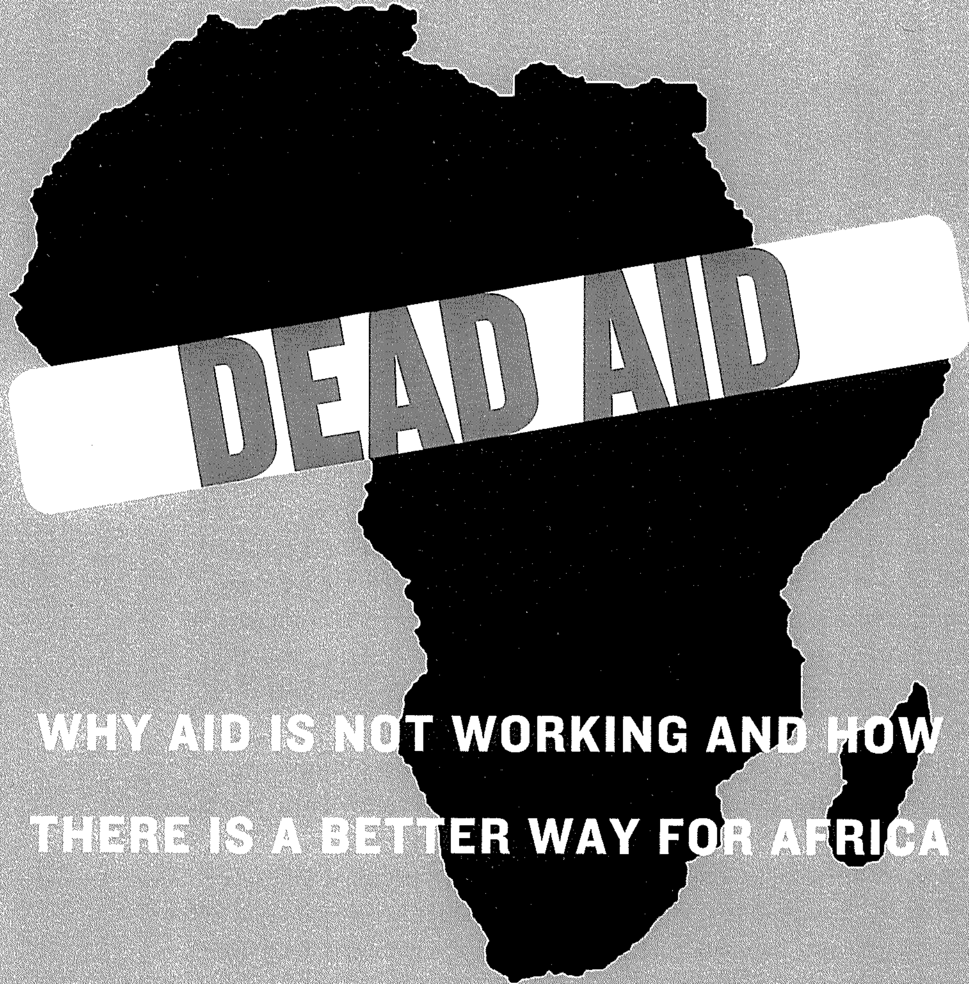
NEW YORK TIMES BESTSELLER
DEAD AID
WHY AID IS NOT WORKING AND HOW
THERE IS A BETTER WAY FOR AFRICA
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1. The Myth of Aid

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, hydro-electric, 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.

4. The Silent Killer of Growth

In 2004, the British envoy to Kenya, Sir Edward Clay, complained about rampant corruption in the country, commenting that Kenya's corrupt ministers were 'eating like gluttons' and vomiting on the shoes of the foreign donors. In February 2005 (prodded to make a public apology for his statements given the political maelstrom his earlier comments had made), he apologized – saying he was sorry for the 'moderation' of his language, for underestimating the scale of the looting and for failing to speak out earlier.[1]

If the world has one picture of African statesmen, it is one of rank corruption on a stupendous scale. There hardly seem any leaders who haven't crowned themselves in gold, seized land, handed over state businesses to relatives and friends, diverted billions to foreign bank accounts, and generally treated their countries as giant personalized cash dispensers. According to Transparency International, Mobutu is estimated to have looted Zaire to the tune of US$5 billion; roughly the same amount was stolen from Nigeria by President Sani Abacha and placed in Swiss private banks (later US$700 million of the loot was returned to Nigeria).[2] It's not, of course, just one person who has taken the money. There are many people, at many different levels of the bureaucracy, who have funnelled away billions of dollars over the years. Corruption is a way of life.

The list of corrupt practices in Africa is almost endless. But the point about corruption in Africa is not that it exists: the point is that aid is one of its greatest aides. This is not to say that there are not other facilitators of corruption. In Africa, natural-resource windfalls, such as oil, have tended to be more of a curse than a blessing. Like aid, they are susceptible to theft and have provided practically unlimited opportunities for personal wealth accumulation and self-aggrandizement.

The crucial difference between foreign aid and natural-resource endowments is, of course, that aid is an active and deliberate policy aimed at development. Countries don't have much of a choice as to whether or not they end up with an oil endowment; although of course they do have a choice on how windfalls are dealt with. With mounting pressure for greater transparency in the oil, gas and mining sectors, from organizations like the Extractive Industries Transparency Initiative (EITI),[3] the days of blatant looting and corruption in these sectors are surely numbered. But donors continue to sit in comfortable air-conditioned rooms in the West and pen the tragic fate of countries they ostensibly seek to help.

The vicious cycle of aid

With aid's help, 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. Greater opacity and fewer investments reduce economic growth, which leads to fewer job opportunities and increasing poverty levels. In response to growing poverty, donors give more aid, which continues the downward spiral of poverty.

This is the vicious cycle of aid. The cycle that chokes off desperately needed investment, instils a culture of dependency, and facilitates rampant and systematic corruption, all with deleterious consequences for growth. The cycle that, in fact, perpetuates underdevelopment, and guarantees economic failure in the poorest aid-dependent countries.

Corruption and growth

Ultimately, Africa's goal is long-term, sustainable economic growth, and the alleviation of poverty. This cannot occur in an environment where corruption is rife. There are, of course, any number of ways in which corruption retards growth.

In a context of high degrees of corruption and uncertainty, fewer entrepreneurs (domestic or foreign) will risk their money in business ventures where corrupt officials can lay claim to its proceeds, so investment stagnates, and falling investment kills off growth.

Development agencies would have us believe that aid helps build a lasting, credible and strong civil service. Indeed, the World Bank recommends that by providing more aid rich countries actually assist in the fight against corruption. Thanks to aid, poor governments can afford to support ethics training, increase the salaries of their public-sector employees (police, judges, medical staff, tax collectors), thereby limiting the need for corruption. Moreover, higher salaries will attract competent and higher-quality employees to the civil service.

Unfortunately, unfettered money (the prospect of sizeable ill-gotten gains) is exceptionally corrosive, and misallocates talent. In an aid-dependent environment, the talented – the better-educated and more-principled, who should be building the foundations of economic prosperity – become unprincipled and are drawn from productive work towards nefarious activities that undermine the country's growth prospects. Those who remain principled are driven away, either to the private sector or abroad, leaving the posts that remain to be filled by the relatively less-educated, and potentially more vulnerable to graft.

Endemic corruption also targets public contracts. In these environments, contracts which should be awarded to those who can deliver on the best terms, in the best time, are given to those whose principal aim is to divert as much as possible to their own pockets. What ensue are lower-quality infrastructure projects, and enfeebled public services, to the detriment of growth.

Similarly, the allocation of government spending suffers as corrupt officials are likely to choose projects less on the basis of public welfare and more on the opportunities for extorting bribes and diverting funds. The bigger the project, the greater the opportunity. Projects whose exact value is difficult to monitor present lucrative opportunities for corruption – it is easier to siphon money from large infrastructure projects than from textbooks or teachers' salaries.

So how badly does corruption actually affect growth?

Every year, since 1995, Transparency International has published a Corruption Perceptions Index (CPI). Using surveys reflecting the perceptions of business people and country analysts, the CPI ranks over 100 countries, from 0 to 10, the most corrupt to the least.

Using the Transparency International CPI, Graf Lambsdorff found that a one-point improvement in a country's corruption score was correlated with an increase in productivity of 4 per cent of GDP. This implies that were Tanzania (placed at 3.2 out of 10 on the 2007 Transparency International index) to improve its corruption score to the level of the UK (ranked 8.4 out of 10), its GDP could be more than 20 per cent higher, and net annual per capita inflows would increase by 3 per cent of GDP.

Joel Kurtzman found that every one-point increase in a country's opacity index (the degree to which a country lacks clear, accurate and easily discernible practices governing business, investment and government) correlated to a lower per capita income by US$986 and a 1 per cent decrease in net foreign direct investment as a share of GDP.[4] Moreover, corruption was also related to a 0.5 per cent increase in the country's average borrowing rate, and a 0.5 per cent increase in its rate of inflation.

Aid and corruption

The donor community is publicly airing concerns that development assistance earmarked for critical social and economic sectors is being used directly or indirectly to fund unproductive and corrupt expenditures (UNDP's Human Development Report, 1994). At a hearing before the United States Senate Committee on Foreign Relations in May 2004, experts argued that the World Bank has participated (mostly passively) in the corruption of roughly US$100 billion of its loan funds intended for development.[5] When the corruption associated with loans from other multilateral-development banks is included, the figure roughly doubles to US$200 billion. Others estimate that of the US$525 billion that the World Bank has lent to developing countries since 1946, at least 25 per cent (US$130 billion) has been misused. Vast sums of aid not only foster corruption – they breed it.

Aid supports rent-seeking – that is, the use of governmental authority to take and make money without trade or production of wealth. 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. Obviously, there cannot be rent-seeking without a rent. And because foreign aid (the rent) is fungible – easily stolen, redirected or extracted – it facilitates corruption. Were donor conditionalities remotely effective, this would not be the case. But, as described previously, conditionalities carry little punch.

In 'Do Corrupt Governments Receive Less Foreign Aid?', Alesina and Weder conclude that aid tends to increase corruption. Svensson shows how aid fosters corruption by reducing public spending; that by increasing government revenues, aid lowers the provision of public goods (things that everyone benefits from, but no one wants to pay for – for instance, a lamppost). In a similar vein, foreign aid programmes, which tend to lack accountability and checks and balances, act as substitutes for tax revenues. The tax receipts this releases are then diverted to unproductive and

often wasteful purposes rather than productive public expenditure (education, health infrastructure) for which they were ostensibly intended. In Uganda, for example, aid-fuelled corruption in the 1990s was thought to be so rampant that only 20 cents of every US$1 dollar of government spending on education reached the targeted local primary school.[6]

Aid goes to corrupt countries

If it is so obvious, as it must be to everyone involved, that aid is vulnerable to such blatant manipulation, why is it that donors continue to donate?

Witness the occurrences in 1978 after the IMF appointed Irwin Blumenthal to a post in the central bank of what was then Zaire, now the Democratic Republic of Congo. Blumenthal resigned in less than a year, writing a memo which said that 'the corruptive system in Zaire with all its wicked manifestations' is so serious that there is 'no (repeat no) prospect for Zaire's creditors to get their money back'. Shortly after the Blumenthal memo, the IMF gave Zaire the largest loan it had ever given to an African country and over the next ten years President Mobutu's kleptocracy had received an additional US$700 million from the Fund.

More recently, referring to Zambia's former President Chiluba (who was in power between 1991 and 2002) in a parliamentary address in 2002, Zambia's current President, Levy Mwanawasa, alleged embezzlement and theft of up to US$80 million. Yet during the period when the thefts occurred Zambia had received upwards of US$1.5 billion from the World Bank. Much of the money was given under the auspices of the Heavily Indebted Poorest Country (HIPC) debt relief programme, a programme that required its beneficiaries to be corruption-free.

More generally, the academic Larry Diamond observes that development agencies continue to give aid to the most corrupt and unaccountable African states, with known authoritarian and corrupt governments. His list includes Cameroon, Angola, Eritrea, Guinea

and Mauritania, each receiving aid equalling or even exceeding the African average of US$20 per capita. There is no end to it.

Why give aid if it leads to corruption?

Given what we know about foreign aid, and how it encourages and sustains corruption, why do Western governments insist on parcelling out aid to poor countries? Beyond the motivations for aid-giving discussed earlier – economic, political and moral – there are two other practical explanations why.

First, there is simply a pressure to lend. The World Bank employs 10,000 people, the IMF over 2,500; add another 5,000 for the other UN agencies; add to that the employees of at least 25,000 registered NGOs, private charities and the army of government aid agencies: taken together around 500,000 people, the population of Swaziland. Sometimes they make loans, sometimes they give grants, but they are all in the business of aid (the total of concessional loans – those which carry a small interest rate – and grants – effectively free money), seven days a week, fifty-two weeks a year, and decade after decade.

Their livelihoods depend on aid, just as those of the officials who take it. For most developmental organizations, successful lending is measured almost entirely by the size of the donor's lending portfolio, and not by how much of the aid is actually used for its intended purpose. As a consequence, the incentives built into the development organizations perpetuate the cycle of lending to even the most corrupt countries. Donors are subject to 'fiscal year' concerns: 'they feared the consequences within their agencies of not releasing the funds in the fiscal year for which they were slated' (Ravi Kanbur). Any non-disbursed amounts increase the likelihood that their subsequent aid programmes will be slashed. With the added corollary, of course, that their own organizational standing is placed in jeopardy.

For many donor agencies the decision to lend to less than reputable governments is couched in the view that if they didn't, the poor would suffer, health and education budgets wouldn't be met, and countries would falter. The reality is, the poor aren't getting the money and, besides, even under the aid regime, African countries are faltering anyway.

Donors have the added fear that were they not to pump money in, poor countries would not be able to pay back what they already owe, and this would affect the donors' financing themselves. This circular logic is exactly what keeps the aid merry-go-round humming.

The insatiable need to lend is yet another reminder of why the conditionalities imposed on poor countries are worth no more than the paper they are written on. A 1992 study conducted by the World Bank's Operations Evaluation Department concluded that the release of aid tranches was close to 100 per cent, even when country compliance rates on conditions were below 50 per cent. Another World Bank study, in 1997, shows that between 1980 and 1996 72 per cent of the aid the World Bank allocated to adjustment lending went to countries with poor track records on compliance with conditionality. In the donor's desperate quest to lend, and maintain the lender–borrower see-saw, the aid relationship tips in favour of the corrupt government. Almost to the absurd point where the donor has a greater need for giving the aid than the recipient has for taking it.

Second, donors are apparently unable to agree on which countries are corrupt and which are not. A classic example of this occurred on 26 November 2002, when the *New York Times* published an article entitled 'Bush Plan Ties Foreign Aid to Free Market and Civic Rule'. The article trumpeted Washington's aid initiative and went on to outline the details of a White House proposal to set up a competition among the poorest world economies, where the 'winners' would be apportioned a slice of the US$5 billion foreign aid fund.

Curiously, among the list of possible qualifying countries was Malawi. Only weeks prior to the Bush announcement, Malawi's Ministry of Agriculture had been embroiled in a very public altercation with the IMF. Grain consignments had gone missing, and

a sizeable percentage of Malawi's population was facing starvation. To make matters worse, a top Malawian official at the state-run grain marketing board who was to be a key witness in the two corruption cases 'mysteriously disappeared'.[7] Yet even with these allegations of corruption the US government did not see fit to remove Malawi from the qualifying Millennium Challenge Account list.

On the other hand, Tanzania was omitted from the same US Millennium Challenge Account list (apparently for reasons of corruption). But bizarrely it had been hailed as a model of good governance in November 2001 by the British government's Secretary of Development at the time, Clare Short, who promptly announced that Tanzania would benefit from a new pilot aid programme.

Who was right?

Thus, it would appear that regardless of who you are, and what you've done (or haven't for that matter), you'll get the cash from somewhere. In the Malawi maize scandal, the IMF resumed its lending programme to the government with no clear resolution of the case.

Corruption: positive or negative?

Maybe it wouldn't be so bad if African leaders, like some of their Asian counterparts, reinvested stolen money domestically, instead of squirrelling it away in foreign bank accounts.

This notion of 'positive' corruption goes a long way to explaining why many Asian countries, perceived to have high levels of corruption (in some cases, such as Indonesia, exceeding those of Africa), nevertheless post enviable levels of economic growth. For example, despite ranking just 3.5 out of 10 on Transparency International's Corruption Perceptions Index (2007), China continues to attract the greatest amount of foreign direct investment (US$78 billion in 2006, according to the IMF's International Financial Statistics), which undoubtedly has contributed to its

stellar growth. Similarly, although in the 1980s Thailand registered a strong economic performance, in the same decade it was ranked the most corrupt country in the world.

In stark contrast, corruption analysts estimate at least US$10 billion – nearly half of Africa's 2003 foreign aid receipts – depart Africa every year.[8] It is this 'negative corruption' which bleeds Africa's public purse dry, and does nothing to address the continent's desperate needs. It is truly tragic that while stolen aid monies sit and earn interest in private accounts abroad, the countries for which the money was destined have stagnated, and even regressed.

The cornerstone of development is an economically responsible and accountable government. Yet, it remains clear that, by providing funds, aid agencies (inadvertently?) prop up corrupt governments. But corruption is not the only problem emanating from aid. The deleterious effects of any new aid flows would be both social and economic.

Aid and civil society

Africa needs a middle class: a middle class that has vested economic interests; a middle class in which individuals trust each other (and have a court to go to if the trust breaks down) and that respects and defends the rule of law; a middle class that has a stake in seeing its country run smoothly and under a transparent legal framework; a middle class (along with the rest of the population) that can hold its government accountable. Above all, a middle class needs a government that will let it get ahead.

This is not to imply that Africa does not have a middle class – it does. But in an aid environment, governments are less interested in fostering entrepreneurs and the development of their middle class than in furthering their own financial interests. Without a strong economic voice a middle class is powerless to take its government to task. With easy access to cash a government remains all-powerful, accountable only (and only then nominally) to its aid donors. Inhibited in its growth, the middle class never reaches that

critical mass that historically has proven essential for a country's economic and political success.

In most functioning and healthy economies, the middle class pays taxes in return for government accountability. Foreign aid short-circuits this link. Because the government's financial dependence on its citizens has been reduced, it owes its people nothing.

A well-functioning civil society and politically involved citizenry are the backbone of longer-term sustainable development. The particular role of strong civil society is to ensure that the government is held accountable for its actions, through fundamental civil reforms other than simply holding elections. However, foreign aid perpetuates poverty and weakens civil society by increasing the burden of government and reducing individual freedom.

An aid-driven economy also leads to the politicization of the country – so that even when a middle class (albeit small) appears to thrive, its success or failure is wholly contingent on its political allegiance. So much so, as Bauer puts it, that aid 'diverts people's attention from productive economic activity to political life', fatally weakening the social construction of a country.

Aid and social capital: a matter of trust

Social capital, by which is meant the invisible glue of relationships that holds business, economy and political life together, is at the core of any country's development. At its most elemental level, this boils down to a matter of trust.

As discussed earlier, among development practitioners there is increasing acknowledgement that 'soft' factors – such as governance, the rule of law, institutional quality – play a critical role in achieving economic prosperity and putting countries on a strong development path. But these things are meaningless in the absence of trust. And while trust is difficult to define or measure, when it is not there the networks upon which development depends break down or never even form.

Foreign aid does not strengthen the social capital – it weakens

it. By thwarting accountability mechanisms, encouraging rent-seeking behaviour, siphoning off scarce talent from the employment pool, and removing pressures to reform inefficient policies and institutions, aid guarantees that in the most aid-dependent regimes social capital remains weak and the countries themselves poor. In a world of aid, there is no need or incentive to trust your neighbour, and no need for your neighbour to trust you. Thus aid erodes the essential fabric of trust that is needed between people in any functioning society.

Aid and civil war

According to the Stockholm International Peace Research Institute, 'Africa is the most conflict ridden region of the world, and the only region in which the number of armed conflicts is on the increase.' During the 1990s there were seventeen major armed conflicts in Africa alone, compared to ten (in total) elsewhere in the world. Africa is also 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.

There are three fundamental truths about conflicts today: they are mostly born out of competition for control of resources; they are predominately a feature of poorer economies; and they are increasingly internal conflicts.

Which is why foreign aid foments conflict. The prospect of seizing power and gaining access to unlimited aid wealth is irresistible. Grossman argues that the underlying purpose of rebellion is the capture of the state for financial advantage, and that aid makes such conflict more likely. In Sierra Leone, the leader of the rebel Revolutionary United Front was offered the vice-presidential position in a peace deal, but refused until the offer was changed to include his chairmanship of the board controlling diamond-mining interests. So not only would it appear that aid undermines economic growth, keeping countries in states of poverty, but it is also, in itself, an underlying cause of social unrest, and possibly even civil war.

While acknowledging that there are other reasons for conflict and war – for example, the prospect of capturing natural resources such as oil, or tribal conflict (which, of course, can have its roots in economic disparity) – in a cash-strapped/resource-poor environment the presence of aid, in whatever form, increases the size of the pie that different factions can fight over. For example, Maren blames Somalia's civil wars on competition for control of large-scale food aid.

Furthermore, in an indirect manner, by lowering average incomes and slowing down economic growth (according to Collier, both in themselves powerful predictors of civil wars), aid increases the risk of conflict.[9] In the past five decades, an estimated 40 million Africans have died in civil wars scattered across the continent; equivalent to the population of South Africa (and twice the Russian lives lost in the Second World War).

Beyond politicization of the political environment, aid fosters a military culture. Civil wars are by their very nature military escapades. Whoever wins stays in power through the allegiance of their military. Thus, the reigning incumbent, anxious to hang on to power, and manage competing interest groups and factions, first directs what resources he has into the pockets of his army, in the hope that it will remain pliant and at bay.

The economic limitations of aid

Any large influx of money into an economy, however robust, can cause problems. But with the relentless flow of unmitigated, substantial aid money, these problems are magnified; particularly in economies that are, by their very nature, poorly managed, weak and susceptible to outside influence, over which domestic policymakers have little control. With respect to aid, poor economies face four main economic challenges: reduction of domestic savings and investment in favour of greater consumption; inflation; diminishing exports; and difficulty in absorbing such large cash influxes.

Aid reduces savings and investment

As foreign aid comes in, domestic savings decline; that is, investment falls. This is not to give the impression that a whole population is awash with aid money, as it only reaches relatively few, very select hands. With all the tempting aid monies on offer, which are notoriously fungible, the few spend it on consumer goods, instead of saving the cash. As savings decline, local banks have less money to lend for domestic investment. Economic studies confirm this hypothesis, finding that increases in foreign aid *are* correlated with declining domestic savings rates.

Aid has another 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. Indeed, in some empirical work, it is shown that private foreign capital and investment fall as aid rises. This may in part reflect the fact that private investors tend to be uncomfortable about sending their money to countries that are aid-dependent, a point elaborated on later in the book.

An outgrowth of the crowding-out problem is that higher aid-induced consumption leads to an environment where much more money is chasing fewer goods. This almost invariably leads to price rises – that is, higher inflation.

Aid can be inflationary

Price pressures are twofold. Aid money leads to increased demand for locally produced goods and services (that is, non-tradables such as haircuts, real estate and foodstuffs), as well as imported (traded) goods and services, such as tractors and TVs. Increased domestic demand needn't be harmful in itself, but a disruptive injection of money can be.

There are multiple knock-on effects. For example, take this very basic and simplistic story. Suppose a corrupt official gets

US$10,000. He uses some of the cash to buy a car. The car seller can now afford to buy new clothes, which places cash in the hands of the clothes trader, and so on and so forth down the line, at each point putting more pressure on domestic prices as there are now more people demanding more cars, clothes, etc. This is at least an example of positive corruption. But in a poor environment, there aren't any more cars, there aren't any more clothes, so with increased demand prices go up. Eventually, there may be more cars and there may be clothes, but by that time inflation will have eroded the economy, all the while with even more aid coming in. Perhaps ironically, because of the deteriorating inflationary environment more aid is pumped in to 'save the day'; we're back on the cycle again.

As if that was not bad enough, in order to combat the cycle of inflation, domestic policymakers raise interest rates. But, at a very basic level, higher interest rates mean less investment (it becomes too costly to borrow to invest); less investment means fewer jobs; fewer jobs mean more poverty; and more poverty means more aid.

Aid chokes off the export sector

Take Kenya. Suppose it has 100 Kenyan shillings in its economy, which are worth US$2. Suddenly, US$10,000 worth of aid comes in. No one can spend dollars in the country, because shopkeepers only take the legal tender – Kenyan shillings. In order to spend the aid dollars, those who have it must convert it to Kenyan shillings. All the while there are only still 100 shillings in the economy; thus the value of the freely floating shilling rises as people try to offload the more easily available aid dollars. To the detriment of the Kenyan economy, the now stronger Kenyan currency means that Kenyan-made goods for export are much more expensive in the international market, making the traded goods sector uncompetitive (if wages in that sector do not adjust downwards). All things being equal, this chokes off Kenya's export sector.

This phenomenon is known as Dutch disease, as its effects were first observed when natural gas revenues flooded into the Netherlands in the 1960s, devastating the Dutch export sector and increasing unemployment. Over the years economic thinking has extended beyond the specifics of this original scenario, so that any large inflow of (any) foreign currency is seen to have this potential effect.

Even in an environment where the domestic currency is not freely floating, but rather its exchange rate remains fixed, the Dutch disease phenomenon can occur. In this case, the increased availability of aid money expands domestic demand, which again can lead to inflation. Aid flows spent on domestic goods would push up the price of other resources that are in limited supply domestically – such as skilled workers – making industries (mainly the export sector) that face international competition and depend on that resource more uncompetitive, and almost inevitably they close.

The IMF has stated that developing countries that rely on foreign capital are more prone to their currencies strengthening. Accordingly, aid inflows would strengthen the local currency and hurt manufacturing exports, which in turn reduces long-run growth. IMF economists have argued that the contribution of aid flows to a country's rising exchange rate was one reason why aid has failed to improve growth, and that aid may very well have contributed to poor productivity in poor economies by depressing exports.

In other work, their research finds strong evidence consistent with aid undermining the competitiveness of the labour-intensive or exporting sectors (for example, agriculture such as coffee farms). In particular, in countries that receive more aid, export sectors grow more slowly relative to capital-intensive and non-exportable sectors.

Aid inflows have adverse effects on overall competitiveness, wages, export sector employment (usually in the form of a decline in the share of those in the manufacturing sector) and ultimately growth. Given the fact that manufacturing exports are an essential

vehicle for poor countries to start growing (and achieving sustained growth), any adverse effects on exports should *prima facie* be a cause for concern.

Moreover, because the traded-goods sector can be the main source of productivity improvements and positive spillovers associated with learning by doing that filter through to the rest of the economy, the adverse impact of aid on its competitiveness retards not just the export sector, but also the growth of the entire economy.

In the most odd turn of events, the fact that aid reduces competitiveness, and thus the traded sector's ability to generate foreign-exchange earnings, makes countries even more dependent on future aid, leaving them exposed to all the adverse consequences of aid-dependency. What is more, policymakers know that private-to-private flows like remittances do not seem to create these adverse aid-induced (Dutch disease) effects, but they largely choose to ignore these private capital sources.

As a final point, in order to mitigate the Dutch disease effects (and depending on their economic environments), policymakers in poor countries generally have two choices. They can (in a fixed exchange rate regime) either raise interest rates to combat inflation to the inevitable detriment of the economy, or they can 'sterilize' the aid inflows.

Sterilization implies that the government issues bonds or IOUs to people in the economy, and in return they get the cash in the economy. Through this process the government can mop up the excess cash that aid brings in. But, as discussed later, even sterilization has its costs.

Aid causes bottlenecks: absorption capacity

Very often, poor countries cannot actually use the aid flows granted by rich governments. At early stages of development (when countries have relatively underdeveloped financial and institutional structures) there is simply not enough skilled manpower, or there are not enough sizeable investment opportunities, to put the vast

aid windfalls effectively to work. Economic researchers have found that countries with low financial development do not have the absorptive capacity for foreign aid. In countries with weak financial systems, additional foreign resources do not translate into stronger growth of financially dependent industries.

What happens to this aid money that can't be used? In the most honest of outcomes, if the government did nothing with the aid inflow, the country would still have to pay interest on it. But given the policy challenges of large inflows discussed earlier (for example, inflationary pressure, Dutch disease effects), policymakers in the poor country must do something. Since they cannot put all the aid flows to good use (even if they wanted to), it is more likely than not that the aid monies will be consumed rather than invested (as before, thereby raising the risk of higher inflation).

To avert this sharp shock to the economy, African policymakers have to mop up the excess cash; but this costs Africans money. In addition to having to pay the interest on the aid the country has borrowed, the process of sterilizing the aid flows (again, issuing local-country debt in order to soak up the excess aid flows in the economy) can impose a substantial hit to the government's bottom line. Uganda offers a telling example of this. In 2005, the Ugandan central bank issued such aid-related bonds to the tune of US$700 million; the interest payments alone on this cost the Ugandan taxpayer US$110 million annually.

Naturally, the process of managing aid inflows is particularly painful when the interest costs of the debt the government pays out are greater than the interest it earns from holding all the mopped-up aid money.

Aid and aid-dependency

Corruption, inflation, the erosion of social capital, the weakening of institutions and the reduction of much-needed domestic investment: with official aid to the continent at 10 per cent of public expenditure, and at least 13 per cent of GDP for the average

country, Africa's continual aid-dependency throws up a host of other problems.

Aid engenders laziness on the part of the African policymakers. This may in part explain why, among many African leaders, there prevails a kind of insouciance, a lack of urgency, in remedying Africa's critical woes. Because aid flows are viewed (rightly so) as permanent income, policymakers have no incentive to look for other, better ways of financing their country's longer-term development. As detailed later in this book, these options, like foreign direct investment and accessing the debt markets, offer more-diversified and greater prospects for sustainable development.

Relatedly, in a world of aid-dependency, poor countries' governments lose the need to pursue tax revenues. Less taxation might sound good, but the absence of taxation leads to a breakdown in natural checks and balances between the government and its people. Put differently, a person who is levied will almost certainly ensure that they are getting something for their taxes – the Boston tea party's 'No taxation without representation'.

Besides, any rational government should be thinking about different forms of taxation as a way of running their affairs. In today's culture of aid-dependency, were aid to disappear (as unlikely as it seems), a country's tax-raising mechanisms would have atrophied to a point of incapacity.

Large sums of aid, and a culture of aid-dependency, also encourage governments to support large, unwieldy and often unproductive public sectors – just another way to reward their cronies. In his research, Boone (1996) finds that aid does increase the size of the government.

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. Given the state of affairs, it is hardly surprising that, though ostensibly high on the global agenda, the Africa discourse has been usurped by pop stars and Western politicians. Rarely, if ever, are the Africans elected by their own people heard from on the global stage. And even though, as discussed earlier, the balance of power

may have shifted supposedly in favour of the African policymakers, it is still the donors who are in the policymaking driving seat (which might help explain why, over the last five decades, independent African policymaking and national economic management have diminished considerably). So aid-dependency only further undermines the ability of Africans, whatever their station, to determine their own best economic and political policies. Such is the all-pervasive culture of aid-dependency that there is little or no real debate on an exit strategy from the aid quagmire.

Aid objections

Dead Aid is not the first critique to be levelled against aid as a development tool. One of the earliest critics of aid was a Hungarian-born London School of Economics economist, Peter Bauer. At a time when the pro-aid model enjoyed wide support, Bauer was a lone dissenting voice, many of his writings drawing on his personal experience as a colonial officer studying the rubber industry in Malaysia and Nigeria. He saw what should have been flourishing industries wrecked by huge aid subsidies that rarely reached the indigent in the recipient country.

Aid, Bauer argued, interfered with development as the money always ended up in the hands of a small chosen few, making aid a 'form of taxing the poor in the west to enrich the new elites in former colonies'. Bauer argued most strongly that aid-based theories and policies were wholly inconsistent with sound economic reasoning and, indeed, with reality. Although he was a favourite of the British Prime Minister, Margaret Thatcher (she gave him a peerage[10]), at the time of his death in 1992 Peter Bauer was an outcast from the state-led socialist development agenda and his critique of the aid-based development strategy remained largely ignored.

More recently, the author and former World Bank economist Bill Easterly has provided numerous case studies on the failures of aid policies across the developing world. In *The Bottom Billion*,

Paul Collier criticizes the blanket one-size-fits-all aid approach as paying no heed to the unique circumstances of individual countries, and thus proposes a more nuanced approach to aid-driven proposals, and only where they are needed.

Perhaps where all this literature falls down somewhat is that it does not explicitly offer Africa a menu of alternatives to aid. But, more importantly, the people who actually and actively implement the aid agenda are yet to be convinced. These are the people who are so wedded to aid that they are unable to see Africa as anything but helpless without aid intervention.

What follows is a discussion of other, better ways for Africa to finance its economic development; ways that have been tried and tested in places as far-flung as India, Russia and Chile, and even, closer to home, in South Africa.