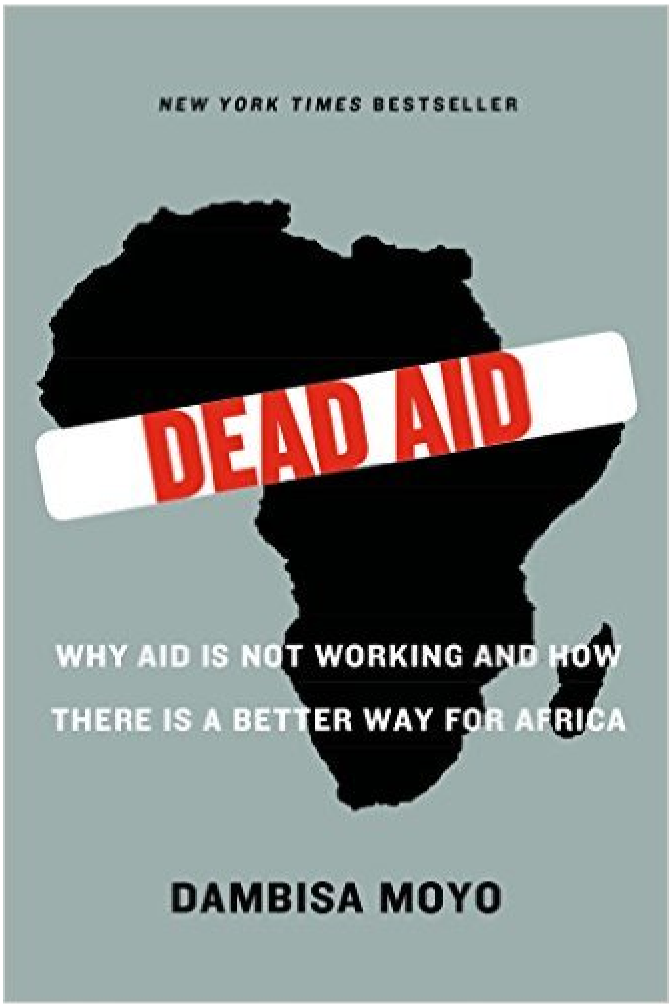
# Dead Aid: Why Aid Is Not Working And How There Is A Better Way For Africa



## Synopsis

A national bestseller, Dead Aid unflinchingly confronts one of the greatest myths of our time: that billions of dollars in aid sent from wealthy countries to developing African nations has helped to reduce poverty and increase growth. In fact, poverty levels continue to escalate and growth rates have steadily declinedâ •and millions continue to suffer. Debunking the current model of international aid promoted by both Hollywood celebrities and policy makers, Dambisa Moyo offers a bold new road map for financing development of the world’s poorest countries. Much debated in the United States and the United Kingdom on publication, Dead Aid is an unsettling yet optimistic work, a powerful challenge to the assumptions and arguments that support a profoundly misguided development policy in Africa. And it is a clarion call to a new, more hopeful vision of how to address the desperate poverty that plagues millions.

## Book Information

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## Customer Reviews

Over the past 60 years at least $1 trillion in aid was sent to Africa - yet, calls for even more grow steadily louder. Moyo - a native of Zambia, contends that evidence demonstrates that this aid has made the poor poorer. Real per-capita income today is lower than it was in the 1970s. In other words, aid is not part of the solution, it is part of the problem.Even after aggressive debt-relief campaigns in the 1990s, African countries still pay close to $20 billion in debt repayments per year - at the expense of education and health care. Moyo also asserts that the roughly 500,000 individuals in the "aid business" have no motivation for that aid to succeed; meanwhile, well-meaning individuals such as Bono have choked off debate of its efficacy.The author claims that the most obvious criticism of aid is that it enables rampant corruption and bloated bureaucracies. In 2002, the African Union, an organization of African nations, estimated that corruption was costing $150 billion/year. Transparency International, a corruption watchdog, states that Zaire's former president is reputed to have stolen at least $5 billion from the country. Across Africa, over 70% of government funding comes from foreign aid - enabling those governments to avoid accountability to local citizens since they pay so little.In Cameroon, it takes a potential investor about 426 days to gain a business license, vs. 17 in South Korea. Under the auspices of the U.S. Food for Peace program, each year millions are used to buy American-grown food that is then shipped to Africa where it puts local farmers out of business.Moyo's bottom-line is that other regions should stop the largess towards Africa, and Africa should focus on becoming more attractive to private investment. This includes ceasing to be the source of the world's greatest number of armed conflicts.

Dambisa Moyo's masterpiece is an economic blueprint intended to serve as a paradigm for weaning Africa off the debilitating aid-dependency syndrome that has kept the continent in perpetual economic stagnancy for decades. Using dependable statistics, Moyo argues that government-to-government or bilateral aid (which should be distinguished from charity-based aid) to Africa undermines the ability of Africans to conceptualize their own best economic and political policies. As she puts it: "The net result of aid-dependency is that instead of having a functioning Africa, managed by Africans, for Africans, what is left is one where outsiders attempt to map its destiny and call the shots."(66) Foreign aid does not only undermine economic growth, it keeps recipient countries in a state of endemic poverty. It is itself an underlying cause of social unrest and possibly even civil war.Moyo notes that the "prospect of seizing power and gaining access to unlimited aid wealth is irresistible."(59) To buttress her argument, she refers to Grossman (1992) who contends that the underlying purpose of rebellion is the capture of the state for financial advantage, and that aid makes such conflict more likely. In the past fifty years, Moyo observes, over US$1trillion in development-related aid has been transferred from the rich countries of the West to Africa. Yet, aid has helped make the poor poorer; economic growth slower.According to Moyo, the notion that foreign aid can alleviate systemic poverty, and has done so in Africa is tantamount to a myth. Millions in Africa, she notes, are poorer today on account of aid dependency. Indeed, aid has been and continues to be, an unmitigated political and economic and humanitarian disaster for Africa. Aid is not benign--it is malignant. In short, aid is not part of the solution; it is the problem. And here is how. Aid breeds corruption in Africa. If the world has one picture of the African continent, it is one of corrupt statesmen. With very few exceptions, African leaders have crowned themselves in gold, seized land, handed over state businesses to relatives and friends, diverted billions of aid-money to foreign bank accounts, and generally treated their countries like giant personalized cash dispensers. According to Transparency International, Mobutu Sese Seko of erstwhile Zaire is estimated to have looted the State to the tune of US$5billion.Roughly the same amount was stolen from Nigeria by President Sani Abacha and placed in Swiss private banks. The list of corrupt practices in Africa is endless. However, the point about corruption in Africa is not that it exists; the point is that foreign aid is one of its greatest aides. Aid creates a vicious cycle of dependency in Africa; a cycle that chokes off desperately needed investment, instills a culture of kleptomania, and facilitates rampant and systematic corruption, all with deleterious consequences for economic growth. It is this cycle, Moyo posits, that "perpetuates underdevelopment, and guarantees economic failure in the poorest aid-dependent countries" (49).Aid creates a fertile ground for rent-seeking, that is, the use of governmental authority to take and make money without trade or production of wealth. Because foreign aid is fungible--easily stolen, redirected and extracted-- it facilitates corruption. At a very basic level, an example of this is where a government official with access to aid money set aside for public welfare takes the money for his own personal use. Examples are legion in Africa. Foreign aid programs, which tend to lack accountability, and check and balances, act as substitutes for tax revenues.The tax receipts that aid releases are then diverted to unproductive and often wasteful purposes rather than the productive public expenditure (education, health infrastructure, etc) for which they were ostensibly intended. Moyo points out that in "Uganda, for example, aid-fueled corruption in the 1990s was thought to be so rampant that only 20 cents of every US$1 of government spending on education reached the targeted local primary school."(53)Strangely enough, Larry Diamond (2004) observes, Western aid agencies, notably the International Monetary Fund and the World Bank, continue to give aid to African states, with notorious authoritarian and corrupt governments. His list includes Cameroon, Egypt, Zimbabwe, Gabon, Angola, Eritrea, Guinea and Mauritania. Africa is the region that receives the largest amount of foreign aid, receiving more per capita in official development assistance than any other region of the world.Yet her social infrastructure is in a state of utter decrepitude! Moyo notes that any large influx of money into an economy, however robust, has the potential to create serious problems. With the relentless flow of unmitigated, substantial aid money to Africa, these problems are magnified, especially in economies that are, by their very nature, poorly managed, weak and susceptible to outside influence, over which domestic policymakers have little or no control. Moyo contends that increases in foreign aid are correlated with declining domestic savings rates. As she puts it, "As foreign aid comes in, domestic savings decline; that is, investment falls."(61) She further observes that with all the tempting aid monies on offer, which are notoriously fungible, the relatively few people who have access to it, spend it on consumer goods instead of saving the cash. As savings decline, local banks have less money to lend for domestic investment.Worse still, foreign aid has an equally damaging crowding-out effect: although aid is meant to encourage private investment by providing loan guarantees, subsidizing investment risks and supporting co-financing arrangements with private investors, in practice it discourages the inflow of such high-quality foreign monies. Moyo points out that empirical research has shown that higher aid-induced consumption leads to an environment where much more money is chasing fewer goods."(61) This almost invariably leads to price rises--inflation.Over and above, aid chokes off the export sector. This phenomenon is known as the Dutch disease, as its effects were first observed when natural gas revenues flooded the Netherlands in the 1960s, devastating the Dutch export sector and increasing unemployment. Moyo argues that aid inflows have adverse effects on overall competitiveness, export sector (usually in the form of decline in the share of those in the manufacturing sector and ultimately growth).In the oddest turn of events, the fact that aid reduces competitiveness, and thus the trading sector’s ability to generate foreign-exchange earnings, makes countries even more dependent on aid, leaving them exposed to all the negative consequences of aid-dependency. In countries with weak financial systems, additional foreign resources do not translate into growth of stronger financially dependent industries. So if foreign aid harbors such adverse effects for African economies why are donors bent on doling it out? And why aren’t recipients sagacious enough to put an end to the lethal cycle of aid? Moyo’s Dead Aid model provides solid answers to these intriguing questions. She notes that "Africa is addicted to aid. For the past sixty years, she says, Africa has been fed aid. Like any addict, Africa needs and depends on its regular fix, finding it hard, if not impossible to contemplate existence in an aid-less world."(75) Her book provides an antidote, a road map for riding Africa of aid dependency.Arguing that the aid program in Africa has not worked precisely because it was never conceived with the intention of promoting the economic development of Africa, she proposes alternatives to foreign aid. She notes that like the challenges faced by someone addicted to drugs, the withdrawal is bound to be painful. Nonetheless, if implemented in the most efficient way, the solutions offered in Dead Aid will help to dramatically reduce Africa’s reliance on aid money.Moyo cites Botswana as an example of an economic success story in Africa. Botswana began with a high ratio of aid to GDP but used the aid wisely to provide important public goods that helped support good policies and sound governance and laid the foundation for robust economic growth for the country.She says this stratagem can be replicated all over Africa. Her alternatives to aid, predicated on transparency and accountability, would provide the life-blood through which Africa's social capital and economies will grow. Her Dead Aid strategy leaves room for modest amounts of aid to be part of Africa's development financing strategy. Systematic aid will be a component of her Dead Aid Model, but only insofar as its presence decreases as other financing alternatives take hold. The ultimate goal, as far as Moyo is concerned, is an aid-free Africa. In a nutshell, Dead Aid proposes radical solutions to the pressing economic problems of our time. It offers a new model for financing development in Africa's poorest countries, one that offers economic growth, promises to significantly reduce endemic poverty, and most importantly, does not rely on aid. Though Moyo is not the first economic pundit to take Western aid donors to task, never has the case against aid been made with such rigor and conviction. She does not pull her punches."In a perfect world," she writes, "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."(xi) Her most radical proposal comes in the form of a rhetorical question: "What if," she asks, "one by one, African countries each received a phone call...telling them that in exactly five years the aid taps would be shut off permanently?"(xi)

Financial Aid)