DEAD AID

WHY AID IS NOT WORKING AND HOW THERE IS A BETTER WAY FOR AFRICA

Dambisa Moyo

Farrar, Straus and Giroux

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To the Excellencies and officials of Europe: We suffer enormously in Africa. Help us. We have problems in Africa. We lack rights as children. We have war and illness, we lack food . . . We want to study, and we ask you to help us to study so we can be like you, in Africa.

Message found on the bodies of Guinean teenagers Yaguine Koita and Fode Tounkara, stowaways who died attempting to reach Europe in the landing gear of an airliner.

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Introduction

We live in a culture of aid.

We live in a culture in which those who are better off subscribe – both mentally and financially – to the notion that giving alms to the poor is the right thing to do. In the past fifty years, over US$1 trillion in development-related aid has been transferred from rich countries to Africa. In the past decade alone, on the back of Live 8, Make Poverty History, the Millennium Development Goals, the Millennium Challenge Account, the Africa Commission, and the 2005 G7 meeting (to name a few), millions of dollars each year have been raised in richer countries to support charities working for Africa.

We are made to believe that this is what we ought to be doing. We are accosted on the streets and goaded with pleas on aeroplane journeys; letters flow through our mail boxes and countless television appeals remind us that we have a moral imperative to give more to those who have less. At the 2001 Labour conference, the UK's Prime Minister of the time, Tony Blair, remarked that 'The State of Africa is a scar on the conscience of the world', and that the West should 'provide more aid' as, thus far, amidst the multiple problems facing Africa, the continent had received inadequate amounts of aid.[1]

Deep in every liberal sensibility is a profound sense that in a world of moral uncertainty one idea is sacred, one belief cannot be compromised: the rich should help the poor, and the form of this help should be aid.

The pop culture of aid has bolstered these misconceptions. Aid has become part of the entertainment industry. Media figures, film stars, rock legends eagerly embrace aid, proselytize the need for it, upbraid us for not giving enough, scold governments for not doing enough – and governments respond in kind, fearful of losing

popularity and desperate to win favour. Bono attends world summits on aid. Bob Geldof is, to use Tony Blair's own words, 'one of the people that I admire most'. Aid has become a cultural commodity.

Millions march for it.

Governments are judged by it.

But has more than US$1 trillion in development assistance over the last several decades made African people better off? No. In fact, across the globe the recipients of this aid are worse off; much worse off. Aid has helped make the poor poorer, and growth slower. Yet aid remains a centrepiece of today's development policy and one of the biggest ideas of our time.

The notion that aid can alleviate systemic poverty, and has done so, is a myth. Millions in Africa are poorer today because of aid; misery and poverty have not ended but have increased. Aid has been, and continues to be, an unmitigated political, economic, and humanitarian disaster for most parts of the developing world.

How this happened, how the world was gripped with an idea that seemed so right but was in fact so wrong, is what this book is about. *Dead Aid* is the story of the failure of post-war development policy.

Step by step it will dismantle the assumptions and arguments that have supported the single worst decision of modern developmental politics, the choice of aid as the optimum solution to the problem of Africa's poverty. The evidence is as startling as it is obvious. It will contrast countries which have rejected the aid route and prospered with others which have become dependent on aid and been trapped in a vicious circle of corruption, market distortion and further poverty – and thus the 'need' for more aid.

Others before me have criticized aid. But the myth of its effectiveness persists. *Dead Aid* will offer a new model for financing development for the world's poorest countries: one that offers economic growth, promises to significantly reduce African poverty, and most importantly does not rely on aid.

This book is not a counsel of despair. Far from it. The book offers another road; a road less travelled in Africa. Harder, more demanding, more difficult, but in the end the road to growth, prosperity, and independence for the continent. This book is about the aid-free solution to development: why it is right, why it has worked, why it is the only way forward for the world's poorest countries.

PART I
The World of Aid

1. The Myth of Aid

The state of Africa

A decade ago, it was easy to paint a bleak picture of the African continent. Economic prospects were grim, corruption was rampant, social capital was debilitated, tyrannical states were the order of the day, and infrastructure lay in ruins.

Over the past five years, there have been signs that warrant a sliver of optimism. Many African economies have posted annual growth rates around 5 per cent, and a number of countries now host democratic elections.

Three factors are at the core of the African revival.

First, the surge in commodity prices – oil, copper, gold, and foodstuffs – in the last several years has fuelled African exports and increased export revenue. Second, on the back of the market-based policies instituted in the late 1980s, African countries have benefited from a positive policy dividend. This has left Africa's macroeconomic fundamentals on the up (growth on the rise, inflation down, more transparent, prudent, and stable monetary and fiscal performance). And despite the news headlines, there have been some noteworthy improvements in social indicators in some countries. In Kenya, for example, HIV prevalence rates have fallen from 15 per cent in 2001 to 6 per cent at the end of 2006.[1] Third, there have been some notable strides in the political landscape across the continent; more than just on paper. For example, of forty-eight sub-Saharan African countries, over 50 per cent hold regular democratic elections that can be deemed free and fair.[2] The occurrence of democratic elections and decline in the levels of perceived corruption in a number of countries (for example, Angola, Ghana, Senegal, Tanzania, Uganda, and, yes, even Nigeria) point to a vastly improved investment climate.

If you simply believe the media headlines, are taken in by the soundbites and quips, you would almost for sure have missed out on some key milestones in Africa's financial development.

Established in 1887, the Johannesburg Stock Exchange is sub-Saharan Africa's oldest stock market. Its opening was followed by Bulawayo's exchange, in what was then the colony of Rhodesia, in 1896, and then Windhoek's, in present-day Namibia, in 1910.[3] Today sixteen African countries boast functioning and transparent stock markets (Botswana, Cameroon, Ghana, Kenya, Malawi, Mauritius, Mozambique, Namibia, Nigeria, South Africa, Swaziland, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe), with market capitalization in 2008 (excluding South Africa) around US$200 billion (around half of the region's GDP).

While it is true that stock market liquidity – the ease with which an investor can buy or sell shares – across most African exchanges is relatively low at an annual turnover ratio of 6 per cent in 2008 (versus an average of 85 per cent in more-developed emerging economies such as Brazil, Russia, India and China), between 2005 and 2006 the growth in liquidity, measured as turnover, was over 50 per cent. All things being equal, liquidity across African markets should markedly improve in the near term.[4]

In three of the past five years African stock exchanges have ranked among the best places to invest, with listed stock returns averaging 40 per cent. Companies like Zambeef (one of Africa's largest agri-businesses, involved in the production, processing, distribution and retailing of beef, chickens, eggs, milk and dairy products) returned 150 per cent in real US$ terms in 2007, and between 2005 and early 2008 the Nigerian banking sector has returned around 300 per cent.

Performance across Africa's bond markets is also impressive. Local debt returned investors 15 per cent in 2006, and 18 per cent in 2007. In the last five years average African credit spreads have collapsed by 250 basis points. What this means is that if a country issues US$100 million in debt, it is saving itself US$2.5 million per year relative to where it was five years ago. And African Private

Equity investments have had a steady record, reputedly yielding around 30 per cent over the past ten years.

But, despite these important recent strides in the macroeconomy and the political landscape, overall the picture in terms of trends in Africa remains a challenging one.

With an average per capita income of roughly US$1 a day, sub-Saharan Africa remains the poorest region in the world.[5] Africa's real per capita income today is lower than in the 1970s, leaving many African countries at least as poor as they were forty years ago. With over half of the 700 million Africans living on less than a dollar a day, sub-Saharan Africa has the highest proportion of poor people in the world – some 50 per cent of the world's poor. And while the number of the world's population and proportion of the world's people in extreme poverty fell after 1980, the proportion of people in sub-Saharan Africa living in abject poverty increased to almost 50 per cent. Between 1981 and 2002, the number of people in the continent living in poverty nearly doubled, leaving the average African poorer today than just two decades ago. And looking ahead, the 2007 United Nations Human Development Report forecasts that sub-Saharan Africa will account for almost one third of world poverty in 2015, up from one fifth in 1990 (this largely due to the dramatic developmental strides being made elsewhere around the emerging world).

Life expectancy has stagnated – Africa is the only continent where life expectancy is less than sixty years; today it hovers around fifty years, and in some countries it has fallen back to what it was in the 1950s (life expectancy in Swaziland is a paltry thirty years). The decrease in life expectancy is mainly attributed to the rise of the HIV–AIDS pandemic. One in seven children across the African continent die before the age of five.[6] These statistics are particularly worrying in that (as with many other developing regions of the world), roughly 50 per cent of Africa's population is young – below the age of fifteen years.

Adult literacy across most African countries has plummeted below pre-1980 levels. Literacy rates, health indicators (malaria, water-borne diseases such as bilharzia and cholera) and income inequality all remain a cause for worry. And still across important indicators, the trend in Africa is not just downwards: Africa is (negatively) decoupling from the progress being made across the rest of the world. Even with African growth rates averaging 5 per cent a year over the past several years, the Africa Progress Panel pointed out in 2007 that growth is still short of the 7 per cent that needs to be sustained to make substantial inroads into poverty reduction.[7]

On the political side, some 50 per cent of the continent remains under non-democratic rule. According to the Polity IV database, Africa is still home to at least eleven fully autocratic regimes (Congo-Brazzaville, Equatorial Guinea, Eritrea, Gabon, The Gambia, Mauritania, Rwanda, Sudan, Swaziland, Uganda and Zimbabwe). Three African heads of state (dos Santos of Angola, Obiang of Equatorial Guinea and Bongo of Gabon) have been in power since the 1970s (having ascended to power on 2 December 1967, President Bongo has recently celebrated his fortieth year in power). Five other presidents have had a lock on power since the 1980s (Compaore of Burkina Faso, Biya of Cameroon, Conte of Guinea, Museveni of Uganda and Mugabe of Zimbabwe). Since 1996, eleven countries have been embroiled in civil wars (Angola, Burundi, Chad, Democratic Republic of Congo, Republic of Congo, Guinea Bissau, Liberia, Rwanda, Sierra Leone, Sudan and Uganda).[8] And according to the May 2008 annual Global Peace Index, out of the ten bottom countries four African states are among the least peaceful in the world (in order, Central African Republic, Chad, Sudan and Somalia) – the most of any one continent.

Why is it that Africa, alone among the continents of the world, seems to be locked into a cycle of dysfunction? Why is it that out of all the continents in the world Africa seems unable to convincingly get its foot on the economic ladder? Why in a recent survey did seven out of the top ten 'failed states' hail from that continent? Are Africa's people universally more incapable? Are its leaders genetically more venal, more ruthless, more corrupt? Its policy-makers more innately feckless? What is it about Africa that holds

it back, that seems to render it incapable of joining the rest of the globe in the twenty-first century?

The answer has its roots in aid.

What is aid?

Broadly speaking there exist three types of aid: humanitarian or emergency aid, which is mobilized and dispensed in response to catastrophes and calamities – for example, aid in response to the 2004 Asian tsunami, or monies which targeted the cyclone-hit Myanmar in 2008; charity-based aid, which is disbursed by charitable organizations to institutions or people on the ground; and systematic aid – that is, aid payments made directly to governments either through government-to-government transfers (in which case it is termed bilateral aid) or transferred via institutions such as the World Bank (known as multilateral aid).

While there are obvious and fundamental merits to emergency aid, criticisms can be levelled against it as well as against charitable giving. Charities are often criticized, with some justification, for poor implementation, high administrative costs and the fact that they are on occasion coerced to do their donor government's bidding – despite the obvious lack of relevance to a local context. For example, in 2005, the United States pledged US$15 billion over five years to fight AIDS (mainly through the President's Emergency Plan for AIDS Relief (PEPFAR) launched in January 2003).[9] But this had strings attached. Two thirds of the money had to go to pro-abstinence programmes, and would not be available to any organizations with clinics that offered abortion services or even counselling. And nine months after the 2004 Asian tsunami, for whatever the reason (bureaucracy, institutional inefficiencies or the absence of suitable organizations on the ground to disburse the monies), the charity World Vision had spent less than a quarter of the US$100 million it had raised.

But this book is not concerned with emergency and charity-based aid. The significant sums of this type of aid that flow to

Africa simply disguise the fundamental (yet erroneous) mindset that pervades the West – that aid, whatever its form, is a good thing. Besides, charity and emergency aid are small beer when compared with the billions transferred each year directly to poor countries' governments.

Large systematic cash transfers from rich countries to African governments have tended to be in the form of concessional loans (that is, money lent at below market interest rates, and often for much longer lending periods than ordinary commercial markets) or grants (which is essentially money given for nothing in return).

There is a school of thought which argues that recipient countries view loans, which carry the burden of future repayment, as different from grants. That the prospects of repayment mean loans induce governments to use funds wisely and to mobilize taxes and maintain current levels of revenue collection. Whereas grants are viewed as free resources and could therefore perfectly substitute for a government's domestic revenues.

This distinction has led many donors to push for a policy of grants instead of loans to poor countries. The logic is that much of the investment that poor countries need to make has a long gestation period before it starts to produce the kinds of changes in GDP growth that will yield the tax revenues needed to service loans. Indeed, many scholars have argued that it was precisely because many African countries have, over time, received (floating rate) loans, and not grants, to finance public investments that they became so heavily indebted, and that aid has not helped them reach their development objectives.

Yet ultimately the question becomes how strongly recipient governments perceive loans as being different from grants. If a large share of foreign loans are provided on highly concessional terms, and loans are frequently forgiven, policymakers in poor economies may come to view them as roughly equivalent to grants, and as such the distinction between (aid) loans and grants as practically irrelevant. Over recent decades, the pattern of aid to Africa seems to gel with this view of the world – one in which loans are not seen as distinct from grants.

Therefore, for the purposes of this book, aid is defined as the sum total of both concessional loans and grants. It is these billions that have hampered, stifled and retarded Africa's development. And it is these billions that *Dead Aid* will address.

2. A Brief History of Aid

The tale of aid begins in earnest in the first three weeks of July 1944, at a meeting held at the Mount Washington Hotel in Bretton Woods, New Hampshire, USA. Against the backdrop of the Second World War, over 700 delegates from some forty-four countries resolved to establish a framework for a global system of financial and monetary management.[1] As discussed later, it is from this gathering that the dominant framework of aid-infused development would emerge.

The origins of large-scale aid transfers date as far back as the nineteenth century – when even in 1896 the US provided overseas assistance in the form of food aid. Under the Colonial Development Act of 1929, the British government administered grants for infrastructure projects across poorer countries. Aid transfers in these early periods were as much about donor largesse as they were about political control over the colonial domain, and only later, in the 1940 British Colonial Development and Welfare Act, was the programme expanded to allow funding of social sector activities.

Post-war aid can be broken down into seven broad categories: its birth at Bretton Woods in the 1940s; the era of the Marshall Plan in the 1950s; the decade of industrialization of the 1960s; the shift towards aid as an answer to poverty in the 1970s; aid as the tool for stabilization and structural adjustment in the 1980s; aid as a buttress of democracy and governance in the 1990s; culminating in the present-day obsession with aid as the only solution to Africa's myriad of problems.

The main agenda of the Bretton Woods conference was to restructure international finance, establish a multilateral trading system and construct a framework for economic cooperation that would avoid a repeat of the Great Depression of the 1930s. As they anticipated the post-Second World War era, the architects of the

1944 Bretton Woods gathering foresaw that if Europe were to regain any semblance of social, political or economic stability, vast injections of aid would have to be poured in. There was a clear recognition that in the post-war period the fractured nations of Europe would need a massive cash injection to spur a return to their previous levels of development. Damaged though Europe was, this money was (fortuitously) going into already existing physical, legal and social infrastructures which simply needed fixing.

John Maynard Keynes, the pre-eminent British economist, and Harry Dexter White, at that time the US Secretary of State, led the discussions which laid the foundations for three organizations: the International Bank for Reconstruction and Development (commonly known as the World Bank), the International Monetary Fund (IMF) and the International Trade Organization.

At the time of their inception, the exact responsibilities of the World Bank and the IMF were clearly delineated. In very broad terms, the World Bank was designed to facilitate capital investment for reconstruction, and in the aftermath of the war the IMF was to manage the global financial system. In later years, both institutions would come to occupy centre-stage in the development discourse, but the original mandate targeted reconstruction, rather than development per se.

At its core, the reconstruction agenda assumed that the demands on post-war investment could not be met without some adequate means of pooling the investment risk between countries. There was wide acknowledgement that few countries would be able to fulfil the role of foreign lender; and the basic principle of the World Bank was that no matter what country actually did the foreign lending, all member nations should participate in underwriting the risk involved. Early financial transfers from international institutions included a US$250 million reconstruction loan to France signed on 9 May 1946, followed by reconstruction loans to the Netherlands, Denmark and Luxembourg in August 1947. These aid transfers were undoubtedly at the heart of the reconstruction process that almost certainly contributed to the economic powerhouse that Europe has become today.

Alongside the World Bank, the IMF was mandated with the specific responsibility of promoting the stability of the world economy. At the time it began operations on 1 March 1947, the IMF was charged with promoting and supervising international monetary cooperation amongst countries, and thus forestalling any possible global financial crisis. By the end of the 1940s an aid-led economic framework was firmly in place, but it was not until later in the decade that the first large-scale government-to-government aid transfer occurred.

On 5 June 1947, at Harvard University, the US Secretary of State, George C. Marshall, outlined a radical proposal by which America would provide a rescue package of up to US$20 billion (over US$100 billion in today's terms) for a ravaged Europe.[2] As Europe emerged from the devastation of the Second World War with little to sell for hard currency, and experiencing one of the worst winters on record, General Marshall argued for an aggressive financial intervention by the United States. In return, European governments would draw up an economic revival plan.

Under the Marshall Plan, the United States embarked on an aid programme to fourteen European countries which saw the transfer of assistance worth roughly US$13 billion throughout the five-year life of the plan from 1948 to 1952. Among the top five aid recipients from the Marshall Plan were Great Britain, which received the lion's share of 24 per cent, and France, Italy and Germany, which received 20, 11 and 10 per cent, respectively. In per capita terms smaller European countries received more support: Norway received US$136 per person, Austria US$131, Greece US$128 and the Netherlands US$111.

The idea that the Marshall Plan is hailed as a success has remained, to a large extent, unquestioned. The plan was clearly successful in bringing Western Europe back onto a strong economic footing, providing the US with the vehicle to influence foreign policy, winning it allies in Western Europe and building a solid foundation for US-led multilateralism. Aid had restored broken infrastructure. Aid had brought political stability, restored hope and not only given a future to defeated peoples, to bankrupt

nations and to broken lands, but also benefited the donor nation itself, keeping the US economy afloat while the world around it had crumbled.

More importantly, if aid worked in Europe, if it gave to Europe what Europe needed, why couldn't it do the same everywhere else? By the end of the 1950s, once reconstruction in Europe was seen to be working, attention turned towards other parts of the world, and specifically, in the context of aid, Africa.

Africa was ripe for aid. The continent was characterized by a largely uneducated population, low-salaried employment, a virtually non-existent tax base, poor access to global markets and derelict infrastructure. Armed with the ideas and experience of the Marshall Plan, richer countries saw Africa as a prime target for aid. So aid began to appear.

As the US funnelled large sums to Europe through the Marshall plan, World Bank and IMF resources were freed up. Monies that had been earmarked by the Bretton Woods institutions for post-war European reconstruction could now be directed towards the emerging (African) development agenda.

Perhaps more crucially for the aid-based agenda that ensued, it was widely assumed that poor countries lacked the financial capital to spur development. In the wake of the Marshall Plan success, it became a widely accepted view that investment capital was critical for economic growth. In the absence of any significant domestic savings and lacking the physical and human capital to attract private investment, foreign aid was seen as the only way to trigger higher investment, which would thus lead to higher economic growth. As far as policymakers could see, there was no obvious alternative.

There were of course other reasons why Britain, America and to a lesser extent France turned their attention to Africa. By the mid-1950s Africa was undergoing profound changes – with Western powers loosening the chains of colonialism, many countries were gaining their independence. Countries such as Ghana in 1957, Kenya in 1963, and Malawi and Zambia in 1964 broke from the colonial fold to become independent states between 1956 and 1966; in all, thirty-one African countries did so. Independent they may have been on paper, but independence dependent on the financial largesse of their former colonial masters was the reality. For the West, aid became a means by which Britain and France combined their new-found altruism with a hefty dollop of self-interest – maintaining strategic geopolitical holds. For the US, aid became the tool of another political contest – the Cold War.

While the Cold War was peppered with outbreaks of physical hostility (for example, in Korea), much of the battle for world hegemony between the US and the USSR was fought economically and on foreign soil. The choice of weapon – aid. Africa saw many such battles. Aid became the key tool in the contest to turn the world capitalist or communist. The Soviet Union was, of course, a staunch supporter (and financier) of some of Africa's greatest communists – Patrice Lumumba in Congo and Mengistu Haile Mariam in Ethiopia. And the US, by contrast, rewarded its supporters, such as Zaire's Mobutu Sese Seko.

As such, the aid imperative took on an added dimension: not how deserving a country might be or the nature of its leadership, but rather the willingness of a desperately impoverished country to ally itself with one camp or another – benevolent leader or vicious tyrant, as long as they were onside, what did it matter?

It is impossible to know for sure what the true motivations for granting foreign aid to Africa were, but granted it was.

The 1960s: the decade of industrialization

By the beginning of the 1960s some US$100 million in aid had been transferred to the African continent. This was a mere trickle compared to the avalanche of billions of dollars of aid that would eventually make its way to Africa.

The early part of the 1960s also saw the underlying shift towards a greater focus on aid funding for large-scale industrial projects. The prevailing view was that because these projects had longer-term pay-offs (for example, the funding of infrastructure projects such as roads and railways), they were unlikely to be funded by the private sector. One such example is the double-curvature, hydroelectric, concrete arch Kariba dam that straddles the border between Zambia and Zimbabwe; it was built throughout the decade. The dam, whose construction began under British colonial rule in the mid-1950s, was finally completed at a cost of US$480 million in 1977. Today it still ranks as one of the largest dams in the world.

By 1965, when around half of sub-Saharan Africa's roughly fifty states were independent, aid had already reached at least US$950 million. Ghana, which had won its independence from Britain in 1957, had received as much as US$90 million in aid flows. Zambia, Kenya and Malawi, all independent by 1964 had, on average, received about US$315 million each by the end of the decade. Statistical records from the 1960s are scant, and estimates of the miles of tarred road and railway track, the numbers of bridges and airports, that aid helped build remain unclear. As such, the true value of the surfeit of aid that had gone to Africa remains open to debate, but by the beginning of the 1970s there was still not much infrastructure to speak of.

The foreign aid agenda of the 1970s: the shift to a poverty focus

On 17 October 1973, Arab states placed an embargo on oil as a retaliation for US support for Israel in the Yom Kippur War. In just a few months, the price of petrol quadrupled, sending the global economy into turmoil. As oil prices soared, oil-exporting countries deposited the additional cash with international banks, which in turn eagerly sought to lend this money to the developing world. Lax economic and financial policies (for example, the low amounts central banks required commercial banks to keep in reserve) meant that the volume of lending to even the poorest and most un-creditworthy countries around the world was enormous. The wall of freely supplied money led to extremely low, and even negative, real interest rates, and encouraged many poorer economies to start borrowing even more in order to repay previous debts.

In Africa, as oil prices rose many countries saw food prices rocket and recession take hold. In 1975 Ghana's GDP contracted by 12 per cent, inflation rose from 3 per cent in 1970 to 30 per cent in 1975, and shot to 116 per cent in 1977. In Congo-Kinshasa, inflation rose from 8 per cent in 1970 to 80 per cent in 1976, and reached 101 per cent in 1979. Almost inevitably, food and commodity price shocks fuelled by rises in oil prices led to the shift towards a more poverty-based approach to development.

Under Robert McNamara, the World Bank very publicly reoriented its strategies towards this more pronounced poverty focus. Donor countries followed suit: in 1975 the UK published its white paper *More Aid for the Poorest* and in the same year the US passed the International Development and Food Assistance Act, which stipulated that 75 per cent of its Food for Peace Program would go to countries with a per capita income of less than US$300.

In practical terms this meant redirecting aid away from large infrastructure investment (power, transport, etc.), and towards projects in agriculture and rural development, social services (including housing, education and health), mass inoculation programmes, adult literacy campaigns, as well as food for the malnourished. The emphasis was now on the poor. By the end of the 1970s the proportion of aid allocated to social services had crept to over 50 per cent, up from under 10 per cent in the previous decade.

Although in the mid-1970s nearly two thirds of aid was for infrastructure – roads, railways, water and sewerage, ports, airports, power stations and telecommunications, the proportion of poverty-oriented lending rose from 5 per cent in the late 1970s to 50 per cent by the early 1980s. In the year of the first oil spike (between 1973 and 1974) the volume of poverty-related aid flows increased threefold; it more than doubled at the time of the second oil jump between 1979 and 1980. It should be understood that, like the majority of the infrastructure aid, much of the poverty-related aid did not come for free. Aid costs money. And unless it's in the form of grants, it has to be paid back, with interest. This point would later come back to haunt many African states.

By the beginning of the 1970s the growth-oriented strategy was widely believed in policy circles to have failed in its mission to deliver sustained economic growth. Mounting numbers of people living in a state of absolute poverty, increasing levels of unemployment, rising income inequality, worsening balance of trade positions and a growing sense that sustained growth – real sustained growth – could not occur without materially improving the livelihood of society's poor demanded a new aid strategy.

Yet, despite the aid aimed at poverty alleviation, recipients under the programme in countries such as Zambia would later see their poverty levels skyrocket and growth rates plummet. Another shift was underway in the 1970s. Up until the early part of the decade the US government (under the auspices of the US Agency for International Development) had disbursed the largest amount of aid to the developing world. This changed under Robert McNamara's presidency of the World Bank, and after its 1973 annual meeting the World Bank became the largest aid donor.

The foreign aid agenda of the 1980s: the lost age of development

By the end of the 1970s Africa was awash with aid. In total, the continent had amassed around US$36 *billion* in foreign assistance. With the commodity boom creditors were only too happy to provide loans. Although economic pressures and financial instability had been largely contained after the 1973 oil crisis, come the 1979 oil spike precipitated by the Iran–Iraq war, it was a different story.

Foreign money had been flowing not only to Africa, but all across the world. Throughout the 1960s and 1970s Latin American countries borrowed vast sums of money, also to finance their burgeoning economies. Between 1975 and 1982, for example, Latin American debt to commercial banks increased at a cumulative annual rate of 20.4 per cent. This heightened borrowing led Latin America to quadruple its external debt from US$75 billion in 1975 to more than US$315 billion in 1983, or 50 per cent of the region's GDP.

The 1979 oil crisis produced financial pressures of insurmountable proportions, and the official policy response did not help. The policy reaction, particularly by major economies such as the US and UK, differed drastically from the earlier approach of simply dumping in more aid to stave off the impact on the poor. Central bankers in the industrialized world reacted to the second price shock and fears of mounting inflation by tightening monetary policy – that is, mainly raising interest rates. Most of the bank loans to developing countries were based on floating interest rates, so as policymakers raised interest rates, so too the cost of borrowing increased – often to levels where debt was unsustainable.

Africa's debt service (interest payments and the repayment of principal) reached around US$8 billion in 1982, up from US$2 billion in 1975. Almost inevitably, the environment of higher international interest rates led to worldwide recession and, in turn, less demand for developing countries' exports, and hence lower foreign exchange earnings. Eventually, as emerging countries were unable to service their accumulated debts there was only one alternative.

On 12 August 1982 Mexico's Secretary of Finance telephoned the US Federal Reserve Chairman, the US Secretary of the Treasury and the IMF's Managing Director to inform them that Mexico would be unable to meet its 16 August debt obligations to its bank creditors. Other countries soon followed suit. In Africa alone, some eleven countries – Angola, Cameroon, Congo, Ivory Coast, Gabon, The Gambia, Mozambique, Niger, Nigeria, Tanzania, and Zambia – defaulted on their obligations.[3]

The debt crisis threatened to undermine the very foundations of global financial stability. If emerging nations were allowed to default unchecked, this would have led to a complete collapse of the international financial structure. The survival of international creditors, such as banks, who relied on getting paid back for the

loans was in jeopardy. Much like the risks surrounding the 2008 sub-prime credit crisis, this could have resulted in a catastrophic run on the banks, a global financial meltdown and all that it entails – unemployment, galloping inflation and economic depression.

The solution to the crisis was to restructure the debt. Thus the IMF formed the Structural Adjustment Facility – latterly, the Enhanced Structural Adjustment Facility – specifically to lend money to defaulting nations to help them repay what they owed. Necessary though this was, the end result only served to increase poor countries' aid-dependence and put them deeper into debt.

This intervention was called a restructuring, but in reality it was merely a reincarnation of the aid model. Invariably, because international private lending markets dried up and as commercial banks were no longer willing to lend to poor countries, the Bretton Woods institutions would reclaim their central position as chief lenders to emerging economies.

From the high hopes and ambitions of their early independence, many African countries had been reduced to a state of near destitution and renewed dependency. Facing falling income from trade (prices of commodities such as oil and sugar had retreated to historically low levels: oil fell from US$38 a barrel in 1980 to US$15.10 in 1986 (a 60 per cent drop in just four years), and sugar from 65 cents per pound to a low of just under 7 cents per pound in 1978), weighed down by enormous debt burdens, high interest rates and declining demand for their goods, it was difficult to see what, if anything, had been achieved in the preceding twenty years. But amidst this financial chaos around the world, another fundamental shift in economic thinking was occurring; one which would again have implications for aid.

Up until the 1980s the notion that governments were the ultimate arbiter of resource allocation lay at the core of economic planning, leaving little room for any sort of private sector. Government-led economic planning had appeared to work well in the Soviet Union, and many Western governments were keen to avert another great depression by cementing their influence in economic management. Socialist policies that had placed government at the centre of economic activity and nationalized much of private industry were believed to be the fastest route to economic prosperity. This was true across the developed world – for example, in Britain and France well before the 1980s – as well as in many African countries in the post-independence period.

By the 1980s, however, there was a growing sense among leading policymakers that there were inherent structural impediments to the functioning of economic markets. Far from being a catalyst for development, excessive government involvement was viewed as the prime obstacle to growth; rather than facilitating healthy economic expansion, it was the source of economic distortion.

The 1980s also saw the rise of the neo-liberal thinking which argued that governments should liberalize their economies in favour of the laissez-faire paradigm, which encompassed (and indeed acknowledged the importance of) the private market. The experience of the newly industrializing economies of Asia gave these market-based ideas a popularity boost in policy circles in the United States and Europe. The Asian tigers seemed to have achieved high growth rates and unprecedented poverty reduction with free-market policies and an outward orientation. As free-market proponents, Milton Friedman and the Chicago School of Economics had great influence on the policies and thinking of the US President, Ronald Reagan, and the UK's Prime Minister, Margaret Thatcher. The policies that ensued (Reaganomics and Thatcherism) bore all the hallmarks of an economic revolution, and there was little room for compromise; so too in Africa, where these free-market polices were packaged and sold as the new development agenda.

In Africa, as with other parts of the developing world, this economic overhaul necessitated two new aid-based programmes: first, stabilization, and then structural adjustment. Stabilization meant reducing a country's imbalances to reasonable levels – for example, the government's fiscal position and the country's import–export ratio. Meanwhile structural adjustment was aimed at encouraging greater trade liberalization and reducing price and structural rigidities by such means as removing subsidies.

Both the World Bank and the IMF launched aggressive aid programmes to institute these two initiatives; the IMF's Structural Adjustment and Enhanced Structural Adjustment Facilities are examples of these. Poor governments received cash in the form of budgetary support, and in return agreed to embrace the free-market solutions to development. This would entail minimizing the role of the state, privatizing previously nationalized industries, liberalizing trade and dramatically reducing the civil service. Between 1986 and 1996, for example, six African countries – Benin, the Central African Republic, Guinea, Madagascar, Mali and Uganda – shed more than 10 per cent of their civil service workforce.[4] The privatization of African state-owned enterprises across all sectors (no sector sacred – manufacturing and industry, agriculture, tourism, services, trade, transport, financial, energy, mining, water, electricity and telecommunications) meant the government stake of corporate equity fell from almost 90 per cent to just 10 per cent ownership in six years. The free markets gave African economies the freedom to succeed, but also the freedom to fail. In Zambia, for instance, an aggressive privatization programme saw the closure of the country's national airline carrier, Zambia Airways.[5]

From the start of the debt crisis in 1982, IMF flows rose from US$8 billion to US$12 billion in 1983. With the onset and resolution of the debt crisis in the 1980s, poverty-related aid flows subsided, tilting in favour of stabilization and structural adjustment packages (together known as programme aid). Since the 1980s the World Bank's share of adjustment-related lending has averaged between 20 and 25 per cent of its total disbursements. During the 1980s bilateral flows also became more concessional in nature and by the early 1990s over 90 per cent were grants.

Alongside rising government-to-government transfers (bilateral aid), multilateral institutions continued their aggressive march towards gaining greater importance – both in terms of the volume of aid disbursed and as architects of development policy. By 1989, the Washington Consensus (a standard reform package of economic policy prescriptions, mainly on monetary and fiscal policy for the countries most affected by economic crisis) became the backbone of the development strategy pursued by the Washington DC-based institutions (the IMF, World Bank, and US Treasury Department).

The foreign aid agenda of the 1990s: a question of governance

By the end of the 1980s, emerging-market countries' debt was at least US$1 trillion, and the cost of servicing these obligations colossal. Indeed, the cost became so substantial that it eventually dwarfed foreign aid going into poor countries – leading to a net reverse flow from poor countries to rich to the tune of US$15 billion every year between 1987 and 1989. From a development point of view, this was absurd. Were it not for the tragic consequences, it would be farcical. Africa's economic growth had been in a steady decline, poverty levels were on the rise and the stench of rampant corruption was growing ever more pungent. (After his meeting with President Reagan, Zaire's President Mobutu Sese Seko had asked for easier terms to service the country's US$5 billion debt; he then promptly leased Concorde to fly his daughter to her wedding in the Ivory Coast.[6]

This backdrop, seen by many as the spectacular crash of the aid-based development model, set the tone for the policy shifts of much of the 1990s. Having seen the failure of fifty years of competing aid interventions, donors now laid the blame for Africa's economic woes at the door of political leadership and weak institutions.

While much of Asia and Latin America was firmly back on a growth path, with issues of economic instability behind it, many African countries stagnated, and in some of the worst cases economically regressed.

It was around this time that the donor community converged on the idea that governance – good governance, needed for sustainable economic growth – was lacking across much of sub-Saharan Africa. Good governance was a euphemism for strong and credible institutions, transparent rule of law and economies free of rampant corruption. Also around this time, geopolitically, the world had been undergoing a transformation of its own, a transformation that

would have far-reaching implications for Africa and the aid agenda for the continent.

Throughout the latter half of the twentieth century and up until the 1990s, the Cold War had provided richer countries with the political imperative to give aid monies even to the most corrupt and venal despots in Africa. One of the features of the Cold War was the West's ability and eagerness to support, bankroll and prop up a swathe of pathological and downright dangerous dictators. From Idi Amin in the east, to Mobutu Sese Seko in the west, from Ethiopia's Mengistu to Liberia's Samuel Doe, the competition among these leaders to be more brutal to their people, more spendthrift, more indifferent to their country's needs than their neighbours were, was matched only by the willingness of international donors to give them the money to realize their dreams. Bokassa's coronation as Emperor of the Central African Empire in 1977 alone cost US$22 million.[7] Across many African states, corruption was running at epidemic levels. In 1996, among fifty-four countries around the world, Nigeria was ranked the most corrupt nation, scoring a dismal 0.69 out of 10 on corruption rankings.[8]

Despite this corrupt environment, everyone continued to lend. In answer to mounting criticism of raging crooked, shady and fraudulent practices, donors offered qualifications. For example, the World Bank pledged continued aid support, with the proviso that aid monies must also target governance reform, with the aim of improving the civil service and government bureaucracy (through teaching skills, transparency and institutional reform).

Governance remains at the heart of aid today. Whether this aid strategy has any long-term effects, however, remains an open question. Have Africans been trained in ethics and good governance at Western universities? Yes. Have radical reforms aimed at improving transparency and efficiency been implemented? Yes, at least on paper. But it is debatable whether these initiatives have any real bite in countries which still opt to be dependent on aid.

Alongside governance emerged the West's growing obsession with democracy for the developing world. The installation of democracy was the donor's final refuge; the last-ditch attempt to show that aid interventions could work, would work, if only the political conditions were right. The 1960s' growth agenda had failed to deliver growth and reduce poverty; as had the 1970s' emphasis on the poor, and the 1980s' focus on economic stabilization and adjustment. So after three decades of aid-centric development models, it was left to Western democracy to save the day. In its essence, democracy was perceived to be the way in which countries could grow and develop; and if the democratic ethos and institutions were transplanted to African states, then these countries would finally begin to prosper. Democracy was the ultimate key.

Democracy, real liberal democracy, means political representatives are chosen through elections that are open, free and fair; where virtually all adults possess the right to vote; where civil and political liberties are broadly protected; and where elected authorities are not subject to the tutelary control of military or clerical leaders. For the West, the process of open and fair elections had taken centuries to evolve, but the hope was that (coupled with aid) shoe-horning democracy into underdeveloped nations would guarantee that African countries would see a sudden change in their economic and political fortunes. Yet, as discussed later, it would soon become clear that any improvements in Africa's economic profile have been largely achieved in spite of (nominal) democracy, not because of it.[9]

By the end of the Cold War in 1991, the USSR was no longer a tangible threat, and China had not yet appeared as a protagonist in Africa's development story. So whereas in the past the aid policy had, to a great extent, been governed by Cold War demands, Western donors were now no longer bound by such political considerations. The Soviet Union had, on average, disbursed US$300 million a year to Africa (58 per cent went to Ethiopia), but after the break-up of the union this amount would almost certainly have fallen considerably. Donors could now pick and choose, when, why and to whom they doled out aid – if at all.

Where foreign aid is concerned, the 1990s were characterized by two themes. First, there was the dominance of multilateral agencies, such as the World Bank and the United Nations Development Programme (UNDP), as the leading aid donors; their share of multilateral giving rose from 23 per cent in the 1970s to 30 per cent in the early 1990s. Much of the official flow of aid was on a concessional basis, with grants constituting more than 90 per cent of total official assistance by 1996 – up from 60 per cent twenty years earlier.

Second, there was the onset of donor fatigue in the latter part of the decade. With the geopolitical rationale for giving aid gone, the amount of aid to Africa dwindled dramatically. In the early 1990s, official donor aid (excluding emergency aid and debt relief) to Africa averaged US$15 billion a year, compared to around US$5 billion a year in the 1970s. Having accounted for more than 60 per cent on average of total cash to the continent (net disbursements) during the 1987–92 period (peaking in 1990 at 70 per cent), the share of official foreign aid steadily declined to a little more than 30 per cent of disbursements between 1993 and 1997. Similarly the net official development assistance (ODA – the donors' term for official aid) disbursements as a share of donor GNP fell from 0.38 per cent in 1982 to 0.22 per cent in 1997. For many developing countries (mainly in Asia and Latin America) private flows had largely replaced aid flows, rising from 26 per cent in 1987–92 to 55 per cent in 1993–7.

However, unlike other emerging zones, sub-Saharan Africa did not witness a concomitant rise in private capital inflows as aid flows declined. Despite the decline in net aid flows to Africa over the 1990s, net disbursements at the end of the period were still larger than in 1987, and, furthermore, foreign aid continued (and continues to this day) to be the predominant source of financial resources for much of the continent. In some cases in Africa, aid still represented as much as 90 per cent of net disbursements between 1987 and 1996.

So there had been a marked upward trend in the real value of foreign assistance from the 1960s; this peaked in 1992, and since then aid volumes have fallen. Africa's total net ODA has declined from a high of US$17 billion to US$12 billion in 1999.

During the 1990s another view was also emerging about Africa's failure to develop. Aside from an absence of quality governance and of free and fair democratic process, and the emergence of endemic corruption, there was a sense from some quarters that if only Africa could be released from its yoke of debt in one fell swoop, it could finally achieve that elusive goal – economic prosperity. It was debt that was holding Africa back. And in that sense it was the West's fault, as it was the West to whom Africa owed billions. Morality – Western, liberal, guilt-tripped morality – seeped into the development equation. Soon everyone would join in.

The foreign aid agenda of the 2000s: the rise of glamour aid

In 2000, Africa became the focus of orchestrated world-wide pity, and not for the first time. The Nigerian humanitarian catastrophe of Biafra in 1971 (the same year as the Beatle George Harrison's Concert for Bangladesh) had demanded that the world respond to human catastrophe. Consciousness was raised several notches with Bob Geldof's 13 July 1985 Live Aid Concert where, with 1.5 billion people watching, public discourse became a public disco.

Live Aid had not only been triumphant in bringing Africa's plight to the wider public; it also trumpeted an era of morality. In the run-up to the new millennium, crusades like the Jubilee Debt Campaign capitalized on people's desperate desire to be a part of something that would give aid and development policy another dimension. African leaders such as Tanzania's President Mkapa later encapsulated the feeling of the day in his speech at the Jubilee Debt Campaign Conference in February 2005, calling it a 'scandal that we are forced to choose between basic health and education for our people and repaying historical debt'.

Thus, the way was paved for the army of moral campaigners – the pop stars, the movie stars, new philanthropists and even Pope John Paul II – to carve out niches for themselves, as they took on the fight for more, not less, aid to be sent to Africa, even after billions of dollars of debt were cancelled – in essence, cancelling

debt on the one hand, and replacing it with a swathe of new aid, and thus the prospect of fresh debt all over again, with the other. The aid campaigners capitalized on the success of raising cash for emergency aid, and extended it to a platform to raise development aid; something entirely different.

In more recent times, the Irish musician Bono has made his case directly to the US President, George Bush, in a White House visit in October 2005, and Bob Geldof was a guest at the 2005 G8 meeting in Gleneagles, Scotland, and advised the UK's Commission to Africa. It would appear, despondent with their record of failure, that Western donors are increasingly looking to anyone for guidance on how best to tackle Africa's predicament.

Scarcely does one see Africa's (elected) officials or those African policymakers charged with the development portfolio offer an opinion on what should be done, or what might actually work to save the continent from its regression. This very important responsibility has, for all intents and purposes, and to the bewilderment and chagrin of many an African, been left to musicians who reside outside Africa. One disastrous consequence of this has been that honest, critical and serious dialogue and debate on the merits and demerits of aid have atrophied. As one critic of the aid model remarked, 'my voice can't compete with an electric guitar'.

At the end of it all, it is virtually impossible to draw on Africa's aid-led development experience and argue that aid has worked. The broadest consequences of the aid model have been ruinous. Rwanda's President Paul Kagame put it most simply: 'The primary reason [that there is little to show for the more than US$300 billion of aid that has gone to Africa since 1970] is that in the context of post-Second World War geopolitical and strategic rivalries and economic interests, much of this aid was spent on creating and sustaining client regimes of one type or another, with minimal regard to developmental outcomes on our continent.'[10]

Donors, development agencies and policymakers have, by and large, chosen to ignore the blatant alarm signals, and have continued to pursue the aid-based model even when it has become apparent that aid, under whatever guise, is not working. Even when aid has not been stolen, it has been unproductive. The proof of the pudding is in the eating, and ever so clearly the preponderance of evidence is on this side. Given Africa's current economic state it is hard to see how any growth registered is a direct result of aid. If anything, the evidence of the last fifty years points to the reverse – slower growth, higher poverty and Africa left off the economic ladder.

We meant well

More than US$2 trillion of foreign aid has been transferred from rich countries to poor over the past fifty years – Africa the biggest recipient, by far. Yet regardless of the motivation for aid-giving – economic, political or moral – aid has failed to deliver the promise of sustainable economic growth and poverty reduction. At every turn of the development tale of the last five decades, policymakers have chosen to maintain the status quo and furnish Africa with more aid.

Aid has not lived up to expectations. It remains at the heart of the development agenda, despite the fact that there are very compelling reasons to show that it perpetuates the cycle of poverty and derails sustainable economic growth. Paul Kagame rightly also laments that 'While more than US$300 billion in aid has apparently been disbursed to our continent since 1970, there is little to show for it in terms of economic growth and human development.'[11]

Aid is not working. And here's why.

3. Aid Is Not Working

Consider this: in the past forty years at least a dozen developing countries have experienced phenomenal economic growth. Many of these, mostly Asian, countries have grown by almost 10 per cent of GDP per year, surpassing the growth rates of leading industrialized economies, and significantly reducing poverty. In some instances, poorer countries have leap-frogged the per capita income levels of leading developed economies, and this trend is set to continue: by some estimates, star emerging-market performers such as Brazil, Russia, India and China are projected to exceed the economic growth rates of nearly all industrialized economies by the year 2050. Yet, over the same period, as many as thirty other developing countries, mainly aid-dependent in sub-Saharan Africa, have failed to generate consistent economic growth, and have even regressed.

Many reasons have been offered to account for why African countries are not working: in particular, geographical, historical, cultural, tribal and institutional. While each of them is convincing in explaining Africa's poor showing, they do not tell the whole story.

One argument, advanced by geographical determinists such as Jared Diamond in *Guns, Germs and Steel* (1997), is that a country's wealth and success depend on its geographical environment and topography. Certain environments are easier to manipulate than others and, as such, societies that can domesticate plants and animals with relative ease are likely to be more prosperous. At a minimum, a country's climate, location, flora, fauna and terrain affect the ability of people to provide food for consumption and for export, which ultimately has an impact on a country's economic growth. Diamond notes that all societies and cultures have had approximately similar abilities to manipulate nature, but the raw materials with which they had to start were different.

Africa's broad economic experience shows that the abundance of land and natural resources does not guarantee economic success, however. In the second half of the twentieth century, natural-resource dependence has proved to be a developmental curse, rather than a blessing. For example, many African countries were unable to capitalize on commodity windfalls of the 1970s, leaving their economies in a state of economic disaster (the good news is that at least five African countries – Chad, Equatorial Guinea, Gabon, Nigeria and Sudan – have had the good sense this time around to establish savings funds and to put aside some of their commodity windfalls). Having squandered much of their natural wealth through questionable investment and even, in some cases, outright theft, oil- and mineral-rich countries such as Nigeria, Angola, Cameroon and the Democratic Republic of Congo recorded dismal economic results in this period. They had nothing to show for it.

In 'Africa: Geography and Growth', an Oxford University and ex-World Bank economist, Paul Collier, adopts a nuanced approach to the endowments issue by classifying African countries in three groups: countries which are resource-poor but have coastline; those that are resource-poor and landlocked; and countries which are resource-rich (where it matters little whether the country is landlocked or has a coastline). The three groups have remarkably different growth patterns. Historically, on an economic performance basis, coastal resource-scarce countries performed significantly better than their resource-rich counterparts whether landlocked or coastal; leaving the landlocked, resource-scarce economies as the worst performers. Collier reckons that these factors cost these economies around one percentage point of growth. This is a pattern which exists globally as well as being true for the African continent. Unfortunately, Collier notes, Africa's population is heavily pooled around the landlocked and resource-scarce countries.

Clearly one's environment matters, and of course the conditions in parts of Africa are harsh – notably the climate and terrain. But, harsh as they may be, these aspects are not insurmountable. With average summer temperatures reaching 49°C (120°F) Saudi Arabia is rather hot, and, of course, Switzerland is landlocked, but these factors have not stopped them from getting on with it.

Historical factors, such as colonialism, have also often been put forward as explanations for Africa's underachievement; the idea being that colonial powers delineated nations, established political structures and fashioned bureaucracies that were fundamentally incompatible with the way of life of indigenous populations. Forcing traditionally rival and warring ethnic groups to live together under the same flag would never make nation-building easy. The ill-conceived partitioning of Africa at the 1885 Berlin Conference did not help matters. The gathering of fourteen nations (including the United States, and with Germany, Britain, France and Portugal the most important participants) produced a map of Africa littered with small nations whose arbitrarily drawn borders would always make it difficult for them to stand on their own two feet – economically and politically.[1]

There is, of course, the largely unspoken and insidious view that the problem with Africa is Africans – that culturally, mentally and physically Africans are innately different. That, somehow, deeply embedded in their psyche is an inability to embrace development and improve their own lot in life without foreign guidance and help.

It is not the first time in history that cultural norms, social mores or religious beliefs have been cited as the reasons for differences in development between different peoples. The German political economist and sociologist Max Weber argued that a Protestant work ethic contributed to the speed of technological advancement and explained the development seen in industrial Britain and other European nations.

In his mind there were two broad groups: the Calvinists, who believed in predestination and, depending on their lot, may or may not acquire wealth; and the believers in the Protestant work ethic who could advance through the sweat of their brow. As with Weber, Africa's development quandary offers two routes: one in which Africans are viewed as children, unable to develop on their own or grow without being shown how or made to; and another which offers a shot at sustainable economic development – but which requires Africans be treated as adults. The trouble with the aid-dependency model is, of course, that Africa is fundamentally kept in its perpetual childlike state.

Another argument posited for Africa's economic failures is the continent's disparate tribal groupings and ethno-linguistic make-up. There are roughly 1,000 tribes across sub-Saharan Africa, most with their own distinct language and customs. Nigeria with an estimated population of 150 million people has almost 400 tribes; and Botswana with just over one million inhabitants has at least eight large tribal groupings. To put this in context, assuming Nigeria's ratio, imagine Britain with its population of 60 million divided into some 160 ethnically fragmented and distinct groupings.

At least two potential concerns face nations with strong tribal divisions. The most obvious is the risk that ethnic rivalry can lead to civil unrest and strife, sometimes culminating in full-blown civil war. In contemporary times the ghastly examples of Biafra in Nigeria (1967–70) and the ethnically motivated genocide in Rwanda in the 1990s loom large.

Paul Collier postulates that the more a country is ethnically divided, the greater the prospect of civil war. This is why, it is argued, Africa has a much higher incidence of civil war than other developing regions such as South Asia in the last thirty years. Very little can rival a civil war when it comes to ensuring a country's (and potentially its neighbours') decline – economically, socially, morally. In pure financial terms Collier has estimated that the typical civil war costs around four times annual GDP. In Africa, where small countries exist in close proximity with one another, the negative spillover cost of war onto neighbouring countries can be as much as half of their own GDP.

Even during peaceful times, ethnic heterogeneity can be seen to be an impediment to economic growth and development. According to Collier, the difficulty of reform in ethnically diverse small countries may account for why Africa persisted with poor policies for longer than other regions. Ethnically diverse societies

are likely to be characterized by distrust between disparate groups, making collective action for public service provision difficult. This is particularly true in (even nominally) democratic societies, where the prospect of achieving policy consensus amongst fractious ethnically split groups can be challenging. Invariably, where there is infighting, an impasse or split across ethnic lines slows down the implementation of key policies that could spur economic growth. Kenya's turbulent democratic elections in 2008 are a recent example where tribal tensions between the presidential incumbent Mwai Kibaki (a Kikuyu) and Raila Odinga (a Luo) seeped into and infected the political process and institutions (the compromise was a coalition government made from the two groupings).

No one can deny that Africa has had its fair share of tribal fracas. But by the same token it is also true that there are a number of African countries where disparate groups have managed to coexist perfectly peacefully (Botswana, Ghana, Zambia, to name three). In the quest for a solution to Africa's economic woes, it is futile to cite ethnic differences as an excuse – born a Zulu, always a Zulu. But Zulus, like people from any other tribe, can and do intermarry; they live, work and play in integrated cities. In fact people in African cities live in a more integrated way than you might find in other cities – there are no ethnic zones such as exist in Belfast, London or New York, for that matter. Besides, once locked into the ethnic argument there is no obvious policy prescription: it's a dead end. Better to look to a world where all citizens can freely participate in a country's economic prosperity, and watch the divisive role of ethnicity evaporate.

Yet another explanation put forward for Africa's poor economic showing is the absence of strong, transparent and credible public institutions – civil service, police, judiciary, etc.

In *The Wealth and Poverty of Nations*, David Landes argues that the ideal growth and development model is one guaranteed by political institutions. Secure personal liberty, private property and contractual rights, enforced rule of law (not necessarily through democracy), an ombudsman-type of government, intolerance towards private rent-seeking and optimally sized government are mandatory.

In *Empire: How Britain Made the Modern World*, Niall Ferguson points to the common-law system and the British-type civil administration as two institutions that promoted development. Ferguson also notes that it is a country's underlying legal and political institutions that make it conducive to investment (and counter-disinvestment through less capital flight) and innovation. This necessarily includes enforcement of the rule of law, avoidance of excessive government expenditures and constraints on the executive. In turn, this yields a transparent fiscal system, an independent monetary authority and a regular securities market that foster the growth in size and number of corporations.

Professor Dani Rodrik from Harvard University is equally adamant in arguing that institutions that provide dependable property rights, manage conflict, maintain law and order, and align economic incentives with social costs and benefits are the foundation of long-term growth. In his book *In Search of Prosperity*, Rodrik points to China, Botswana and Mauritius as examples of countries which largely owe their economic success to the presence (or creation) of institutions that have generated market-oriented incentives, protected the property rights of current and future investors, and deterred social and political instability. (Botswana had a GDP per capita of US$8,170 in 2002, more than four times the sub-Saharan-Africa average, US$1,780, much of its success attributed to the probity of its political institutions.)[2]

Conversely, he suggests, Indonesia and Pakistan are countries where, in the absence of good public institutions, growth has been difficult to achieve on a sustained basis. Even when growth has occurred intermittently it has been fragile (as in post-1997 Indonesia) or incapable of delivering high levels of social outcomes in areas such as health or education (as in the case of Pakistan). Rodrik's estimates imply that changes in institutions can close as much as three quarters of the income gap between the nations with the best and those with the worst institutions.

While public institutions – the executive, the legislature and the

judiciary – exist in some form or fashion in most African countries (artefacts of the colonial period), apart from the office of the president their real power is minimal, and subject to capricious change. In strong and stable economic environments political institutions are the backbone of a nation's development, but in a weak setting – one in which corruption and economic graft reign supreme – they often prove worthless.

Africa's failure to generate any meaningful or sustainable long-run growth must, ostensibly, be a confluence of factors: geographical, historical, cultural, tribal and institutional. Indeed, it would be naïve to discount outright any of the above arguments as contributing to Africa's poor growth history. However, it is also fair to say that no factor should condemn Africa to a permanent failure to grow. This is an indictment Africa does not deserve. While each of these factors may be part of the explanation in differing degrees, in different countries, for the most part African countries have one thing in common – they all depend on aid.

Does aid work?

Since the 1940s, approximately US$1 trillion of aid has been transferred from rich countries to Africa. This is nearly US$1,000 for every man, woman and child on the planet today. Does aid work? Proponents of aid point to six proofs that it can.

The Marshall Plan

First, there is the Marshall Plan. As discussed earlier, between 1948 and 1952 the United States transferred over US$13 billion (around US$100 billion in today's terms) to aid in the reconstruction of post-Second World War Europe. By most historical accounts the Marshall Plan was an overwhelming success in rebuilding the economies of war-torn Europe. The Marshall Plan not only guaranteed economic success, but many credit the programme with the re-establishment of political and social institutions crucial for

Western Europe's on-going peace and prosperity. Although the idea of aid to Africa was born out of the success of the Marshall Plan in Europe, in practical terms the two are completely different. Pointing to the Marshall Plan's achievements as a blueprint for a similar outcome for Africa tomorrow is simply wrong.

Why?

For one thing, European countries were not wholly dependent on aid. Despite the ravages of war, Western Europe's economic recovery was already underway, and its economies had other resources to call upon. At their peak, Marshall Plan flows were only 2.5 per cent of the GDP of the larger recipients like France and Germany, while never amounting to more than 3 per cent of GDP for any country for the five-year life of the programme. In marked contrast, Africa has already been flooded with aid. Presently, Africa receives development assistance worth almost 15 per cent of its GDP – or more than four times the Marshall Plan at its height. Given Africa's poor economic performance in the past fifty years, while billions of dollars of aid have poured in, it is hard to grasp how another swathe of billions will somehow turn Africa's aid experience into one of success.

The Marshall Plan was also finite. The US had a goal, countries accepted the terms, signed on the dotted line, money flowed in, and at the end of five years the money stopped. In contrast to the Marshall Plan's short, sharp injection of cash, much of Africa has received aid continually for at least fifty years. Aid has been constant and relentless, and with no time limit to work against. Without the inbuilt threat that aid might be cut, and without the sense that one day it could all be over, African governments view aid as a permanent, reliable, consistent source of income and have no reason to believe that the flows won't continue into the indefinite future. There is no incentive for long-term financial planning, no reason to seek alternatives to fund development, when all you have to do is sit back and bank the cheques.

Crucially, the context of the Marshall Plan also differed greatly from that in Africa. All the war-torn European nations had had the relevant institutions in place in the run-up to the Second World War. They had experienced civil services, well-run businesses, and efficient legal and social institutions in place, all of which had worked. All that was needed after the war was a cash injection to get them working again. Marshall Plan aid was, therefore, a matter of reconstruction, and not economic development. However damaged, Europe had an existing framework – political, economic and physical; whereas despite the legacy of colonial infrastructure Africa was, effectively, undeveloped. Building, rather than rebuilding, political and social institutions requires much more than just cash. An influx of billions of dollars of aid, unchecked and unregulated, will actually have helped to undermine the establishment of such institutions – and sustainable longer-term growth. In a similar vein, the recent and successful experience of Ireland, which received vast sums of (mainly European) aid, is in no way evidence that aid could work in Africa. For, like post-war Europe, Ireland too had all the institutions and political infrastructure required for aid to be monitored and checked, thereby to make a meaningful economic impact.

Finally, whereas Marshall Plan aid was largely (specifically) targeted towards physical infrastructure, aid to Africa permeates virtually every aspect of the economy. In most poor countries today, aid is in the civil service, aid is in political institutions, aid is in the military, aid is in healthcare and education, aid is in infrastructure, aid is endemic. The more it infiltrates, the more it erodes, the greater the culture of aid-dependency.

The IDA graduates

Aid proponents point to the economic success of countries that have in the past relied on aid, but no longer do so. These countries are known as the International Development Association (IDA) graduates. They comprise twenty-two of some of the most economically successfully emerging countries of recent times – including, Chile, China, Colombia, South Korea, Thailand and Turkey, with only three from Africa: Botswana, Equatorial Guinea (its improvements mainly spurred by its oil find) and Swaziland.[3]

Supporters of aid suggest that these countries have meaningfully lowered poverty, increased incomes and raised their standards of living, thanks to large-scale aid-driven interventions.

However, as in the case of the Marshall Plan, their aid flows have been relatively small – in this instance, generally less than 10 per cent of national income – and their duration short. Botswana, which is often touted as a prime example of the IDA graduate success story, did receive significant foreign assistance (nearly 20 per cent of the country's national income) in the 1960s. It is true that between 1968 and 2001 Botswana's average real per capita economic growth was 6.8 per cent, one of the highest growth rates in the world. However, aid is not responsible for this achievement. Botswana vigorously pursued numerous market economy options, which were key to the country's success – trade policy left the economy open to competition, monetary policy was kept stable and the country maintained fiscal discipline. And crucially, by 2000, Botswana's aid share of national income stood at a mere 1.6 per cent, a shadow of the proportion it commands in much of Africa today. Botswana succeeded by ceasing to depend on aid.

With conditionalities

Aid supporters also believe in conditionalities. This is the notion that the imposition of rules and regulations set by donors to govern the conditions under which aid is disbursed can ultimately determine its success or failure. In the 1980s conditionalities attached to African aid policies would become the mantra.

The notion of a quid pro quo around aid was not new. Marshall Plan recipients had been required to adhere to a strict set of conditions imposed upon them by the US. They had a choice . . . you take it or you leave it. African countries faced the same choice.

Donors have tended to tie aid in three ways. First, it is often tied to procurement. Countries that take aid have to spend it on specific goods and services which originated from the donor countries, or a group selected by them. This extends to staff as

well: donors employ their own citizens even when suitable candidates for the job exist in the poor country. Second, the donor can reserve the right to preselect the sector and/or project that their aid would support. Third, aid flows only as long as the recipient country agrees to a set of economic and political policies.

With stabilization and structural adjustment in vogue, the adoption of market-based policies became the requirement upon which aid would be granted. Aid would be contingent on African countries' willingness to change from statist, centrally planned economies towards market-driven policies – reducing the civil service, privatizing nationalized industries and removing trade barriers. Later democracy and governance would make their way onto the list, in the hope of limiting corruption in all its forms.

On paper, conditionalities made sense. Donors placed restrictions on the use of aid, and the recipients would adhere. In practice, however, conditionalities failed miserably. Paramount was their failure to constrain corruption and bad government.

A World Bank study found that as much as 85 per cent of aid flows were used for purposes other than that for which they were initially intended, very often diverted to unproductive, if not grotesque ventures. Even as far back as the 1940s, international donors were well aware of this diversion risk. In 1947, Paul Rosenstein-Rodin, the Deputy Director of the World Bank Economics Department, remarked that 'when the World Bank thinks it is financing an electric power station, it is really financing a brothel'.

But the point here is that conditionalities were blatantly ignored, yet aid continued to flow (and a great deal of it), even when they were openly violated. In other research, Svensson found 'no link between a country's reform effort or fulfilment of conditionality and the disbursement rate of aid funds', proving once again that though a central part of many aid agreements, conditionalities did not seem to matter much in practice.

Aid success in good policy environments

Faced with mounting evidence that aid has not worked, aid proponents have also argued that aid would work, and did work, when placed in good policy environments, i.e. countries with sound fiscal, monetary and trade policies. In other words, aid would do its best, when a country was in essentially good working order. This argument was formalized in a seminal paper published by World Bank economists Burnside and Dollar in 2000. (Quite why a country in working order would need aid, or not seek other better, more transparent forms of financing itself, remains a mystery.)

Donors soon latched onto the Burnside–Dollar result and were quick to put the findings into practice. In 2004, for example, the US government launched its US$5 billion Millennium Challenge Corporation aid campaign motivated by the idea that 'economic development assistance can be successful only if it is linked to sound policies in developing countries'.[4] In later empirical work, the Burnside–Dollar result failed to stand up to scrutiny, and it soon lost its allure. It was not long before the wider economic community concluded that the Burnside–Dollar findings were tenuous and certainly not robust; perhaps eventually coming to the obvious conclusion that countries with good policies – like Botswana – would tend to make progress unassisted, and that a key point of aid is to help countries with bad ones. But even setting aside empirical analysis, there are, as discussed later, valid concerns that, far from making any improvement, aid could make a good policy environment bad, and a bad policy environment worse.

On the subject of good policy environments, aid supporters are convinced that aid works when it targets democracy, because only a democratic environment can jump-start economic growth. From a Western perspective, democracy promises the lot.

There are, in fact, good reasons for believing that democracy is a leading determinant of economic growth, as almost invariably the body politic bleeds into economics. Liberal democracy (and the political freedoms it bestows) protects property rights, ensures checks and balances, defends a free press and guards contracts. Political scientists such as Douglass North have long asserted democracy's essential links with a just and enforceable legal framework.

Democracy, the argument goes, gives a greater percentage of the population access to the political decision-making process, and this in turn ensures contract enforcement through an independent judiciary. Not only will democracy protect you, but it will also help you better yourself. Democracy promises that businesses, however small, will be protected under the democratic rule of law. Democracy also offers the poor and disadvantaged the opportunity to redress any unfair distribution via the state.

It is after all under democratic governments, the American economist and social scientist Mancur Olson posited, that the protection of property rights and the security of contracts, crucial for stimulating economic activity, were more likely. In essence, democracy engenders a peace dividend, introduces a form of political stability that makes it a precursor for economic growth. In Olson's world, democratic regimes engage in activities that assist private production in two ways: either by maintaining a framework (regulatory, legal, etc.) for private activity or by directly supplying inputs which are not efficiently delivered by the market (for example, a road connecting a small remote village to a larger trading town). By their very nature, democracies have an incentive to provide public goods which benefit each and everyone, and wealth creation is more likely under democratic regimes than non-democracies, such as, say, autocratic or dictatorial regimes.

Under this sky, democracy is seen as Africa's economic salvation: erasing corruption, economic cronyism, and anticompetitive and inefficient practices, and removing once and for all the ability for a sitting incumbent to capriciously seize wealth. Democracies pursue more equitable and transparent economic policies, the types of policies that are conducive to sustainable economic growth in the long run.

Moreover, the Nobel Laureate Amartya Sen argues that because democratically elected policymakers run the risk of losing political office, they are more vigilant about averting economic disasters.[5] Among mainly developing economies another study found that democratically accountable governments met the basic needs of their citizens by 'as much as 70 per cent more' than non-democratic states.[6] But, perhaps most of all, donors are convinced that across the political spectrum democracy (and only democracy) is positively correlated to economic growth.

Although the potential positive aspects of democracy have dominated discourse (and aid policy), Western donors and policymakers have essentially chosen to ignore the protests of those who argue that democracy, at the early stages of development, is irrelevant, and may even be harmful. In an aid-dependent environment such views are easy to envisage. Aid-funded democracy does not guard against a government bent on altering property rights for its own benefit. Of course, this lowers the incentive for investment and chokes off growth.

The uncomfortable truth is that far from being a prerequisite for economic growth, democracy can hamper development as democratic regimes find it difficult to push through economically beneficial legislation amid rival parties and jockeying interests. In a perfect world, what poor countries at the lowest rungs of economic development need is not a multi-party democracy, but in fact a decisive benevolent dictator to push through the reforms required to get the economy moving (unfortunately, too often countries end up with more dictator and less benevolence). The Western mindset erroneously equates a political system of multi-party democracy with high-quality institutions (for example, effective rule of law, respected property rights and an independent judiciary, etc.). But the two are not synonymous.

One only has to look to the history of Asian economies (China, Indonesia, Korea, Malaysia, Singapore, Taiwan and Thailand) to see how this is borne out. And even beyond Asia, Pinochet's Chile and Fujimori's Peru are examples of economic success in lands bereft of democracy. The reason for this 'anomaly' is that each of these dictators, whatever their faults (and there were many), was able to ensure some semblance of property rights, functioning institutions, growth-promoting economic policies (for example, in fiscal and monetary management) and an investment climate that buttressed growth – the things that democracy promises to do. This is not to say that Pinochet's Chile was a great place to live; it does, however, demonstrate that democracy is not the only route to economic triumph. (Thanks to its economic success Chile has matured into a fully fledged democratic state, with the added accolade of, in 2006, installing South America's first woman President – Michelle Bachelet.)

The obvious question to ask is, has foreign aid improved democracy in Africa? The answer to this is yes – certainly in terms of the number of African countries that hold elections, although still many of them are illiberal (people go the polls, but in some places the press remains restricted, and the rule of law fickle).

The real question to ask is, has the insertion of democracy via foreign aid economically benefited Africa? To this question the answer is not so clear. There are democratic countries in Africa that continue to struggle to post convincing growth numbers (Senegal, at just 3 per cent growth in 2006), and there are also decidedly undemocratic African countries that are seeing unprecedented economic growth (for example, Sudan).

What is clear is that democracy is not the prerequisite for economic growth that aid proponents maintain. On the contrary, it is economic growth that is a prerequisite for democracy; and the one thing economic growth does not need is aid.

In 'What Makes Democracies Endure?' Przeworski et al. offer this fascinating insight – 'a democracy can be expected to last an average of about 8.5 years in a country with a per capita income under US$1,000 per annum, 16 years in one with income between US$1,000 and US $2,000, 33 years between US$2,000 and US$4,000 and 100 years between US$4,000 and US$6,000 . . . Above US$6,000, democracies are impregnable . . . [they are] certain to survive, come hell or high water.' It *is* the economy, stupid.

No one is denying that democracy is of crucial value – it's just a matter of timing.

In the early stages of development it matters little to a starving African family whether they can vote or not. Later they may care, but first of all they need food for today, and the tomorrows to come, and that requires an economy that is growing.

Aid effectiveness: a micro–macro paradox

There's a mosquito net maker in Africa. He manufactures around 500 nets a week. He employs ten people, who (as with many African countries) each have to support upwards of fifteen relatives. However hard they work, they can't make enough nets to combat the malaria-carrying mosquito.

Enter vociferous Hollywood movie star who rallies the masses, and goads Western governments to collect and send 100,000 mosquito nets to the afflicted region, at a cost of a million dollars. The nets arrive, the nets are distributed, and a 'good' deed is done.

With the market flooded with foreign nets, however, our mosquito net maker is promptly put out of business. His ten workers can no longer support their 150 dependants (who are now forced to depend on handouts), and one mustn't forget that in a maximum of five years the majority of the imported nets will be torn, damaged and of no further use.

This is the micro–macro paradox. A short-term efficacious intervention may have few discernible, sustainable long-term benefits. Worse still, it can unintentionally undermine whatever fragile chance for sustainable development may already be in play.

Certainly when viewed in close-up, aid appears to have worked. But viewed in its entirety it is obvious that the overall situation has not improved, and is indeed worse in the long run.

In nearly all cases, short-term aid evaluations give the erroneous impression of aid's success. But short-term evaluations are scarcely relevant when trying to tackle Africa's long-term problems. Aid effectiveness should be measured against its contribution to long-term sustainable growth, and whether it moves the greatest number

of people out of poverty in a sustainable way. When seen through this lens, aid is found to be wanting.

That said, the approach to food aid (launched at the 2005 Food Aid conference in Kansas City[7]) has tried to push aid in a new direction, one which can potentially help African farmers. The proposal would allow a quarter of the food aid of the United States Food For Peace budget to be used to buy food in poor countries, rather than buying only American-grown food that has to then be shipped across oceans. Instead of flooding foreign markets with American food, which puts local farmers out of business, the strategy would be to use aid money to buy food from farmers within the country, and then distribute that food to the local citizens in need. In terms of the mosquito net example, instead of giving malaria nets, donors could buy from local producers of malaria nets then sell the nets on or donate them locally. There needs to be much more of this type of thinking.

Between 1950 and the 1980s, the US is estimated to have poured the equivalent of all the combined aid given to fifty-three African countries between 1957 and 1990 into just one country, South Korea. Some have alleged that this is the kind of financial lift that Africa will need; essentially an equivalent of its own Marshall Plan.

Advocates of aid argue that aid works – it's just that richer countries have not given enough of it. They argue that with a 'big push' – a substantial increase in aid targeted at key investments – Africa can escape its persistent poverty trap; that what Africa needs is more aid, much more aid, in massive amounts. Only then will things start to truly get better.

In 2000, 189 countries signed up to the Millennium Development Goals (MDG).[8] The eight-point action plan was aimed at health, education, environmental sustainability, child mortality, and alleviating poverty and hunger. In 2005, the programme was costed. An additional aid boost of US$130 billion a year would be needed to achieve the MDG in a number of countries. Two years after the MDG pledge the United Nations held an international conference on Financing for Development in Monterrey, Mexico, where donors promised to increase their aid contributions from an average of 0.25 per cent of their GNP to 0.7 per cent, in the belief that this additional US$200 billion annually would finally address Africa's continuing problems. In practice, most of the donor pledges have gone unmet and proponents of aid have latched on to this failure to meet the pledged commitments as a reason for why Africa has been held back. But the big-push thinking brushes over one of the underlying problems of aid, that it is fungible – that monies set aside for one purpose are easily diverted towards another; not just any other purpose, but agendas that can be worthless, if not detrimental, to growth. Proponents of aid themselves have acknowledged that unconstrained aid flows always face the danger of being egregiously consumed rather than invested; of going into private pockets, instead of the public purse. When this happens, as it so often does, no real punishments or sanctions are ever imposed. So more grants mean more graft.

One of the most depressing aspects of the whole aid fiasco is that donors, policymakers, governments, academicians, economists and development specialists know, in their heart of hearts, that aid doesn't work, hasn't worked and won't work. Commenting on at least one aid donor, the Chief Economist at the British Department of Trade and Industry remarked that 'they know its crap, but it sells the T-shirts'.[9]

Study, after study, after study (many of them, the donors' own) have shown that, after many decades and many millions of dollars, aid has had no appreciable impact on development. For example, Clemens et al. (2004) concede no long-term impact of aid on growth. Hadjimichael (1995) and Reichel (1995) find a negative relationship between savings and aid. Boone (1996) concludes that aid has financed consumption rather than investment; and foreign aid was shown to increase unproductive public consumption and fail to promote investment.

Even the *most* cursory look at data suggests that as aid has increased over time, Africa's growth has decreased with an accompanying higher incidence of poverty. Over the past thirty years, the most aid-dependent countries have exhibited growth rates averaging *minus* 0.2 per cent per annum.

For most countries, a direct consequence of the aid-driven interventions has been a dramatic descent into poverty. Whereas prior to the 1970s most economic indicators had been on an upward trajectory, a decade later Zambia lay in economic ruin. Bill Easterly, a New York University professor and former World Bank economist, notes that had Zambia converted all the aid it had received since 1960 into investment, and all of that investment to growth, it would have had a per capita GDP of about US$20,000 by the early 1990s.[10] Instead, Zambia's per capita GDP was lower than in 1960, under US$500. In effect, Zambia's GDP should have been at least thirty times what it is today. And between 1970 and 1998, when aid flows to Africa were at their peak, poverty in Africa rose from 11 per cent to a staggering 66 per cent. That is roughly 600 million of Africa's billion people trapped in a quagmire of poverty – a truly shocking figure.

The evidence against aid is so strong and so compelling that even the IMF – a leading provider of aid – has warned aid supporters about placing more hope in aid as an instrument of development than it is capable of delivering. The IMF has also cautioned governments, donors and campaigners to be more modest in their claims that increased aid will solve Africa's problems. If only these acknowledgements were a catalyst for real change.

What is perhaps most amazing is that there is no other sector, whether it be business or politics, where such proven failures are allowed to persist in the face of such stark and unassailable evidence.

So there we have it: sixty years, over US$1 trillion dollars of African aid, and not much good to show for it. Were aid simply innocuous – just not doing what it claimed it would do – this book would not have been written. The problem is that aid is not benign – it's malignant. No longer part of the potential solution, it's part of the problem – in fact aid *is* the problem.

5. A Radical Rethink of the Aid-Dependency Model

Governments need cash

The fact of the matter is, governments need cash. This is true regardless of political leanings – whether a socialist government, which endeavours to provide all goods and services to its citizens, or a more market-driven government, which relies on the markets to provide some public goods (that is, goods and services for which there is a broad public benefit, but for which no one person bears the cost, like, again, a lamppost).

Perhaps nowhere is the role of government more crucial – as a strategist, as a coordinator and even, to some extent, as a financier – than in poor developing countries. For at the early stages of development, the nascent private sector is simply not large enough to assume a central developmental role. Traditionally, this is where aid stepped in. But, as this book has argued, aid has not delivered any meaningful or substantial economic performance. Even if it were true that aid had contributed to economic growth, there are two compelling reasons why Africa should seek alternatives to finance its development.

The donors are growing weary. As shown earlier, over the past twenty years foreign aid to Africa has been on the decline. Whether it is because donors don't believe it works, they don't have the cash or they simply don't care, the fact remains that the donors' African aid purse is slowly shrinking.

Despite the outpourings of Live 8, one survey found that the US public's desire to reduce foreign aid outranked its fear of nuclear war. In a 1980 poll 82 per cent of respondents said foreign economic assistance should be cut.[1] This may, at least in part, explain why, when it comes down to it, most donor countries have failed to meet their pledges of 0.7 per cent of GDP made in Monterrey in 2002.

Another reason for the decline in aid flows may be that donor countries are facing their own financial pressures. It has been estimated that Bush's war on terror – being fought in Iraq, Afghanistan and Pakistan – will cost the US almost US$3 trillion.[2] Demographic shifts are putting further strain on Western economies. Increasing numbers of retirees and fewer productive young people (owing to the ageing baby boomers and lower birth rates) means increasing health costs, lower tax revenues and less to give away. And of course it is worth remembering that the 2008 credit crisis has put immense pressure on the fiscal balances of rich (and rapidly emerging) countries; yet another stark reminder that foreign donor support is an unreliable if not dangerous palliative. For African policymakers to view aid as permanent (even with the noise made by aid proponents for it to be increased) is foolhardy.

Weaning off the addiction: no one said it would be easy

Africa is addicted to aid. For the past sixty years it has been fed aid. Like any addict it needs and depends on its regular fix, finding it hard, if not impossible, to contemplate existence in an aid-less world. In Africa, the West has found its perfect client to deal to.

This book provides a blueprint, a road map, for Africa to wean itself off aid. This goal cannot be easily achieved without the co-operation of the donors. And like the challenges someone addicted to drugs might face, the withdrawal is bound to be painful. Drug-taker, or drug-pusher, in the end someone has to have the courage to say no.

What follows is a menu of alternatives to fund economic development across poor countries. If implemented in the most efficient way, each of these solutions will help to dramatically reduce Africa's dependency on aid. The alternatives to aid are predicated on transparency, do not foster rampant corruption, and through their development provide the life-blood through which Africa's social capital and economies can grow.

The *Dead Aid* proposal envisages a gradual (but uncompromising) reduction in systematic aid over a five- to ten-year period. However worthwhile the goal to reduce and even eliminate aid is, it would not be practical or realistic to see aid immediately drop to zero. Nor, in the interim, might it be desirable.

A reasonable person could, for example, argue that aid in Africa has not worked precisely because it has not been constructed with the idea of promoting growth. The politically driven aid and tied-aid examples discussed in earlier chapters underscore the point that these types of aid flows do not promote development, and nor were they intended to in the first place. That, if executed in a moderate way, Botswana's experience with aid (detailed earlier) is exactly what we would want to see: a country that began with a high ratio of aid to GDP uses the aid wisely to provide important public goods that help support good policies and sound governance that lays the foundation for robust growth. Over time, the ratio of aid to GDP would fall as a country developed. In this way, Botswana would seem like the poster-child for what aid can do in a well-managed country.

It might very well be the case that more-modest aid programmes that are actually designed to address the critical problems faced by African countries can deliver some economic value. The *Dead Aid* proposal does allow for this perspective, by leaving room for modest amounts of aid to be part of Africa's development financing strategy. Systematic aid will be a component of the *Dead Aid* proposal, but only insofar as its presence decreases as other financing alternatives take hold. The ultimate aim is an aid-free world.

6. A Capital Solution

In September 2007, Ghana issued a US$750 million ten-year bond in the international capital markets. About a month later, the Gabonese Republic followed suit, issuing a US$1 billion ten-year bond. Could Dongo do the same?

Bonds are effectively loans or IOUs. On issuing a bond, the government promises to repay the money it borrows to the lender, plus an agreed amount of interest. However, as discussed earlier, bonds issued in the commercial marketplace are fundamentally different from aid given in loans in at least three ways: first, the interest rate charged on aid loans is below (often markedly so) the going market rate; second, aid loans tend to have much longer periods over which the borrowing country has to repay (some World Bank loans are for fifty years, whereas the longest maturities in the private markets rarely exceed thirty years); third, aid transfers tend to carry much more lenient terms in cases of default or non-payment than the relatively more punitive private bond markets.

There is a plentiful history of lesser developing countries issuing bonds – dating as far back as the 1820s. By 1860, for example, Argentina and Brazil were frequent users of the international bond markets, and since then many of the world's poorest countries have, at one time or another, issued bonds. In a report, the rating agency Standard & Poor's lists as many as thirty-five African economies as having had access to the bond markets in the 1970s and 1980s.

For many of these countries, the point of issuing these bonds to international investors was to help finance their development programmes, including infrastructure, education and healthcare. Monies raised by bonds could, however, also be used to fund governments' day-to-day (current) expenditures such as on the military, civil service and trade imbalances.

10. Making Development Happen

It's time to stop pretending that the aid-based development model currently in place will generate sustained economic growth in the world's poorest countries. It will not.

The question is how do we get African countries to abandon foreign aid and embrace the *Dead Aid* proposal? They can do it voluntarily – as South Africa or Botswana have done – but what if they don't, choosing the soft option of aid instead?

Let's step back a bit. Recall the August 1982 phone call when the Mexican Finance Minister telephoned the IMF, the US Treasury, et al. to inform them that Mexico would be unable to pay its debt. What if, in Africa's case, the scene were reversed?

What if, one by one, African countries each received a phone call (agreed upon by all their major aid donors – the World Bank, Western countries, etc.), telling them that in exactly five years the aid taps would be shut off – permanently? Although exceptions would be made for isolated emergency relief such as famine and natural disasters, aid would no longer attempt to address Africa's generic economic plight.

What would happen?

Would many more millions in Africa die from poverty and hunger? Probably not – the reality is that Africa's poverty-stricken don't see the aid flows anyway. Would there be more wars, more coups, more despots? Doubtful – without aid, you are taking away a big incentive for conflict. Would roads, schools and hospitals cease being built? Unlikely.

What do you think Africans would do if aid were stopped, simply carry on as usual? Too many African countries have already hit rock bottom – ungoverned, poverty-stricken, and lagging further and further behind the rest of the world each day; there is nowhere further down to go.

Isn't it more likely that in a world freed of aid, economic life for the majority of Africans might actually improve, that corruption would fall, entrepreneurs would rise, and Africa's growth engine would start chugging? This is the most probable outcome – that where the real chance exists to make a better life for themselves, their children and Africa's future generations, Africans would grab it and go.

If other countries around the developing world have done it *sans* aid (generated consistent growth, raised incomes and rescued billions from the brink of poverty), why not Africa? Remember that just thirty years ago Malawi, Burundi and Burkina Faso were economically ahead of China on a per capita income basis. A dramatic turnaround is always possible.

Grasping the nettle

How do we put the *Dead Aid* proposals into practice, and help to ensure that Africa gains a firm economic footing? There are three interlinked stages after the phone call.

First comes an economic plan which reduces a country's reliance on aid year on year. In Dongo's case, aid would fall 14 per cent every year – taking it down from the 75 per cent of income it receives today to 5 per cent in five years' time. For the first year, instead of 75 per cent, Dongo is now getting only 61 per cent of its income from aid. It now has to find the extra 14 per cent of money it requires from other *Dead Aid* means. In the second year, Dongo will have to find 28 per cent of its financial capital outside aid, and the year following, 42 per cent – nearly half of its needs.

We have offered an array of financing alternatives: trade, FDI, the capital markets, remittances, micro-finance and savings. It should come as no surprise that the *Dead Aid* prescriptions are market-based, since no economic ideology other than one rooted in the movement of capital and competition has succeeded in getting the greatest numbers of people out of poverty, in the fastest time.

Ultimately, where a country goes for its cash depends on its particular circumstances. For example, trade-oriented commodity-driven economies such as Zambia, Kenya and Uganda (actually the majority of African countries) should look at boosting trade with China and other emerging nations. And certainly the fifteen African countries which have recently acquired credit ratings should consider following Gabon and Ghana's lead in drawing on the capital markets.

Once the financing plan is in place, and Dongo knows how much it has to find, it must enforce rules of prudence and not live beyond its means. Like a family whose income has fallen, Dongo has two choices. It can either cut back on its expenditure or raise funds elsewhere to support the same level of spending. One would hope that any cutbacks would be on the non-essential, frivolous items (palaces, private jets and shopping trips to the Champs-Elysées in Paris), rather than schools, hospitals and infrastructure. With different forms of financing, without the same opportunity for corruption, the provision of schools, hospitals and infrastructure will anyway become cheaper. But in order to sustain the same degree of spending, Dongo would need to tap other sources of income. Using the *Dead Aid* proposals, the channels of money available will not only help maintain the same level of spending, but will of themselves encourage economic growth and increase the taxable middle classes, thereby broadening Dongo's financial alternatives.

Of course, nothing can stop a bad government from using the new money for old tricks. Some African leaders have been notoriously susceptible to shopping trips (Grace Mugabe, wife of Zimbabwe's president, is known for a penchant for shopping at London's exclusive Harrods department store), and some may be tempted again. But whereas the open purse of aid permits them to do this every year, if they use the private cash of the *Dead Aid* proposal for such ends, they will only get away with it once. If, for instance, a government were to steal the proceeds of a bond, or impose punitive taxes on its exporters, lenders would never lend again, and exporters would stop exporting. Over time, the

economic pie that could be eaten into would grow smaller and smaller – and ultimately shrink into oblivion. Indeed, one could argue that the reason why Zimbabwe's Mugabe has lasted so long is because he has been propped up by massive foreign aid receipts; it certainly isn't Zimbabwe's burgeoning economy – US$300 million in foreign aid was sent there in 2006. In fact, without aid, the likelihood is that Mugabe might have been long gone. And regarding FDI, the Chinese expect something in return. Even if 80 per cent of their cash transfer is stolen, they still require that roads be built and the commodity extracted. Having amounts stolen is nowhere near a perfect solution, but at least a part of the cash benefit must accrue to the country.

The third stage in the *Dead Aid* model is the strengthening of institutions. At the core of the *Dead Aid* proposal is accountability. Those charged with the responsibility of providing public goods and ensuring the transparency and health of an environment within which the private sector can flourish must be held accountable when they fail to deliver. This has been the aid model's Achilles heel.

In *The Wealth and Poverty of Nations*, David Landes suggests that 'the ideal growth and development' government would:

> secure rights of private property, the better to encourage saving and investment; secure rights of personal liberty . . . against both the abuses of tyranny and . . . crime and corruption; enforce rights of contract . . . provide stable government . . . governed by publicly known rules . . . provide responsive government . . . provide honest government . . . [with] no rents to favour and position; provide moderate, efficient ungreedy government . . . to hold taxes down [and] reduce the government's claim on the social surplus.[1]

Yet this is not the world in which most Africans live. In their world of aid-dependence, governments have failed at all these tasks, and failed spectacularly.

But is all this as easy as it sounds? One phone call, and it all slots into place? Why not? Development is not a mystery; each of the elements of the *Dead Aid* proposal has been tried and tested and yielded success – and governments and policymakers know it.

The aid regime has been in place (in one form or another) for sixty years and demonstrably failed to generate economic growth and alleviate poverty. Given that in no other sphere (business, politics) has such a poor record been allowed to persist, why has the phone call not been made?

Who will bell the cat?

The *Dead Aid* proposal is dead easy to implement. What it needs, and what is lacking, is political will. Political incentives are stacked against making the call.

Western donors have an aid industry to feed, farmers to placate (vulnerable when trade barriers are removed), liberal constituencies with 'altruistic' intentions to allay, and, facing their own economic challenges, very little time to worry about Africa's demise. For the Western politician maintaining the status quo of aid, it is much easier just to sign a cheque.

For African leaders too there is no immediate incentive to abandon the aid model – apart, of course, from the obvious one that were they to do so their countries' economic position would quickly improve. To appreciate the economic prospects in a non-aid environment, however, requires a long-term and selfless vision, and not the myopia so many policymakers (at home and abroad) are afflicted with today.

Unfortunately, there are still only a handful of (African) policymakers critical of aid's dismal performance. In a September 2007 interview with *Time* magazine, Rwanda's President Kagame commented:

> Now, the question comes for our donors and partners: having spent so much money, what difference did it make? In the last 50 years, you've spent US$400 billion in aid to Africa. But what is there to show for it? And the donors should ask: what are we doing wrong, or, what are the people we are helping doing wrong? Obviously somebody's not getting something right. Otherwise, you'd have something to show for your money.
>
> The donors have also made a lot of mistakes. Many times they have assumed they are the ones who know what countries in Africa need. They want to be the ones to choose where to put this money, to be the ones to run it, without any accountability. In other cases, they have simply associated with the wrong people and money gets lost and ends up in people's pockets. We should correct that.[2]

In a similar vein, Senegal's President Wade remarked in 2002: 'I've never seen a country develop itself through aid or credit. Countries that have developed – in Europe, America, Japan, Asian countries like Taiwan, Korea and Singapore – have all believed in free markets. There is no mystery there. Africa took the wrong road after independence.'[3] Indeed, now *is* the time to correct, and not be swayed by media hype and populist and ill-conceived banter.

Ordinary people across Africa, the millions who bear the brunt of the economic catastrophe, have an incentive to change the aid regime of course. They would, if they could – who wouldn't? But they eke out their existence under a veiled (and often not so veiled) threat of intimidation, punishment and even death. In order to overturn the state aid-dependency, Africans need the gritty defiance of the unknown man who stood against the Chinese tanks in Tiananmen Square in June 1989. But such rebellion carries enormous risk, and when pitted against the omnipotent state, more likely than not, will fail.

This leaves it to Western citizens. They have power, and could hold the key to reform. It was, after all, thanks to the 60,000 ordinary Americans who wrote to the US Congress laying out their desire for freer trade access for African countries that the AGOA was born.[4] It is this type of activism that is needed to help jump-start Africa's development agenda, and set it on the right track.

Aid came from the West (and continues to do so), and it's up to the West to take it back. Why have people in the West not demanded that something be done? It is, after all, their money being poured down the drain. Maybe some have, but it's nearly impossible to be heard above the hectoring din of the purveyors of the 'Africa's glass is half empty' view of this world.

They say that aid worked – that the true test of aid's success is that millions of other Africans would have died were it not for aid. We can never really know if this is true (though we do know for sure that countries that have not relied on aid, including those in Africa like South Africa and Botswana, have consistently done better), and this justification for aid is changing the rules of the game. Aid was not originally designed or intended to be a sticking-plaster solution simply aimed at keeping people alive. The goals of aid, as originally set out by the forefathers in the New Hampshire hotel all those years ago, were sustainable economic growth and poverty alleviation, and it is against these goals that aid's efficacy should be judged, and against these that it has spectacularly failed.

Is there a moral obligation for Western societies to help poor countries? Clearly morality claims hold sway, but surely one would expect Western moralizers to adopt policies which help those in need rather than hinder them in the long run and keep them in a perilous state of economic despair. One solution that the aid proselytizers could adopt would be an egalitarian approach to donor donations. Instead of writing out a single US$250 million cheque to a country's government, why not distribute the money equally among its population. So in a country of 10 million people (roughly the population of Zambia) each citizen would get US$25 – a tenth of Zambia's current per capita income. In line with the *Dead Aid* proposals, this would in effect be a remittance 'donor-style'.

Indefinite grant transfers, however dressed up, are not something *Dead Aid* favours, but one could envisage how such remittances could be part of an effective financing package were the notions of accountability and repayment incorporated.

It is worth pointing out that there has been some notable success with a concept known as 'conditional cash transfers'; these are cash

payments (in a sense, bonuses) made to give the poor an incentive to perform tasks that could help them escape poverty (for example, good school attendance, working a certain number of hours, improving test scores, seeing a doctor). The idea of conditional cash transfers has met with much success in developing countries such as Brazil, Mexico, Nicaragua and Peru (a similar programme is now being tested in the boroughs of New York City). Studies show the schemes have been instrumental in decreasing malnutrition, increasing school attendance and decreasing child labour.[5]

The genius of conditional cash transfer programmes (certainly in the context of developing countries) is threefold: they circumvent the government (bureaucracy and corruption are averted); payments are made for actually doing something rather than for doing nothing, which has often been the case with aid (quite simply, if you don't meet certain standards of behaviour, do certain things, meet specified criteria, you don't get paid); and the money actually ends up in the hands of the people that truly need it. The scheme has met with a resounding success in developing countries, so why has this type of programme not been rolled out aggressively across Africa? It would seem the logical thing to do given the failure of government-to-government aid.

Leaving the question of morality aside, there are good reasons based on national interest for the West to help. In the fractured world of Iran, Iraq and Afghanistan, Africa's fragile and impoverished states are a natural haven for global terrorists. Porous borders, weak law enforcement and security institutions, plentiful and portable natural resources, disaffected populations, and conflict zones make perfect breeding grounds for all sorts of global terrorist organizations.

The four horses of Africa's apocalypse – corruption, disease, poverty and war – can easily ride across international borders, putting Westerners at just as much risk as Africans. Of course, stolen money sent to European bank accounts can fund terrorist activities; disease, poverty and war induce waves of disenfranchised refugees and unchecked immigration, which can place inordinate burdens on Western economies.

The West can choose to ignore all of this, but, like it or not, the Chinese are coming. And it is in Africa that their campaign for global dominance will be solidified. Economics comes first, and when they own the banks, the land and the resources across Africa, their crusade will be over. They will have won.

Whether or not Chinese domination is in the interest of the average African today is irrelevant. This is not to underestimate how much Africans care about freedom and rights – they do. But in the immediate term a woman in rural Dongo cares less about the risk to her democratic freedom in forty years' time than about putting food on her table tonight. China promises food on the table today, education for her children tomorrow and an infrastructure she can rely on to support her business in the foreseeable future.

The mistake the West made was giving something for nothing. The secret of China's success is that its foray into Africa is all business. The West sent aid to Africa and ultimately did not care about the outcome; this created a coterie of elites and, because the vast majority of people were excluded from wealth, political instability has ensued.

China, on the other hand, sends cash to Africa and demands returns. With returns Africans get jobs, get roads, get food, making more Africans better off, and (at least in the interim) the promise of some semblance of political stability. It is the economy that matters. Places like Singapore have shown that, even in the absence of democracy, peace prevails when the median citizen is economically better off. In Africa, the 2008 fracas in Kenya may have been much more protracted had the average Kenyan had a lesser stake and vested interest in the economy. The situation may have gone on for as long as it did because, like any other society, there are, unfortunately, always people at the fringe who have yet to become fully fledged economic stakeholders and garner the benefits of a growing economy. The China movement in Africa is on the march – the West ignores it at its own peril.

Is there a role for the staid development formulas and old institutions of yesteryear? Surely, not to help Africa truly achieve

sustainable growth and alleviate poverty as has so often been claimed. To support Africa in achieving this goal requires severing the Faustian bargain of current aid-driven development policy, and doing away with the ossified policies (and processes) that reign supreme in today's development debate. Fortunately, there has been some, albeit slow, movement in the right direction. Perhaps heeding the proverbial writing on the wall, or fearing their growing irrelevance in the development game where they were once the protagonist, international organizations are changing their tune.

There is a push towards greater inclusion of perspectives (from technocrats and policymakers) from the emerging world in the upper echelons of development agencies – who better to help shape the direction of the new development path? In 2008, for instance, the World Bank elected Justin Lin Yifu to the position of Chief Economist (considered the number two job at the international economic institution), which until this point had been occupied only by Americans or Europeans.

And terms like public–private partnerships and private-capital solutions to development financing (such as debt capital markets and diaspora bonds) have seeped into the development vocabulary, placing greater emphasis on the role of the private sector and seemingly now questioning rather than merely perpetuating the existing development model. This is undoubtedly a good start. As are the billions of dollars of smart money (the hedge funds, the international banks, the private equity funds) now going to Africa. Africa's era of private capital is only now beginning, and this trend has to be nurtured in order for it to continue.

There is more (much more) that needs to be done to undo the ills that have gone before, to rectify what has been an unmitigated disaster, and to get Africa onto a solid economic footing. While international donors and organizations must be commended for shifting the development ideology from the bad economic policies of the 1970s (mainly statist) to the good market policies on the books today (introduced on the back of the Washington Consensus), we need to remind them that without the elimination of aid effective implementation of the new, better, development regime will remain shoddy, ineffectual and even disastrous.

Africa's development impasse demands a new level of consciousness, a greater degree of innovation, and a generous dose of honesty about what works and what does not as far as development is concerned. And one thing is for sure, depending on aid has not worked. Make the cycle stop.

The best time to plant a tree is twenty years ago.
The second-best time is now.

African proverb