Development-aid in urban and regional infrastructure projects: Characteristics of donor-relations in Mali

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Abstract

This paper investigates the ‘meso-level’ characteristics of external funding in public infrastructure projects in poor countries. The Chinese-funded Third Bamako Bridge project in Mali and its relationship to more established donor projects in the infrastructure sector offer a useful entry point to the subject.

The paper seeks to dissipate the focus of recent studies of Chinese investment in Africa and place it in the context of African relations with all external investors. Primary research findings on how donor relations are played out in the context of regional and urban infrastructure investment in Mali are presented. Infrastructure aid agreements between the Malian government and three international partners are evaluated from the recipient perspective and a simple consumer theory model is employed to consider all development aid as part of a two-way agreement between donor and recipient. Comparative risk and cost profiles are elaborated for the different donors.

The paper concludes that the ways in which some African governments accept development aid from emerging economies such as China are influenced, firstly, by the particularities of infrastructure investment and, secondly, by pre-existing relations and partnering ideologies. The study of a stable African country with limited natural resources is an important addition to current literature, which has been dominated by studies of unstable, resource-rich nations on the continent.

Main Paper

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**Section 1: Preface**

*‘La main qui donne est toujours au-dessus de celle qui reçoit’ – Amadou Hampate Ba (1901-1991)*

Much has been made of the recent growth in Chinese aid and investment in Africa. Two-way trade between China and Africa is described as having ‘surged’ from less than $10bn to $55bn in less than 10 years (Economist 2008). In the infrastructure sector the World Bank (WB) estimates that Chinese financial commitments to African infrastructure projects grew from $0.5bn to $1.5bn between 2002 and 2005 and peaked at $7bn in 2006 before falling back to around $4.5bn in 2007 (Foster et al 2009).

Critics have voiced concern that China is tempting African governments into entering into implicit agreements that are bad value in the long term or betray the interests of their own people (Askouri 2007; Lemos and Ribeiro 2007) and is therefore undermining attempts by Western governments to foster better governance and democratic regimes, ‘tilting the scales towards less accountable and more corrupt governance across…the developing world’ (Corrales et al 2009, p.4). Others argue that while there may be individual examples of complicity between corrupt governments and foreign investors (including China) the general trend towards greater investment in Africa by Chinese State-Owned-Enterprises (SOEs) and more autonomous Chinese companies presents an ‘encouraging’ new opportunity for African governments to develop much needed infrastructure with a ‘partner’ in development (Foster et al 2009).

Although it may be growing in magnitude, China’s total involvement on the continent remains modest when compared to US and European activity (Manji 2008) and is unlikely to eclipse relations with other countries. Alden argues that Western interests may be in decline in Africa and Asian interests in the ascendency but ‘the selective engagement of the United States and the residual presence of European interests will remain a feature of external relations for African states’ (2008, p.359).

In the light of the above, this paper seeks to dissipate the focus of recent studies on Chinese activity in Africa and place it in the context of African relations with all external investors. To do so, the paper considers the specific case of Malian external donor relations at the urban scale and in the specific sector of infrastructure. I will question the perceived opposition, with regard to infrastructure investment, between the so-called ‘traditional’ donors (OECD) countries together with Bretton Woods institutions) and ‘non-traditional’ donors (eg. China, Venezuela, Saudi Arabia). I will argue that aid-related decisions taken by the Malian government account for multidimensional characteristics of donors in ways that are generally overlooked in cross-country or donor-prominent studies.

Section 2 of the paper reviews existing studies of infrastructure investment, identifies the objective of developing a recipient country perspective and outlines relevant conceptual references. Section 3 develops a precise research question. Section 4 covers the methodology of the study. Section 5 reports briefly on the context, presents the main findings arising from the primary research and posits a consumer theory framework for donor-relations. Section 6 offers tentative conclusions and stresses the importance of considering parallel issues in different sectors.

**Section 2: Literature Review and Conceptual References**

**2.1 Literature Review**

Literature on infrastructure investment in poor countries is expansive. There is a strong body of development-based literature on the causal links between infrastructure provision and poverty reduction. Much of this literature has been led by the World Bank (World Bank 1994; Estache 2005). In the late 1980s and early 1990s a trend emerged for greater investment in ‘social’ infrastructure and less investment in physical infrastructure. Between 1980 and 2000 the percentage of Official Development Assistance (ODA) to Sub-Saharan Africa (SSA) allocated to physical infrastructure fell from 25% to 10% with a commensurate increase for ‘social’ infrastructure (CGD 2006).

In recent years, however, there have been calls for a reversal of this policy in SSA. In 2005, the fall-off in investment in physical infrastructure was described as ‘a serious policy mistake, driven by the international community’ that ‘undermined growth prospects and generated a substantial backlog of investment’ (CfA 2005, p.233). Networked infrastructures (transport, utilities and communications) deserve particular attention in this context. Hurlin (2006) confirms the consensus that at the early
stages in the growth of infrastructure networks, investment in the sector yields greater social returns than investment in all other sectors. As well as promoting domestic growth it is also argued that improved infrastructure is a key factor in promoting important FDI (Broadman 2007). This idea is reflected in a key policy document issued by the President of Mali in which it is argued that the weakness of the country’s infrastructure is one of the barriers most often cited by potential investors (Touré 2009).

The role played by China, in meeting the ‘backlog of investment’ in Africa is covered extensively in a recent report from the Public Private Infrastructure Advisory Facility (Foster et al 2009). Figure 1 shows a clear rise in infrastructure investment since 2002 and peaking in 2006. Where previously OECD countries dominated, now the balance between OECD, non-OECD and private investment is approximately equal. Figure 2 shows the dominant role that China plays amongst non-OECD financiers. Figure 3 demonstrates the significant differences between sub-sectors, a reflection of the different cost-recovery and risk characteristics of each sub-sector. This is discussed in the early part of Section 5.2.

Figure 1 – Source (Foster et al 2009)

Figure 20: External infrastructure finance in sub-Saharan Africa, 2001–06

![Graph showing external infrastructure finance in sub-Saharan Africa, 2001–06](image)


Figure 2 – Source (Foster et al 2009)

Figure 19: Non-OECD infrastructure finance in sub-Saharan Africa, 2001–07

![Graph showing non-OECD infrastructure finance in sub-Saharan Africa, 2001–07](image)


Note: Figures for China include only projects that could be confirmed from Chinese sources. Only financing from official or SOE sources is reported.
Specific sector or country studies relating to Chinese activity in Africa are uncommon except in the case of resource deals such as those with Angola and Nigeria or in the case of deals with ‘unsavoury regimes’ such as Zimbabwe and Sudan (Thakur 2009, p.4). One notable sector study (Corkin and Burke 2006) highlighted a) the important role that state provision of cheap capital played in encouraging Chinese companies (both private and state-owned) to participate in the sector, b) the importance of China’s own recent development experience and c) the thus-far understated heterogeneity of Chinese actors. However, since aid and investment in small African countries may form a greater proportion of annual revenue than for larger countries the impact per dollar invested or per host country citizen has the potential to be greater and therefore of significant interest in these countries.

In opposition to the more conventional approach that draws on the trends of donors, this paper seeks to construct a plurality in the understanding of external aid and investment through a sector and country-specific approach that draws on the recipient country experience instead. Oya has (2006) approached the recipient perspective of the political economy of aid through a notion of ‘policy space’. Here, emphasis is upon the extra cost of aid ‘volatility’ and the diminishing policy space for recipient governments resulting from an expanding portfolio of conditions attached to ODA described as an ‘augmented Washington Consensus’. It is suggested that an increase in aid from emerging economies offers potential for recipient governments to reclaim this lost policy space.

2.2 Conceptual References

This section covers broader conceptual references and theories that are not specific to the present context of aid and infrastructure investment in SSA but which have informed the development of the research question and have fed into the implementation and interpretation of the primary research. The three main references are theories of urban power, models of social investment appraisal and concepts of South-South cooperation.

In urban geography an extensive pluralist power versus elitist power debate has been played out in the writings of Hunter (1953), Dahl (1961), Logan and Molotch (1978) and Stone (1993). With a few limited exceptions the ideas of power relations between the notionally democratic state and urban stakeholders debated in these writings have yet to be applied outside of the United States. See Harding (1996) for a British application and Zhu (1999) for an application in contemporary China. The involvement of disproportionately strong and potentially unaccountable actors from outside the nation-state would render any conceptual transfer to the West African context extremely complex. Therefore this paper does not seek to map existing Anglo-Saxon interpretations of pluralism or elitism onto Malian urban politics. However, the more general concepts of vested interests and shifting alliances captured in the notion of ‘urban regimes’ have informed an understanding of recipient-donor and inter-donor relations in the public infrastructure sector.

The paper also draws upon a simplified model of consumer theory and upon basic cost-benefit analysis. An important issue in evaluating public infrastructure investment is the difference between the financial and the economic or ‘social’ rate of return. The low-financial return and the perceived high

Figure 21: External infrastructure finance by sector in sub-Saharan Africa, 2001–06


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economic return of some transport infrastructure projects have particular implications for investment in poor countries and are discussed in Section 5.2.

With a shift away from inter-nation inequality and towards intra-nation inequality and with a number of countries shifting along the spectrum from poor to rich (Held and Kaya 2006) the concept of a homogenous group of ‘Global South’ or developing countries is of diminishing value. It may be argued that this undermines the notion of ‘South-to-South co-operation’, an umbrella term which emerged from both academic and diplomatic discourses as early as the 1960s (Bobiash 1992).

Some of the defining characteristics of South-South co-operation were:
   a) a movement towards economic independence from rich countries – through increased trade and fuelled by complementarity of resource demands,
   b) a political solidarity between countries in the same economic situation – based upon principles of non-alignment, and
   c) a technical alignment between partner countries – based on more appropriate technologies and common developmental goals

Although these characteristics recur in the present discourse, continued reference to them in an unrevised form is questionable under scrutiny and this is discussed in Section 5.2.

Section 3: Scope and Research Question

A detailed elaboration of the wider objectives of donor countries risks foregrounding the already well-considered ‘donor-interest’ agenda at the expense of improved understanding of the recipient-government agenda (Maizels and Nissanke, 1984). Equally, there is a tendency to jump from a discussion of the state-to-state engagement straight to the ‘everyday’ impact upon ‘ordinary’ Africans. Typical examples of such studies are the impact on traders in Senegal (Gaye, 2008) or site labourers in Congo Brazzaville (Michel and Monod, 2007). Individual relations between African workers (whether skilled or unskilled, commercial or non-commercial) and their Chinese counterparts undoubtedly contribute to the construction of wider state-to-state relations. However an exclusive focus on these inter-personal relations ignores an intermediate level of actor relations that lies within the ‘thickness’ of the interface between government departments and donor agencies.

Therefore in this paper I settle my focus on the interstitial context between international relations considerations and the micro-economic consequences of development-aid. Through the research question I have sought to narrow the study further by considering the decision making parameters of the government departments and asking if the choices made give some indication of prevailing attitudes within them. Thus the research question is restricted to the following:

**How are the offers of infrastructure development aid perceived and negotiated by poor countries? Can the prevailing investment parameters within government departments be understood from the nature of aid packages accepted?**

The third bridge project in Mali’s capital, Bamako, presents an entry point to the discussion for two reasons:
   a) Foreign aid and investment represent a large proportion of overall government spending in Mali. Therefore, although the development aid provided may represent a small proportion of the donor agents’ disbursements the relative importance of this aid to the recipient government appears likely to promote an enhanced role for the donor agents in urban and regional decision processes.
   b) The Third Bamako Bridge project (currently underway) is a high cost project and appears likely to have a significant impact on the spatial development of the city.

Of additional interest, Mali is a poor, democratic and generally stable African country that is engaging with China but is rarely discussed in either research papers or institutional reports. I would suggest this is due to the lower quantity of identified natural resources in Mali, relative to other countries in SSA, and the lower level of Chinese aid and investment, relative to Chinese activity in other African nations’.

Section 4: Methodology
I travelled to Bamako in July 2009 in order to:

a) understand the urban landscape and its projected development (planned or otherwise),

b) understand the wider social, economic and political context for the urban development of Bamako, and

c) conduct a series of semi-structured interviews with actors in the urban and infrastructure sectors

Seven interviews were conducted during the two-week period. As an unknown researcher arriving in the country a snowball sampling method was appropriate. It is acknowledged that this type of sampling may introduce biases. Those who agree to be interviewed may be those whose views are in some way aligned or are those who are well practised in providing insensitive information about sensitive issues. In the light of these potential weaknesses in the selection of interviewees the evidence gathered may be seen as indicative rather than conclusive.

The selection of organisations from which to seek interviewees was based upon my understanding of which donor organisations were most active in Mali. TheWB provides the largest loans to Mali and the EC provides the largest grants, both over-all and in the infrastructure investment sector. Selection of individual interviewees was on the basis of departmental responsibility. I am less sure that I spoke to the key actors on the ‘Chinese side’ than I can be for the other donors and the Malian government.

The interviews were structured around four main discussion points. The first two discussion points dealt primarily with urban and regional level impacts of external funding while the last two points dealt with broader issues around external funding and associated or hidden costs.

Section 5: Context and findings

5.1 Context

Mali is widely considered to be a ‘low income country’, which has a direct impact on its ability to effect large capital investments. The total Gross National Income (GNI) for the country is $6.1bn\(^4\). Gross National Income per capita, normalised for Purchasing Power Parity (PPP-GNI) is $1,040; well below the average for SSA (World Bank 2009). The country’s first sovereign credit rating was assigned by Standard & Poor’s in 2004. The ‘B’ rating assigned to Mali means that borrowing on the open market is likely to be difficult or impossible\(^5\). ODA to Mali accounts for approximately 15% of its GDP (CfA 2005, p.348) but the percentage of ODA assigned to investment projects is higher at 65%.

Mali has experienced a high rate of urbanisation over recent years. A third of the total population are estimated to live in cities, of which 40% live in the capital (World Bank 2009). Between 2000 and 2008 the population of Bamako increased by 50%.

The spatial context of the city at the national scale is important. Bamako is situated in the South of the country and is bisected by the Niger river, which serves as a geographical ‘spine’ for the whole country. Roads to the west of the country and beyond connect with the north bank while roads to the north, south and east of the country connect with the south bank. There is no ring-road system and beyond the two bridges in Bamako there are very few crossings in the rest of the country. This means that almost all imports and exports to and from the larger south-eastern section of the country are transported by road and much of this is obliged to pass through the capital (refer Figure 4, below).
At a metropolitan scale the city is growing quickly but only in directions permitted by existing spatial constraints. The old administrative city was established on the north bank between the Koluba rock outcrop and the river. As the population of the city has increased, formal housing provided by the government and informal housing adopted by settlers has tended to be either on the south bank or to the eastern side of the north bank. There has been a citywide land-use plan in place since 1979 but enforcement of this by the authorities is acknowledged as having been weak since inception (Diarra et al 2003). The projected development of the city is discussed further in Section 5.2.

5.2 The Third Bamako Bridge

In Section 2.1 it was noted that different types of infrastructure have different cost recovery characteristics and that this may influence the level of investment or aid provided by foreign donors. I would like to suggest that road transport projects (either bridges or regional connection roads) typically exhibit poor cost recovery. For capacity and political reasons toll roads and bridges are relatively uncommon in West Africa. The poor financial rate of return on such projects is coupled with an economic rate of return that is considered high. If such projects are considered high cost and high economic return but low financial return then it may be assumed that a poor country government is likely to seek grant or gift funding for these projects in preference to loans or credits. Since the cost recovery is low, it would be rash to borrow capital for such projects since the consequential economic growth from which taxes must be collected to pay back the loan may take many years to develop (if it is not jeopardised by something else).

In grant or gift projects, where the donor is bearing all the cost, it is reasonable to question whether the donor may seek some benefit from the project in order to off-set (if only partially) the large outlay. Therefore a point covered in all interviews was the potential benefit to China from building and gifting the third bridge to Mali.

There was general consensus that the current location for the third bridge project had been established long before China became involved. The government urban coordinator stated that although there had been something of a debate between an eastern and western location the final decision was taken personally by the Prime Minister. The WB infrastructure expert explained that the underlying logic for locating the bridge more than five kilometres to the east of the centre of the city was that Bamako had
already developed in this direction as a consequence of the existing crossing in Sotuba. The government urban coordinator noted that three other developments in the south and east (a Chinese funded hospital, government social housing programmes and a dry port) will also drive the need for a connection to the east of the centre.

Figure 5 - Source (Google Earth, 2009 with author’s annotations)

Whilst there was consensus on the choice of location, there was confusion over whether an evaluation had been carried out to assess the likely cost-effectiveness of the bridge. The EC transport expert argued that a cost-benefit analysis of adding a third bridge to a city with two existing bridges was close to impossible. The government urban coordinator was clear that a proposed analysis had been dropped entirely when the WB turned down an application for funds to carry out an ex-ante evaluation and, soon after, China offered to fund the project. The Chinese economic councillor said that Chinese experts carried out an evaluation in cooperation with Malian government officials but that documents for this were not available in Mali. In considering the value of project analyses in general, the Chinese economic councillor explained that there was a tendency for other donors to write reports and talk a great deal without actually delivering. By contrast Chinese aid, though small by comparison with that from other countries was effective and quickly delivered. Lack of confidence in ex-ante evaluations was echoed by the WB transport expert who cited a recent failed road project funded by the EC as a good example of how the traditional parameters for cost benefit analysis were simply inappropriate in the West African context.

The EC transport expert suggested a different reason why the Chinese government might not spend time preparing evaluations. He argued that the main interest for the Chinese government is to raise its public profile in Mali with a small but highly visible investment. Further, it was suggested that if the bridge formed part of a wider unwritten agreement or verbal contract for natural resources or market access with the Malian government, then the effective use of funds or the spatial development of the city would be of secondary concern.

There is no doubt that the bridge project has led to evictions from the south abutment site and there is evidence to suggest that a number of those evicted have not been compensated to their satisfaction (Balé 2009). It was suggested by the WB transport expert that some of those who are complaining of being inadequately compensated may have moved to the site after the project had been announced with the sole intent of seeking compensation. The government land records are said to be out of date and a
number of disputes have now arisen over the size of replacement plots. In spite of the ambiguity it seems clear that there has been some economic loss due to the loss of social capital in the area and this has not been measured against the expected economic benefit from the new crossing.

The national director for roads state that F3bn had been spent on re-housing the evictees but that all other costs associated with the bridge project such as land clearance and feeder roads have been covered by the Chinese. Other interviewees were either ignorant of the details or clear that the Malian government was not facing unexpected cost associated with the project. From this it may be tentatively concluded that the project has not ‘crowded out’ other government investment. The national director for roads suggested that the reverse was true, arguing that the funding is effectively fungible even if the bridge is not. Since it was the intention of the government to build the bridge anyway money pre-allocated to the project is now available for spending elsewhere.

In spite of the high price of the bridge ($60m) relative to the funds available the price of the bridge was considered so low by the government urban coordinator that although he was certain that the Chinese would complete the project there seems to be a risk that they may return asking for ‘some sort of arrangement’ later on. This illustrates a recurring theme from the interviews – the long and short-term risk characteristics of different donors. This will be discussed at length in Section 5.5.

A clear issue that emerged from the interviews was the trade-off between national and local level investment decisions. Whilst the impacts of the bridge project are likely to be felt most strongly at a local level the decision on where to locate it appears to have been taken at a national level and with largely national interests at stake.

As well as co-ordination of different scales of intervention, interviewees also spoke of the need to coordinate funding from different donors. Eligibility restrictions placed on tendering contractors by funding bodies represent significant barriers to successful coordination of multi-donor projects. The Chinese gift of the Third Bamako bridge came with a clear constraint that Chinese companies would deliver the construction and this was accepted as reasonable by the national director for roads; ‘in the global competition everything counts, its easy to see why they would want to employ their own contractors’. Eligibility criteria are also applied to EC funded projects. Only contractors from the EC or ACP (the Africa Caribbean Pacific group) countries may tender. This excludes contractors from North and South America, Australasia and Asia. The EC transport expert acknowledged that in reality other eligibility criteria (those related to financial reserves and past experience) exclude all but a very small number of ACP countries. Thus, EC funded projects in Mali are almost certain to be implemented by European contractors. Since EC funded projects are only implemented by European contractors and Chinese aid projects are only implemented by Chinese contractors this makes projects funded jointly by the EC and China or other non-ACP countries unlikely.

Amongst the interviewees there was some dissatisfaction with the level of co-ordination of donors. The WB transport expert noted the absence of the Chinese at the transport sector coordination meetings as a problem and the government urban coordinator noted the absence of German representation at the urban sector coordination meetings in spite of strong German involvement in Mali’s land registry reform.

Incompatibility of contractor eligibility criteria is one barrier to coordination between spatially linked projects but fragmentation of individual project funds between donors is another. The national director for roads complained that multiple donors on relatively small road projects was both common and undesirable – ‘for the Kati-Kita road project we have 7 donors for less then 500km of road, and that causes us problems’. For this reason he welcomed the Chinese ‘turn-key’ style of operation.

Both the national director for roads and the Chinese economic councillor made strong reference to the partnering relationship between the two countries, premised on an existing solidarity and a common developmental cause. In spite of such strong ‘South-South’ rhetoric I believe that the contemporary relationship between Mali and China is qualitatively different to the old ideals of the South-South movement described in Section 2.2. Concerning the two aspects of economic solidarity between countries in equal economic situation and non-alignment of countries with major power blocs, neither would seem to be applicable in the light of China’s current economic power (both relative to that of Mali and on the global stage).
There may, however, be a stronger case for continued reference to the third aspect of South-South cooperation: the technical alignment of engineering techniques suitable in low-income countries. Both the Chinese economic councillor and the national director for roads promulgated the technology-transfer and capacity-building opportunities presented by the bridge project. The head engineer for the project acknowledged that although there are likely to be Chinese trained Malian engineers in Bamako all of the 60 site engineers were Chinese. The quantitative impact of the on-site training may be little more, or even less, than occurs on EC funded project sites but the perception of Chinese construction professionals operating in Mali is fundamentally different to that of European counterparts on account of the apparent salaries. The government urban coordinator explained that whilst French engineers are ‘generally paid 10 times the salary of their Malian counterparts Chinese engineers are paid on local rates and live in the same conditions as their Malian colleagues’. The apparent adherence to this ‘principle of coexistence’, seems to lend extra credibility to an aid practice that appears to deliver similar benefits to EC funding in terms of knowledge-transfer.

5.3 A Market For Aid

The intention of this and the following sections is to place the issues raised through discussion of the bridge project into a comparative framework comprising all aid from external donors. The latter discussion points concerned the ‘real’ costs of gifts or grants and the collective approach taken by donors and recipients to different types of risk associated with large infrastructure investments.

Mali receives external support from over 30 donors. China is not listed amongst Mali’s donors in the Special Investment Budget but an approximate calculation places it amongst the top 5 donors for all sectors and in second place behind the EC for infrastructure grants. Table 2, below, shows the main characteristics of Mali’s three main donors, the WB, the EC and China.
It is often said privately that there is no such thing as ‘genuine philanthropy’ and that there is always an unwritten counter-part to any gift-aid. This sentiment was expressed by both the EC transport expert as a critique of China and by the national director for roads in defence of China’s ‘tied-aid’ policy on the bridge construction. On returning to the question in the context of EC funding the EC expert acknowledged that there is also an implicit contract between recipient countries in SSA and the EC, relating primarily to immigration and security issues. In contrast, the Chinese economic councillor stated clearly that China expects nothing at all in return for the third bridge.

In Mali’s Special Investment Budget (BSI, 2008) loans and credits are considered separately from grants and gifts. Grants from the donors are tabulated in a separate column to loans. Gifts from China do not appear at all. If, from the recipient government point of view, all grants and gifts have implicit costs then they are qualitatively comparable to credits or loans, albeit that the precise terms of payment and transaction costs are ambiguous. It may make sense from an administrative point of view to prepare a budget with loans and grants shown separately but it is apparent that the decision making process for accepting or rejecting donor offers considers all types of aid together.

Critiques of emerging economy funding in Arica argue that the new finance will substitute or dilute conditional OECD aid and in so doing ‘undermine’ the good governance conditions attached to OECD aid (Corrales et al 2009). Leaving aside scepticism over causal links between good governance conditions and economic growth (Khan 2008) I wish to focus on the substitution element of the argument. That one form of aid may act as a partial substitute for another and that all aid has a real price (even if it cannot be easily determined) suggests a consumer theory model in which the recipient government acts as consumer seeking to maximise utility by his or her selection of a bundle of ‘aid goods’ and in which donors act as suppliers of aid, seeking to maximise their revenue (which may or may not be financial).

A consumer theory model of aid is unlikely to be a suitable tool for predicting equilibrium levels of supply and consumption due to the following significant market imperfections:

a) a small number of consumers with high levels of demand (recipient countries),

b) a small number of suppliers of varying supply-elasticity (donor countries)

c) heterogeneous goods (aid packages, each with unique conditions),

d) high transaction costs (incurred by recipient countries when accessing the aid),

e) varying quantifiability of risks associated with each transaction, and

f) spill-over effects between goods (compatibility of different donors).

Notwithstanding these imperfections, the notion that there are aid goods with varying characteristics to be selected does appear concurrent with most interviewees’ points of view. The WB infrastructure expert summarised Mali’s position as ‘a country with enormous needs and very few resources’. The government urban coordinator underlined the scale of that need stating ‘since independence we have
effectively achieved nothing – everything in the city needs replacing’. Having outlined the idea of an imperfect market for infrastructure aid I will focus on two of the imperfections listed above – transaction costs and risk.

5.4 Donor Cost Characteristics

Table 3 shows a variety of cost characteristics identified for each of the three main donor organisations. In addition to the formal repayment costs associated with credits or loans a range of more complex cost considerations arose during the 7 interviews, which will be discussed below.

<table>
<thead>
<tr>
<th>REAL COSTS</th>
<th>World Bank</th>
<th>European Commission</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal direct costs to Mali</td>
<td>credit repayments</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Bilateral interest obligations (author’s speculation)</td>
<td>agreement to US military operations in SSA (Africom)¹</td>
<td>resource concessions</td>
<td>resource concessions</td>
</tr>
<tr>
<td>’Proxy interest’ obligations</td>
<td>structural adjustment policies</td>
<td>security and emigration control</td>
<td>-</td>
</tr>
<tr>
<td>Access costs to Mali (incurred by recipient but not received by donor)</td>
<td>coordination costs and governance reform</td>
<td>evaluation costs, loss of remittances</td>
<td>disruption to local traders, reduced import tariffs</td>
</tr>
<tr>
<td>External costs to others (neither incurred by recipient nor received by donor)</td>
<td>-</td>
<td>-</td>
<td>adherence to One China Policy</td>
</tr>
</tbody>
</table>

Notes: ¹US is largest shareholder of the WB and US president nominates the Bank president.

The acceptance of a credit or gift may imply bilateral obligations to the donor such as preferential rates on resource concessions in the future. A literal interpretation of the conventional narrative suggests that in return for the Third Bamako Bridge Mali will be obliged to provide China with cheap oil when (or if) oil is successfully located in northern Mali. Regardless of the likelihood of this particular scenario it serves to illustrate how a rate of time preference may be attributable to the decision makers in Mali based on the details of such an offer. If the cost of providing cheap oil to China is $100m and it is to be provided 10 years after the provision of the bridge one can establish the rate of time preference required to bring the discounted value of the future payment into line with the current value of the bridge. Table 4 shows three different scenarios and their implied discount rates.
Table 4: DISCOUNT RATES IMPLIED BY SIMPLIFIED FUTURE PAYMENT SCENARIOS

<table>
<thead>
<tr>
<th>SCENARIOS</th>
<th>A</th>
<th>B</th>
<th>C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of bridge (millions of US$)</td>
<td>60</td>
<td>60</td>
<td>60</td>
</tr>
<tr>
<td>Future payment (millions of US$)</td>
<td>1000</td>
<td>100</td>
<td>80</td>
</tr>
<tr>
<td>Date of payment (years)</td>
<td>25</td>
<td>10</td>
<td>50</td>
</tr>
<tr>
<td>Implied rate of time preference</td>
<td>11.91%</td>
<td>5.24%</td>
<td>0.71%</td>
</tr>
</tbody>
</table>

Notes: Assumes all future payments made in a single year and ignores economic benefit from bridge, discount rates calculated iteratively

Scenario A shows a high rate of interest and is unlikely to be accepted. Scenario B shows a rate of interest similar to an open market rate and also similar to the rates for project loans from the WB to wealthier countries such as Brazil. Scenario C results in a rate comparable to the credits granted by the WB to Mali. It is impossible to know whether any of these scenarios reflect the true agreement for the bridge project. However, if such an agreement exists at all it should not be assumed that the terms are unfavourable when compared with loans or credits available from other donors.

More complex cost aspects arise when considering less directly quantifiable obligations that may or may not be written into the conditions of the donor contracts. The cost of complying with these obligations may fall heavily on the recipient government even if there is no direct benefit to the donor country or organisation. These may be considered as access costs. The additional cost of complying with donor conditions are often acknowledged by donors with some project money being budgeted to this aspect but a common complaint from the government representatives was that the cost of complying often exceeded the allocation. Donor delays to the process frequently result in incurring further additional cost. The development of compliance documents themselves (rather than the implications of the content) is considered to present access costs that are not covered by the donor. An alternative type of obligation cost arising from accepting the bridge from China may be lost tax revenue due to exoneration of import duty on building materials (Contrat d’execution 2008, Art. 12).

Maizels and Nissanke (1984) assert that multilateral donors are less likely to follow a donor interest model of recipient country selection than bilateral donors. This may have been the case in 1984 but it seemed clear to the interviewee from the EC transport department that there is an explicit link between EC grants to SSA and the cooperation that the EC seeks with SSA over issues of emigration control (and latterly security). Given that remittances from the EC to Mali account for up to 12.5% of GDP the cost of limiting emigration from Mali to the EC is likely to be financially and politically significant (IFAD 2007). There are several precedents of EC funding being withdrawn from recipient countries in pursuit of foreign policy aims. So, although ostensibly free of bilateral interests the EU may be said to be pursuing its own autonomous interests through aid delivery. These interests may serve as proxy interests for its member countries.

A different example was given of a European member country seeking to influence the location of EC funded roads in SSA for particular resource extraction interests. Multi-lateral donors are not free of the special interests that are assumed with bilateral donors. Therefore although special interests may be pursued indirectly (either as proxy interests for the donor organisation or through lobbying by member countries) they are not cost-free.

As well as costs incurred by the recipient country there may be costs incurred by third party countries resulting from the acceptance of aid from a given donor. Chinese aid is characterised by a requirement that the recipient country adheres to the One China Policy and in so doing does not recognise the Republic of China (Taiwan) (ROCT). Islamic Development Bank loans to Mali are conditional upon adhering to the Organisation of the Islamic Conference boycott of Israel when acquiring goods and services (Projet d’accord 2006, Art II). Mali has never recognised the ROCT or the state of Israel so it is questionable to what degree these conditions have influenced Mali’s foreign policy decisions. Quantifying such external costs is therefore difficult.
5.5 Donor Risk Characteristics

The volatility of aid to poor countries has been the subject of recent research papers (Bulir and Haman 2008; Hudson and Mosley 2008). It is argued that failure of donor organisations to disburse money when scheduled to do so has cost impacts upon the recipient countries. The interviews that I conducted in Bamako indicate that irregularity of disbursements is in fact just one of a number of risk elements faced by recipient governments when implementing aid-funded infrastructure projects. This section will review short and long-term risk elements before considering what may be implied by acceptance of aid with particular risk profiles.

A particular issue raised with regard to credits from the WB was that of currency shifts. The national director for roads explained that disbursement sums paid in dollars were not adjusted to compensate for shifts in the exchange rate between the US dollar and the CFA Franc. As well as currency shifts, changes in the global oil price also have a marked impact on the cost of implementing infrastructure projects. This is due to the extensive use of energy or oil intensive materials in such projects. Infrastructure projects are particularly (although not uniquely) vulnerable to these sort of price-shocks because of a) their long term build programmes, which make it almost certain that prices will change during the life of the project and b) their inutility if left unfinished. A bridge must cross the river entirely and a new road connecting two cities will not achieve its purpose until it reaches 100% completion. The government urban coordinator argued that if a country is deemed sufficiently poor to merit a credit or grant of several million dollars it is illogical to expect that country to bear the risk of a price fluctuation that may itself run into millions of dollars.

The consensus amongst government interviewees was that the WB does not cover such risks, that the EC bears risk up to a 10% fluctuation over the duration of a project and that China would simply ‘deliver’ come what may. There appears to be a possible discrepancy between this understanding and the written agreement between the Malian and Chinese governments, which states that the two parties will meet to re-adjust the total price (ostensibly $0) if the local price of materials including steel, timber, cement, electricity, water and petrol varies by greater than 10% (Article 09, Section 9.1.3). This apparent gap between the written and verbal agreements for the bridge may be informative of the wider issue of risk in accepting offers of aid. The contract does not stipulate how the price will be adjusted, simply that the parties will meet to discuss. I was informed by the Chinese economic councillor that an entire ship-load of materials from China had had to be replaced following a blockade in Indonesian waters; something that must have already added many millions to the initial cost. It seems possible that such largesse may be extended to cover price fluctuations as well but as discussed in the previous section it is possible that a short term commitment to deliver under all circumstances feeds into a larger ‘arrangement’ in the future.

One of the most visible Chinese construction projects in Mali was the provision of the five football stadia used to host the 2002 Cup of Nations (CAN) football tournament. The WB infrastructure expert suggested that the stadia were paid for by a soft loan. ‘Repayments are being made’ but not in the manner of the ‘classical circuit’. The China economic councillor cited the stadia as an example of Chinese assistance to Mali but was unclear if they were gifted or loaned. In Bamako I was informed of a rumour that the re-payments had either slowed or stopped altogether in recent years and that the Chinese government had written off the debt. If this is the case it would seem to be indicative of a certain flexibility displayed by China as a donor. Loans may become grants, terms can be adjusted, cost risks are negotiated after the occurrence of the risk and (perhaps) gifts may elicit large payments in the future.

The negotiation of liability for unforeseen cost increases raises the possibility of a dispute between donor and recipient. The EC financing agreement for the 10th European Development Fund grant to Mali (FED), valued at $235m, contains a series of dispute resolution clauses (Art 24). The smaller contract between the Chinese and Malian governments for the provision of the third bridge ($60m), has no equivalent clause. A contract or agreement is only valuable to the signatories if it is enforceable. In agreements that lie outside of national legal systems, such as those between countries and donors, the enforceability of the agreement is questionable since there is no default third party who will arbitrate between the disputers. The existence of a dispute resolution clause (in which a third party is mutually agreed) may be one indicator of enforceability but the terms of that resolution are crucial. The ultimate arbiter in the case of the FED agreement is the Permanent Court of Arbitration (PCA) in the Hague. Although the PCA has over 100 international member countries, Mali is not one of them. Even
assuming total impartiality on the part of the PCA it seems unlikely that a very low income country would bring an inevitably expensive legal case against the EC for defaults on aid money payments. Therefore while the existence of a dispute resolution clause suggests a degree of *de jure* enforceability in the FED contract the *de facto* enforceability due to the inherent strengths and weaknesses of the parties’ relative positions appears limited.

There may not be a systematic evaluation of these risk characteristics but recipient country decision makers are certainly aware of the varying risk profiles attached to different donors. Table 5 shows interview-based estimates of the long and short-term risk profiles for each of the three selected donors. This, of course, requires significant further research to substantiate the ‘ratings’ assigned.

**Table 5: INFRASTRUCTURE AID: ASPECTS OF SELECTED DONORS IN MALI (3/3)**

<table>
<thead>
<tr>
<th>RISK TYPES</th>
<th>World Bank</th>
<th>European Commission</th>
<th>China</th>
</tr>
</thead>
<tbody>
<tr>
<td>Short term risk borne by Mali(^1)</td>
<td>high</td>
<td>medium</td>
<td>low</td>
</tr>
<tr>
<td>Long term risk borne by Mali(^2)</td>
<td>low</td>
<td>medium</td>
<td>high</td>
</tr>
<tr>
<td>-Likelihood of later costs in return for aid</td>
<td>low</td>
<td>-low</td>
<td>-medium</td>
</tr>
<tr>
<td>-Likelihood of payment delays by donor</td>
<td>-medium</td>
<td>-medium</td>
<td>-low</td>
</tr>
<tr>
<td>-<em>De jure</em> contract enforceability</td>
<td>-medium</td>
<td>-medium</td>
<td>-low</td>
</tr>
<tr>
<td>-<em>De facto</em> contract enforceability</td>
<td>-medium</td>
<td>low</td>
<td>-low</td>
</tr>
</tbody>
</table>

*Notes:* \(^1\) price fluctuations due to currency shifts or change in oil prices, \(^2\) could lead to cost reduction as well as increase

That poor governments may be open to entering agreements with higher levels of risk and uncertainty than richer governments is perhaps not a surprise. Donors that offer low risk in the short term and higher risk in the long term, as appears to be the case with China, may be a particularly attractive alternative to the standard offerings from established donors. As illustrated previously, a short-term low-risk, long-term high-risk profile means that there is a significant possibility of under-paying (and not just over-paying). If those making the decisions consider the current situation to be sufficiently desperate, then taking a low risk offer in the present in exchange for a high risk in the future may be the optimal decision if the alternative is to do nothing. This is essentially a ‘nothing to lose’ line of argument.

Perhaps the most important factor in accepting aid from high-risk donors is the accountability of the decision makers to the people in whose interests the decisions are made. If the accountability is low and the terms of office short then there may be few incentives for the actors to align their risk tolerance with that of their constituents but such a principal-agent problem is by no means confined to poor countries.

**Section 6: Conclusion**

This paper has sought to establish the characteristics of donor interests in urban and regional infrastructure projects in poor countries. Discussion of the Third Bamako bridge project serves to illuminate the complexity of relations between Mali and her external partners. Large public infrastructure projects with low cost-recovery characteristics such as road networks and bridges are heavily funded through gift-aid because the low cost-recovery discourages poor country governments from taking re-payable loans. If there is no such thing as genuine philanthropy donors making gifts or grants might be expected to seek greater influence over such projects than for those paid for with loans.

In the case of the Third Bamako Bridge China appears to have exerted little or no urban or regional level influence over the location of the bridge. However, there is some evidence from West Africa that donor interests can impact on spatial decisions and are capable of permeating multi-lateral frameworks such as the EC. Generally, it appears that re-payment for grants from donors are sought indirectly and with less certainty than at the local level.
Notwithstanding that urban-level impacts of donor interests appear to be rare, the existence of such interests and conditions remains at the forefront of government actors’ decision-making processes. Recipient governments take into account an array of ‘hidden costs’ associated with accepting aid from external donors. In spite of an international effort to better coordinate development-aid the optimisation of the aid portfolio in the best interests of the country is complicated by inter-donor incompatibilities, high levels of uncertainty and principal-agent issues within the recipient government.

In a notional market for aid there is evidence that historical relations may differentiate otherwise similar ‘aid-goods’. As well as a shared notion of South-South partnering, The Malian and Chinese governments appear to display a greater tolerance of long-term risk in their engagements than may be considered reasonable by Western governments or donors. However, although both parties appear to share a similar level of risk tolerance the underlying reasons for their individual positions may differ. China has relations with over 50 countries in Africa and, unlike Mali, is in a position to spread her investment risks.

The dynamics of donor-re relations in Mali appear different to donor-re relations of countries that have suffered from from natural-resource driven wars (Sudan, Angola) or countries in which OECD aid has been withdrawn (Zimbabwe). In a more moderate environment inter-donor and donor-recipient relations appear less diplomatically polarised. Thus, in Mali, Chinese aid does not substitute established aid so much as add to it. This means that there is less likelihood of Chinese aid and trade undermining governance efforts of the OECD nations since good governance conditions remain attached to the bulk of aid agreements in place.

The restructuring of the global economy after a period of relative stability challenges existing international hierarchies and presents opportunities for new partnerships. Countries that are heavily dependent on external aid face a difficult task in trying to capitalise on the situation. In this context the way in which investor and donor relations are managed at a national and local level, and in all fundamental sectors (including infrastructure), is critical.

**Section 7: Notes**

1) Organisation for Economic Co-operation and Development
2) ODA is defined as grants or ‘concessional’ loans from Development Assistance Committee (DAC) member countries. The only DAC countries outside Europe are the USA, Canada, Australia, New Zealand and Japan. Aid from other Asian, Latin American or Middle Eastern countries is not included in the calculations for ODA (OECD, 2008).
3) Although China has diplomatic and trade relations with almost all African nations 80% of total trade is conducted with just 10 of those nations (L’Essor, 2009).
4) This compared with $13,886bn for the USA, $2,447bn for France, $3,121bn for China or $274bn for South Africa.
5) The second lowest rating possible; lending to a B-rated country is described as ‘speculative’.
6) Schema Directeur d’Amenagement et Urbanisme de Bamako (SDAU)
Section 8: Bibliography

8.1 Selected Donor Agreements


8.2 Malian Government Publications

(2008) Budget Special d’Investissement - BSI
(2007) Budget Special d’Investissement - BSI

8.3 References


