

Is aid working?

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Introduction to Arena: is aid working?

By William Wallis

It is hard to argue with the lofty ambition to end once and for all the scourge that is global poverty. How the world should go about this, however, is much more vexed. If poor countries do not have sufficient capital, aid advocates argue that there is a moral imperative for rich ones to help. Since 1970 hundreds of billions of dollars in bilateral and multilateral aid has been sent to Africa from the developed world. G20 leaders agreed at last month's summit London that an extra \$50bn would be needed to see the poorest continent through the global economic crisis.

The problem, argues [Dambisa Moyo](#), a Zambian economist who has stolen the global limelight with her recently published book, *Dead Aid*, is that all this "money for nothing" is having the opposite of the desired effect. Not only has aid failed to lift Africans out of poverty - average incomes across much of the continent have stagnated or fallen in the past forty years. It has also become the main obstacle to development. Aid fosters dependency, stifles enterprise and encourages corruption. It is time to turn off the taps.

This polemic has provoked [applause](#) and outrage in equal measure. Aid advocates have [dismissed the book](#) as poorly researched, lacking nuance, and deliberately overlooking evidence of development assistance working. They say that in *Dambisa Moyo*, developed countries seeking an excuse for spending cuts have found the perfect protagonist - a black African woman recommending they slash aid - which they say would spell disaster.

Who is right? Is aid working or is it not?

William Wallis is the FT's Africa editor

A strong case, but is it overwhelming?

By Martin Wolf

"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." Thus writes [Dambisa Moyo](#), a brilliant former Goldman Sachs economist, of Zambian origin.

This is a harsh judgement. So why is Ms Moyo adamantly opposed to official attempts to aid her stricken continent? In a word, corruption: "With aid's help", she argues, "corruption fosters corruption, nations quickly descend into a vicious cycle of aid. Foreign aid props up corrupt governments - providing them with freely usable cash. These corrupt governments interfere with the rule of law, the establishment of transparent civil institutions and the protection of civil liberties, making both domestic and foreign investment in poor countries unattractive."

So rich countries can do good by being mean. It is an attractive proposition for many, particularly in the [times of budgetary stress](#). But is it true?

To believe that, one must argue either that none of these desperately poor countries can use additional resources effectively or that it is impossible for aid donors to discriminate between recipients able to use the money well and those unable to do so. One must ignore the fact, too, that many of the world's most successful developing countries - South Korea, for example - once received a great deal of aid.

So is aid merely sometimes harmful, usually harmful or always harmful? If it is just sometimes harmful, would the brutality of going "cold turkey" be better than persisting with the difficult effort of discriminating application? In short, Ms Moyo has a strong case, but is it overwhelmingly so?

Martin Wolf is the FT's chief economics commentator

Aid to Africa: not only mad and bad, but dangerous to receive!

By Michael Holman

Of course aid corrupts. The evidence is there, from Congo to Kenya. And who can doubt that most aid to Africa does not work: a greater percentage of Kenyans today live in poverty than at independence some 45 years ago, despite billions of dollars of foreign assistance.

But the consequences of aid are more insidious and more damaging than the pro-aid lobby realises. It undermines the expectations of citizens, and erodes the management capacity of the state. And it destroys the social contract that is at the heart of governance. In return for citizens' loyalty, expressed in the form of paying tax and defending the state when called on, the citizen expects the provision of basic services: roads, water, clinics and schools.

It is precisely these areas in which foreign non government organisations are most active. If you want a road re-graded, books for your school, drugs for the clinic, or a well for water, you lobby an NGO, for it is more likely to deliver.

The result: the responsibility of the state is diminished, its management capacity ossifies and withers ... and the social contract is eroded to the point of collapse. And every year some 100,000 foreign "experts" flock to Africa to administer a system that fails the very people it is supposed to help; and every year some 60,000 of Africa's best and brightest officially emigrate.

Aid to Africa: not only mad and bad, but dangerous to receive!

Michael Holman is a former Africa editor of the FT

What can be done to make aid more effective?

By Steve Radelet

Dambisa Moyo's arguments about aid strike a chord and deserve to be taken seriously. But, like many others before her, her extreme views focus on the simplistic but unhelpful question of "does aid work" and divert attention from the more important real-world issue: Under what circumstances does aid work, and what can be done to make it more effective?

Ms. Moyo argues that "Millions in Africa are poorer today because of aid; misery and poverty have not ended but have increased." But this storyline is at least a decade out of date. Since 1996 - twelve years now - economic growth across sub-Saharan Africa has averaged 2.3 per cent per year. And it is not just due to oil. There are 18 strongly performing countries, none of them oil exporters, that together have achieved per capita growth averaging 3.1 per cent, meaning that average incomes have increased nearly 50 percent in twelve years. Most of these 18 countries are now democracies, including Mozambique, Tanzania, Ghana, Lesotho, Namibia, Mali, South Africa and others, and the majority are measurably improving governance. Across Africa literacy rates are up, infant mortality rates are down, and 34m more children are in school since 2000. And according to analyses by the World Bank, poverty rates (at \$1.25/day poverty line) peaked at 59 per cent in 1996 and dropped to 51 per cent by 2005, a remarkable drop in nine years. Poverty in Africa has been falling, not rising.

What happened? The turnaround is primarily due to stronger leadership in Africa, much better economic policies, lower debt burdens, new cell phone and internet technologies, and an emerging and vibrant business class. What about aid? Aid has been neither panacea nor demon. Much has been wasted on sordid dictators, projects that didn't fit local needs, and bureaucracies that ensure only a fraction of funding gets to those that need it. But much has helped support success.

Botswana is Africa's greatest success story and also its largest aid recipient, with aid per capita four times larger than the continent average. In Mozambique, aid has helped support sustained growth of nearly 5 per cent annually over 15 years, and helped support rapid growth in Uganda, Tanzania, and several other countries, alongside helping secure the peace in Liberia. It has helped put two million Africans on life-saving antiretroviral treatment for AIDS, helped support immunizations for millions of children, helped contain river blindness and polio, and helped put millions of kids in school.

So what has been the overall effect? Critics often assert that research shows no relationship between aid and growth, but this is wrong: most research has found a mixed, but modest positive relationship. Paul Collier summarized it about right in *The Bottom Billion* (p. 100): "A reasonable estimate is that over the last thirty years [aid] has added around one percentage point to the annual growth rate of the bottom billion." Not great. But not awful. This more nuanced story makes for lousy journalism and less frothy (and more boring) debates, but it is the messy truth of the real world. And it means the right question is not whether aid "works," but under what circumstances, and

how can it better support the fight against poverty? So how to move forward?

First, be more selective. Africa is not a monolithic entity. More aid should go to countries that can use it well, especially the emerging democracies that are implementing sensible economic policies. Second, set clear goals, set them publicly, and measure results with independent monitors. Third, streamline bureaucracies and make sure a larger share of funds gets to those that need it most. And fourth, listen more. Ask Africans - government officials and ordinary citizens - what they need most and how programs can best be implemented both to achieve immediate goals and build capacity over time.

Donors have taken some first steps in these directions in recent years, but much more can be done. Moving the debate in this direction will be far more constructive, and far more useful in making aid more effective in fighting poverty.

Steve Radelet is a senior fellow at the Center for Global Development in Washington, DC

Without aid, Rwanda's investment programmes would have collapsed

By Jeffrey D. Sachs

In a recent FT comment, [President Paul Kagame raises the important question of "when to end aid and how best to end it."](#)

[Dambisa Moyo](#) says that aid should be eliminated in five years, but President Kagame politely calls that suggestion "aggressive."

And he should know. If that suggestion had been followed this decade, Rwanda would again be a disaster. According to the most recent International Monetary Fund data, aid to Rwanda amounted to around 13 per cent of gross national product on average during 2000-2007. It has kept President Kagame's government afloat, with grants paying for nearly half the budget in 2008!

Rwanda's debts were recently cancelled under the HIPC programme, another kind of aid, thereby reducing Rwanda's external debt from around 80 per cent of GNP to around 10 per cent of GNP. External aid to Rwanda paid for more than half of the country's imports in 2008, as current and capital transfers in the balance of payments accounted for around \$450m compared with the country's \$836.5m of imports. Rwanda's own exports were a mere \$221.7m therefore covering only around one-fourth of the country's imports! Without aid, Rwanda's balance of payments would have collapsed, as would its investment programmes.

As someone who has worked for years to help ensure that Rwanda receives large-scale aid and debt cancellation so that it can build its infrastructure, educate its children, and control pandemic diseases, I am pleased that Rwanda has used the aid effectively. It is making a huge difference. Rwanda is growing rapidly and will climb out of poverty if its efforts and international support continue. The government's own development efforts have been very important, of course, but without the aid backing them, none of the recovery to date would have been possible.

Jeffrey D. Sachs is director of the Earth Institute at Columbia University and special advisor to UN secretary-general Ban Ki Moon

Little appetite to question the aid-based status quo

By Dambisa Moyo

Earlier this year [Vladimir Putin](#), Russian prime minister, was asked by Michael Dell, of [Dell](#) computer fame, "how he (Americans) could "help" Russia?". Perhaps unsurprisingly, Putin responded (a rough translation) in a typically succinct manner, stating with incredulity - "Help?, help? What do you mean help?" - we are not incapable!

If there is one attitude that has, and continues, to colour much of the aid-industry today, it is that of Africa as an invalid, incapable of dragging itself out of the mire.

Since the publication of my book, [Dead Aid](#), the vitriolic response that I have received from a number of aid quarters serves to illustrate just how little appetite there is to question the aid-based status-quo.

It is unfortunate that instead of engaging in the necessary arguments, many aid proponents have resorted to tactics (including personal attacks) which undermine and detract from a necessary debate we should be having about the efficacy of aid, its very real failures to meaningfully put an end to African poverty, and the manner in which the aid-based system is hurting, not helping, Africa to progress economically.

To be fair, I have been invited far and wide to spend time discussing the merits (and demerits) of my ideas with many of the traditional aid-givers, from African governments to senior officials at the UN, the World Bank, the International Monetary Fund, the Gates Foundation, with ministers of international development across Scandinavia, where aid shares of their national income top 1 per cent (yes, even they are willing to discuss the aid-less future of Africa with me), and members of the general public at large.

I have never denied that aid interventions can “help” in the very narrow sense of the word, for example, a girl can go to school on an aid-financed scholarship, and of course there are many millions of African receiving HIV-drugs thanks to foreign largesse. Indeed, I myself for many years have been a patron of charities that work in education (Room to Read) and in the provision of anti-retroviral drugs (Absolute Return for Kids).

However, this does not take away from the fundamental point which we should be debating, and which forms the central core of my argument, which is that these forms of aid are at best band-aid solutions, and can never be the catalyst for long-term economic development and a meaningful reduction in poverty across the [African continent](#).

What the most vociferous aid proponents never seem to ask themselves is what sort of society is their aid-approach producing?

In their blinkered view of the African continent they are happy to ignore the fact that in the worst case scenario aid continues to feed corruption (never mind fuelling inflation, increasing the debt burden unsustainably, and disenfranchising Africans). Even in the best case scenario, many African governments have nearly abdicated wholesale their responsibility to provide public goods to their citizens; instead, unlike anywhere else in the world, education, healthcare, infrastructure, and even security are handed over to aid-agencies around the world.

To focus on the five-year aid-reduction example that my book offered as an illustration of an exit strategy deliberately misses the point, which is that Africa desperately needs to wean off aid. Obviously, a blanket five-year plan imposed on countries with different challenges and different circumstances would be ridiculous!

One can only interpret the fact that my detractors took the five-year example at face value as wilful blindness or a complete unwillingness to see Africa in any other light than a basket case. An aid exit might take 10 years, it might take 15, but after 60 years of the aid-regime (with no concomitant job creation) surely it is better to start the conversation (and the strategy) of aid exits than not.

The fact that an African president’s involvement in a debate that had the temerity to question the efficacy of an aid based model is labelled farcical is an indication of just how low the discourse has sunk.

That we, as a global society, would choose to ignore (much less discuss) what works, in favour of relying on what doesn’t, is truly tragic.

Dambisa Moyo is author of [Dead Aid: Why Aid is Not Working and How there is a Better Way for Africa](#) Foreign Aid Debate Has a Racist Undertone

A lack of confidence in Africans to react to market incentives like everyone else does

By Marian L. Tupy

[Dambisa Moyo’s](#) book *Dead Aid* has reignited the simmering war of words about the effects of foreign aid on Africa. Her contribution is welcome, for scant evidence in favour of increasing aid notwithstanding, western governments seem determined to outdo one another in the extravagance of their promises to Africa.

Moyo’s growing popularity has even compelled the usually taciturn Jeffrey Sachs of Columbia University to join the fray. Writing on [The Huffington Post](#), he threw ad hominem attacks against both Moyo and his long-time critic Bill Easterly of New York University. Both responded, pointing out some of the problems associated with aid. But one argument needs further discussion: the aid debate has a racist undertone.

This year marks 20 years since the end of [communism](#). As [Oleh Havrylyshyn](#), a former International Monetary Fund official who teaches at the University of Toronto shows, the transition of central European and Baltic countries from communism to capitalism has been largely successful. Countries that embraced more rapid and more extensive economic reforms “tended to experience higher growth rates and lower inflation and received more foreign investment. Inequality increased less among rapid reformers than among gradual reformers. The same is true with respect to poverty rates.”

Baltic countries, which were among the most enthusiastic reformers, benefited greatly from increased economic freedom. Between 1995

and 2007, real incomes in Latvia, Estonia and Lithuania rose by an astonishing 167 per cent, 146 per cent and 125 per cent respectively. In the eurozone, they rose by 24 per cent over the same period. Moreover, longevity, environmental quality and school enrolment rose throughout the region, while child mortality declined. The current economic troubles in CEB take some shine off the region's accomplishments, but they don't erase them.

A political consensus in favour of economic liberalisation emerged soon after the fall of the Berlin Wall. Common people were transfixed by western cars and fresh oranges that they saw on German television. Though they disagreed about the speed and the extent of economic reforms - western European and American economic models were both popular - there was little opposition to the general direction of policy changes. One of the most vehement promoters of rapid rather than gradual change, incidentally, was a Harvard University economist - Jeffrey Sachs.

No such consensus exists in Africa. During the 1990s, I lived in both, Czechoslovakia and South Africa. In the former, people saw socialism as a massive failure. In the latter, many saw it as respectable policy alternative. In the former, it was near impossible to find a self-declared communist. In the later, communists were in the government. In CEB, people tended to see the wealth of the western world as a result of high productivity in capitalist countries, while in Africa they tended to see it as a result of colonial exploitation.

Following the collapse of communism, virtually everyone assumed that the key to future prosperity in CEB lay in economic reforms, not in foreign aid. Implicitly, almost everyone understood that the people in the region would simply have to respond to market incentives, and produce goods and services that domestic and foreign customers would want to buy. Inability to compete with the west was inconceivable. Failure was not an option.

Such a mindset is demonstrably lacking when it comes to [Africa](#). Globalisation tends to be seen as a threat and seldom as an opportunity. Local politicians fret about competition from China and Bangladesh. Non-governmental organisations caution against liberalisation lest Africans be taken advantage of by unscrupulous westerners. Musicians and movie stars urge aid, not reform, as a solution to poverty.

The result? African incomes rose by mere 26 per cent between 1995 and 2007, less if countries rich in oil and mineral resources are taken out of the calculation. Nine out of 48 sub-Saharan African countries were poorer in 2007 than in 1960. Africa failed to grow in spite or perhaps because of all the aid that had poured to Africa over the last half-a-century. Instead of reforming their economies and growing their private sectors and domestic tax revenue, African governments relied on aid to survive.

In a nutshell, there appears to be a peculiar lack of confidence in Africans to react to market incentives like everyone else does and to benefit from globalisation. Africans, the consensus of aid advocates and protectionists appears to be saying, should be shielded rather than exposed to market forces. But, what does that say about the underlying assumption with regard to the ability of Africans to succeed just as the people of CEB had succeeded?

Yet, it is the opponents of aid, not its advocates, who get the short end of the stick. When ABC's John Stossel questioned Sachs about the link between corruption and aid, for example, Sachs accused Stossel of treating poor Africans as "enemies." On the contrary, Stossel responded, it is the African elites that are the enemy of both the African people and of the western taxpayer. Or, as the British economist Peter Bauer put it half-a-century ago, foreign aid is a way of "taxing poor people in rich countries and passing it on to rich people in poor countries."

While the world debates whether Africa should adopt market reforms, other regions power ahead. The concept of "global poverty" is losing its meaning everyday. Soon, poverty will be solely an "African problem." To prevent that from happening, Africans must be treated not as hopeless recipients of charity but people equal to everyone else in ability.

Marian L. Tupy is a policy analyst at the Cato Institute's Center for Global Liberty and Prosperity. He is the author of a recently released Cato study, "The False Promise of Gleneagles: Misguided Priorities at the Heart of the New Push for African Development."

Background reading:

[Opposition to anti-aid campaigner grows](#)

[Aid opponent spreads theory far and fast](#)

[Lunch with the FT: Dambisa Moyo](#)

[Africa has to find its own road to prosperity: Paul Kagame](#)

A new system for development aid: Jeffrey Sachs

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