

**Alexandra O. Zeitz, *The Financial Statecraft of Borrowers: African Governments and External Finance*, Cambridge University Press, 2024.**

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Has the diversification of low- and middle-income countries' portfolios of external finance improved their bargaining power vis-à-vis Western donors? In her book *The Financial Statecraft of Borrowers: African Governments and External Finance*, Alexandra O. Zeitz leverages impressively comprehensive empirics to answer this key question in the study of donor-recipient relations<sup>1</sup>. Starting in the late 2000s, traditional aid donors – the members of the OECD Development Assistance Committee (DAC) – have seen their oligopoly in the provision of aid to low- and middle-income countries (LMICs) contested by “new” donors and financial markets' increasing willingness to lend to LMICs. Consequently, the bargaining power of recipient governments in negotiations over the terms of aid agreements (amounts, sectoral allocation, policy and political conditions) should have increased. So would predict economic theory, at least.

Alexandra O. Zeitz confirms this intuition brilliantly using mixed-methods leveraging large-N evidence and lively case studies of donor-recipient relations in Ethiopia, Kenya, and Ghana. She finds, however, that the success of recipient countries in leveraging the diversification of their portfolios of external finance is conditioned by their political and strategic relevance to donors, as well as the latter's trust in the recipient government to uphold aid agreements. From these empirical results, Zeitz coins the concept of *debt-based financial statecraft* – the “power of the weak” to leverage their asymmetric relations of dependencies in negotiating preferential terms with donors. The twist on Baldwin's concept of *economic statecraft*<sup>2</sup> is exciting; however, the paradox of power-in-weakness is never fully resolved. The present review argues that this is in part due to Zeitz's modesty in foregrounding the theoretical reach of her work. The intricacies of donor-recipient relations that Zeitz uncovers implicitly point toward a deeper, paradigmatic shift in the functioning of the development finance arena. Rather than the functioning of the global market for development finance, Zeitz describes the transformation of an arena previously best envisaged as a space of Maussian *gifts*<sup>3</sup> into a transactional market-place. Given the timeline of the interviews – conducted between 2013 and 2017 – *The Financial Statecraft of Borrowers* is in that respect impressively prescient, as it points toward evolutions that traditional donors only begin to admit.

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*The Financial Statecraft of Borrowers* rests on unusually ambitious empirical foundations. A large-N analysis leveraging the World Bank's Debtor and OECD DAC Creditor Reporting databases identifies

<sup>1</sup> For one of the first observations of the profound transformations of the development finance landscape, see Woods, N. (2008). Whose Aid? Whose Influence? China, Emerging Donors and the Silent Revolution in Development Assistance. *International Affairs*, 84, 1205-1221. <https://doi.org/10.1111/j.1468-2346.2008.00765.x>

<sup>2</sup> Baldwin, David A.. *Economic Statecraft*. Princeton: Princeton University Press, 1985.

<sup>3</sup> Mauss, Marcel. *The Gift: The Form and Reason for Exchange in Archaic Societies*. Translated by W.D. Halls. New York: Norton, 1990.

macro-level effects of LMICs' diversifying portfolio of external finance between 2000 and 2018. The diversification of LMICs' external finance portfolios is shown to be associated with better conditions from DAC donors: more aid, more finance earmarked for hard infrastructure, and less governance conditions on World Bank loans. Crucially – and this result is underexploited – the increasing reliance of donors on Chinese development finance appears to imply a statistically significant reaction from the 2010s onward, while the same donors are found to react to private development finance since the 1990s. Even more strikingly, the relationship between diversification toward Chinese development finance and recipients' bargaining power is non-linear: after a certain point, the diversification of development finance is associated with decreasing amounts of traditional development finance. This suggests that traditional donors' reaction is mainly triggered by the diversification of recipient's finance portfolios – or the potential thereof – rather than the dominance of Chinese finance itself.

The mechanisms at play are explored through no less than 170 interviews with donors, recipient country officials, and other key informants in Accra, Nairobi, Addis Ababa, New York, and Washington DC. Alexandra O. Zeitz asks whether the patterns identified in the large-N analysis indeed result from the improved bargaining power of recipients, or just spillovers whereby one donor's investments incentivize other donors to do the same. Interestingly, the possibility that the priorities of donors themselves vary across time is left unexplored – a heuristic choice that *The Financial Statecraft of Borrowers* partially compensates thanks to the richness of its case studies. Ethiopia, Kenya, and Ghana have all diversified their portfolios of external finance between the late 2000s and the 2010, with slight variations in timing but more importantly widely different successes in bargaining with traditional donors.

The core insight of Zeitz's case studies is that traditional donors' continued trust in recipient governments conditions the latter's ability to wield debt-based financial statecraft. She demonstrates that the government of Ethiopia managed to maintain a significant level of trust among donors, thanks to their apparent commitment to reforms, development state (Gambling on Development). As such, donors modified their criticism of the regime's clampdown on opposition freedoms, in part because "new" donors – in particular Chinese ones – do not impose such conditions. However, after 2016 the growing indebtedness of Ethiopia weakened the governments' bargaining power, as concessional development finance becomes a necessity again. The case of Kenya is interesting because it is ambiguous. Zeitz shows that the diversification of the country's external finance portfolio was followed by a taming of traditional donors' criticisms on human and political rights, but less so on financial management, in part precisely because donors feared that other donors' finance would allow mismanagement. In Ghana, the portfolio of external finance diversified starting in 2007, however the standing of local authorities in the eyes of donors started declining in 2012 as donors worried about the mismanagement of newly discovered oil reserves and increasing foreign finance from "new" donors.

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Despite *The Financial Statecraft of Borrowers'* focus on the perspective of recipients, its biggest contribution might be in unpacking the motivations of traditional donors in extending development finance. Paradoxically, Zeitz maintains throughout her book the qualification of recipients as "weak"

while consistently showing that they are not – or at least that they have become strong. Recipient countries are explicitly assumed to represent the demand side of the global market-place for development finance. Rightfully: this metaphorical characterization was powerful in understanding donor-recipient dynamics when traditional donors could still be considered to form an oligopoly, and when private financial markets were out of reach for LMICs. The supposed weakness of recipients derives from this characterization: they *need* the ODA of traditional donors to finance their domestic development agendas. Following this perspective, it is unclear what exactly they offer donors in return. As such, rather than a market-place, the development finance arena is conceptualized as a place of Maussian *gifts* from donors to “deserving” recipients. This review argues that, without naming it, Alexandra O. Zeitz depicts the transformation of the development finance arena from a place of *gifts* to a market-place.

The role of trust she identifies is particularly telling. Zeitz demonstrates that the positive effects of diversifying external finance portfolios are conditioned on the trust put in recipients by donors and their political and strategic relevance. This points toward what the resources of recipient countries are to donors: they offer policy leverage, security, and reputational gains. In a world in which donors compete to demonstrate the superiority of their economic and political governance models, recipient countries are as strong as they are in control of their domestic politics and economic policies. This is how the case of Ethiopia makes sense, in particular. The most striking quote of the whole book is found on page 174, where a donor official claims that she “ha[s] never been in a country before where donors are so afraid of the government”. This observation does not make sense if Ethiopia is weak. Rather, it supposes that the country is strong, and that traditional donors are in a position of demand. Ethiopia is a country that has become a symbolic battleground between donors because of the success of its development state. Similarly, Alexandra O. Zeitz shows in the case of Kenya and Ghana that they maintain their strong appeal to donors insofar that they remain well-managed. Delivering policies and political choice aligned with the preferences of donors is a *sine qua non* condition of aid being committed. Where states are mis-managed and aid agreements not honoured, donors do not receive anything in exchange for their aid; or worse, the latter can prove to incur reputational costs.

Further evidence of the paradigmatic shift at play in the development finance arena is the asymmetry between donors’ reaction to private finance and Chinese finance. In the large-N analysis, traditional donors are repeatedly shown to have always been reactive to private finance, while a striking shift is donors starting to significantly react to Chinese finance in the 2010s. Put in context, this suggests that their increasing reactivity might have been linked to the launch of China’s Belt and Road Initiative, and more largely to the designation of China as a systemic rival by a number of traditional donors. On the contrary, the results adjudicate the hypothesis that private finance crowds-in traditional donors less conclusively.

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By comprehensively unpacking the determinants of LMICs’ bargaining power vis-à-vis traditional donors, *The Financial Statecraft of Borrowers* touches upon fundamental transformations at play in the global economic order’s periphery. She paints a picture in which liberal democracies compete in the market-place for development finance to accumulate (geo)political dividends relative to “new”

donors, especially China. Zeitz's analysis of the role of donors' trust in recipient governments and her identification of asymmetric effects on donors' behaviour between Chinese and private development finance arguably point toward a single phenomenon: recipients are in a position of (monopolistic) suppliers of symbolic and geopolitical dividends to donors. The implicit price donors are willing to pay to disburse aid – the concessions they make – are only as big as they can be assured of getting dividends. Countries that have accumulated too much nontraditional finance, on the contrary, struggle to deliver political dividends to traditional donors, hence the latter's weak willingness to pay (in concessions).

As such, the book paradoxically shines most in its unanticipated contributions. The heterogeneous importance of recipients for donors points toward the unequal quality of the dividends they offer. A recipient country that seems to have been won over by Chinese development finance appears to be less appealing to donors, all things equal. What Zeitz observed is a moment where recipients were able to raise their price, because the entry of new donors changes the stakes of the market for development finance. In doing so, she depicts a market-place in which recipients must ensure their portfolios of external finance remain diversified, as their power resides in the potential they have to offer dividends to any donor. This intuition sheds an unusual light on recent developments in traditional donors' international development policies. If the political dividends recipient countries can offer traditional donors diminish when their portfolios of external finance become too diversified, should one interpret budget cuts in traditional donors' development budgets as a sign that their willingness to pay has decreased?