Civil service mariners unload aid bound for Africa under the U.S. Navy's Project Handclasp, Spain, 2014

RESEARCH

Reopening and Reimagining Africa: The Future of Foreign Aid and Development

by Namra Zulfiqar

IN 2000, EIGHT Millennium Development Goals (MDGs) were set forth by the United Nations to meet the needs of the world's poorest by 2015. Goal 1 of the MDGs was to halve the number of people living in extreme poverty between 1990 and 2015. Globally, we were quite successful. The global poverty rate was 47% in 2000; it decreased to 14% in 2015.[1] In Sub-Saharan Africa, however, there was only a 28% decrease, from 57% to 41%.[2] Poverty has been decreasing rapidly in all regions of the world with the exception of Africa, where only about 45% of countries in sub-Saharan Africa achieved the MDG goal of eradicating extreme poverty. This lack of growth persists today, even as Africa receives higher levels of aid each year. International aid reached a new peak of $152.8 billion in 2019, yet still fell short of the UN target of 0.7% of Gross National Income.[3] The top 10 individual recipient countries are in Africa.[4] Researchers attempt to explain this lack of correlation between aid and growth through different theories. The most cynical among them claim that aid is actually inhibiting growth by creating an environment of aid dependency; they advocate for a complete withdrawal. The following analysis of successful cases of economic growth in the continent and empirical studies in the field is helpful in evaluating the merits of that argument.

"Aid has been, and continues to be, an unmitigated, political, economic, and humanitarian disaster for most parts of the developing world," writes Dambisa Moyo in her book *Dead Aid: Why Aid is Not Working and How There Is a Better Way for Africa.*[5] Moyo joins scholars who are pessimistic about the ability of aid to generate the type of sustainable development and poverty alleviation donors claim it does. She argues that the steady influx of aid encourages corruption and conflict while discouraging free enterprise. Most of it is provided directly to governments in the form of budgetary support, which both encourages corruption within the government and incentivizes parties to compete for control of the government solely for financial benefit. According to one estimate, at least $10 billion—half of what Africa received in aid in 2003—leaves the continent each year. Alternatively, when aid is provided directly to citizens, it often undermines local enterprises. She offers the example of the Hollywood movie star, who upon hearing of the malaria crisis in Africa, "rallies the masses, and goads Western governments to collect and send 100,000 mosquito nets to the affected region, at a cost of a million dollars."[6] The influx of foreign mosquito nets then puts local mosquito net makers out of business. There exists a similar problem with food aid; U.S. aid agencies buy food from American farmers to support the domestic agricultural economy, hurting local African agricultural economies.

Moyo instead encourages foreign direct investment, entry into global bond markets, encouragement of local financial intermediation, and free trade in agricultural products. Instead of purchasing food or mosquito nets abroad and sending them free of charge to recipient countries, aid agencies should encourage the development of local enterprises. She also argues against the prioritization of democracy when promoting development, writing, "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."[7] She cites the example of China as a model for growth without democracy, maintaining that the economy must work before sustainable democracy can be attempted. However, I would argue that the possibility of such a leader gaining power is fairly small and difficult to promote as a matter of policy. Dictators rarely turn out to be benevolent.

Not only are benevolent dictators difficult to find, most empirical studies find little consensus on the link between a political system, whether authoritarian or democratic, and economic growth. Peev and Mueller (2012) found "a positive correlation between the strength of a country's democracy and the quality of its economic institutions" by studying 24 post-communist economies over the period 1990–2007.[8] However, these correlations between democratization and economic growth may be contaminated by the fact that poor economic growth is often a catalyst for the end of an autocratic regime. When accounting for these endogeneity concerns, Pozuelo, Slipowitz, and Vuletin (2016) find that "growth rates before and after democracy are statistically the same."[9] A 2018 study by Acemoğlu and others, accounting for the same endogenous variables, found that "democratizations increase GDP per capita by about 20 percent in the long run," supporting his and Robinson's argument in *Why Nations Fall: The Origins of Power, Prosperity, and Poverty* on the necessity of inclusive political institutions that allow broad participation (pluralism) and place constraints and checks on politicians.[10] Since there remains no clear consensus on a correlation, I

1 Roser, Max, and Esteban Ortiz-Ospina. "Global Extreme Poverty."

2 United Nations. "The Millennium Development Goals Report."

3 Parker, Ben. "A 'Global Public Bad' Needs a Global Aid Response." The New Humanitarian

4 "Development Aid at a Glance – Statistics by Region: Africa."

5 Moyo, Dambisa. *Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa.*

6 Ibid.

7 Ibid.

8 Peev, Evgeni, and Dennis C. Mueller. "Democracy, Economic Freedom and Growth in Transition Economies."

9 Pozuelo, Julia Ruiz, Amy Slipowitz, and Guillermo Vuletin. "Democracy Does Not Cause Growth."

10 Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, and James A. Robinson. "Democracy Does Cause Growth."

agree with Moyo's critique of democracy being valued as central to development, but I disagree that abandoning these efforts in favor of benevolent dictators is the answer. Democracy has shown "robust, significant and positive indirect effects through higher human capital, lower inflation, lower political instability and higher economic freedom."[11] Democracy should be sought after, but not necessarily for its ability to promote economic growth.

Whether democratic or authoritarian, good governance is most important to economic improvement goals. Good governance "ensures that political, social and economic priorities are based on broad consensus in society and that the voices of the poorest and the most vulnerable are heard in decision-making over the allocation of development resources."[12] This is a priority in Rwanda, which enshrined good governance in its initial developmental plan: Vision 2020. It has a "low tolerance for corruption, which has evolved to a zero-tolerance policy for corruption, with public officials vulnerable to dismissal at even a hint of transgression."[13] After the 1994 genocide, the country, its institutions, and its infrastructure were left devastated; it had a GDP per capita of $146 and a poverty rate of 78%.[14] Foreign aid and developmental agency support were extremely important, but Paul Kagame, leader of the RPF (Rwandan Patriotic Front) is largely credited with its economic success. As societal structures had completely collapsed during the conflict, the RPF used its own financial resources to support government spending.[15] Furthermore, "in contrast to many other post-conflict situations, the profits of the RPF's business concerns were not pocketed by individual politicians or military leaders, rather were reinvested in the country and in the economy."[16] The economic success of Rwanda, host to an authoritarian political system, exemplifies the need for good leaders in important positions. Success in Botswana is also largely accredited to visionary political leadership. At independence in 1966, Botswana was one of the poorest countries in the world, with a per-capita GDP of $85.[17] In 2018, it had a per-capita GDP of $8279,[18] more than four times the continent's average. The government in power after independence adopted successful developmental strategies instead of falling to the temptations of corruption; it "sustained the minimal public bureaucracy structure that it inherited from the British and developed it into a meritocratic, relatively non-corrupt, and efficient bureaucracy. [It] invested heavily in infrastructure, education and health based on its prudent fiscal policy."[19] While we know and can push for the developmental strategies that led to rapid economic development in these countries, it is difficult to ensure leaders like Paul Kagame and Seretse Khama[20] who will embrace these strategies at the expense of personal gain. I will also note that both Botswana and Rwanda were at critical junctures in 1966 and 1994.[21]

Botswana had a successful independence movement and Rwanda had a power vacuum; Acemoğlu posits these as optimal environments for the institutional divergence that promotes economic growth.[22] However, like good leadership, critical junctures cannot be implemented as a policy position.

Although Moyo's plan to give aid-dependent African leaders a five-year deadline to completely eradicate their aid dependency is alluring, the likely outcome of that ultimatum would most likely either be mass flight by these leaders or a further concentration of wealth in the elite, leaving the populations of these countries in extreme poverty. A complete withdrawal of aid is not necessary. After Moyo's scathing critique of the global foreign aid paradigm, developmental research has shifted towards understanding both the heterogeneity of aid, as well as the heterogeneity of development in recipient countries, in order to understand what works and what does not. The effects of aid on development are quite nuanced; it cannot be reduced to a social "good" or "bad."

Some research supports Moyo's claim "that states which can raise a substantial proportion of their revenues from the international community are less accountable to their citizens and under less pressure to maintain popular legitimacy. They are therefore less likely to have the incentives to cultivate and invest in effective public institutions."[23] However, data shows that these negative effects only begin when aid flows reach 5% of GDP. Implementing aid ceilings for aid at 5% of the country's GDP would curb these possible negative effects.

Along with capping the amount of aid to be allocated, we must also understand what type of aid is most successful. Asongu and Nwachuk-

11 Doucouliagos, Hristos, and Mehmet Ulubasoglu. "Democracy and Economic Growth: A Meta-Analysis," 39.
12 "Human Development Report 1997." United Nations Development Programme.
13 Redifer, Laure, Emre Alper, and Neil Meads. "The Development Path Less Traveled : The Experience of Rwanda," 119.
14 "GDP per Capita (Current US$) - Rwanda | Data."
15 Booth, David, and Frederick Golooba-Mutebi. "Developmental Patrimonialism? The Case of Rwanda."
16 Redifer, Laure, Emre Alper, and Neil Meads. "The Development Path Less Traveled : The Experience of Rwanda," 119.
17 "Botswana GDP per Capita, 1964 - 2018." Census and Economic Information Center.
18 "GDP per Capita (Current US$) - Botswana | Data."
19 Shumuye, Muleta Yirga. "The Success Stories of Developmental State Paradigm from Botswana and Mauritius: Lessons for the Contemporary African Countries," 16.
20 President of Botswana at Independence.
21 Acemoglu, Daron, Suresh Naidu, Pascual Restrepo, and James A. Robinson. "Democracy Does Cause Growth." 529.
22 Ibid.
23 Moss, Todd J., Gunilla Pettersson Gelander, and Nicolas van de Walle. "An Aid-Institutions Paradox? A Review Essay on Aid Dependency and State Building in Sub-Saharan Africa."

wu (2017) disaggregated aid to 53 African countries by type—"humanitarian assistance," "action on debt," "aid for social infrastructure," "aid to the productive sector," "aid to the multi sector," "aid for economic infrastructure," and "programme assistance"—in order to better understand the effects of each. They found synergistic effects from "aid to the productive sector" and "aid for economic infrastructure," positive net effects from "programme assistance," and negative net impacts from "aid to social infrastructure" and "human assistance."[24] We can derive policy recommendations simply from this analysis, starting with diverting current funding allocations from social infrastructure, which takes up more than 50% of funding in aid-dependent countries like Ethiopia, Kenya, and Nigeria, to economic infrastructure.[25] That entails cutting funding for hospitals and schools in favor of railroads and telecommunication systems.

Nuance in such policies is needed as well. While aid for social infrastructure such as schools has inhibited growth, studies show that this effect is not homogenous. Educational aid allocations based on country income levels and level of education are crucial; "aid in primary education enhances growth in low-income countries but aid in post-primary education has no significant effect. For middle income countries, aid in primary education and secondary education has an adverse effect on growth but aid in higher education enhances growth."[26] Education can also enhance economic growth by increasing productivity and technological progress, facilitating technological spillovers and the diffusion of knowledge. We need to ensure, though, that this data on the different effects of aid on primary education and higher education are taken into account.

It is also important to note the positive effects of this spending on other quality of life variables, not only economic growth. For example, expenditures on social infrastructure for health have "a statistically significant negative effect on infant and under-five mortality rates."[27] While I still maintain support for a slight reduction in social infrastructure spending, as empirical research claims it is inhibiting sustainable development overall, I would also caution against an overemphasis on economic growth that deprioritizes other important societal needs, such as health, that may prove more impactful in the long(er) term.

The effects of aid on development are quite nuanced; it cannot be reduced to a social "good" or "bad."

To return to policies for aid allocation, one sector that economists agree necessitates more focus and aid is agriculture. Aid to agriculture in Africa declined from more than 11% of total Overseas Development Aid (ODA) in 1995 to less than 7% in 2009, even as "the link between income growth and poverty reduction in Africa's low-income economies comes mainly from growth in agriculture."[28] The private sector also needs to receive more direct aid. Instead of channeling aid through governments that may misuse it, "inclusive development and economic growth can be enhanced in the continent [by channeling aid] via mechanisms that reduce the tax burden borne by the private sector."[29] As mentioned earlier, more money should also be invested into economic infrastructure and programme assistance; studies consistently "show that lack of infrastructure and skills are responsible for much of the difference in competitiveness between Africa and other parts of the world."[30]

Aside from knowing how much, the type, and the sectors in which aid will be most useful, it is also crucial to understand how to allocate it most effectively. Of the 23 federal agencies involved in the design and delivery of foreign assistance in the U.S., the Millennium Challenge Corporation (MCC)—recently created in 2004—has been particularly useful. The MCC uses three main factors to evaluate a recipient country's candidacy for funds: "policy performance; the opportunity to reduce poverty and generate economic growth; and the availability of MCC funds."[31] Factors like "control of corruption" and a guarantee of political and civil liberties are heavily weighted in the selection process. This ensures that an environment ripe for successful economic development is being fostered—an environment of good governance with strong and inclusive political and economic institutions. This not only ensures a

24 Asongu, Simplice A., and Jacinta C. Nwachukwu. "Increasing Foreign Aid for Inclusive Human Development in Africa."
25 "Development Aid at a Glance – Statistics by Region: Africa."
26 Asiedu, Elizabeth, and Boaz Nandwa. "On the Impact of Foreign Aid in Education on Growth: How Relevant Is the Heterogeneity of Aid Flows and the Heterogeneity of Aid Recipients?"
27 Anyanwu, John C., and Andrew E. O. Erhijakpor. "Health Expenditures and Health Outcomes in Africa".
28 Page, John, and Abebe Shimeles. "Aid, Employment and Poverty Reduction in Africa." 17.
29 Asongu, Simplice A., and Jacinta C. Nwachukwu. "Increasing Foreign Aid for Inclusive Human Development in Africa." 443.
30 Dinh, Hinh T, Vincent Palmade, Vandana Chandra, and Frances Cossar. "Light Manufacturing in Africa," 184.
31 Millennium Challenge Corporation. "Report on the Criteria and Methodology for Determining the Eligibility of Candidate Countries for Millennium Challenge Account Assistance for Fiscal Year 2019."

greater likelihood of success, but it also encourages countries that do not currently reach those requirements to strive for them. Researchers found evidence of this in "45 out of 118 candidate countries between 2004 and 2010."[32] The MCC also requires "partner countries to lead the process of designing and implementing development projects in response to local priorities" and rigorously evaluates completed projects, ensuring that local knowledge is centered, and accountability is present at every stage of the process.[33] Programs like MCC that incentivize "good behavior" should become more prevalent in the developmental sector, as they tackle the issue of "good governance" central to developmental aid's success.

The empirically based strategies that will allow for foreign aid to promote successful economic development, delineated above, push back against some of Dambisa Moyo's arguments of the effectiveness of aid. While an analysis of foreign policies surrounding aid is necessary and useful, the cynicism that spurred Moyo's arguments is ill-placed. Between the years 2000 and 2015, aid-dependency has actually "decreased by one third in the world's poorest countries, exemplified by Ghana and Mozambique where aid dependency decreased from 47% to 27% and 74% to 58% respectively."[34] While aid could be more effective, to deem it harmful is unfair to both donors and recipients, and that narrative perpetuates the conceptualization of hopelessness regarding development in Africa.

After explaining what is needed for economic development, I would like to end by questioning why we consider that so important. To be sure, reducing aid-dependency and promoting long-term self-sustainability should always be the goal. However, living in a more economically developed country does not necessarily translate to a better life. In the 2017 Global Happiness Report, many of the top 20 performers were African countries; "Liberians are the happiest people on earth, by that measure. People in materially poor countries such as Sierra Leone were happier than the populations of resource rich countries such as the United States (49th), the UK (116th), and Norway (100th)."[35] We should not be evaluating a country's performance based purely on economic variables. Other aspects of a healthy society, such as the proliferation of social services and the promotion of human rights, should be integrated into existing metrics. Many Americans require "aid" from their own governments because of the exploitation they face in a system that continuously prioritizes the economy. The economy is important, but not the only thing that matters.

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This piece was originally published as an academic paper; to view an abstract and complete bibliography, visit us online at globalist.yale.edu.

32 Parks, Bradley. "Where Has the Millennium Challenge Corporation Succeeded and Failed to Incentivize Reform—and Why?"
33 Lucas, Sarah T. "Principles into Practice: Country Ownership," 30.
34 Stanford, Victoria. "Aid Dependency: The Damage of Donation."
35 Obeng-Odoom, F. "Africa's Failed Economic Development Trajectory: A Critique." 151.