

Notes on *Dead Aid*

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“Preface”

Moyo gives some of her personal background; her parents went to university in Zambia, left for her dad to complete his PhD in the US, and immediately returned; she also went to university in Zambia, left, but never returned because there aren’t great opportunities for her there.

Moyo notes there's a great deal of variation across Africa, but...

But there are, sadly, common ties that bind sub-Saharan African countries together. Well-publicized are the degree of poverty, the extent of corruption, the incidence of disease, the dearth of infrastructure, the erratic (but mainly poor) economic showing, political instability, and the historical propensity for violent unrest and even civil war. (Moyo)

“Introduction”

In the past fifty years, over US\$1 trillion in development-related aid has been transferred from rich countries to Africa. (Moyo)

(Is that a lot, relative to the scale of the problem? What context do I need to understand this number?)

It sounds like Moyo is not just going to attack intergovernmental aid, but charity in general?

Deep in every liberal sensibility is a profound sense that in a world of moral uncertainty one idea is sacred, one belief cannot be compromised: the rich should help the poor, and the form of this help should be aid. (Moyo)

“Part I: The World of Aid”

“1. The Myth of Aid”

Moyo first mentions ways in which Africa has been improving economically (and otherwise). But:

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. (Moyo 5)

...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. (Moyo 5)

Life expectancy and literacy have also failed to improve or have regressed.

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. (Moyo 6)

This is interesting, I wonder what the current data show and what the other countries on the list are: "...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)..." (Moyo 6)

Moyo distinguishes "three types of aid": "emergency", "charity-based", and "systematic" (including bilateral and multi-lateral). (Moyo 7) It sort of sounds like she doesn't really like any of them (and casts a bit of shade on PEPFAR, though I'm unclear why this is categorized as charity-based rather than systematic), but she says she'll be focused on systematic aid. She also says she'll group loans and grants together; she thinks recipient countries tend to treat them similarly.

"2. A Brief History of Aid"

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. (Moyo 10)

In the 70s to early 80s emphasis there was a shift toward explicitly trying to address poverty: "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." (Moyo 16)

In the 80s neoliberal ideas led to "two new aid-based programmes: first, stabilization, and then structural adjustment." (Moyo 20)

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. (Moyo 20–21)

In the 90s there was a focus on the need for good governance; on hoping democracy would solve problems (Moyo thinks this was misguided); and also the rise of the idea that what Africa really needed was debt relief.

In the 2000s, appeals to public morality by celebrities were prominent.

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.

(Moyo 27)

Moyo says activists asked “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.” (Moyo 26–27) (How extensive was the debt cancellation? Was it enough that we should expect it to have solved the issue if it was the issue?)

“3. Aid Is Not Working”

Moyo again contrasts how other parts of the world have been successfully developing, against Africa’s stagnation. She talks about various proposed explanations, not rejecting them but saying “they do not tell the whole story.” (Moyo 29)

Reasons the Marshall plan’s success is not a relevant example for Africa: the Marshall plan gave a smaller amount of aid relative to the recipients’ GDPs, was time-limited, was rebuilding existing infrastructure rather than building from scratch, and was focused on infrastructure.

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. (Moyo 37)

Moyo’s comments on the conditions countries attach to aid are kind of confusing; she says “conditionalities were blatantly ignored, yet aid continued to flow” (Moyo 39), but I can’t tell if she thinks it would have been better for them to be enforced, or never attached in the first place, or it just doesn’t matter at all? (The next chapter briefly touches on this: “because foreign aid... is fungible – easily stolen, redirected or extracted – it facilitates corruption. Were donor conditionalities remotely effective, this would not be the case.” (Moyo 52))

...democracy can hamper development as democratic regimes find it difficult to push through economically beneficial legislation amid rival parties and jockeying interests. (Moyo 42)

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. (Moyo 42)

Very interesting claim:

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. (Moyo 43–44)

Moyo warns that “[i]n nearly all cases, short-term aid evaluations give the erroneous impression of aid’s success” (Moyo 44), but illustrates how this can be misleading with a (fictional? fictionalized?) story of Western donors putting local mosquito-net makers out of business (“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” (Moyo 44)).

Moyo considers the possibility that there just hasn’t been enough money given yet, mentioning a surprising stat: “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.” (Moyo 45) Her responses appear to be (1) lots of aid money gets hijacked for other purposes, (2) studies find aid doesn’t work (see below), (3) “[e]ven 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.” (Moyo 46).

Some references on the ineffectiveness of aid:

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. (Moyo 46)

“4. The Silent Killer of Growth”

Foreign aid props up corrupt governments – providing them with freely usable cash. (Moyo 49)

Moyo’s response to the following concern seems glib to me; even if 4/5th of aid money were diverted to corrupt causes (which seems to be the number she implies US education aid to Uganda in the 90s, but much higher than more general stats she’s discussed), might we not still expect the 1/5th to be very beneficial to the recipients?

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. (Moyo 54–55)

Moyo notes that aid-related organizations employ a very large number of people who have their own incentives to ensure money is given out, incentives which are insensitive to issues of corruption and ineffectiveness.

Moyo mentions examples of "positive" corruption that is less bad because the money is at least "domestically"; but in Africa the trend is "squirrelling it away in foreign bank accounts." (Moyo 56)

Aid reduces accountability and weakens the middle class:

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. (Moyo 58)

Moyo says the desire to control the aid a country receives is a key motivating factor toward civil war.

Economic consequences of aid: "reduction of domestic savings and investment in favour of greater consumption; inflation; diminishing exports; and difficulty in absorbing such large cash influxes." (Moyo 60–61)

Explanation of how exports are hindered:

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. (Moyo 62–63)

"Part II: A World Without Aid"

"The Republic of Dongo"

This chapter describes a fictional country meant to reflect some typical aspects of African countries.

Moyo makes some strong statements about the need for moving away from the aid model of financing.

The choice of development finance is at least as important as the policies a government adopts. You can have the best development policy in the world, but without the right financial tools to implement it, the agenda is rendered impotent.

(Moyo 72)

“5. A Radical Rethink of the Aid-Dependency Model”

Moyo compares Africa's reliance on aid to a drug addiction.

“6. A Capital Solution”

Moyo argues developing countries should seek funding through the international bond market instead of via aid, and also explains why investors would want to buy those bonds.

She mentions a couple African examples at the beginning of the chapter, I wonder how these have worked out: “In September 2007, Ghana issued a US\$750 million ten-year bond in the international capital markets. About a month later, the Gabonese Republic followed suit, issuing a US\$1 billion ten-year bond.” (Moyo 77)

Moyo also wants countries to improve their domestic bond markets, and talks about a GEMLOC program meant to help with this. Regarding it, she says “[t]he hope is for involvement of the World Bank Group to cease after ten years...” (Moyo 92) - I wonder how that's worked out?

“7. The Chinese Are Our Friends”

In 2006, the US\$37 billion that Africa received as official foreign aid was more than twice the continent's foreign direct investment, and today Africa attracts less than 1 per cent of global capital flows, down from almost 5 per cent a decade ago. (Moyo 99)

In theory, foreign capital should flow from richer countries to poor. (Moyo 99)

Although infrastructure is also a problem, Moyo emphasizes the role of bad governance and “needless streams of red-tape” (Moyo 100) in discouraging FDI. Uganda is given as an example that saw good results after it “improved its regulatory climate.” (Moyo 101)

China's doing a lot of FDI in Africa. Moyo uses militaristic language to describe China's rising economic influence on Africa, but still thinks it's a good thing.

...in nearly all African countries surveyed, more people view China's influence positively than make the same assessment of US influence. (Moyo 109)

“8. Let’s Trade”

Estimates suggest that Africa loses around US\$500 billion each year because of restrictive trade embargoes – largely in the form of subsidies by Western governments to Western farmers. (Moyo 115)

Western political imperatives against freer trade continue to reign, and efforts to depose the current regime are proving futile. If the West wants to be moralistic about Africa's lack of development, trade is the issue it ought to address, not aid. Of course, such are the West's demands that even if all its trade barriers were lifted, Africa no longer has the technological equipment and know-how to compete on many products where it once had a comparative advantage. Together with environmental and labour issues, these are now serious barriers to trade. (Moyo 119)

I don't have a good understanding of why putting people out of business via trade leaves them in a better position than via aid, but Moyo insists it does:

There is clearly the risk that cheaper Chinese goods can undercut African manufacturers, putting our mosquito net producer back out of business. He is definitely out of business in the aid scenario, and could be out of business in the Chinese trade scenario, but the important point here is much more nuanced. Crucially, under the aid regime there is nothing else for him to do – he lives in a sterile landscape, opportunities are scarce, and corruption is rife. In the trade scenario, even with a modicum of corruption, opportunities abound – there is a thriving economy, people are buying and selling. (Moyo 122)

Moyo also notes that African countries aren't doing nearly as much trade among themselves as would be desirable, and that they impose lots of tariffs on each other.

“9. Banking on the Unbankable”

Moyo speaks highly of Grameen Bank, and briefly positively mentions Kiva; it would be good to read about how these have done in the interim.

Moyo talks about the large amount of money sent to Africa in the form of remittances, and thinks it would be good to increase this by reducing the transaction costs.

Here's a shocking claim:

In *The Mystery of Capital*, the Peruvian economist Hernando de Soto suggests that the value of savings among the poor of Asia, the Middle East and Africa is as much as forty times all the foreign aid received throughout the world since 1945. He

argues that were the United States to hike its foreign-aid allocations to the 0.7 per cent of national income (as prescribed by the United Nations at Monterrey), it would take the richest country more than 150 years to transfer to the world's poor resources equal to those that they already have. (Moyo 137)

The idea is that people have capital but don't have banks to put it in, or it's in a form that's not sufficiently legally protected (e.g. their land).

“Dongo Revisited”

Moyo emphasizes again that aid is propping up corrupt governments.

You can steal aid every day of the week, whereas with private capital you only get one shot. (Moyo 142)

“10. Making Development Happen”

Moyo doesn't think that stopping aid (with five years' warning) would be catastrophic:

Would many more millions in Africa die from poverty and hunger? Probably not – the reality is that Africa's poverty-stricken don't see the aid flows anyway. Would there be more wars, more coups, more despots? Doubtful – without aid, you are taking away a big incentive for conflict. Would roads, schools and hospitals cease being built? Unlikely. (Moyo 144)

Moyo thinks Westerners need to put pressure on their governments to stop aid—African leaders mostly aren't doing it and the general population of Africa isn't in a position to.

References

Moyo, Dambisa. *Dead aid: why aid is not working and how there is a better way for Africa*. 1. American paperback ed, Farrar, Straus and Giroux, 2010.