

Dambisa Moyo's (Serious) Challenge to the Development Business

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ABSTRACT

Senior fellow Todd Moss considers the future of foreign aid in light of Dambisa Moyo's book *Dead Aid*, which argues that Western aid to Africa has brought more harm than help. The influx of aid, she contends, allows African governments to shirk their responsibilities to their citizens and foments poverty, corruption, and underdevelopment. Moss finds Moyo's book reflective of widely felt frustration in Africa and deserves to be taken seriously. In particular, the donor community needs to pay more attentions to the costs to recipients of aid, especially the long-term effects of aid dependency. Yet Moss points out that not all aid is the same and that much foreign assistance has been positive. Nevertheless, aid is not the most potent vehicle by which rich countries can help the world's poor: better trade, smarter investment, and development-friendly migration policies are more likely to help Africa's long-term prospects. The relevant question today is not whether aid is good or bad, but rather how aid can be made to work better for both donors and the people of Africa.

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Dambisa Moyo's (Serious) Challenge to the Development Business

Comments at Dambisa Moyo's *Dead Aid* book launch,
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Senator Jesse Helms famously dismissed aid to Africa as wasting “money down a rat hole” back in the early 1990s. At the time, aid proponents were scrambling to justify budgets after the evaporation of the Cold War rationale. (Indeed, I was a young researcher with the Overseas Development Council at the time much of Washington was debating whether or not the United States had *any* real interests in Africa.) That simplistic argument over whether aid is good or bad seems outright anachronistic today. The aid discussion in Washington over the past few years has not been *whether* to provide aid but rather *how* to do it better. Current thinking has changed so completely that it was George W. Bush who launched the biggest new foreign aid programs in recent memory with most of Helms's old allies on the right lined up as some of Bush's most active aid champions.

In this context, Dambisa Moyo's *Dead Aid* feels a little like déjà vu. She argues that aid has not only done Africa no good but actually harmed the continent. By her account, aid has created dependency and usurped what should be the role of African governments to provide for their own people. Thus aid is the principal reason poverty, corruption, and underdevelopment are still so prevalent. The book's dedication to Peter Bauer, perhaps the best-known early academic critic of aid, who died in 2002, is a reminder that this argument is far from new.

Many reviewers have lambasted the book, including the [Economist](#) and my (normally gentle but always thoughtful) colleague [David Roodman](#).² I'd like to take a slightly different angle and start with why the development community should not be too quick to dismiss Moyo's arguments (even if there are obvious flaws in the book's facts and argumentation).

Moyo claims that the main purpose of the book is to generate a healthy debate about aid and its failings. In that regard, she has been hugely successful. Moyo has used her obvious charm (and clearly a top-rate publicist) to get her book featured in the mainstream media, including

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¹ Dambisa Moyo, *Dead Aid* (New York: Farrar, Straus and Giroux, 2009).

<http://www.cato.org/event.php?eventid=5917>.

² See “Voice of disenchantment,” *The Economist*, March 12, 2009, and Roodman's blog, <http://blogs.cgdev.org/globaldevelopment/2009/03/dambisa-moyo-discovers-key-to-ending-poverty.php>.

[Newsweek](#), the [New York Times Magazine](#), and even the [Colbert Report](#).³ If she accomplishes nothing else, reaching these audiences is an impressive feat.

It is also very clear that Moyo, a Zambian economist with a PhD from Oxford and a career at Goldman Sachs, is channeling a very real and potent frustration with the international aid system that is shared by many Africans. If we take nothing else away from the book, it is that the very people who are supposed to be beneficiaries of international aid are angry that so much money is spent yet so little realized.

Moyo is plainly insulted by the influence of Western celebrities on policy toward Africa and complains that their appeals for aid are paternalistic and simplistic. It is hard not to be sympathetic, even if not all celebrity attention fits with her description ([some](#) clearly do their homework more than others).⁴ She is also right to complain that appeals for a “[Marshall Plan for Africa](#)” are based on the wrong historical lessons and that mindless [aid targets like 0.7%](#) or “cost estimates” for the [Millennium Development Goals](#) can be counterproductive in the long-run.⁵ (Global aid has been above the supposed level necessary to reach the MDGs for the past four years, yet most countries are still way off track.)

Moyo’s most useful contribution is to highlight that the aid system imposes real costs on recipient countries. Even those of us who support aid need to be more aware and honest about these costs. Much of the aid world has focused on short-term transaction costs of aid: that it is too often delivered in a haphazard way that wastes the time of African officials and the money of Western taxpayers. Economists have also worried about the negative [macroeconomic effects of aid](#), including, for example, the effects of an appreciation in the exchange rate, which undermines exports and makes it harder for countries to grow out of poverty.⁶

But Moyo (and Bauer before her) worries about a different set of costs: the long-term impact on a country after decades of aid dependency. By this logic, getting lots of money from outsiders undercuts any incentive to raise taxes or deliver services, and thus leads to corrupt and unaccountable governments that barely pay attention to their own people. This doesn’t sound too far off a description of many African governments, and it is an issue I’ve written about as a

³ Lisa Miller, “Thanks, Bono, but No Thanks,” *Newsweek*, March 21, 2009; Deborah Solomon, “The Anti-Bono,” *The New York Times*, February 19, 2009; http://www.colbertnation.com/the-colbert-report-videos/223405/april-01-2009/dambisa-moyo_

⁴For example, ONE: http://one.org/c/us/policy_news/.

⁵ Todd Moss, “A Marshall Plan Is Not What Africa Needs,” *International Herald Tribune*, December 29, 2004. See also Todd Moss and Michael Clemens, “Ghost of 0.7%: Origins and Relevance of the International Aid Target,” *International Journal of Development Issues*, Vol. 6, No. 1, 2007; Todd Moss, Michael Clemens, and Charles J. Kenny, “The Trouble with the MDGs: Confronting Expectations of Aid and Development Success,” *World Development*, Vol. 35, No. 5, May 2007; Nancy Birdsall, “Do No Harm: Aid, Weak Institutions, and the Missing Middle in Africa,” CGD Working Paper 113 (Washington, D.C.: Center for Global Development, 2007). For the trouble with the Millennium Development Goals, see Michael Clemens, Charles Kenny, and Todd Moss, “The Trouble with the MDGs: Confronting Expectations of Aid and Development Success,” CGD Working Paper 40 (Washington, D.C.: Center for Global Development, 2004).

⁶ Raghuram G. Rajan and Arvind Subramanian, “What Undermines Aid’s Impact on Growth?,” (International Monetary Fund, 2004), http://papers.ssrn.com/sol3/papers.cfm?abstract_id=887995.

possible “aid-institutions paradox”.⁷ Moyo claims this phenomenon is so pervasive and insidious that aid to Africa should be cut off in five years. Her alternative is to raise private capital through things like bond and stock markets.

The principal objection to this is that not all aid is the same. Although Moyo tries to distinguish between emergency or charitable aid and blank checks given to governments (she wants to preserve the former but kill the latter), this distinction breaks down when you look at how most aid is actually delivered. By her qualified typology, almost none of the aid provided by the United States, which is heavily concentrated in health, education, and humanitarian assistance, would be cut off.

It would also have been better if Moyo had told us what kind of aid she thinks has worked. While everyone has their own aid horror stories, it is also very clear that a lot of aid has done a lot of good. Americans should be ashamed that we ever gave a dime to the psychotic and murderous Samuel Doe of Liberia. But we should be extremely proud of what we are doing in Liberia today to rebuild that country (full disclosure: Liberia was one of my principal responsibilities when I was recently at the State Department). We should similarly be embarrassed that U.S. aid to Zaire under Mobutu wound up in French real estate and enabled him to continue looting the country. But Americans should also be very proud of the President’s Emergency Plan for AIDS Relief (PEPFAR) which is keeping 2.1 million Africans alive today. (And those 2.1 million people would die within a very short time if PEPFAR’s antiretroviral treatment were to end.)

(Although I don’t want to nitpick the book, there is a glaring error that deserves correction: Moyo dismisses PEPFAR because she claims that two-thirds of the funds are earmarked for abstinence. The real figure is 7 percent. At best, this is a useful complement to other treatment approaches; at worst this is a modest tax to gain broad-based support for the program. As a whole, PEPFAR is hardly squeamish about human sexuality: it has bought 2.2 billion condoms.)

Just as all aid is not the same, all countries are not the same. While many aid-dependent countries have had decades of disappointing progress, many of the best performing countries are also longtime donor favorites: Tanzania, Botswana, Mali, and Uganda, among others. Ghana is perhaps the best example of a country that has been a donor darling for much of the past 25 years, yet it is also arguably Africa’s strongest democracy (five successive democratic elections and two changes of ruling party) and has a fast-growing economy. Moreover, the attention lavished on Ghana by its donors has not stopped it from doing many of the things Moyo wants, such as utilizing a stock market and issuing private sovereign bonds (Ghana’s \$850 million Eurobond issue in late 2007 was heavily oversubscribed). I actually wrote my [PhD dissertation on the Ghana Stock Exchange](#) (GSE) and am a huge fan.⁸ But it’s hard to see major benefit beyond the 35 listed companies; certainly the GSE is not going to be a source of capital for social

⁷ Todd Moss, Gunilla Pettersson, and Nicolas van de Walle, “An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa,” in *Reinventing Aid*, William Easterly, editor (Cambridge: MIT Press, 2008), <http://www.cgdev.org/content/publications/detail/5646>.

⁸ Todd Moss, *Adventure Capitalism: Globalization and the Political Economy of Stock Markets in Africa* (New York: Palgrave MacMillan, 2003), <http://www.amazon.com/Adventure-Capitalism-Globalization-Political-Economy/dp/1403904456>.

services. None of this is to suggest that aid is responsible for the success of Ghana, Tanzania, and others, but rather that we should be careful about crediting or blaming “aid” too much for how well or poorly African countries are doing. Aid is neither the death blow nor cure-all.

I also find it hard to take Moyo’s aid cut-off proposal too seriously since the politics of aid make it wholly unrealistic. The United States is simply not going to just turn off the tap. My confidence has nothing to do with commitments at the G-8 or the pleading of the UN, but rather our own politics and national interests. The various reasons to give aid—to serve humanitarian, national security, or diplomatic ends—do not disappear if it’s not working. Moyo’s critique is more likely to make aid proponents of all stripes work harder to find a better way. (This is not to say the aid budget won’t shrink, but any decrease will be mainly for internal fiscal reasons.)

Which is a good segue to where this debate goes from here. If we don’t want to throw out the good with the bad, and if turning aid off is probably unrealistic, what should we do? I suggest three steps that both Moyo and her critics can probably agree on.

First, be humble. In the end, what the West can do to help Africa is extremely limited. The sad case of Zimbabwe shows that internal factors are dominant determinants of what happens in Africa—and shows just how little can be done from the outside. This is not only realistic, but right.

Second, recognize that of all that can be done from outside, aid is likely far from the most important. Trade, private investment, and migration are probably all more useful to Africa’s future. Each of these is, of course, deeply affected by public policy choices. On trade, we could make market access permanent, simplify the trading rules, and cut our egregious agricultural subsidies. On private investment, public agencies like the Overseas Private Investment Corporation have been useful in catalyzing new funds for frontier markets and providing risk guarantees to help capital flow to the poorest countries. Most significantly, the [welfare gains of migration](#) swamp these other policy changes.⁹ Allowing greater global skills mobility is probably the number one thing America can do to help Africa.

Third, where we do deliver aid, it makes sense to focus on the types of spending that specifically minimize or eliminate the harmful effects. What might these be? Much can be accomplished by spending at home on technologies that will help Africa. For example, one way to fight malaria is to invest in better treatments and vaccines by spending at our own universities or at places like the National Institutes of Health. Similar approaches make sense for finding new seeds or energy technologies.

Another useful do-no-harm approach may be to target support to help countries graduate from aid by focusing more on business climate reforms and other measures to boost African competitiveness. Moyo loves credit ratings and microfinance, but both are far from divorced from aid. Most African credit ratings were funded by either UNDP or the U.S. State

⁹ Lant Pritchett, *Let Their People Come: Breaking the Gridlock on Global Labor Mobility*, (Washington, D.C.: Center for Global Development, 2006), <http://www.cgdev.org/content/publications/detail/10174>; Nancy Birdsall, Dani Rodrik, and Arvind Subramanian, “How To Help Poor Countries,” *Foreign Affairs* Jul/Aug 2005.

Department. Similarly, much of the microfinance industry relies on capital and technical assistance from the aid community.

When we do decide to spend in-country, it makes sense to link payments and strategies as tightly as possible to outcomes. (The old aid model was to track money spent and other inputs; this is no longer good enough.) In fact, PEPFAR has so many supporters not only because it tackles HIV/AIDS, but because it is clear about what it has achieved. Taking results-based aid to its logical conclusion gets you to a proposal like Nancy Birdsall's innovative [cash-on-delivery aid](#), where money is only disbursed after results have been audited.¹⁰

Minimizing the costs of aid also means stopping practices that may have the most pernicious effects. Top on my list of aid practices to kill is the quest for top-down aid targets, which inevitably result in mindlessly pushing money out the door. Pooled budget support, popular among European donors, is another practice that deserves a hard, honest look. The trend, resisted for decades but now increasingly common, of donors paying civil service salaries seems like a classic setup for dependency.

Dead Aid may feel like it came about a decade too late. But at a time when aid budgets are under renewed pressure and scrutiny, we certainly could use more rigorous analysis of what works and doesn't. My hope is that Moyo's book will contribute to that debate and have a similar effect to that of Jesse Helms: not to kill aid but to make it stronger.

¹⁰ http://www.cgdev.org/section/initiatives/_active/codaid.