

DEAD AID



Why Aid is not working and how
there is a better way for Africa
Moyo Dambisa

Book Review

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Africa's growth and development tragedy has posed challenges to development economists world over for 60 years since the imperialists left the continent. Development prescriptions such as increased aid, debt forgiveness, and building institutions have yielded minimal results at best, and very few countries on the continent have broken free of the abject underdevelopment that ravages the continent. In *Dead Aid*, Moyo takes issue with one of the major development strategies – foreign aid. Her argument is that aid has entangled the continent in a cycle of dysfunctionality, resulting from a culture of aid in which “those who are better off subscribe to the notion that giving alms to the poor is the right thing to do”. For the purpose of this book, she defines aid as the sum total of both concessional loans and grants. This is aid made to governments through government to government transfers (bilateral aid) or transferred via institutions (multi-lateral aid). She excludes humanitarian aid and charity-based aid.

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Moyo gives a brief history of aid and how it has evolved over the years. Born at Bretton Woods in 1944, the immediate post war aid, famously known as the Marshall plan was for reconstruction of war-ravaged Europe in the late 1940s to early 1950s. The 1960s was a decade of aid for funding large scale industrial projects that had longer term payoffs, such as infrastructure development. Africa received up to \$100 million for these projects in the 1960s. In the 1970s aid was viewed as

an answer to poverty. The 1980s was a decade for structural adjustment programs and aid was the tool for stabilization and adjustment for countries threatened by debt crises that could potentially undermine the foundations of global financial stability. The 1990s saw a fundamental paradigm shift to aid as a buttress of democracy and governance. Africa's failure to grow and develop was seen a failure of political leadership and weak institutions, therefore aid money was to target governance reform – improving the civil service and government bureaucracy, and installing democracy. Currently, according to Moyo, aid is viewed as “the only solution to Africa's myriad of problems” with support from celebrities, and specialists calling for debt cancellation and more aid.

Despite the historical evolution and the good intentions of donors, Moyo strongly criticizes aid and offers reasons for why aid has failed to kick-start growth and development in Africa.

Other scholars have offered plausible reasons why Africa seems like a basket case: geography, history, cultural, tribal and institutional factors. Aid proponents argue that aid has worked in different scenarios (the Marshall Plan, aid with conditionalities, and aid in good policy environments), Moyo strongly disagrees. She argues that aid has not worked, is not working and will not work.

She argues that;

- aid has created a vicious cycle of dependency that chokes investment;
- aid facilitates rampant corruption;
- aid weakens social capital;
- aid foments conflict;
- aid is inflationary;
- aid diminishes a country's exports;
- and aid is not easily absorbed into the economy.

Notwithstanding the failures that aid has recorded over the decades in Africa, the author argues that aid keeps coming anyway because

there is pressure among the donors and development agencies to lend, and donors are unable to decide which countries are corrupt and those that are not.

Moyo calls for a radical rethinking of the aid dependency model to create an aid-free world.

She uses 'The Republic of Dongo' a prototype of an African country to explain how the prescribed solutions and strategies would wear Africa off aid.

She draws examples from countries such as China, Brazil, India, South Africa and Botswana that have shunned aid and taken alternative strategies to sustainable development.

She offers four major prescriptions to the aid problem in Africa.

1. African countries must enter the capital market to raise the capital to fund development. She argues that there is a growing investor interest in emerging economies' capital markets, therefore well-run economies with good credit ratings stand to benefit.
2. China. Moyo makes a strong case for the Chinese presence in Africa in foreign direct investment, infrastructural investment, and trade. In 2008, China-Africa trade soared to nearly \$107 billion. China mainly trades in natural resources and other primary products such as coffee, tea, and cotton that Africa has in plenty. For Moyo, capitalizing on China's relations that come without conditionalities offers a great potential for Africa's development.
3. Trade. Most African countries according to the author are 'losing globalizers' who have increased trade but seen no associated growth. Therefore, for Africa to benefit from trade, the Western countries must reform their protectionist policies such as agriculture subsidies, African countries must trade with each other and with other emerging powers (China and India) and there is need

for African leadership to embrace regional cohesiveness and integration.

4. The prospect of microfinance offers profound opportunity for the poor to escape poverty and be part of a greater development scheme. In addition, governments should deliberate policies to make remittances from abroad less costly for both senders and receivers. This would encourage a culture of savings and generally raise the incomes of poor people which are both imperative for growth and development.

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Moyo acknowledges that not all countries are the same, and therefore strategies that are suitable for one country may not be suitable for another. Each country will have to tailor strategies that suit its conditions for development to happen. The fundamentals however, are the same: good governance that emerges from the absence of aid is imperative because it reduces the costs of doing business; countries must reduce their aid reliance year on year; countries must enforce rules of prudence and not live beyond their means; and countries must strengthen institutions for accountability.

In *Dead Aid*, Moyo, harshly criticizes the role of aid and although she offers strategies that could potentially lift Africa out of the poverty and underdevelopment quagmire, there is nothing new in her approach:

1. Scholars such as William Easterly have called on the international community to revise the aid approach to development efforts in Africa.
2. Africa has traded with the Western world for centuries, but because of the nature

of goods that Africa exports and policies in developed countries, it remains at a disadvantage;

3. I think she is overly optimistic in emphasizing Africa's relations with China. As she duly notes, China's approach has been criticized for ignoring human rights and trading with countries such as Sudan which grossly abuse citizens' human rights.
4. Raising capital through bond markets seems an unviable strategy for African countries, 29 of whom appear on the World Bank's list of Heavily Indebted Poor Countries (HIPC). It is highly improbable that these countries which are debt ridden would score high credit ratings to assure investors of returns on their investments.
5. Long before there was Dead Aid, the microfinance industry was already flourishing in Africa. Although microfinance has received significant attention, there is no consensus on its impact on poverty. Studies have shown that microfinance has had a significant impact on women which translates into better health and nutrition outcomes, and has actually managed to increase incomes of those in abject poverty. Ahlin and Jiang (2008) in their study find that microfinance cannot bring about long-run development¹. Questions remain on how these micro loans would fundamentally transform the economic and financial terrain to create a middle class.

The passion and tone of the book almost betray the intentions of the author: she comes across as a disgruntled arm-chair development specialist who is eager to regurgitate what has been said before to capture the attention of a willful audience. I find it hard to buy into Moyo's arguments because she doesn't address some issues that are imperative for Africa's development.

First, she does not address agricultural

issues and yet more than 70% of the rural population in Africa depends on agriculture. She notes that India is a country that Africa can look to for options but omits the fact that in the 1960s India was able to significantly reduce their poverty owing to successes of the green revolution.

Second, investment in human capital development is important for growth and development. In addition, the idea of brain drain, which some scholars have argued is a major hindrance to Africa's development strategies is not addressed in this book.

Overall, *Dead Aid* is an easy read and the themes in the book fit well with the academic and intellectual discourse on the role of international organizations. Development policies in third world countries have been largely mandated by international agencies such as the World Bank, International Monetary Fund, USAID, DFID, and governments of major donor countries. Of course, in the development process, governments in the developing countries have a major role to play but are often times encumbered by the conditionalities dictated by the Washington consensus. There is indeed a need to try bottom-up approaches by Africans for Africa. True, aid flows to Africa have reduced over time. It will be interesting to see how developing countries shape their development strategies in a continually globalizing world in which China seems to be charting the course and steering unconventional strategies towards Africa. Afro-Chinese relations at this point provide an interesting discourse to watch, and it remains a question to ponder, whether indeed China will render moot all the development efforts hitherto in Africa designed by donor countries and development agencies.

1 Ahlin and Jiang (2008). Can Microcredit Bring Development? *Journal of Development Economics*. 86 (1) 1 - 21

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