Dambisa Moyo (2010):
Dead Aid – Why Aid Is Not Working and How There Is Another Way for Africa
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> *"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."* (p. 47)

Provocative, daring and innovative; these are certainly appropriate to describe the reader's impression from DAMBISA MOYO's "Dead Aid" tackling a very sensitive issue in international development community: the effectiveness of aid. Shortly after its publication in 2009, "Dead Aid" figured on the New York Times bestseller-list. Born and raised in Zambia, Dambisa MOYO holds Master of Public Administration in International Development from Harvard University and a Doctorate in Economics from Oxford University. MOYO has worked at the World Bank and for eight years at Goldman Sachs. The Time Magazine named MOYO one of the world's 100 most influential people.

In "Dead Aid", MOYO argues that development aid has harmed Africa and that it should be stopped. According to the author, "in the past fifty years more than $1 trillion in development-related aid has been transferred from rich countries to Africa" (p. xviii). However, in spite of this aid, Africa's situation has not improved. According to MOYO it has even regressed. The central thesis of the book is therefore that aid itself is the cause of a "never-ending-cycle" of economic, political and social problems maintaining Africa in a perpetual state of poverty. The long-term global effects of aid are the opposite to their intended goals: economic growth is reduced, poverty increased and in response more aid is given. It is thus time to change the approach to development and reduce "aid-dependency". The author argues that alternatives to the current aid system do exist in the private sector. The book's purpose is therefore to offer a set of free-market tools as alternatives to aid, enabling poor countries to efficiently finance development that would lead to sustainable long-term growth and a reduction of poverty. MOYO consequently proposes to set a deadline to aid in order to gradually reduce it. The idea is that whereas aid decreases, alternatives are automatically implemented in order to maintain a certain level of spending resulting in an "aid-free world" (p. 76). Basing development's success on financial tools, MOYO challenges the role of international institutions such as the World Bank and the IMF as well as NGOs and criticizes their "aid-business". Therefore "Dead Aid" targets an audience that is composed of international donors, NGOs, defenders of development aid, African and Western governments as well as readers simply interested in the topic.

Firstly, the problems arising from a situation called the "aid-based development model" are emphasized and the reasons why according to MOYO systematic aid is not efficient are analysed. Secondly, the "Dead Aid model" proposed by MOYO is presented by explaining how financial alternatives could be an appealing solution to jump-start development in Africa. Thirdly, we point to the critics of the book and evaluates the strengths and weaknesses of MOYO's arguments. Finally, it assesses whether her approach is convincing and if it could achieve its intended goals.

The "aid-based development model"

It is important to point out that Moyo does not condemn all forms of aid. She indeed clearly distinguishes between three types of aid: first, humanitarian or emergency aid which refers to aid targeting natural catastrophes; second, charity-based aid which is collected by charitable organizations and disbursed to local institutions or people on the ground; and finally, systematic aid designating a form of aid which is directly transferred to the government, either through a bilateral or multilateral way. Moyo leaves aside the two first types of aid and only focuses on systematic aid. While all types of aid could be criticized, she argues that charity-based aid and especially humanitarian aid will continue to play an essential role in development or reconstruction policies. By contrast, she denounces systematic aid as being responsible for holding back Africa economically. Systematic aid, in the form of grants or concessional loans (see p. 7), greatly hampers development for two reasons: First, since the money is directly transferred to governments, the political and economic conditions are distorted. Second, systematic aid is not strictly regulated and does not impose stringent conditions in case of default, which implies increased leeway for governments and reduces incentives to efficiently manage the aid monies.

The negative effects of the "aid-based development model"

Through the "aid-based development model" Moyo gives the reasons why aid is unproductive and how it generates negative consequences that ultimately affect development. These consequences can be divided into four main categories: political, social, economic and dependency-related problems. First, from a political perspective, aid does foster and facilitate corruption (p.48). Such a bad policy environment leads to a reduction of expenditure directed at public goods as well as a significant disincentive for domestic and foreign direct investments.

Second, aid weakens the whole social construction of the country. Indeed, since aid acts as a substitute for tax revenues, the government is not anymore financially dependent on its citizens and consequently the natural checks and balances and accountability mechanisms prevailing between the government and the citizens are distorted and break down. As a result, the government becomes all-powerful, acts without taking into account the society's needs and pursues its own financial interests. Moreover, since the state concentrates large amounts of systematic aid monies, it becomes a highly coveted place, which creates social unrest and civil wars.

Third, with regard to the economic consequences, large and relentless inflows of fungible aid money encourage consumption rather than savings, which has the effect of reducing domestic savings and dropping domestic investments. Moreover, private foreign capital and investment fall as aid rises (p. 61). At the same time, a sudden increase in the consumption of goods and services inevitably produces a rise in the inflation rate, which cannot be combated without causing negative impacts on investments and growth. Parallel to these effects, Moyo also stresses that large inflows of foreign currency lead to an appreciation of the domestic currency, which thus significantly affects the export sector at different levels: "competitiveness, wages, export sector employment, and ultimately growth" (p. 63). Furthermore, poor countries have not the adequate absorptive capacity to effectively use aid money in their economy, which may create bottlenecks. Moyo also stresses the fact that aid has a cyclical effect. Indeed, all types of adverse effects of aid listed above contribute to choke off growth, increase the poverty rate and finally attract new aid flows. This creates what MOYO calls "the vicious cycle of aid" (p. 49): aid causes aid and thus aid is continuously needed.

Moreover, several other aid-dependency related problems are engendered. On the one hand, African governments tend to consider aid inflows as a permanent and unlimited source of income. Consequently, they have "no incentive for long-term financial planning, no reason to seek alternatives to fund development" (p. 36). This results in "laziness" and "a kind of insouciance" (p. 66) from the policymakers, which undermines reform and development incentives. On the other hand, aid-dependency impedes African governments' ability to freely decide over their own economic and political policies, implying that they are perpetually "subjected" to the donors' political will.

The "Dead Aid model"

According to MOYO, the current economic crisis and financial pressures that donor countries face are compelling reasons to stop aid now and to seek reliable alternatives. MOYO consequently develops the "Dead Aid model" that defines "how to finance the development agenda so that, whatever the development policy, economic prosperity might be realized" (p. 72). The implementation of the model is divided into three distinct stages: First, in order to get rid of the aid-dependency, MOYO suggests a gradual reduction in aid over a period of five to ten years (p. 76). During this time a range of free-market tools, as alternatives to aid, should be implemented. MOYO admits the possibility of different ways to manage these financial tools, depending on the circumstances of a single country (pp. 145–146). Second, once this economic plan is set, MOYO recommends a frugal management of the public budget. The third stage is the strengthening of institutions and of the accountability mechanism, which would then encourage the natural emergence of good governance.

The proposed alternatives to aid are the following:
- Issuing bonds on international or domestic capital markets to finance development.
- Developing infrastructure, the legal and regulatory conditions and enhance credibility to attract foreign direct investments (as for example the current Chinese FDI policy in Africa).
- Actively taking part in world trade, which requires an improvement of the global free trade regime on the part of its main actors (especially Western countries), as well as an abolishment of the trade barriers within the African continent itself to enhance an economic and trading integration.
- Building micro-financing institutions to foster poor people's ability to create enterprise and get involved in a financial dynamic.
- Facilitating remittances transfers from Africans abroad as a source of external funding.
- Enabling savings, as a tool to finance investment, by creating a more innovative and efficient financial sector as well as a legal system free of corruption.

In MOYO's opinion, there are a variety of advantages in these alternatives: "(They) 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" (p. 75). Additionally, earnings generated by these market-based tools, as for example income from trade, create a value chain benefiting to the whole society and do not only flow to the government (p. 142).

Critical evaluation of MOYO's arguments

The book has resulted in a surge of public reactions and has created quite a lot of controversy. However, MOYO's idea is not new. In fact, pro-market economists like WILLIAM EASTERLY and PETER BAUER (to whom the book is dedicated) argued for years that aid hurts the people that it was supposed to help (LAWLER 2009). On the contrary, development economist PAUL COLLIER describes Moyo's analysis as "over-optimistic". In reality, he states, she "exaggerates the opportunity for alternative finance and underestimates the difficulties African societies face" (COLLIER 2009). COLLIER argues that

> "African societies need international help to overcome these problems; it is just that the help they need is not predominantly money. Aid is not a very potent instrument for enhancing either security or accountability. Our obsession with it has detracted from the more important ways in which we can promote development: peacekeeping, security guarantees, trade privileges, and governance." (COLLIER 2009).

Former UN secretary-general KOFI ANNAN on the other side mainly supports MOYO's argument as quoted on her website:

> "Dambisa is hard – perhaps too hard – on the role of aid. But her central point is indisputable. The determination of Africans, and genuine partnership between Africa and the rest of the world, is the basis for growth and development."

From a long-term perspective aid has not been able to eliminate poverty and spur economic growth. Therefore, MOYO is right saying that aid might be ineffective and that it has to gradually abolish itself. However, this has to happen over a longer period than just the five to ten years she proposes. She is also right in claiming that Africa's economic, political and social situation should be improved through good governance and a strengthening of the private sector. Additionally, some efforts should be made to facilitate Africa's development, for example the Doha Round negotiations should finally be settled in order to enhance free trade conditions. Moreover, MOYO rightly states that African governments themselves have to get incentives to actively participate in the process of poverty elimination and be able to play a crucial role in their own development. The author's merit is that she has been able to engage a critical debate about this sensitive question and bring an African perspective in the discussion, too often monopolized by Western donors or international institutions. Her proposal of an "exit-strategy" (p. 67) from aid-dependency seems maybe too radical but she is right in saying that a discussion about this possibility is necessary.

A range of weaknesses can be emphasized. First, MOYO's main critique is about grants and concessional loans that she defines as "systematic" aid, representing a financial form of aid (p. 7–9). However, MOYO does not distinguish between different forms of financial aid such as budget support and project aid. Moreover, she neglects technical cooperation. Consequently, MOYO's definition of aid is very narrow and she ignores several aid forms that constitute significant parts of development support. As a result, the book leads to a homogeneous and general negative consideration of aid. Second, MOYO does not consider the fact that aid can be effective and beneficial. She disregards the progresses made by the development community towards a new and more effective aid approach. For example, in 2005, more than 100 countries agreed on the Paris Declaration on Aid Effectiveness

(OECD, 2008). Aid could even be viewed as a way to facilitate the implementation of the financial tools proposed, but MOYO does not envisage this possibility. Third, the book's scientific thoroughness has been widely criticized. Many examples, explanations and figures are indeed not proven by sources and the arguments too intensively use simplifications, generalizations and are supported by a selective use of evidence. Fourth, one may ask if MOYO's assumed causation could be verified: if development aid were to be cut, there would be two possible ways for recipient-countries to react. Either they search for new income streams as MOYO suggests or they do nothing and finally regress. It is highly doubtful whether a stop of foreign aid will have the effect of forcing the governments to adopt MOYO's proposed alternatives. The second option of regression is not unrealistic. It could result in failed states that not only threaten their own population but also their neighbours, exacerbating the probability of conflicts. Moreover, MOYO's market-based strategies can also generate adverse effects in terms of risk and debt, for example in the case of borrowing on capital markets. In addition, these alternatives to be put in place of aid are one-sided. In fact, the author limits the notion of development to a financial aspect and does not consider social and human aspects such as education, health and knowledge. Finally, MOYO's general optimism of the feasibility of her propositions is also problematic when it comes to China's involvement in Africa.She welcomes China's provision of business opportunities that create employment, education and infrastructure (p. 152). This indubitably produces economic growth, however she widely neglects the critics concerning China's violation of human rights and environmental standards (p. 107). Moreover, China's aggressive economic strategy is risky in that it could result in a sort of "new colonialism" and new dependency.

Conclusion

"Dead Aid" is not the first critique levelled against aid, but the book is maybe unique by the strength and conviction it brings against the ineffectiveness of aid. MOYO's argument is clear: "after many decades and many millions of dollars aid has had no appreciable impact on development" (p. 46). The book has achieved what it set out to do mainly insofar that it has provoked a large critical debate on the long-term efficiency of aid. Based on an economic approach of development, the author brings an interesting and rather ingenious contribution to the debate and her emphasis on the private sector makes her alternatives to the "aid-dependency model" particularly convincing. However, while being bewildered by the easy solutions that seem to exist to help Africa getting out of poverty on a first instance, the attentive reader will soon raise questions on the feasibility and implications of the model. Firstly, it appears that MOYO's approach can be considered as naïve in that adjustment and practicability in the time frame given seem to be rather unrealistic. Moreover, the alternatives are not a guarantee against the emergence of similar effects than those experienced with aid. Additionally, MOYO has been unlucky with her timing. The global financial crisis has drastically reduced investors' appetite for risk, making her free-market development model more difficult toimplement in practice. Secondly, her approach can be regarded as reckless or harmful. In fact, "Dead Aid" does add to the prejudice against aid and disappointingly paints all forms of aid with the same brush. Instead, aid effectiveness should have been debated in a more responsible and honest way by also considering the benefits that aid can bring. Currently, aid remains and will certainly remain a key dimension of development policy. However, the reform and a new way of thinking in the "aid world" are in fact inevitable, the only challenge is to find how to make it more credible and more profitable.

Aid is not dead. So in the near future, why not considering a shift towards a solution combining market-based policies with aid policies?

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