Jubilee administration's spending in the run-up to the 2018 election was motivated by holding together the Ruto-Kenyatta alliance that risked fracturing. While in the case studies in this thesis the extent of contestation correlates fairly closely with regime type, this is not the case in all countries. Uganda, for instance, is an example of a nondemocracy with extensive contestation within the governing coalition, as well as the associated distributive pressures.

[4] Abdulai and Hickey 2016.

Extensive contestation is associated with spending patterns that undermine financial statecraft by triggering donor fears about moral hazard and repayment challenges. The Ethiopian case indicates that the inverse is also true. Less contestation can lead to fewer distributive pressures, allowing the government to be more effective at debt-based financial statecraft. It is very plausible that this extends to other regimes with low levels of political contestation, even if not all. Rwanda, for example, is another African country where elite cohesion has enabled clear prioritization and strategic use of external finance.[5] Nonetheless, donors might have different reasons to worry about unsustainable spending in governments with low contestation, where such spending might be driven by leaders' personal enrichment as opposed to keeping a governing coalition together. Future research should consider the effect of political contestation on financial statecraft across different regime types.

9.3 Role of donor constraints: recipient significance

The case studies highlight the crucial role of donor constraints in shaping the success of debt-based financial statecraft. Those countries where donors place a greater emphasis on their access to the government were more successful in translating their access to alternative finance into greater leverage with traditional donors. Kenya and particularly Ethiopia enjoyed a more accommodating stance from traditional donors as they turned to new forms of finance and reduced their dependence on traditional donors. By contrast, as Ghana's attraction for traditional donors waned and the country's economic crisis worsened, donors were less likely to respond to the government's expanded portfolio of external finance by obliging the government's preferences.

This is not simply a case of valuable countries receiving loans and grants on more attractive terms, though there is an independent effect of recipient countries'

[5] A 2017 report on African countries' experience mobilizing finance for development, including from new and alternative sources, identifies Rwanda as particularly strategic in this respect. African Center for Economic Transformation 2017.

importance on the prominence they hold in donors' portfolios. Instead, recipient governments' importance to traditional donors interacted with their access to alternative finance to shape negotiating outcomes. For instance, in Ethiopia, donors described how the government's ability to fund key investments in industrial parks with Eurobond proceeds subsequently strengthened the government's hand when negotiating for similar funding from traditional donors. In Kenya, donor officials explained that the government signalled its turn to alternative finance by limiting the time available for meetings with traditional donors, a source of considerable frustration, given the importance of relations with the Kenyan government. In comparison, as Ghana's importance to certain donors waned, donors were less willing to make accommodations to the Ghanaian government.

One mechanism by which strategic significance moderated the effect of recipient governments' access to alternative finance was through competition between traditional donors, on the one hand, and China, on the other. In Ethiopia, traditional donors' understanding of the government's closer relationship with China was heavily influenced by broader geopolitical competition in the Horn of Africa. As one donor representative put it, "The reason, to some extent, the Western partners are all here, is because if they weren't, they know the big bogeyman China is here."[6] In Kenya, competition also played a role, though this competition was more commercial in nature. For instance, German officials expressed concerns over the number of contracts going to Chinese firms and a German-Africa Business Summit was held in February 2017 in an effort to heighten the profile of German contractors and investors. A Japanese respondent similarly raised concerns that Japanese firms were missing out on lucrative contracts, saying "We're really focusing on how we can get the Japanese private sector into the government system."[7] Geopolitical and commercial competition with China thus amplified donors' awareness of alternative finance in Ethiopia and Kenya and motivated donors to retain their relationship with the government.

[6]Interview 141. Donor representative. Addis Ababa, Ethiopia. July 26, 2017.
[7]Interview 1. Donor official. Nairobi, Kenya. January 18, 2017.

However, Kenya and Ethiopia did not only do better at financial statecraft than Ghana because of competition among creditors. Instead, the governments' value to traditional donors meant donors were sensitive to the governments' reduced dependence and reduced availability when these governments gained access to alternative finance. This is why international bond market financing also strengthened governments' negotiating power, enhanced by strategic significance, even if traditional donors did not see themselves as competing with bond markets. In Ethiopia, for example, traditional donors agreed to fund key parts of the government's industrial parks plan after the government was able to secure and deploy bond market financing for the initial prototype of the industrial park. In Kenya, the government saw the Eurobond as reducing their dependence on traditional donors and giving the government greater leverage when negotiating. As one official put it, "...the Eurobond affects the relationship with donors...if I borrow and I get friendly terms, then I prefer that."[8] While bond market access is much less geopolitically fraught than a closer relationship with China, it nonetheless affected negotiations with donors, particularly in Ethiopia and Kenya, where traditional donors placed a greater value on their access to the government.

A recipient government's importance to traditional donors can rest on a number of features of the recipient country. In both Ethiopia and Kenya, geopolitical considerations were influential in shaping donors' engagement with the government, with both countries being seen as "anchors" of stability in the Horn of Africa and East Africa respectively. This was augmented in Kenya's case by the appeal of Kenya's market for donor country firms and in Ethiopia by the country's development performance.

Development performance was also the basis of Ghana's historical significance. The Ghanaian case illustrates how this form of recipient significance may be less reliable than others in amplifying the government's negotiating power, since it relies on continued delivery of economic development outcomes and donors' positive perception of these outcomes. Ghana's historic attraction for donors has been both

[8]Interview 6. National Treasury official. Nairobi, Kenya. January 20, 2017.

functional and symbolic. As an early economic reformer, Ghana demonstrated the feasibility of a number of donor-advocated policies, further cemented by the country's democratic credentials. However, to keep enjoying a privileged relationship with traditional donors, especially one where occasional slippages or transgressions in policymaking would be allowed, Ghana had to continue delivering the desired development outcomes. Together, the 2013 crisis and the government's perceived intransigence led donors to become increasingly frustrated and shift their appraisal of the government. Furthermore, the 2013 crisis left Ghana in a much more vulnerable position, dependent on the concessional finance provided by traditional donors.

It is possible that Ghana's symbolic significance will recover in the near future. The NPP government elected in late 2017 has made efforts to repair the relationship with traditional donors. Furthermore, donors have been willing to turn a blind eye to Ghana's electoral budget cycles in the past, suggesting that a more accommodating relationship may again be possible. However, the government's failure to utilize its reserve of donor sympathy in the mid-2010s to better leverage its increased independence from donor finance highlights the difficulty of deploying performance-based significance. Performance-based symbolic significance is more malleable than geopolitical or commercial significance, with more room for countries to increase their value to traditional donors. Nevertheless, this form of significance also crucially rests on donor perceptions, leading to substantial changes in the relationship if donors shift their appraisal of the government. The Ghanaian case illustrates how dips in countries' significance can make it harder for a government to effectively leverage their portfolio of external finance into preferred outcomes.

9.4 Additional insights from the case studies

9.4.1 Recipient government strategy

The theoretical framework emphasizes that access to new forms of finance shifts the conditions in which recipient countries negotiate with traditional donors, changing the likely outcomes of the negotiations. The case studies reveal there is also a role for government *strategy* in determining the efficacy of debt-based financial

statecraft. Governments differed in the extent to which they took an active approach to managing their expanded portfolio of external finance, for instance by directly inviting competing bids for the same project or signalling their reduced dependence to donors. This difference in government strategy was in large part determined by the same recipient constraints that conditioned the efficacy of financial statecraft across the cases. Greater political contestation made it harder for governments to prioritize among development projects, leaving officials reactive in their engagement with donor representatives rather than proactively setting the agenda. The comparison between Ethiopia and Ghana best illustrates the effect of government strategy for negotiating with donors and creditors, and how this reinforced the effect of recipient constraints on the outcomes of financial statecraft.

In Ethiopia, the government had a targeted approach to engaging with donors even before a diversification of external finance, setting the agenda for negotiations, identifying priority projects, and matching donors to particular sectors. In the recent context of diversified finance, the Ethiopian government has been particularly deliberate in how it uses alternative finance as a basis for greater advantage. This was evident in donor representatives' descriptions of their encounters with the government. Donor officials described negotiations being structured around government priorities, with a clear sense that the government had researched alternative sources of financing. Furthermore, donor officials described the government playing a "divide-and-rule" tactic, sharing information only with certain donors, asking multiple donors to do the same analysis to allow comparison, or allocating donors to particular sectors. This was especially true with respect to the division between China and all traditional donors. Multiple donor representatives referenced the Ministry of Finance waiting room as indicative of the government's attitude. The room has one door marked "China" and another marked "Other." The government not only used China as a counterbalance to other donors, it also used private finance as a counterbalance to China, choosing to take on a syndicated loan to finance parts of a railway project when large parts of the railway were funded through China ExIm.

By comparison, most donor representatives described the Ghanaian government's engagement with donors and creditors as haphazard and unsystematic. In particular, donor representatives stressed that the government's lack of prioritization among development goals and projects made it harder for them to assert their preferences when negotiating with donors. As one donor official in Accra described it, "Often we ask them 'which do you want?' and then they pick. We propose projects and they choose."[9] Government officials conceded that they had done little to encourage donors to specialize or to bring individual donors and creditors into competition. At the governmental level, the Cabinet failed to approve an Aid Policy to guide engagement with donors, despite repeated revisions by the Ministry of Finance. In Ghana, political contestation led to difficulty prioritizing among projects and the lack of a clear strategy with respect to the diversified portfolio of external finance made it even harder for the government to derive benefits from this environment.

The differences in government strategy were related to the differences in negotiation outcomes observed in Ethiopia and Ghana. The active tactical dimension reinforced the effects of recipient and donor constraints outlined in the theoretical framework, and appeared in large part to be shaped by the different patterns of political contestation in Ethiopia and Ghana. In Ethiopia, the greater cohesion in the governing coalition with respect to developmental objectives made it easier for the government to identify clear priorities, and target individual donors to support these. In Ghana, by contrast, the focus on upcoming elections and factional struggles internal to the governing coalition fragmented the government's attention, making it challenging to prioritize individual initiatives.

9.4.2 Formal and informal adjustment

Comparing donor accommodation to recipient preferences across the three cases reveals donors to be more inclined to make accommodations on matters under the control of in-country diplomatic and aid agency staff than formal matters governed by internal rules. While there is some evidence of the latter type of

[9]Interview 62. Donor official. Accra, Ghana. April 20, 2017.

accommodation, with donors occasionally applying flexibility in formal rules to meet recipient preferences, both Ethiopia and Kenya were more likely to benefit from informal adjustments to donors' responses to government policy. Issues under negotiation between donors and the recipient government vary in the extent to which they are bound by internal rules. The choice to allocate projects to certain sectors or how much finance to commit to a recipient country might be determined by a fixed calendar, but still allows room for adjustment, as Chapter 4 showed. Which issues to raise in diplomatic discussions with the government may be entirely under the control of the diplomatic staff of bilateral donor countries, or may be influenced by donor country legislators. By contrast, most disbursement and review procedures of multilateral development banks are governed by internal regulations and applied in the same way globally, leaving less room to accommodate recipient preferences. In Chapter 2, I noted that donors will find it costly to meet recipient preferences and will therefore prioritize accommodations to countries where access to the government is most important. Similarly, donors in the case studies seemed to prioritize less costly accommodations that are easier to implement.

In the case studies, donors did occasionally make adjustments to the mechanisms for disbursing and reviewing aid, making these all the more revealing of willingness to satisfy recipient preferences. This was the case, for instance, when the World Bank used inbuilt flexibility in the debt framework to offer Ethiopia lenient terms. This event could only be confirmed with access to internal World Bank documents. It is possible that in other cases, donors were willing to apply rules selectively to accommodate recipient preferences, but that these adjustments are less public than changes in donors' responses to governance and macroeconomic issues. However, most recipient government officials demurred when asked if donors were altering disbursement and review procedures that recipients found onerous, making it unlikely there are significant unobserved changes in this area.

A number of recipient officials suggested that changes in donor procedures in a more diversified financial landscape may simply be slow to emerge, given the internal adjustments required. At the Kenyan National Treasury, an official

expressed this view, "In the future, I see this competition lowering the terms of financing, not at the moment...Over time, the terms will change."[10] Recent changes to the World Bank's social and environmental safeguards policies reinforce this view that adjustments to formal processes are possible even if they are slow, given the pace of institutional reform. The World Bank's extensive safeguards process has long been a source of frustration for recipient governments, and the recent 2012-2016 Safeguards Review saw the Bank loosening these standards in large part in response to recipient preferences and a more diversified financing landscape.[11] This suggests that adjustments to formal internal rules may emerge, but because they have to be rolled out across the entire organisation and its global operations, they may be slower to appear.

The difference in formal and informal adjustment is not simply a function of the type of donor. While bilateral donors, because of the nature of their engagement with the government, had more scope to alter their public commentary on government policy, multilateral donors also made similar shifts. For instance, an IMF official at headquarters explained that the focus of IMF engagement with Kenya had shifted away from governance issues since the government's antipathy to engaging on these topics prevented productive negotiation on other issue areas.[12]

9.4.3 Alternative finance and commercial competition

An unanticipated consequence of recipient countries' access to alternative finance is the commercial competition associated, as well as the consequences of this commercial competition for donor country behaviour. As described in Chapter 3, much of Chinese official finance is in the form of export finance, i.e. loans that enable Chinese firms to export to developing country governments. This means that Chinese loans are not only providing recipient governments with alternative finance, but also providing a benefit to Chinese firms, which have been able to expand their market reach with the aid of government-supported export finance. The case

[10]Interview 42. National Treasury official. Nairobi, Kenya. February 13, 2017.
[11]Greenstein 2019.
[12]Interview 50. IMF official. Washington DC. February 27, 2017.

studies reveal that this phenomenon is stoking commercial competition with firms from Europe and North America, which are anxious not to miss out on lucrative opportunities for government contracts. Furthermore, European export credit agencies are responding to the influence of Chinese export finance by increasing their efforts to lend to recipient governments.

The behaviour of Western export credit agencies in response to Chinese commercial competition falls outside of this thesis, since the nature of negotiations with donor agencies is fundamentally different from the negotiations between developing country governments and export credit agencies. The financing terms of OECD members' export finance are determined by an OECD agreement that prescribes set interest rates and maturities for export credits, which means these export credit loans are largely not subject to negotiation.[13] Nonetheless, the case study evidence on the consequences of export finance competition is worth noting, since this is a promising area for future research.[14]

Across the three cases, government officials noted an increasing interest on the part of Western export credit agencies in financing projects carried out by their firms. One Ghanaian Ministry of Finance official commented that Chinese lending had led to "more of a competition between countries...It's more competition and aggression on behalf of their exporters."[15] In Kenya, a National Treasury official explained, "What we have seen changing is the element of creditors supporting their local companies through ECAs [export credit agencies], for instance Spain, Belgium...*The China model creates circumstances that other creditors are responding to*."[16] An Ethiopian Ministry of Finance official described a similar phenomenon, "Most [traditional donors] are not concerned by the resources mobilized by China, but rather the contracts being won by Chinese companies...That is their concern, that the Chinese are taking all of the sectors."[17]

[13]Blackmon 2017.
[14]Bunte et al. 2019; Hopewell 2019.
[15]Interview 63. Government advisor. Accra, Ghana. April 20, 2017.
[16]Interview 43. National Treasury official. Nairobi, Kenya. February 13, 2017. Emphasis added.
[17]Interview 135. Ministry of Finance official. Addis Ababa, Ethiopia. July 19, 2017.

Not only OECD countries are responding to the competitive pressure of Chinese export finance, but also non-OECD lenders. In Ethiopia, a government official explained, "India is coming more, Turkey, Indonesia, and Malaysia are getting into this business. *The Chinese model is inspiring others to create jobs for their companies.*"[18] The particular structure of Chinese lending, which includes direct support for Chinese firms, thus has the potential to spark changes in other lenders' practices.

Competition among export credit agencies motivated to ensure their countries' firms retain access to African markets is thus an emerging implication of African governments' diversified portfolios of external finance. Future work should investigate the consequences of this export credit competition for developing countries, as well as for the practices of OECD countries' export agencies. The findings of the thesis suggests that competition among export credit agencies could have benefits for borrowing countries, giving them more options that could lead to financing on more attractive terms. However, concerns about overlending by export credit agencies raise the prospect that greater competition among export credit agencies could be to the detriment of developing countries.[19]

9.4.4 Indebtedness and the potential for future financial statecraft

A final theme that emerges from the case studies is how the uptake of new financing can contribute to countries' debt burdens and, in turn, limit the potential for subsequent financial statecraft. Paradoxically, the turn to alternative forms of finance that can strengthen governments' negotiating position vis-à-vis traditional donors can ultimately leave them more dependent on donors' concessional finance and thus in a weaker position.

As explained in Chapter 3, much of the new finance to which African countries gained access during this time was on commercial terms. Though African govern-

[18] Interview 129. Ministry of Finance official. Addis Ababa, Ethiopia. July 17, 2017. Emphasis added.

[19] Blackmon 2017.

ments entered international bond markets at a fortuitous time and borrowed at rates that are attractive when compared to the historical record of market lending to developing countries, international bonds are nonetheless an expensive form of financing, with high interest rates and short maturities. Much of Chinese finance is also at commercial rates. Though the exact terms of most Chinese loans are unknown, more than half of Chinese financing commitments in Africa are on non-concessional terms. African countries' expanding portfolio of external finance has therefore also meant an increase in non-concessional debt.[20] As a number of the case studies show, this build-up of debt has immediate consequences for borrowing governments, including the risk of debt crises, as well as for the relationship between borrowing governments and donors. Those African countries whose diversified portfolio of external finance has become unsustainable, or risks becoming unsustainable, may again become more dependent on the concessional finance and grant aid offered by traditional donors, limiting the potential for future financial statecraft.

In each of the three case study countries, the 2000s saw a decrease in the government's debt burden, followed by a subsequent, in some instances sharp, increase from the late 2000s to the late 2010s (see Figures 6.2, 7.2, and 8.2). The case study countries are not unique in this respect. A 2018 IMF report notes that median debt-to-GDP ratios in low-income developing countries declined from 94% of GDP in the early 2000s to 33% of GDP in 2013, only to increase to 47% by end 2017.[21] Of the 34 low-income countries that received debt relief from multilateral creditors in the 2000s, 14 countries are now classified as either in debt distress or at risk of debt distress.[22] The greater diversity of financing options and the commercial terms of this new financing have certainly contributed to increased risk of debt distress among African countries. Among those countries that received debt relief and are now facing debt difficulties, Chinese credit increased from an average of 0.2% of GDP in 2007 to 11.6% of GDP in 2016, while outstanding

[20]Prizzon and Mustapha 2014.
[21]IMF 2018, pp. 34-5.
[22]IMF 2018, p. 44.

debt from bonds, bank loans and commercial credit increased from 4.5% to 15.3% of GDP over the same time.[23]

As the share of Chinese finance in countries' portfolios of external finance grows, commentators have raised concerns about the constraints such debt could impose on borrowing governments.[24] In particular, there is a concern financing from China could leave African countries in a "debt trap," forced to sell off assets to China cover the growing cost of debt. Attention has focused on a Chinese firm acquiring a strategic port in Sri Lanka as part of a privatization deal to cover the cost of Sri Lanka's debt to China.[25] Indeed, the collateralization of Chinese loans with countries' natural resource exports creates conditions in which difficulty servicing debts could impose serious constraints on borrowing governments. The case studies suggest that governments' vulnerability will be a function of *how* Chinese loans, and bond market finance, were deployed. In countries like Ethiopia, were loans were mostly used for capital investment and targeted projects, it is likely that commercial-rate finance from new lenders will yield returns that make repayment of this more expensive debt possible. In other contexts, more similar to those in Ghana, constraints may appear sooner, given the low likely returns on the uses of commercial debt.

Beyond the immediate effects of growing indebtedness at the same time as the composition of external debt is changing, the case studies also illustrate how higher debt levels can impede financial statecraft. Even for countries not yet facing outright debt distress, higher debt burdens make it more difficult to take on new finance, limiting the room for manoeuvring among alternatives. Most importantly, this greater debt burden makes borrowing governments more dependent on the cheap, concessional finance offered by traditional donors, reversing the greater independence gained by access to alternative finance.

The Ethiopian case illustrates this dynamic. Access to alternative forms of finance initially increased the government's autonomy, enabling it to shift outcomes with traditional donors in line with its interests. However, the build-up of commercial

[23]IMF 2018, p. 51.
[24]Hurley et al. 2018.
[25]Brautigam 2019.

debt, together with a foreign exchange shortage caused by worse-than-expected export performance, made the government more reliant on concessional finance from 2015 onward. This greater dependence of the government on traditional donor funds gave donors greater leverage in advancing policy agendas more closely aligned with their preferences.

In Ghana, this dynamic was much further developed. The government's turn to international bond market finance and its growing non-concessional debt burden left it particularly vulnerable when it was hit by a commodity price shock in 2013. The government became more dependent on concessional forms of finance and, especially, on the seal of IMF approval to enable its return to the markets.

These insights from the case studies suggest that the greater autonomy borrowing governments gained from their access to alternative finance may in some cases be shortlived. This does not negate the effect of debt-based financial statecraft, in which reduced dependence enhances negotiating power, but rather suggests that such financial statecraft must be carefully executed to not be self-defeating. Where new relationships of financial interdependence become unsustainable, these are unlikely to be a basis for greater leverage with pre-existing donors and creditors. Instead, those unsustainable borrowing relationships may simply become the basis for greater dependence on traditional donors. The constraints of the debt contracted by African governments over the last decade and a half are only now starting to appear, as a small number of countries experience debt crises and enter IMF programmes. Future research ought to investigate how the outcomes of negotiations between governments and traditional donors change where new forms of external finance lead to serious debt constraints.

Separately, future research should investigate how any negotiations over resolution and restructuring of unsustainable debt are affected by the greater diversity of external creditors. Previous periods of sovereign debt restructuring, for instance in Latin America, have shown that a greater diversity of creditors can impede rapid restructuring of debt. Up until now, the restructuring of bilateral debt has almost exclusively taken place through the institutional mechanism of the Paris Club, which

allows official creditors to coordinate and reach shared positions, easing some of the burden on developing country borrowers. This arrangement worked fairly well when most bilateral loans were extended by the OECD countries that make up the majority of the Paris Club membership. However, China is not a member of the Paris Club and has signalled it is not interested in joining this "rich country" club.[26] Future work will want to consider how coordination among creditors and negotiation between borrowing governments and creditors in debt restructuring has changed as a result of greater diversity of creditors in the contemporary structure of the international financial system. The case study findings suggest that domestic political economy and creditor interest in borrowing countries will likely be influential.

9.5 Conclusion

The three case studies illustrate the *potential* for diversification of creditors to enhance government's negotiation leverage. Across a wide range of issues, including governance and human rights, macroeconomic and development policy, financial management and corruption, and procedures for disbursing aid, governments had a greater likelihood of achieving preferred negotiating outcomes when they had access to alternative finance. However, ability to influence negotiation outcomes was uneven across the three case study countries.

Ethiopia's success in achieving preferred outcomes with donors, including donors muting their criticism of the government's democratization shortcomings and weakly enforcing procedural requirements, was a function of not only the country's access to alternative finance, but also its importance to donors and the domestic political economy shaping borrowing and spending choices. In Kenya, the government achieved some successes, but donors' unwillingness to accommodate the government's preferences on financial management despite the government's access to alternative finance was ultimately a function of moral hazard concerns, given the government's track record of politicized distribution. Finally, in Ghana, the government did not achieve its preferred outcomes on either macroeconomic

[26] Wang 2014.

policy or financial management, because donors' waning interest in access to the government and concerns about moral hazard left them disinclined to accommodate the government's preferences. These findings largely substantiate the expectations of the theoretical framework that variation in the financial statecraft of debtors is shaped by recipient and donor constraints.

In addition, the case studies offer further insights as to the political consequences of a diversified financing landscape. For one, the comparison between Ghana and Ethiopia, in particular, highlights the role of government strategy in determining the outcomes of financial statecraft. Not only does the greater variety of willing lenders create opportunities for African governments to rebalance negotiations in their favour, government tactics can also be decisive in achieving this. This emphasizes the importance of African governments' agency in managing the consequences of a wider array of creditor relationships.

Finally, the case studies demonstrate some unexpected consequences of creditor diversification that invite further study. Given the share of Chinese lending that is allocated in the form of export credits, China's dominant role as a creditor is also a support for Chinese firms gaining footholds in African export markets. Future work should investigate the consequences of this, both whether Chinese export finance is changing the behaviour of Western export credit agencies and how this is affecting developing country borrowers. The growing indebtedness of borrowers and the consequences of this for financial statecraft are another area for further research. How will debt resolution negotiations change when China is not a member of creditor coordinating bodies? Is this likely to harm or help borrowing governments? As debt constraints increase for African governments, these will be fertile areas for future research.

10 Conclusion

10.1 Argument

Scholars' interest in developing countries' integration into the international financial system has often focused on the constraints and dependence that arise from asymmetric relationships of financial interdependence. This thesis has identified a potentially unexpected consequence of greater and diversified financial interdependence, while acknowledging the structurally weak position that developing countries find themselves in in the international financial system as net debtors with little influence over the global allocation of credit. By cultivating borrowing relationships with a more diverse set of creditors, developing country governments can reduce their dependence on individual donors and creditors, especially the traditional donors that long provided the bulk of their external finance. In so doing, governments can strengthen their hand in negotiations with donors.

The financial statecraft of debtors suggests that by shifting some of their borrowing from one creditor to another, developing country governments can increase their leverage with donors, achieving negotiation outcomes that are more aligned with their preferences than those of donors. This is because donors have an interest in their access to the recipient government, access that is diminished as the government turns to alternative forms of finance. To retain their influence

with the government at a time of reduced government dependence, donors will alter their behaviour to accommodate the government's preferences.

However, effective debt-based financial statecraft is subject to two constraints, one on the side of recipients (political contestation) and another on the side of donors (significance of the recipient to donors). These constraints shape the differences in government's ability to achieve their preferred negotiating outcomes when they reduce their dependence on traditional donors. First, governments have to be free to choose among different financing options to be able to reduce their dependence on traditional donors to the fullest extent possible. Domestic political contestation can narrow the scope of potential financing options, with an opportunistic opposition politician or member of the governing coalition challenging the government on its relationship with individual creditors. Moreover, patterns of political contestation directly shape borrowing and spending decisions in ways that can impede successful financial statecraft. If governments use alternative finance to fend off electoral opponents or hold together a fractious governing coalition through politicized distribution, this can tip over into unsustainable spending that triggers donors' concerns about repayment, making them less likely to accommodate governments' requests for flexibility. These spending patterns thus impede the effectiveness of financial statecraft aimed at traditional donors.

Second, donors' preferences with respect to developing country governments are a constraint on successful financial statecraft. The theory suggests that developing countries' greater leverage in negotiations in a context of diversified finance stems from donors' interest in retaining access to the recipient government. Thus, variation in donors' interest in accessing the recipient government shapes the likely success of financial statecraft. Interest in a close relationship with the government and influence over government policy varies by donor, but also crucially by recipient country. If a developing country is less attractive to its donors, with less to offer in the way of security cooperation, commercial access, or effective development policy, then donors are less likely to worry about their declining access to the government. Consequently,

the government is less likely to be able to translate their greater diversity of finance into greater influence over the outcomes of negotiations with donors.

10.2 Findings

Both cross-nationally in the large-n analysis and in the three case studies I find support for this argument. In the aggregate, access to alternative finance leads to different terms of development finance from traditional donors. In chapter 4, I used data on the terms of aid and development finance across sub-Saharan Africa to show that when borrowing countries take up alternative finance, they receive development finance from traditional donors on terms more aligned with their preferences. Crucially, this holds for both the World Bank, as a multilateral donor, and the US, as a bilateral donor, and for African countries' access to Chinese finance and the international bond market, though the donors differ in their responsiveness to different alternatives.

On the whole, the World Bank is more responsive to countries' access to Chinese loans than their turn to international bond markets, offering loans with fewer conditions attached, greater quantities of finance, and more infrastructure projects when African governments receive higher commitments of Chinese development finance. By contrast, the US' aid allocations appear sensitive to both bond market finance and Chinese loans, with the US offering greater quantities of finance, larger projects, and more infrastructure-focused projects when African governments take up either form of alternative finance. The fact that the World Bank, not only the US, is responsive to countries' access to alternative finance suggests that this response is not simply driven by geopolitical competition, but likely related to declining access to the government. This interpretation is further strengthened by the fact that the terms of US aid are responsive to countries' bond issues. Such a response is much less likely to be a function of geopolitical competition than the US response to countries' closer relationships with China. Moreover, the relationship between alternative finance and the terms of World Bank and US aid hold when controlling for confounders likely to affect both, as well as including country fixed

effects in simple models. This increases confidence that these relationships are indicative of donors' responses to African governments' portfolio of external finance, rather than simply a function of some countries' attraction for all lenders.

The cross-national data in chapter 4 also points to the conditional nature of financial statecraft, i.e. the enhancing role of borrower significance and dampening role of political contestation. When borrowing governments are significant to donors along a number of dimensions, this enhances the positive effect of alternative finance on negotiation outcomes preferred by recipient governments. For instance, the relationship between accessing Eurobond finance and the amount of World Bank commitments is positive only for countries that have historically been important clients of the World Bank. Similarly, the positive relationship between Chinese finance and the quantity of World Bank commitments is greatest for countries of greater commercial importance to the US, a key World Bank shareholder. With respect to contestation, I find that the positive relationship between Chinese finance and the quantity of US commitments and sectoral allocation of both US and World Bank commitments declines and dissipates at higher levels of contestation.

These findings of the large-n analysis are corroborated by the case studies, where I find variation in the success of financial statecraft associated with the extent of contestation and countries' significance to their donors. The case studies allow for a more fine-grained operationalisation of the dependent variable, focusing on the aspects of the donor-government relationship that are most contentious to ascertain whether alternative finance gives the government greater leverage over those issue areas.

In Ethiopia, where the EPRDF government has been much less constrained by political contestation than either the Kenyan or Ghanaian governments, alternative finance was associated with shifting negotiation outcomes on governance conditionality and donor support of economic policies in line with government preferences. This was further enhanced by the government's importance to its traditional donors, which led donors to accommodate the government's preferences in a number of crucial areas to retain their relationship despite the government's declining dependence.

The Kenyan case illustrates the effects of government constraints on the financial statecraft of debtors. While the government was able to secure some outcomes that aligned with its preferences, most notably a dampening of governance critiques, political contestation both foreclosed some financing options and drove spending patterns that piqued donors' concern about moral hazard. Therefore, donors were more reluctant to accommodate the government's preferences for flexibility on financial management, worrying that politicized uses of alternative finance put their own repayment at risk. Finally, the Ghanaian case illustrates how government constraints can combine with donor constraints to impede successful financial statecraft. In the Ghanaian case, not only did political contestation hamper the government's access to some forms of alternative finance and politicized spending lead donors to clamp down rather than loosen conditions, but the government's waning importance to donors also dampened their interest in accommodating government preferences. Donors did not substantively adjust their position on issues of economic policy nor financial management, leading to outcomes more aligned with donors' preferences than those of the government.

Together, these findings highlight that while diversification in countries' portfolios of external finance leads to the *potential* for greater influence in negotiations with donors, this is subject to important constraints. New and emerging patterns of financial integration thus enable governments to exercise greater agency in their negotiations with traditional donors, but this is not the case for all borrowing governments.

10.3 Future research

Open questions from this thesis suggest a number of areas for future research. First, the relationship between political contestation and financial statecraft should be probed further in different institutional settings. I argue that contestation, rather than electoral competition more narrowly, matters for financial statecraft because of donors' responses to the spending patterns arising in environments with greater contestation. Importantly, such clientelist or distributive spending patterns

can arise due to internal contestation within a governing coalition, not simply electoral challenge, i.e. contestation is not the same as regime type. However, in the case studies analysed in the thesis, contestation largely varies along regime type. Ethiopia, an autocratic country, has limited contestation, while Kenya and Ghana, both electoral democracies, experience considerable contestation. I am careful in the case studies to highlight the role played by contestation *within* the governing coalition in undermining financial statecraft, especially in the case of Kenya's fractious and vulnerable coalitions. Nevertheless, there is potential to interpret these findings with respect to regime type, with potentially disquieting normative implications, i.e. that autocracies outperform democracies at debt-based financial statecraft. Therefore, future work ought to consider autocracies with considerable contestation, e.g. Uganda, or democracies with greater cohesion in governing coalitions, e.g. Botswana. This would help to further establish the relationship between regime type, contestation, and variation in the efficacy of debt-based financial statecraft.

Second, the thesis points to interesting variation in donors' responsiveness to financial statecraft. The cross-national results show the World Bank to be responsive to countries' access to Chinese finance but not their turn to bond markets, while the US offers development finance on different terms in response to both. Furthermore, the case studies reveal that bilateral donors are more flexible in adjusting the informal dimensions of their relationship with the recipient government, while multilateral donors are more strictly governed by their internal rules. This latter finding is in keeping with existing work on bilateral and multilateral donors, which suggests that delegation to multilateral donors is precisely intended to depoliticize the allocation of development finance. Furthermore, it suggests that perhaps the institutional rules of multilateral donors are working. These donors have a harder time offering recipient countries attractive deals to curry favour with recipient governments, precisely as the rules intend. However, if these rules are putting multilateral donors at a competitive disadvantage vis-à-vis emerging donors, are they coming under pressure from shareholders to change? Recent work on the World Bank's environmental and social safeguards suggests that global revisions

to these rules were motivated partly by the competition of alternative creditors.[1] This suggests that multilateral donors may simply be slower than bilateral donors to respond to developing countries' reduced dependence, given their institutional structure. Future work should investigate greater variation in the sensitivity of donors to the financial statecraft of debtors.

Finally, future work should consider how greater diversity in countries' portfolios of external finance shapes the outcome of negotiations over debt restructuring and resolution. This thesis has analysed the consequences of greater diversity in finance during a period of global liquidity and when debt forgiveness had left countries with considerable fiscal space to take on new finance. It shows that under these circumstances, a greater diversity of creditors creates a *potential* for outcomes to align with borrowing country preferences. Future work should investigate how these dynamics play out when borrowing governments hit serious debt constraints and need to restructure or resolve their external debt obligations. Previous experiences of debt restructuring and the insights from this thesis suggest that as long as some creditors are willing to continue lending, borrowing governments will have more influence in shaping the terms of a debt restructuring deal. However, if governments become very dependent on creditors for restructuring, they lose much of their leverage in these negotiations. Previous eras of debt restructuring, especially in Latin America, have also highlighted that a greater diversity of creditors can delay much-needed restructuring as individual categories of creditors delay. This is compounded in the present context by the fact that not all official creditors coordinate. China is not a member of the Paris Club and has shown little interest with coordinating with OECD DAC countries on debt sustainability issues.[2] Future research should investigate whether this diversity and separation among creditors offers the same potential benefits to borrowing governments during periods of debt distress as it does during normal times.

[1] Greenstein 2019.
[2] Wang 2014.

10.4 Contributions and implications

This thesis makes a number of contributions to research on international finance and foreign aid, with broader implications for the study of African governments' relationship to the international economy, the consequences of the rise of emerging powers, and financial interdependence. First, the thesis demonstrates the utility of studying the causes and consequences of countries' diverse portfolios of external finance, even when these include different forms of finance, ranging from grants to market-rate finance. An emerging literature investigates countries' choices across different forms of finance.[3] In some cases, these authors focus exclusively on credit, avoiding making comparisons with overseas development assistance, which is often seen as a different category. However, this thesis shows that governments make choices across "free" and commercial finance, trading off among them, with direct consequences for their relationships with donors, ability to fund key projects, and debt sustainability. One contribution of the thesis is thus to draw attention to developing country governments' practice of choosing among and deploying external finance, which includes comparisons among grants and market-rate finance.

A further contribution of the thesis is to combine a government "demand-side" perspective with an understanding of the "supply-side" factors that drive the allocation of donor aid. Though a substantial literature analyses the determinants of donors' allocation of aid and lenders' allocation of credit, these are rarely combined with recipients' or borrowers' preferences over finance to explain outcomes. As Bunte points out, the assumption is often that observed patterns of borrowing merely reflect the willingness of different creditors to lend to borrowing governments.[4] Recent work by Bunte and Arias et al. helps to develop our understanding of how government preferences and attributes in fact shape the composition of portfolios of external finance.[5] A contribution of my thesis is to go one step further and demonstrate how demand and supply for external finance interact to produce

[3] Arias et al. 2019; Bunte 2019.
[4] Bunte 2019, p. 8.
[5] Arias et al. 2019; Bunte 2019.

outcomes that are more or less aligned with the interests of borrowers and creditors. When borrowers develop an appetite for a diversity of lending sources, this interacts with donors' interest in supplying finance to shape the negotiations we observe. To understand the consequences of a diversified financing landscape, we therefore need to understand how borrowing governments' preferences for finance interact with donors' motivations.

More broadly, this thesis contributes to an understanding of the consequences of developing countries' integration into the international financial system at a time of global transformation. Conventionally, debates about developing countries' integration into the international financial system, especially through the bond markets, have focused on the trade-offs between access to a deeper pool of finance and the constraining force of market sentiment. African countries' relationships with China have also often been cast in terms of a similar trade-off between access to greater quantities of finance and greater Chinese influence, framed in the most extreme cases as a form of neo-colonialism.

By contrast, this thesis highlights an underappreciated benefit of these financial ties, namely that they enhance countries' room for manoeuvre in other relationships. Just as creditors and large trading nations are able to derive foreign policy benefits from relationships developed for economic reasons, so borrowing countries can derive benefits from their borrowing relationships aside from the immediate advantage of a greater quantity of financing. This finding nuances analyses of developing countries' integration into the international financial system, particularly drawing attention to how patterns of integration are shifting with the rise of emerging powers. Borrowing relationships thus have an impact on countries' foreign relations beyond the immediate benefits and constraints associated with an individual creditor. Scholars of the Cold War will be quick to point out that the contemporary period is not the first time that borrowing choices have had ramifications for countries' broader foreign relations. However, compared to the Cold War context, when developing countries were choosing to align with one or another superpower, contemporary

borrowing choices are much less likely to be zero-sum, allowing for more shifting among creditors, with greater potential consequences for negotiating leverage.

In this way, the thesis has implications for the contemporary debate about the consequences of Chinese engagement in Africa. On the one hand, I suggest that borrowing relationships with China can have consequences for African governments beyond the projects they are able to finance. By acting as an outside option in African countries' negotiations with traditional donors, Chinese finance can, under the right conditions, lessen governments' dependence on their traditional donors, giving them greater influence in their negotiations. On the other hand, the empirical evidence from the case studies also points to the constraints that borrowing governments may encounter if new sources of finance push them to the limits of debt sustainability. Not only will a growing debt burden have a direct effect on relations with new lenders, but it may also increase governments' dependence on the concessional finance of traditional donors, thus undermining any previous increase in negotiating power. Just as there are underappreciated positive externalities of new lending relationships for borrowing governments vis-à-vis their traditional donors, so there are likely to be negative externalities of debt constraints arising from these new creditors.

Finally, the thesis has implications for the study of developing countries' integration into private financial markets, pointing to both the unexpected consequences and the systemic dimension of this integration. First, the thesis emphasises that entry into international bond markets has spillovers for countries' foreign relations with donors, revealing how market-based finance affects aid and diplomatic relationships. This not only encourages scholars of foreign aid to take more seriously the consequences of private market finance, it also challenges an interpretation of developing countries, especially African countries, as passive actors largely at the whims of international markets. Instead, it suggests that under certain conditions African governments' entry into international markets can yield benefits beyond the immediate access to hard currency finance, instead translating into gains in their broader relationship with the international economy.

Furthermore, by drawing attention to the role of private finance in developing countries' portfolio of external finance, spurred by a period of abundant global liquidity, this thesis also contributes to a growing literature on systemic dynamics in international political economy.[6] African countries' reduction of dependence on traditional donors through their entry into sovereign bond markets was in large part driven by investors' greater risk acceptance during a phase of extremely loose monetary policy in advanced economies. As such, the thesis points to a surprising spillover of advanced economies' monetary policy. By enhancing developing countries' access to private credit, loose monetary policy in advanced economies can in fact diminish those countries' leverage when negotiating with recipients over development finance. More broadly, the thesis highlights the importance of systemic factors — global liquidity conditions and the rise of emerging powers — in shaping donor-recipient negotiations. This suggests future work on developing countries' engagement with the international financial system should take seriously the systemic backdrop against which such engagement takes place.

[6]Ballard-Rosa et al. 2018; Bauerle Danzman et al. 2017; Oatley et al. 2013.

Appendices

A

Interview Appendix

The majority of the evidence in my three case studies stems interviews conducted during fieldwork in Addis Ababa, Nairobi, Accra, New York, and Washington D.C. in August-October 2013 and January-August 2017. This appendix details my methods in creating sample frames for the case study countries, identifying interviewees, and conducting and transcribing interviews.[1]

A.1 Sample frames

Given my interest in specific government-donor relations and processes of negotiation to which only a small number of individuals have access, I adopted a purposive rather than random sampling strategy.[2] In line with the recommendations of Bleich and Pekannen, I defined the relevant population of actors involved in the processes of donor-government negotiations and then identified classes of actors within this population to ensure representation of different actors.[3] The relevant population of actors includes donor officials, government representatives, and civil society actors with second-hand knowledge of governments' borrowing patterns (journalists,

[1] This appendix is modelled on the advice in Bleich and Pekkanen 2013

[2] J. F. Lynch 2013.

[3] Bleich and Pekkanen 2013.

financial sector actors, think tank researchers, academics). Within this population, the most important categories are:

- Bilateral donors
- Multilateral donors
- Government officials tasked with "resource mobilisation," especially donor relations
- Government officials tasked with "debt management," including investor relations

To establish the population of bilateral and multilateral donors, I relied, where possible, on publicly available lists of donors, for instance from donor coordination mechanisms such as Ghana's Multi-Donor Budget Support Mechanism.[4] To establish the population of officials within the government tasked with engaging donors and managing external finance, I relied on organograms of Ministries of Finance where available, since these identify the responsibilities of different units of the Ministry.[5] My experience in Accra during my first fieldwork trip in August 2013 was that the "resource mobilization" department was divided into individual "desks" that oversee the relations with particular donors, e.g. the "World Bank desk" or the "Europe desk." I correctly anticipated that this structure would be replicated in Kenya and Ethiopia and planned to speak to officials at each of the main "desks," getting a comprehensive picture of negotiations with different types of donors. Furthermore, I included the Central Bank of each country in my sample frame. Though central bank officials rarely have control over individual borrowing decisions, their appraisal of the macroeconomic implications of borrowing was likely to be helpful.

In addition to donor and government officials, I included representatives of various categories of civil society in my sample frame. Most importantly, I sought

[4]See, for example, an evaluation of the MDBS arrangement that lists contributors: `https://ec.europa.eu/europeaid/sites/devco/files/evaluation_ghana_bs_final_report_vol1_en.pdf`.

[5]For instance, the organogram of Kenya's National Treasury is available here: `http://www.treasury.go.ke/aboutus/organogram.html`.

to speak with journalists, academics, and think tank researchers that have been following government debt and donor-recipient relations in each of the case study countries. I hoped these highly informed observers would be able to provide a more historical perspective, reflecting on earlier periods of donor-recipient relations. I also included private sector representatives in my sample frame, since the actors in the domestic financial sector could provide perceptions of the government's preferences with respect to external finance.

My sample frames were also improved and updated iteratively, based on earlier fieldwork experiences. After being referred to the Public-Private Partnership Directorate in Nairobi in February 2017, for example, I sought out officials responsible for such public-private partnerships in Accra and Addis Ababa during my fieldwork stays there.

A.2 Identifying interviewees

With the sample frame established, I then identified individual interview respondents within relevant institutions. Martin describes how after units have been selected either through random or purposive sampling, researchers must identify individuals within those units best placed to answer questions about specific processes.[6] In the case of donor agencies or embassies, these were usually the Head of Development Cooperation, Resident Representative, or Head of Mission. I "cold contacted" these individuals via the email addresses or phone numbers listed on their institution's websites. When they were unable to meet, these individuals usually referred me to less senior individuals in their organization also privy to relations with the government. Furthermore, I relied on "snowball sampling" and referrals from the first interviewees to gain access to other donors in the sample frame or individuals I had not initially thought to include in the sample frame.

In the case of the government officials, I identified the most senior officials in the debt management and resource mobilisation units through the government website or donor officials' help. I then approached these individuals for interviews and

[6] Martin 2013.

requested introduction to the "desk officers" tasked with relations with particular donors. Once I had been able to interview one or two of these individuals, I found it easy to reach the other officials in the unit, often through an interviewee walking me down the hall to the office of their colleague.

In the case of civil society representatives, especially think tank researchers and academics, I was more reliant on personal introductions to secure interviews. I was mindful of the bias that might be introduced by accessing interviewees primarily through introductions and sought to balance different perspectives among civil society commentators.[7] In Ghana, for example, think tanks are closely aligned with each of the two political parties. I therefore sought introductions to researchers at think tanks affiliated with each of the parties. In Tables A.1-A.3 below, I note how I gained access to a particular interviewee in the "Source" column, including identifying referrals from interviewees.

A.3 Response rate

Tables A.1-A.3 note responses to individual requests for interviews. The response rate, especially among donor representatives and government officials, was generally high, above 70%. When individuals declined requests to be interviewed, they most often referred me to others in their organisation, usually someone more junior or more suited to my particular interests. Notable exceptions to this were "non-traditional" donors. Though my focus on negotiations between recipient governments and traditional donors primarily required the perspectives of traditional donor representatives, I attempted to speak with Chinese representatives in each of my case study countries, as well as Turkish, Indian, and Brazilian representatives in some cases. In keeping with the reputation of "new" donors as being less transparent, but also likely due to the smaller staffs maintained by these embassies and development agencies, I received far fewer responses to these requests for interviews. This did not substantially hamper my access to information about relations between traditional donors and governments.

[7] Bleich and Pekkanen 2013, p. 87.

A.4 Saturation, confidence levels, and compensation strategies

Saturation refers to the point at which no new information is gleaned from additional interviews within a particular category of respondents. It suggests that the researcher has reached a comprehensive picture from the perspective of a particular category of respondents and that no additional interviews are necessary. I was able to reach saturation in each of the four most important categories of donor and government respondents across each of my three case studies, but for one category in Ethiopia, giving me greater confidence in the representativeness of my data.

A.4.1 Ethiopia

In Ethiopia, I was able to reach full saturation in three out of four major respondent categories, with partial saturation in the fourth, see Table A.1. Among bilateral donors, I spoke to representatives of eight of the ten largest DAC-reporting traditional donors, as well as a few smaller donors. A complete picture of donors' perspective — as well as the differences among the donors — started to appear after the first five or six interviews, and additional interviews served mostly to confirm these perspectives. Among multilateral donors, I spoke to multiple representatives of each of the major multilateral development finance institutions, the World Bank, African Development Bank, the EU, and IMF. Speaking to multiple representatives at individual development banks allowed me to separate out institutional view from individual perspectives. Among government officials working on resource mobilization, I spoke to the most senior official tasked with negotiating with multilateral donors, bilateral donors, China, and the EU, reaching saturation in government approaches to negotiating with donors. The only category in which saturation was only partial was government officials working in debt management. I interviewed the most senior official in this department, but was unable to speak to others in this unit, since they suggested they would have little to add once I had spoken to their manager. To compensate for this partial saturation among staff tasked with managing debt, I spoke with officials elsewhere in the Ministry who

were also familiar with borrowing choices and debt management, including in Fiscal Affairs, Budgeting, Public-Private Partnerships, and Tax Policy. Furthermore, I spoke with bureaucrats in units outside the Ministry of Finance that were also familiar with external finance through their work on particular projects, including the Ethiopian Investment Commission, Ethiopian Railway Corporation, and Prime Minister's Office.

I achieved full saturation among academics and think tank researchers, though these interviews were more likely to be unstructured and focused on the particular expertise of individual researchers, e.g. financing for industrial parks or energy projects. In the private sector, I only reached partial saturation. It was challenging to reach individuals in the private sector willing to comment on government policy and publicly owned banks' dominance of the financial sector means that private banks play a very small role in providing finance, and certainly no role in helping the government to access external finance (unlike in Kenya, where Kenyan banks partner with international banks in facilitating syndicated loans). I compensated for this gap by interviewing a number of journalists who had closely followed the government's economic policy and borrowing habits, making up for the lack of private sector perspectives.

A.4.2 Kenya

In Kenya, saturation was achieved in all four of the major interviewee categories. Among bilateral donors, I spoke to six of the top ten DAC-reporting traditional donors, with only one major traditional bilateral donor declining to be interviewed. These interviews quickly reinforced a shared perspective on relations with the government and later interviews added little additional information about the process and outcomes of negotiations. I spoke with multiple representatives of every one of the four largest multilateral donors in Kenya, including ones working in-country in Nairobi and at headquarters in Washington D.C. Among government officials, I was able to get a very broad picture of donor negotiations from the heads of units in the National Treasury tasked with relations with specific donors,

including the World Bank, African Development Bank, Europe, Americas, Asia, and Arab donors, as well as senior officials overseeing these units. Though there were differences in individual officials' experience of negotiating (relations with USAID were very different from with Arab donors, for example), a consensus soon emerged from these interviews on the government's preferences with respect to external finance and approach to negotiations. The debt management unit in Kenya's National Treasury had recently expanded when I arrived, but still remains a small team. I spoke with three members of the team, including a foreign adviser, providing a coherent picture of the more technical approach to debt management, and the extent to which this was constrained by the political context in Kenya. Outside of these main categories, I also spoke to current and former senior representatives of the Central Bank of Kenya, Parliamentary Budget Office, and Attorney General's Office. In these categories, I only spoke to one individual from each institution and therefore treated their insights as reflective of their involvement in particular processes of raising external finance, rather than representative of the institution.

In addition to these official interviewees, I reached saturation among private sector actors and journalists. Especially among journalists and columnists, I was aware that particular individuals were likely to have skewed appraisals of the government's policy and sought to balance these with the views of journalists from a different perspective. Among private sector actors, I was dependent on personal introductions and was mindful that these might create a partial perspective on government borrowing choices and relations with creditors. I therefore sought out introductions to actors who had been more closely involved in borrowing efforts, as well as ones who were likely to be more critical of the government.

A.4.3 Ghana

In Ghana, saturation was achieved in each of the four major categories of interviewees. Among bilateral donors, I interviewed seven of the top ten DAC-reporting donors, as well as a number of the emerging donors. A picture quickly emerged of the worsening donor-recipient relationship in Ghana over the 2010s, with interviewees

largely corroborating each other's assessments. Of multilateral donors, I spoke to multiple representatives of the four major multilateral development finance institutions — the World Bank, the IMF, EU, and African Development Bank — as well as the UN. Here too, saturation was quickly reached, with donors converging on a shared narrative of negotiations with the recipient government.

Among government officials tasked with resource mobilisation, I spoke to both senior officials responsible for high-level negotiations with donors and lower-level staff tasked with the day-to-day relationship with donor officials. In Ghana, the debt management division is a fairly large department, and I interviewed both senior and junior officials in this department, reaching saturation in this category. In addition to these government officials, I also interviewed a number of politicians who had previously held senior positions in the Ministry of Finance, which allowed me to develop a more comprehensive perspective on government approaches to negotiations during previous administrations. I reinterviewed a small number of these government officials between 2013 and 2017, allowing me to compare how their assessment of relations with donors had changed during this time.[8] I also reached saturation among think tank researchers in Ghana, taking care to speak with researchers at think tanks with different political affiliations.

A.5 Interview practice: Format, length, and recording method

Almost all interviews were semi-structured, conducted in person and in English, and lasted an average of 40 minutes. By semi-structured, I mean that I used a set of questions to guide the conversation with respondents, leaving time for follow-up questions on topics close to the specific expertise of individual interviewees. The interview questionnaires I used for government and donor interviews are included below in sections A.6 and A.7. In a few cases, interviewees were not available during the months I was in the country or had already left the country for their next posting and offered to speak on the phone instead. I note in Tables A.1-A.3 if

[8] On the benefits of reinterviewing respondents, see L. Mosley 2013, pp. 25-26.

interviews were conducted on the phone. I conducted a handful of interviews in German with the representatives of German-speaking bilateral donors (i.e. Austria, Germany), while all other interviews conducted in English. Even in Ethiopia, where the official language is Amharic, using English was not a barrier to interviews with government respondents, who are accustomed to negotiating with donors in English and many of whom attended university in English.

Most public sector interviewees — i.e. government officials and donor representatives — were only willing to speak with me on the condition of anonymity. This also meant most of these respondents would not allow me to record the interviews, so I took detailed handwritten notes during the interview, which I then filled in with supplementary handwritten notes immediately after the interview and while typing up the notes, which I usually did within a day or two of the interview. I note in Tables A.1-A.3 by which method I recorded the interviews.

A.6 Interview questionnaire: Government respondents

The relationship with traditional lenders/development partners

- How would you describe [Ethiopia/Kenya/Ghana's] relationship with traditional development partners?
  - What about particular partners, e.g. the World Bank, USAID, JICA, AfDB?
  - Have these relationships changed over time? How?
- How important do you think [Ethiopia/Kenya/Ghana] is for traditional donors, e.g. the World Bank?
- In negotiations over development finance [with the World Bank or other traditional donors] what have been particular areas of disagreement/difference?
  - How have these changed since the early 2000s?

- When there are disagreements with traditional development partners, how are these resolved?
- What **specific** examples can you think of where the government was successful in achieving its preferred outcome? Why was that?
- When the you negotiate with traditional development partners, how free are you to set priorities? How much are you constrained by the [executive/parliament/public opinion/the opposition]?

The relationship with new bilateral partners

- Since [the early-/mid-/late-2000s], the government has borrowed more from China. What is attractive about this financing? What is less attractive?
- How would you describe the government's relationship with China as a creditor?
- How have you found traditional donors reacting to these new relationships?
  - Was there a change in interactions with traditional donors because of these new lending relationships?
- When would the government prefer to finance a project with China than with traditional donors?
- How do you see the public/parliament/the opposition reacting to these new partnerships?

Borrowing in international bond markets

- In [2007/2014], the government issued its first Eurobond. What was the decision-making process behind the issue of the bond?
- What are the benefits of bond financing, compared to other sources of finance?
- Does the Eurobond open the government up to greater market scrutiny?

- How did traditional donors react to the issue of the bond[s]? Has this changed over time?
- When would the government prefer to finance a project with a Eurobond rather than with traditional donor funding?
- How do you see the public/parliament/the opposition reacting to market finance?

Connecting different types of financing

- Does access to Chinese finance/Eurobond markets affect the kind of agreements concluded with the World Bank/USAID/the EU? How?
- when does the government choose one form of finance over another?
- Do you think these changes are lasting/permanent?

A.7 Interview questionnaire: Donor respondents

The relationship with the government

- How would you describe your [agency/government's] relationship with the government? How has this changed over time, since the late 2000s?
- In negotiations over development finance, what have been particular areas of difference? Sticking points? Have these changed over time?
- When there are disagreements with the government, how are these resolved?
- Do you think of the government representatives that you interact with as strong negotiators?
- Of the relationships that you [agency/government] maintains, how important is the one with [Ethiopia/Kenya/Ghana], compared to other developing countries?
  - How important is [Ethiopia/Kenya/Ghana] to officials at headquarters?

  - Why? What is distinctive about [Ethiopia/Kenya/Ghana]?

The government's new partnerships/lenders

- Since [the early-/mid-/late-2000s], the government has increased its borrowing from China. How do you view that relationship?
- Why do you think the government has chosen to borrow from China?
- Has the government's borrowing from China affected your [agency/government's] relationship with the government? If yes, how so?
- Do you think the government is tactical in its choice of financing?

The government's borrowing in international bond markets

- One other option for the government has been to borrow in international bond markets. What did you think of the choice to turn to markets in [2007/2014]?
- Has the Eurobond issue affected your interactions with the government, how so?

Connecting different types of financing

- What do you see as the role of your [agency/government] in [Ethiopia/Kenya/Ghana] now that the government has access to more sources of finance?

A.8 Interview methods tables

Abbreviations used:

- Status
  - IP: In person
- Location
  - AA: Addis Ababa, Ethiopia
  - Nai: Nairobi, Kenya

  - Acc: Accra, Ghana
  - DC: Washington, D.C.
  - NY: New York, NY
  - Ox: Oxford, UK
- Source:
  - SF: Sample Frame
  - PC: Personal contact
- Format:
  - S-S: Semi-structured
  - : U: Unstructured
- Recording:
  - HW: Handwritten concurrent notes, subsequent supplementary notes
  - AR: Audio recording
- Language
  - E: English
  - G: German

Table A.1: Ethiopia Interview Table

	Status	Location	Source	Format	Length	Recording	Language
BILATERAL DONORS						Saturation: Yes	
124	IP 13/07/2017	AA	SF	S-S	45 min	HW	E
125	IP 13/07/2017	AA	SF	S-S	1 hr	HW	E
127	IP 14/07/2017	AA	SF	S-S	40 min	HW	E
130	IP 17/07/2017	AA	SF	S-S	1 hr	AR	G
132	IP 18/07/2017	AA	SF	S-S	45 min	HW	E
141	IP 26/07/2017	AA	SF	S-S	30 min	HW	E
142	IP 26/07/2017	AA	SF	S-S	45 min	HW	G
143	IP 27/07/2017	AA	SF, referred by # 125	S-S	40 min	HW	E
144	IP 28/07/2017	AA	SF, referred by # 125	S-S	45 min	HW	E
149	IP 04/08/2017	AA	SF	S-S	1 hr	AR	E
151	IP 07/08/2017	AA	SF	S-S	35 min	HW	E
153	IP 07/08/2017	AA	SF	S-S	45 min	HW	E
166	IP 17/08/2017	AA	SF	S-S	1 hr	HW	E
168	IP 18/08/2017	AA	Referred by # 141	S-S	45 min	HW	E
169	IP 18/08/2017	AA	SF	S-S	1 hr	HW	G
170	IP 19/08/2017	AA	SF, referred by # 149	S-S	1 hr	HW	E
172	Phone 10/08/2017	AA	SF	S-S	20 min	HW	E
NA	Contacted, referred me on, no interview scheduled	AA	SF	NA	NA	NA	NA
NA	Contacted, no reply	AA	SF	NA	NA	NA	NA
NA	Contacted, no longer in position	AA	SF	NA	NA	NA	NA
NA	Contacted, no reply	AA	Referred by # 143	NA	NA	NA	NA

NA	Contacted, referred me on, no interview scheduled	AA	SF	NA	NA	NA	NA
NA	Contacted, no reply	AA	SF	NA	NA	NA	NA
NA	Contacted, no reply	AA	SF	NA	NA	NA	NA
MULTILATERAL DONORS						Saturation: Yes	
49	IP 27/02/2017	DC	SF, referred by # 51	S-S	45 min	HW	E
52	IP 27/02/2017	DC	SF, referred by # 51	S-S	45 min	HW	E
119	IP 10/07/2017	AA	SF, referred by # 52	S-S	45 min	HW	E
122	IP 11/07/2017	AA	SF, referred by # 52	S-S	45 min	HW	E
123	IP 12/07/2017	AA	SF, referred by # 52	S-S	30 min	HW	E
131	IP 17/07/2017	AA	SF, referred by # 122	S-S	40 min	HW	E
137	IP 25/07/2017	AA	SF	S-S	30 min	HW	E
138	IP 25/07/2017	AA	SF	S-S	45 min	HW	E
160	IP 15/08/2017	AA	SF	S-S	45 min	HW	E
164	IP 16/08/2017	AA	SF	S-S	45 min	HW	E
NA	Contacted, on leave, no interview	AA	SF	NA	NA	NA	NA
NA	Contacted, out of the country	AA	SF	NA	NA	NA	NA
NA	Contacted, referred me on, no interview scheduled	AA	SF	NA	NA	NA	NA
MINISTRY OF FINANCE - RESOURCE MOBILIZATION						Saturation: Yes	
128	IP 17/07/2017	AA	SF	S-S	45 min	HW	E
129	IP 17/07/2017	AA	SF	S-S	45 min	HW	E
135	IP 19/07/2017	AA	SF	S-S	1 hr	HW	E
152	IP 07/08/2017	AA	SF	S-S	1 hr	HW	E
NA	Contacted, no longer in position	AA	SF	NA	NA	NA	NA

MINISTRY OF FINANCE - DEBT MANAGEMENT						Saturation:	Partial
134	IP 19/07/2017	AA	SF	S-S	1 hr	HW	E
MINISTRY OF FINANCE - OTHER							Yes
133	IP 19/07/2017	AA	SF	S-S	40 min	HW	E
159	IP 15/08/2017	AA	SF	S-S	1 hr	HW	E
162	IP 16/08/2017	AA	SF, referred by # 120	S-S	1 hr	HW	E
163	IP 16/08/2017	AA	SF	S-S	35 min	HW	E
NATIONAL BANK OF ETHIOPIA						Saturation:	Partial
126	IP 14/07/2017	AA	SF, referred by PC	S-S	45 min	HW	E
GOVERNMENT - OTHER						Saturation:	Partial
165	IP 17/08/2017	AA	SF	S-S	1 hr	HW	E
171	IP 18/06/2017	Ox	SF, referred by PC	S-S	45 min	HW	E
NA	Contacted, no reply	AA	SF, referred by # 140	NA	NA	NA	NA
NA	Contacted, no reply	AA	SF, referred by PC	NA	NA	NA	NA
ETHIOPIAN INVESTMENT COMMISSION						Saturation:	Yes
140	IP 26/07/2017	AA	SF	S-S	1 hr	HW	E
148	IP 03/08/2017	AA	SF, referred by # 140	S-S	45 min	HW	E
JOURNALISTS						Saturation:	Yes
139	IP 25/07/2017	AA	SF	S-S	1.5 hrs	AR	E
161	IP 15/08/2017	AA	SF	S-S	35 min	HW	E
NA	Contacted, no reply	AA	SF				
ACADEMICS						Saturation:	Yes
120	IP 10/07/2017	AA	Referred by PC	U	1 hr	HW	E
121	IP 10/07/2017	AA	Referred by PC	U	40 min	HW	E
136	IP 24/07/2017	AA	Referred by PC	U	1 hr	HW	E
145	IP 28/07/2017	AA	Referred by PC	S-S	45 min	HW	E
146	IP 28/07/2017	AA	Referred by PC	U	45 min	HW	E
150	IP 04/08/2017	AA	Referred by PC	S-S	1 hr	AR	E

154	IP 09/08/2017	AA	Referred by PC	U	2 hrs	HW	E
156	IP 10/08/2017	AA	Referred by PC	U	45 min	HW	E
157	IP 10/08/2017	AA	Referred by PC	S-S	1 hr	HW	E
158	IP 14/08/2017	AA	Referred by PC	S-S	1 hr	HW	E
167	IP 17/08/2017	AA	Referred by # 162	S-S	1 hr	HW	E
PRIVATE SECTOR						Saturation: Partial	
147	IP 31/07/2017	AA	SF, referred by PC	S-S	45 min	AR	E
155	IP 09/08/2017	AA	Referred by PC	S-S	1 hr	AR	E
NA	Contacted, no interview scheduled	AA	SF, referred by PC	NA	NA	NA	NA

Table A.2: Kenya Interview Table

	Status	**Location**	**Source**	**Format**	**Length**	**Recording**	**Language**
BILATERAL DONORS						Saturation: Yes	
1	IP 18/01/2017	Nai	Referred by PC	S-S	45 min	AR	E
23	IP 31/01/2017	Nai	SF, referred by # 3	S-S	1 hr	AR	G
25	IP 01/02/2017	Nai	SF, referred by # 1	S-S	40 min	HW	E
29	IP 02/02/2017	Nai	SF, referred by # 19	S-S	45 min	HW	E
34	IP 08/02/2017	Nai	SF, referred by # 1	S-S	45 min	HW	E
36	Phone 09/02/2017	Nai	Referred by # 34	U	1 hr	HW	E
41	IP 13/02/2017	Nai	SF, referred by # 32	S-S	45 min	HW	E
46	IP 14/02/2017	Nai	SF, referred by # 19	S-S	30 min	HW	E
NA	Contacted, declined	Nai	SF, referred by PC	NA	NA	NA	NA
NA	Contacted, declined	Nai	SF, referred by PC	NA	NA	NA	NA
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
MULTILATERAL DONORS						Saturation: Yes	

2	IP 18/01/2017	Nai	Referred by PC	S-S	1 hr	HW	E
11	IP 23/01/2017	Nai	SF	S-S	20 min	AR	E
12	IP 23/01/2017	Nai	SF	S-S	40 min	AR	E
18	IP 27/01/2017	Nai	SF, referred by PC	S-S	30 min	AR	E
30	IP 02/02/2017	Nai	SF	S-S	45 min	HW	E
32	IP 06/02/2017	Nai	SF, referred by # 1	S-S	40 min	HW	E
37	IP 09/02/2017	Nai	SF, referred by # 18	S-S	30 min	HW	E
44	IP 14/02/2017	Nai	Referred by # 37	S-S	45 min	HW	E
45	IP 14/02/2017	Nai	SF	S-S	45 min	HW	E
50	IP 27/02/2017	DC	SF, referred by # 51	S-S	30 min	HW	E
53	IP 28/02/2017	DC	SF, referred by # 51	S-S	45 min	HW	E
54	Phone 05/04/2017	Nai	SF, referred by # 32	S-S	30 min	HW	E
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
NA	Contacted, interview declined, out of the country	Nai	SF	NA	NA	NA	NA
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
NATIONAL TREASURY - RESOURCE MOBILIZATION						Saturation: Yes	
5	IP 20/01/2017	Nai	SF	S-S	40 min	HW	E
6	IP 20/01/2017	Nai	SF	S-S	40 min	HW	E
15	IP 25/01/2017	Nai	SF	S-S	30 min	AR	E
20	IP 30/01/2017	Nai	SF	S-S	40 min	HW	E
28	IP 01/02/2017	Nai	SF	S-S	45 min	HW	E
35	IP 08/02/2017	Nai	SF	S-S	40 min	HW	E
38	IP 10/02/2017	Nai	SF	S-S	30 min	HW	E
39	IP 10/02/2017	Nai	SF	S-S	45 min	HW	E
42	IP 13/02/2017	Nai	SF	S-S	30 min	HW	E
NATIONAL TREASURY - DEBT MANAGEMENT						Saturation: Yes	

16	IP 25/01/2017	Nai	SF	S-S	30 min	HW	E
19	IP 27/01/2017	Nai	Referred by # 24	S-S	1 hr	HW	E
43	IP 13/02/2017	Nai	SF	S-S	30 min	HW	E
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
NA	Contacted, referred me on, no interview scheduled	Nai	SF	NA	NA	NA	NA
NATIONAL TREASURY - OTHER						Saturation: Yes	
31	IP 03/02/2017	Nai	Referred by # 14	U	45 min	HW	E
33	IP 07/02/2017	Nai	Referred	S-S	40 min	HW	E
48	IP 15/02/2017	Nai	Referred	S-S	1 hr	HW	E
NA	Contacted, no reply	Nai	SF, referred by PC	NA	NA	NA	NA
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
CENTRAL BANK OF KENYA						Saturation: Partial	
40	IP 13/02/2017	Nai	SF, referred by PC	S-S	1 hr	HW	E
PARLIAMENT						Saturation: Partial	
47	IP 15/02/2017	Nai	Referred by # 24	S-S	30 min	HW	E
ATTORNEY GENERAL'S OFFICE						Saturation: Partial	
21	IP 30/01/2017	Nai	SF, referred	S-S	45 min	HW	E
JOURNALISTS						Saturation: Yes	
8	IP 21/01/2017	Nai	SF	S-S	1 hr	AR	E
9	IP 23/01/2017	Nai	SF	S-S	1 hr	HW	E
10	IP 23/01/2017	Nai	SF	S-S	40 min	AR	E
14	IP 25/01/2017	Nai	SF	S-S	1 hr	HW	E
NA	Contacted, no interview scheduled	Nai	Referred by PC	NA	NA	NA	NA
NA	Contacted, no reply	Nai	Referred by # 13	NA	NA	NA	NA

NGO						Saturation:	Partial
24	IP 01/02/2017	Nai	Referred by # 10	S-S	1 hr	AR	E
THINK TANK						Saturation:	Partial
7	IP 20/01/2017	Nai	Referred by PC	S-S	1 hr	AR	E
26	IP 01/02/2017	Nai	Referred by # 14	S-S	30 min	HW	E
ACADEMIC						Saturation:	Partial
17	IP 26/01/2017	Nai	Referred by # 8	U	1 hr	AR	E
NA	Contacted, no reply	Nai	SF	NA	NA	NA	NA
NA	Contacted, declined	Nai	Referred by PC	NA	NA	NA	NA
PRIVATE SECTOR						Saturation:	Partial
3	IP 19/01/2017	Nai	Referred by PC	S-S	1 hr	AR	E
4	IP 19/01/2017	Nai	Referred by PC	S-S	1 hr	AR	E
13	IP 25/01/2017	Nai	SF	S-S	1 hr	AR	E
22	IP 31/01/2017	Nai	Referred by PC	S-S	45 min	AR	E
27	IP 01/02/2017	Nai	Referred by PC	U	1 hr	AR	E
NA	Contacted, interview declined, out of the country	Nai	Referred by # 13	NA	NA	NA	NA
NA	Contacted, no reply	Nai	Referred by PC	NA	NA	NA	NA

Table A.3: Ghana Interview Table

	Status	**Location**	**Source**	**Format**	**Length**	**Recording**	**Language**
BILATERAL DONORS						Saturation:	Yes
60	IP 19/04/2017	Acc	SF	S-S	45 min	HW	E
61	IP 20/04/2017	Acc	SF	S-S	1 hr	HW	E
62	IP 20/04/2017	Acc	SF	S-S	40 min	HW	E
67	IP 24/04/2017	Acc	SF	S-S	45 min	AR	E

70	IP 27/04/2017	Acc	SF, referred by # 70	S-S	45 min	HW	G
71	IP 27/04/2017	Acc	SF, referred by # 61	S-S	45 min	HW	E
72	IP 28/04/2017	Acc	SF, referred by # 60	S-S	1 hr	HW	E
74	IP 02/05/2017	Acc	SF	S-S	1 hr	HW	G
75	IP 02/05/2017	Acc	SF	S-S	1 hr	HW	G
83	IP 04/05/2017	Acc	SF	S-S	45 min	HW	E
94	IP 09/05/2017	Acc	SF	S-S	40 min	HW	E
104	IP 27/09/2013	Acc	SF	S-S	45 min	HW	E
106	IP 30/09/2013	Acc	SF	S-S	35 min	AR	E
107	IP 30/09/2013	Acc	SF	S-S	35 min	AR	E
112	IP 07/10/2013	Acc	SF	S-S	40 min	AR	E
116	IP 08/10/2013	Acc	SF	S-S	20 min	AR	E
NA	Contacted, no reply	Acc	SF	NA	NA	NA	NA
NA	Contacted, no reply	Acc	SF	NA	NA	NA	NA
NA	Contacted, no interview scheduled	Acc	SF	NA	NA	NA	NA
NA	Contacted, referred me on, no interview scheduled	Acc	SF	NA	NA	NA	NA
NA	Contacted, interview declined, out of the country	Acc	SF, referred by # 34	NA	NA	NA	NA
NA	Contacted, no reply	Acc	SF, referred by # 70	NA	NA	NA	NA
MULTILATERAL DONORS						Saturation: Yes	
55	IP 04/04/2017	Acc	SF	S-S	45 min	HW	E
56	Phone 16/03/2017	DC	SF, referred by # 51	S-S	30 min	HW	E
57	IP 06/04/2017	Acc	Referred by PC	S-S	30 min	HW	E
80	IP 02/05/2017	Acc	SF, referred by # 57	S-S	30 min	HW	E
81	IP 03/05/2017	Acc	SF	S-S	40 min	HW	E
84	IP 04/05/2017	Acc	SF	S-S	30 min	HW	E
85	IP 04/05/2017	Acc	SF	S-S	40 min	HW	E

93	IP 08/05/2017	Acc	Referred by # 71	S-S	45 min	HW	E
95	IP 10/05/2017	Acc	SF	S-S	1 hr	AR	E
98	IP 01/08/2013	NY	Referred by PC	U	45 min	HW	E
99	IP 02/08/2013	NY	Referred by PC	U	30 min	HW	E
100	Skype 12/08/2013	Acc	Referred by PC	S-S	40 min	HW	E
101	Skype 12/08/2013	Acc	Referred by PC	S-S	40 min	HW	E
102	IP 13/09/2013	NY	Referred by PC	U	45 min	HW	E
111	IP 04/10/2013	Acc	SF	S-S	1 hr	AR	E
MINISTRY OF FINANCE - RESOURCE MOBILIZATION						Saturation: Yes	
64	IP 21/04/2017	Acc	SF, referred by # 58	S-S	45 min	HW	E
68	IP 25/04/2017	Acc	SF	S-S	45 min	HW	E
69	IP 25/04/2017	Acc	SF	S-S	45 min	HW	E
78	IP 02/05/2017	Acc	SF, referred by # 58	S-S	45 min	HW	E
79	IP 02/05/2017	Acc	SF, referred by # 58	S-S	45 min	HW	E
97	IP 10/05/2017	Acc	SF	S-S	45 min	HW	E
108	IP 02/10/2013	Acc	SF	S-S	45 min	HW	E
109	IP 03/10/2013	Acc	SF	S-S	40 min	HW	E
110	IP 03/10/2013	Acc	SF	S-S	40 min	HW	E
115	IP 07/10/2013	Acc	SF	S-S	45 min	HW	E
118	IP 09/10/2013	Acc	SF	S-S	1.25 hrs	AR	E
NA	Contacted, no interview scheduled	Acc	SF	NA	NA	NA	NA
MINISTRY OF FINANCE - DEBT MANAGEMENT						Saturation: Yes	
58	IP 07/04/2017	Acc	SF, referred by PC	S-S	45 min	HW	E
65	IP 21/04/2017	Acc	SF, referred by # 58	S-S	1 hr	HW	E
91	IP 05/05/2017	Acc	SF	S-S	1 hr	HW	E
92	IP 05/05/2017	Acc	SF	S-S	40 min	HW	E
113	IP 07/10/2013	Acc	SF	S-S	40 min	HW	E

114	IP 07/10/2013	Acc	SF	S-S	30 min	HW	E
MINISTRY OF FINANCE - OTHER						Saturation: Yes	
63	IP 20/04/2017	Acc	SF, referred by # 58	S-S	45 min	HW	E
73	IP 28/04/2017	Acc	SF	S-S	30 min	HW	E
NA	Contacted, no reply	Acc	Referred by # 71	NA	NA	NA	NA
NA	Contacted, referred me on, no interview scheduled	Acc	SF	NA	NA	NA	NA
BANK OF GHANA						Saturation: Yes	
86	IP 05/05/2017	Acc	SF	S-S	40 min	HW	E
87	IP 05/05/2017	Acc	SF, referred by # 86	S-S	10 min	HW	E
88	IP 05/05/2017	Acc	SF, referred by # 86	S-S	10 min	HW	E
89	IP 05/05/2017	Acc	SF, referred by # 86	S-S	10 min	HW	E
NATIONAL DEVELOPMENT PLANNING COMMISSION						Saturation: Partial	
105	IP 27/09/2013	Acc	SF	S-S	1 hr	AR	E
NA	Contacted, interview declined, unavailable	Acc	SF	NA	NA	NA	NA
NA	Contacted, no reply	Acc	SF	NA	NA	NA	NA
PARLIAMENT						Saturation: Yes	
59	IP 07/04/2017	Acc	SF	S-S	30 min	HW	E
66	IP 24/04/2017	Acc	SF	S-S	1 hr	AR	E
96	IP 10/05/2017	Acc	SF	S-S	1 hr	AR	E
117	Phone 09/10/2013	Acc	SF	S-S	45 min	AR	E
NA	Contacted, no reply	Acc	SF	NA	NA	NA	NA
NA	Contacted, no reply	Acc	SF	NA	NA	NA	NA
NA	Contacted, no reply	Acc	SF	NA	NA	NA	NA
THINK TANK						Saturation: Yes	
76	IP 02/05/2017	Acc	SF	U	45 min	HW	E
77	IP 02/05/2017	Acc	SF	U	45 min	HW	E

82	IP 03/05/2017	Acc	Referred by # 61	S-S	1 hr	AR	E
90	IP 05/05/2017	Acc	SF	S-S	1 hr	AR	E
103	IP 25/09/2013	Acc	SF	S-S	1.25 hrs	AR	E

B

Marginal effects plots

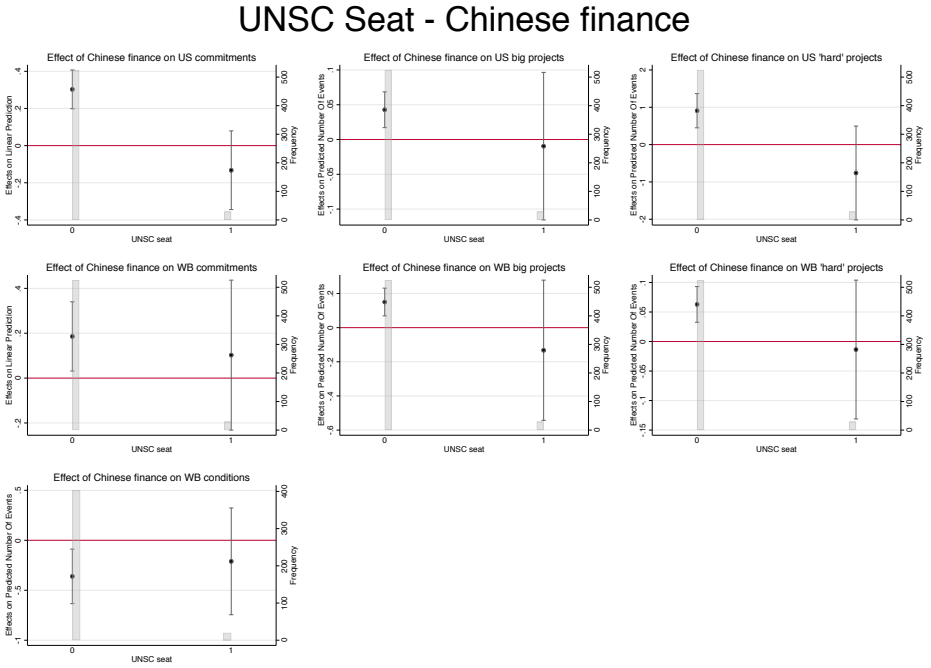


Figure B.1: Marginal effect of Chinese loans on outcome variables, by UNSC seat (0=no UNSC seat, 1=UNSC seat)

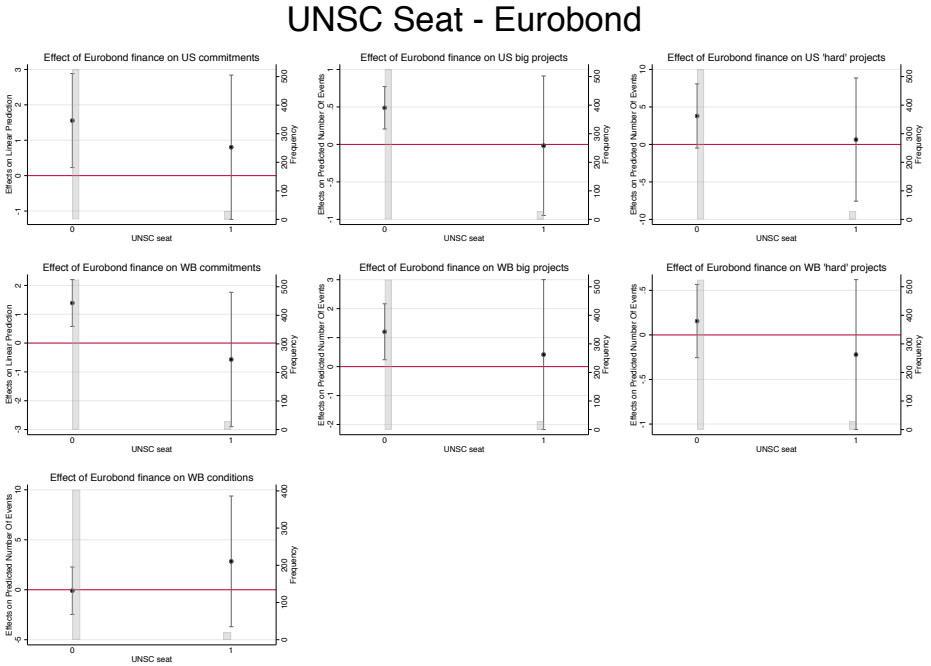


Figure B.2: Marginal effect of Eurobond issue on outcome variables, by UNSC seat (0=no UNSC seat, 1=UNSC seat)

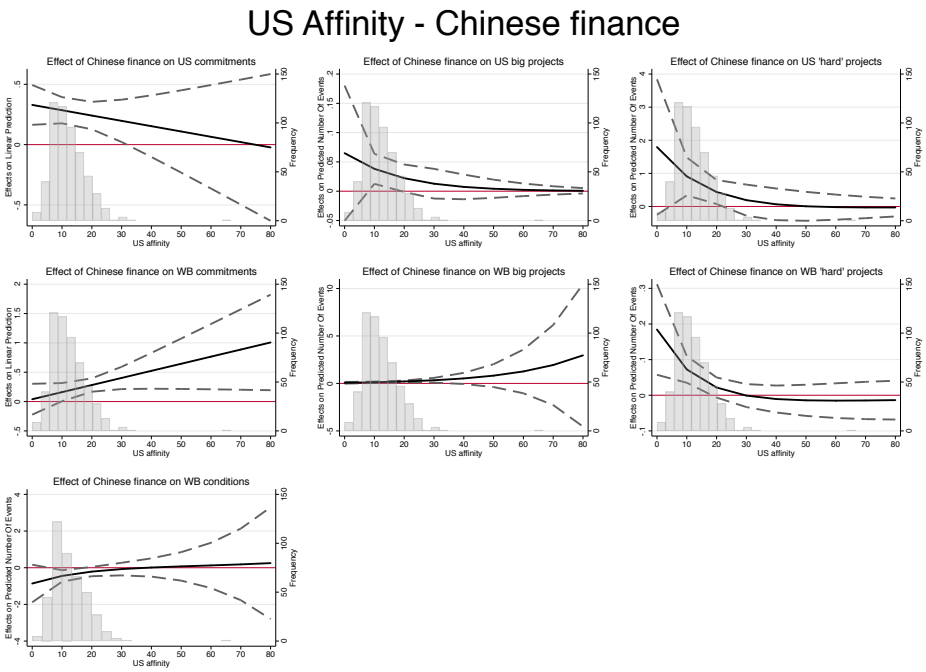


Figure B.3: Marginal effect of Chinese loans on outcome variables, by US affinity

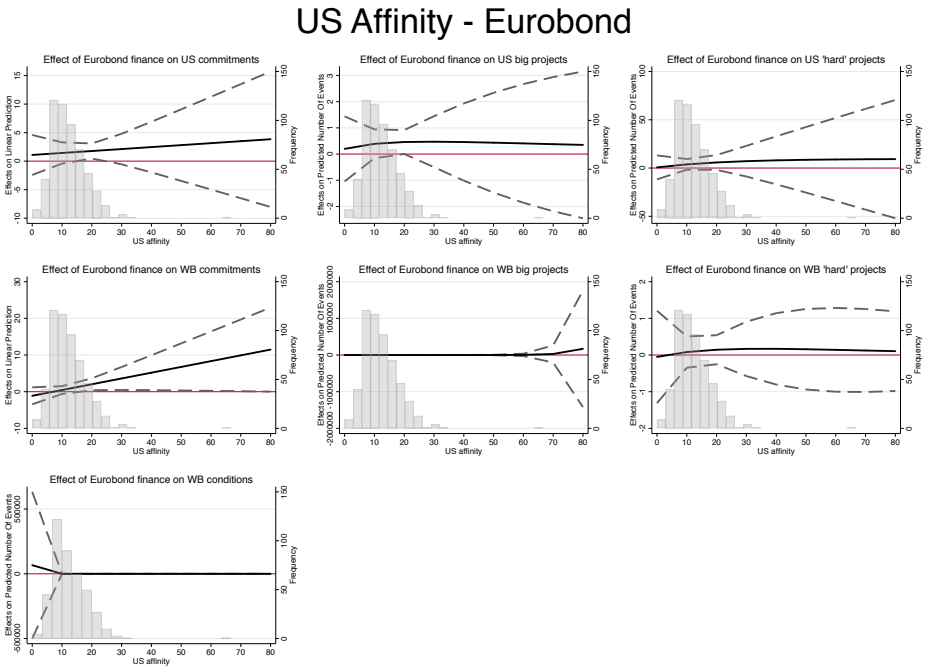


Figure B.4: Marginal effect of Eurobond issue on outcome variables, by US affinity

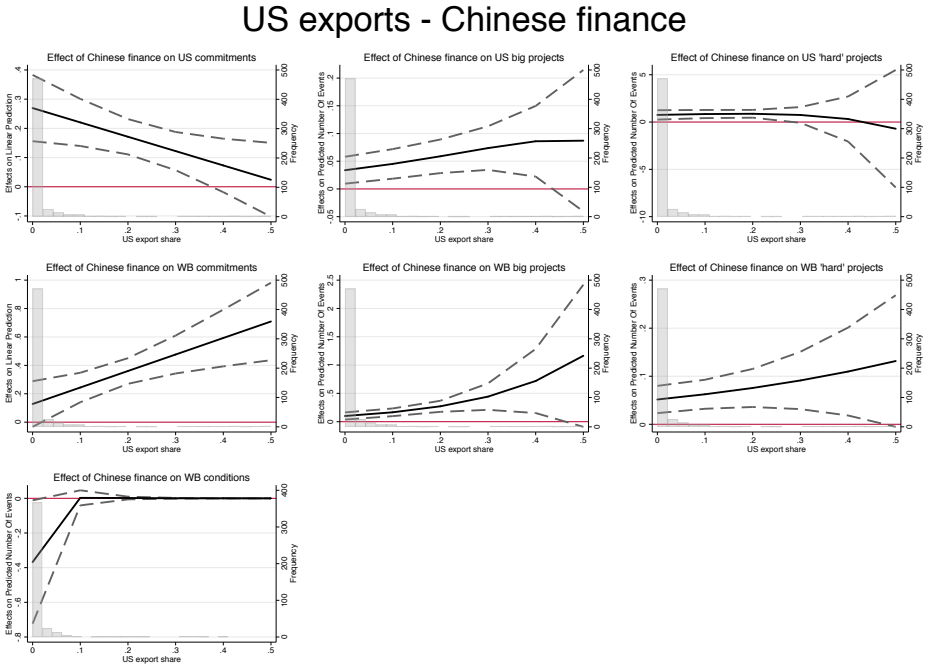


Figure B.5: Marginal effect of Chinese loans on outcome variables, by commercial importance

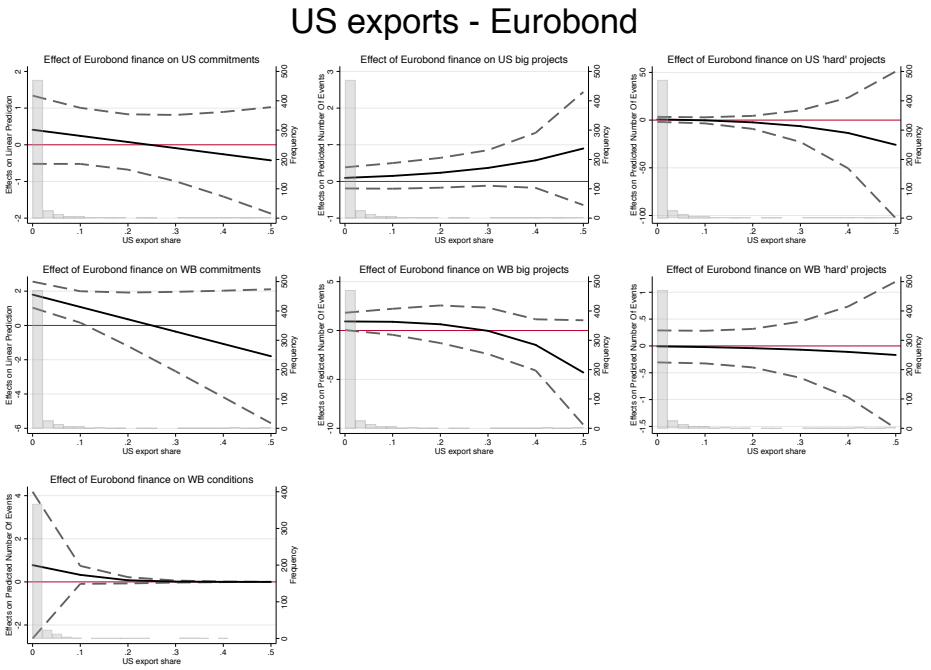


Figure B.6: Marginal effect of Eurobond issue on outcome variables, by commercial importance

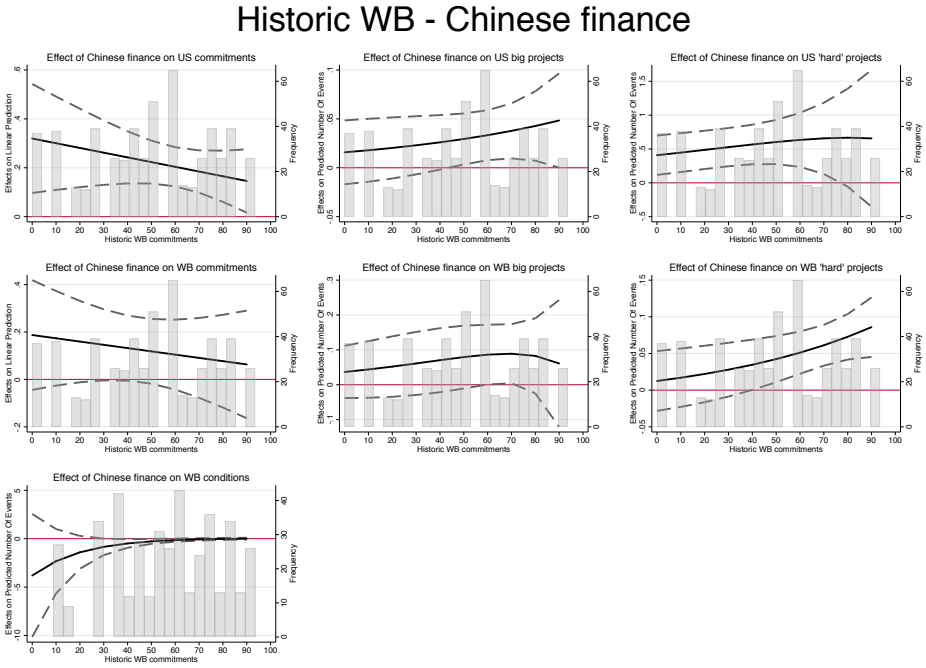


Figure B.7: Marginal effect of Chinese loans on outcome variables, by historic World Bank commitments

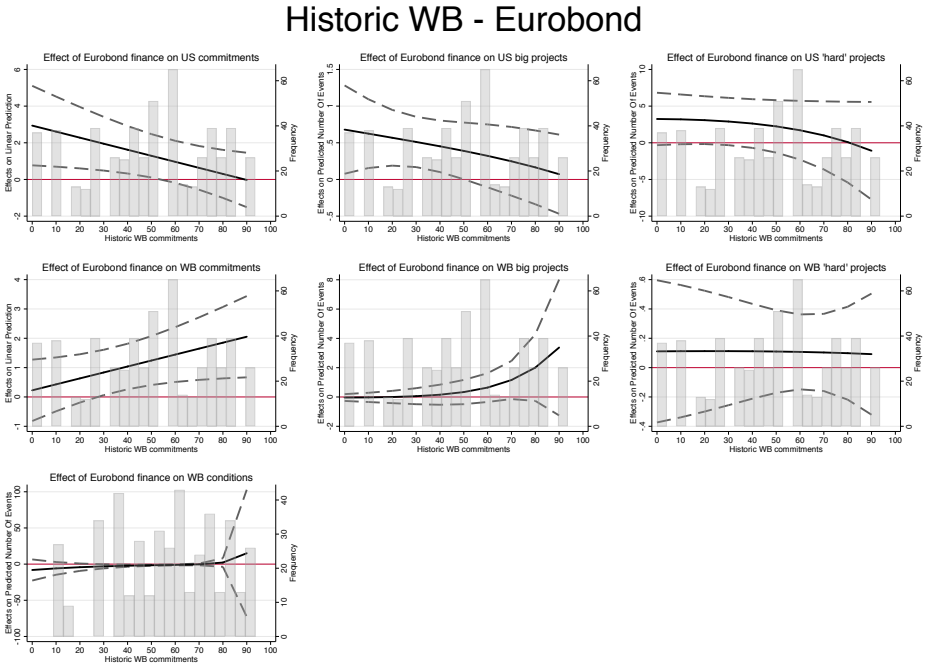


Figure B.8: Marginal effect of Eurobond issue on outcome variables, by historic World Bank commitments

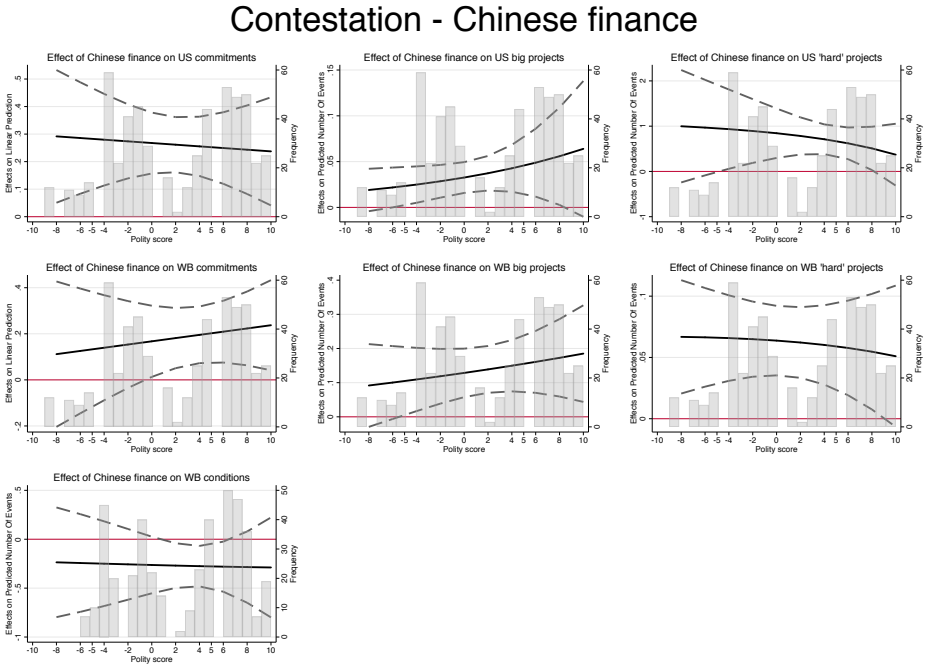


Figure B.9: Marginal effect of Chinese loans on outcome variables, by level of contestation

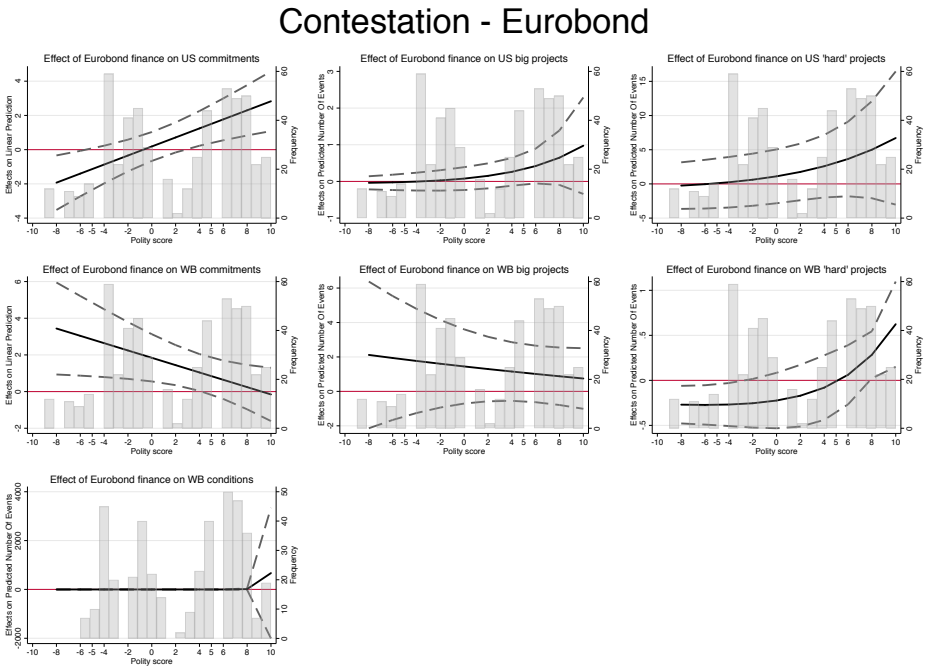


Figure B.10: Marginal effect of Eurobond issue on outcome variables, by level of contestation

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