Dead Aid Revisited

One year later, does Zambian economist Dambisa Moyo's call for the end of aid to Africa still hold sway when the World Bank's Chief Economist for Africa is declaring Africa's Successes?

Dambisa Moyo, a Zambian-born, Harvard and Oxford-educated economist, sparked significant controversy with her 2009 book *Dead Aid*. In it, the former World Bank consultant, now a Goldman Sachs Global Economist and Strategist, asserts that the US$1 trillion in aid that has flowed to Africa in the last decades has in fact made Africans worse off: it has made "the poor poorer, and growth slower"[i]. Among her many criticisms of aid are its resulting distortions in African markets, its ability to prop up weak and ineffective governments, and most importantly, its perpetuation of a vicious cycle of aid dependency. She calls for an end to the crippling practice of aid to Africa.

Not surprisingly, representatives from all factions wanted to weigh in on the *Dead Aid* debate. ONE, the not-for-profit founded by Bono, claimed that the end of aid to Africa would result in the deaths of millions of people currently benefiting from aid-funded programs[ii]. Some development experts claimed her analysis lacked "analytical rigour,"[iii] or lacked nuance,[iv] while others applauded her bold stance.[v]

But what is perhaps most interesting now in terms of African aid, over a year after the release of *Dead Aid*, are recent comments made both by World Bank President Robert Zoellick and the World Bank's Chief Economist for Africa, Shantayanan Devarajan, declaring respectively "the end of the third world"[vi] and the "success of Africa."[vii] Are we to believe this is the end of African poverty? Never mind if aid is benign or malign, is it now irrelevant? Bearing in mind that both of these men are part of the largest multilateral aid organization in the world, such a conclusion might be premature. However, their assertions provide a good opportunity to revisit Moyo's claims about the causes of Africa's poor economic performance and her prescriptions for positive change. The ongoing effects of the global financial crisis, and the recent decisions stemming from the Toronto G-8/G-20 meetings also play a part in reevaluating the state of aid in Africa.

Africa on aid: Better or Worse?

For a simple fact that one would assume would be easy enough to prove concretely, it is astounding that there can still be disagreement over whether Africa is in fact faring better or worse in GDP per capita terms since the advent of aid. Moyo claims in *Dead Aid* that in Africa the real per capita income today is lower than it was in the 1970s.[viii] Conversely, Devarajan states on his blog: "recent growth in Africa has been reducing the poverty rate by one percentage point a year"[ix]; and Zoellick has stated that Sub-Saharan Africa (and South Asia) could grow by over six percent over the next five years.[x] Unsurprisingly, picking and choosing from the wealth of data can work in favour of aid critics and supporters alike. It lends credence to former World Bank director of research Paul Collier's labeling of research on aid effectiveness as "shambolic".[xi]

But Moyo is not a prophet of a doomed continent, rather she recognizes there have been progressive strides in Africa's economic development, notably annual growth rates of around 5 percent[xii]--the same sort of "successes" being touted by the World Bank and IMF today.[xiii] Moyo attributes this growth to rising commodity prices, strong macroeconomic fundamentals, and the emergence of good governance practices in many countries. Similarly, Devarajan cites as causes for spurring of African successes: "stronger leadership, better governance, and improving business climate, innovation, market-base solutions, a more involved citizenry, and an increasing reliance in home-grown solutions."[xiv] If they are both pointing to the same good news stories, where is the disconnect? Ultimately, Moyo says, while these improvements are all well and good, they are still overshadowed by the myriad problems of African underdevelopment, problems that she directly attributes to aid.

The problem with aid, Moyo's pro-market argument

Moyo very clearly defines the kind of aid she sees as at the root of the problem—it is the total of concessional loans (loans lent at below market interest rates for long lending periods) and grant given through both government-to-government transfers (bilateral aid) and through International Financial Institutions (IFIs) such as the World Bank (multilateral aid). She explicitly states that she is not tackling emergency and charity-based aid.[xv] The chief target of Moyo's analysis is aid that serves to distort markets and places undue burden on the very countries it purports to assist. Her critiques are all founded on pro-market arguments that are totally in keeping with the World Bank's free-market philosophy.

The havoc wreaked by aid, according to Moyo, includes rising exchange rates--when aid dollars push up domestic prices, thereby harming export industries.[xvi] Aid also acts as a disincentive to tax domestically, with aid inflating government coffers.[xvii] She also points to aid's debt-causing influence, (as do the likes of "moral campaigners" Bono and Geldof), but not just because interest is then owed on a loan, but also because it leads to "aid sterilization" in which a government is compelled to issue bonds to mop up excess cash.[xviii] These are all significant problems that as described are seemingly inherent to the reliance on development aid--problems that are not addressed in any of the critiques of Moyo, nor, of course, do they warrant mention in Devarajan or Zoellick's descriptions of African successes.

Development Solutions: Some Common Ground

While Moyo has her share of detractors when it comes to her condemnation of aid, most are in agreement with the policies she offers as alternatives—sound market-based practices that seem to have appeal across the political spectrum. She champions the end to global trade inequity, as do many NGOs--those calling for fair trade rules such as ONE and Oxfam. She applauds the benefits of Foreign Direct Investment, especially from China. Again, most development actors agree FDI makes good economic sense (though many have reservations about the extent of China's involvement in the continent).

Moyo also devotes an entire chapter to the merits of microfinancing and the need for sound financial institutions, to enable savings and borrowing for Africa's poorest, those most often denied access to capital. Again, this makes plain sense, and microfinance initiatives are popular development phenomena at present, from Bangladesh's Grameen Bank to the on-line lending scheme, "Kiva."

Perhaps the most important of Moyo's proposed solutions is her call for increased access to international capital markets for African nations. Currently, only a handful of African nations have issued international bonds; but if more countries were to do so, says Moyo, they would be able to use the funds to *independently* finance their development. She reasons that because a country needs a good credit rating in order to issue bonds, this is a greater incentive for transparency and good governance than any aid-funded solution. Therefore the "Capital Solution" would initiate a virtuous cycle, rather than a vicious one. From ONE to the IMF, there is a consensus that increased access to capital is a good thing. However, where the criticisms reemerge is in the practical implementation of this strategy, in the fallout of the 2008 Global Financial Crisis.

Africa and the Global Financial Crisis: Bouncing Back

In 2009, the critics mentioned here had every reason to be skeptical of Moyo's international credit solution. It was the apex of a credit crunch, a global economic slowdown, and according the IMF, Africa's output had contracted to 2%.[xix] The cash for borrowing simply wasn't there. In Collier's review he says Moyo's thesis was undermined by "unlucky timing." It was widely thought that in the face of shrinking commercial sector interest in Africa, aid had an even more essential role to play in bolstering Africa's development and protecting its poorest: "the World Bank had never been as busy."[xx]

But now, almost a year and a half after *Dead Aid*, and a year after most of these critiques, quite a different picture of African economies has emerged. The IMF released its 2010 regional economic outlook for sub-Saharan Africa, and its findings are heartening. The slowdown was brief, most countries in the region are "bouncing back", and output is expected to expand to 4 ¾% this year. Enabling this speedy recovery are: the expansionary macroeconomic stances of these countries (also cited by Moyo as a leading cause of African growth); the unexpected stability of both of FDI and remittances (both Moyo-approved market solutions); and an increase in fiscal spending and deficits that offset faltering private spending. On this last factor, the pro-aid argument might hold more sway; and true, aid-derived fiscal spending likely bolstered the economic health of these countries. But it is not irrefutable proof of the need for aid. Very few international bonds had been issued before the financial crisis, so it still remains to be seen how African countries would weather a crisis with funds from international credit rather than aid. But now with its proven resilience, is Africa poised to emerge as a significant player in global financial markets?

Could Africa be better than a BRIC?

In a recent blog post, Shanta Devarajan wrote of colleague Ngozi Okonjo-Iweala, Managing Director of the World Bank, describing Africa as the next BRIC (Brazil, Russia, India and China), it was "music to his ears". Devarajan went further to say that Africa should aspire to do *better* than the BRICs--that it should aim for economic growth *and* equitable income distributions.[xxi] Could we venture to say that this would be music to Dambisa Moyo's ears? And what of Robert Zoellick's recent declaration in advance of the annual meeting of the World Bank and IMF:

> "2009 saw the end of what was known as the 'Third World'. We are now in a new, fast-evolving multi-polar world economy in which some developing countries are emerging as economic powers, others are moving towards becoming additional poles of growth, and some are struggling to attain their potential within this new system - where North and South, East and West, are now points on a compass, not economic destinies…The outdated categorisations of First and Third Worlds, donor and supplicant, leader and led, no longer fit."[xxii]

This last sentence is of particular interest—the categorization of "donor and supplicant" is outdated, according to the president of the world's largest IFI. Are we moving into a post-aid world?

New Rhetoric, More of the Same

In her conclusion, Moyo writes: "The *Dead Aid* proposal is dead easy to implement. What it needs, and what is lacking, is political will."[xxiii] Western donors and African leaders, she says, are too invested in maintaining the status quo. Should we then jubilantly embrace Zoellick's call for change? Is this the first sign of progressive political will? Zoellick even made mention of the G-20, the most recent amalgam of global economic powerhouses, to warn against the G-20 imposing a "new, inflexible hierarchy on the world", and that instead it should act as a "steering group across a network of countries and international institutions." A call for global democratization—is it cause for celebration?

The World Bank may be talking the talk, but as far as walking the walk goes, "it's really not good enough", according to one World Bank critic at Oxfam International.[xxiv] At this year's annual meeting the World Bank Group's Board of Governors approved an increase in the voting power of Developing and Transition countries (DTCs), bringing them to 47.19%, a modest increase of only 4.59% from 2008.[xxv]

And did the 2010 G-20 meetings opt for the continuation of hierarchical constraints or the role of a steering group? It was a mixed bag, but most decisions simply served to reinforce the power of existing institutions. Its meeting was lauded for its strong focus on development--it established a working group for the explicit purpose. The meeting's communiqué[xxvi] devoted points 23 through to 34 to "International Financial Institutions and Development." They congratulated themselves on fulfilling their Pittsburg commitment of financing for Multilateral Development Banks (MDBs), and all other points in this section were also devoted to the role of IFIs—an end to aid is clearly not part of the G-20 plan. Under "Promoting Trade and Investment", point 38 supports bringing the World Trade Organization's Doha Development round of talks to its conclusion. Moyo dismissively refers to the Doha round as only so much "chatter", and the talks have dragged on for almost a decade at this point. Point 39 is a commitment to the UK's "Aid for Trade" initiative—devoting aid spending to the promotion of trade in developing countries. It's a form of revenue generation that sounds paradoxical and has uninspiring precedents: Moyo cites the underwhelming impact of America's "African Growth and Opportunity Act" and the EU's "Everything But Arms" as evidence of previous weak Western trade initiatives.[xxvii]

And as for any attempts to democratize itself and reflect a global "network," there was not much of an effort made at the Toronto G-20 meeting. South Africa is the only African nation represented in the G-20, and invitations to the Toronto meeting were only extended to leaders of two African countries: Ethiopia and Malawi. This is even fewer than at the G-8, to which the leaders of Senegal, Algeria, Ethiopia, Egypt, Malawi, Nigeria and South Africa were invited to attend the "outreach session." However even this session seemed to lack any real attempt to foster new North-South relationships, as it served, at least in all outward appearances, as a glorified photo-op for the G-8 to unveil its global maternal health plan—a plan maligned for being both insufficient, and ideologically laden.

Based on the Toronto G-8/G-20 meetings in June, it certainly seems that the "donor/supplicant" framework decried by Zoellick is still alive and well, even if the pool of donors has expanded by 12.

Opportunities for Change through Alternative Institutions?

If the political will is absent amongst our political leaders, Moyo suggests that it might be found in civil society. While she had faint praise for the US African Growth and Opportunity Act (AGOA), she acknowledges that it was the collective power of 60,000 US citizens that brought the act to Congress.[xxviii] Evidence of the success of activist groups abounds: even a failed aid initiative mentioned by Moyo was turned around through the efforts of civil society. In Uganda in 1996 only 20% of aid education was reaching schools, but when government began publicizing education transfers, parent associations were able to track the funds, and as a result, by 2002 80% of resources were reaching schools.[xxix] Lawrence Haddad, director of the Institute of Development Studies, also recognizes the value of civil society in improving aid accountability. He calls for the creation of a citizen-led global ‘Aid Transparency Initiative.’ There are also examples of revenue-generating initiatives by civil society, including the Fair Trade movement, and the Ethiopian Commodities Exchange, founded by Ethiopian economist Elene Gabre Madhin.[xxx]

Gatherings around the G-8/G-20 meetings attracted a huge cross-section of civil society representatives, from NGOs, unions, and many others from the Global North and South concerned with issues of globalization. Collaborations between such actors could mean a more pluralistic way of tackling poverty and inequality. At the launch of the “People’s Justice Summit”, Maude Barlow, of the advocacy group The Council of Canadians, claimed we should be recognizing the legitimacy of a “G-92,” that is, a democratic global decision-making body, such as the United Nations, and not a select group of countries.

Different Aid

This is not to imply that civil society can or will replace the role of IFIs at any point in the near future. Encouraging though, are a variety of reforms to IFI practice that are in keeping with Moyo’s “Capital Solution,” that may, as hoped, lead to greater autonomy for African nations. The African Development Bank has launched its African Financial Market Initiative (AFMI), targeted to develop domestic African capital markets,[xxxi] and has recently issued its Clean Energy Bond, offered to Japanese investors.[xxxii] The World Bank, through the IFC Asset Management Company, is drawing money from sovereign wealth and pension funds to make private investments in Africa, Latin America and the Caribbean—the ALAC Fund has a value of $950 million.[xxxiii] It’s a move that Zoellick has been encouraging and that Moyo applauds in her discussion of FDI in *Dead Aid*.

In an article for *The Economist* entitled “The lure of Africa”, December 28, 2009—Moyo predicted a slowing of aid flows in 2010. This is not quite how it has played out: in April of this year the World Bank announced capital increases of $86.2 billion.[xxxiv] But in the same article Moyo also wrote that sovereign-wealth funds “will want to diversify away from Western markets. The result will be more debt issuance across Africa.” Based on the new World Bank investment strategy, she was correct.

Clairvoyant, she is not, but Moyo is providing valuable input into new ways of thinking about development in Africa. And as we see the sorts of changes she is encouraging, the reports of African successes are coming not just from Zoellick and Devarajan: "The elephant stirs" is a May article in *The Banker* about optimism over Cote d'Ivoire's economic prospects;[xxxv] in the World Bank's *Doing Business 2010* report Rwanda is the first ever Sub-Saharan African economy to be the world's top reformer of business regulation;[xxxvi] and Moyo has just tweeted that Ethiopia, with its new "Growth and Transformation" plan, aims to end food aid within five years.[xxxvii] They are all solid reminders, as is *Dead Aid*, that aid should *always* be considered a temporary solution, *perhaps* as a means to an end, and *never* as an indefinite state of affairs.

[i] Dambisa Moyo, *Dead Aid,* Toronto: Douglas & McIntyre: 2009 (xix).

[ii] ONE, "*Dead Aid* is Dead Wrong," March 2009, http://www.one.org/c/us/hottopic/910/

[iii] "*Dead Aid* Book Review," *Zambian Economist*, March 6, 2009,
http://www.zambian-economist.com/2009/03/dead-aid-by-dambisa-moyo-review.html

[iv] Lawrence Haddad, "*Dead Aid,* a review," *Development Horizons* blog, April 27, 2009
http://www.developmenthorizons.com/2009/04/dead-aid-review.html

[v] Jagdish Bhagwati, "Banned Aid," *Foreign Affairs*, January/February 2010.

[vi] Jim Lobe, "Zoellick Sees End of 'Third World'," *Inter Press Service*, April 14, 2010, http://www.ipsnews.net/

[vii] Shantayanan Devarajan, "Varieties of African successes," *Africa can…end poverty* blog, May 3, 2010, http://blogs.worldbank.org/africacan/varieties-of-african-successes

[viii] *Dead Aid* (5).

[ix] Devarajan, "Africa as a BRIC," *Africa can…end poverty* blog, June 10, 2010, http://blogs.worldbank.org/africacan/africa-as-a-bric

[x] Lobe, *IPS*

[xi] Paul Collier, "*Dead Aid:* Time to turn off the aid tap?" *The Independent,* January 30, 2009, http://www.independent.co.uk/arts-entertainment/books/reviews/dead-aid-by-dambisa-moyo-1519875.html

[xii] *Dead Aid* (3)

[xiii] International Monetary Fund*, Regional Economic Outlook 2010: Sub-Saharan Africa—Back to high growth?* "Main Findings," April 2010 http://www.imf.org/external/pubs/ft/reo/2010/afr/eng/sreo0410.pdf

[xiv] Devarajan, "African Successes," *Africa can…end poverty* blog, September 17, 2009, http://blogs.worldbank.org/africacan/african-successes

[xv] After *Dead Aid* was published, ONE lashed out at Moyo's theories and sprang to the defense of precisely the type of programs Moyo said she was *not* discussing: aid-funded HIV/AIDS programs such as PEPFAR, that provide anti-retroviral treatment and other services to millions of Africans (ONE, "*Dead Aid* is Dead Wrong"). Moyo is not claiming that life-saving services such as this ought to be dispensed with immediately, and ONE's distortion of the argument becomes an obstacle to intelligent debate.

[xvi] *Dead Aid* (63)

[xvii] *Dead Aid* (52)

[xviii] *Dead Aid* (64)

[xix] International Monetary Fund

[xx] Collier

[xxi] Devarajan, "Africa as a BRIC"

[xxii] Lobe, *IPS*

[xxiii] *Dead Aid* (148)

[xxiv] Lobe, *IPS*

[xxv] World Bank Group, "World Bank Reforms Voting Power, Gets $86 Billion Boost" Press release no 2010/363/EXT, April 25 2010 http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22556045~pagePK:34370~piPK:34424~theSitePK:4607,00.html

[xxvi] G-20, "The G-20 Toronto Summit Declaration," June 26-27, 2010, http://www.g20.org/Documents/g20_declaration_en.pdf

[xxvii] *Dead Aid* (118)

[xxviii] *Dead Aid* (149)

[xxix] ONE, "The Facts about *Dead Aid*," 2009, http://www.one.org/c/us/policybrief/911/

[xxx] Ethiopia Commodity Exchange, http://www.ecx.com.et/

[xxxi] African Development Bank, "African Financial Markets Initiative," http://www.afdb.org/en/topics-sectors/initiatives-partnerships/african-financial-markets-initiative-afmi/

[xxxii] African Development Bank, "African Development Bank Launches its Clean Energy Bond," March 8 2010, http://www.afdb.org/en/news-events/article/african-development-bank-launches-its-clean-energy-bond-6400/

[xxxiii] Brian Wingfield, "The World Bank's New Development Model," *Forbes*, July 26, 2010 http://blogs.forbes.com/beltway/2010/07/26/the-world-banks-new-development-model/

[xxxiv] The World Bank Group, April 25, 2010

[xxxv] Nick Kochan, "The elephant stirs," *The Banker*, May 5, 2010 http://www.thebanker.com/news/fullstory.php/aid/7341/The_elephant_stirs.html

[xxxvi] The World Bank Group, *Doing Business 2010: A record in business regulation reform*, "Highlights," 2010 http://www.doingbusiness.org/features/Highlights2010.aspx

[xxxvii] "Ethiopia eyes end of food aid within five years-PM," *Reuters*, August 11 2010 http://www.reuters.com/article/idUSLDE67A21J._CH_.2400