

African History through the lens of Economics

Questions and Answers - Week 10

Main Lecture 10, Tuesday, April 5: Educational and Social Mobility in Africa *with David Laitin, Gábor Nyéki, Leonard Wantchekon and Elias Papaioannou*

Plenary Session 1, Wednesday, April 6: Foreign Aid *with Bill Easterly, and Celestin Monga and Dr Mo Ibrahim*

Please visit our course [website](#) to access the recorded lectures and slides of each session. Due to the high volume of questions received during the live Q&A, we have prepared this document, which addresses a selection of questions that were not possible to answer during the lecture.

Q1: How is foreign aid defined and what are its components?

The Develop Assistance Committee (DCA) of the countries comprising the Organization for Economic Cooperation and Development (OECD), which was established in 1961 to enhance world trade and economic progress defines foreign aid as “official development assistance” (ODA).

Aid is grants and loans undertaken by the official sector of the donor country’s government (such as USAID) to promote economic development and welfare in the recipient country. Technical cooperation costs are also classified as foreign aid and are included in ODA.

What is not included in ODA are loans and credit for military purposes. For example, military assistance given to many African countries by the United States Africa Command (AFRICOM) or military assistance provided by its counterparts in European Union countries and the United Kingdom are not foreign aid. Also not included in ODA are donations from foreign NGOs and those from the public.

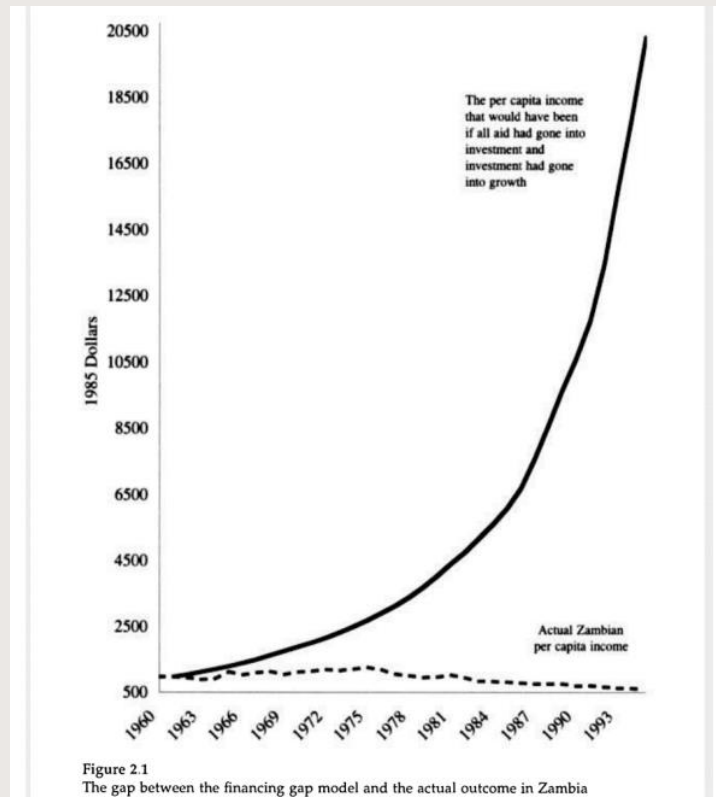
Q2: What is the logic/theory of foreign aid?

The theory driving foreign aid outlined by William Easterly is known as the “Big Push”. This holds that certain countries were locked in a poverty trap and that they could not escape their predicament without foreign aid. The remedy for the poverty trap was to inject the recipient country with a significant infusion of foreign aid. This aid was to go into investments. The logic behind this was that greater investment would promote higher growth, thereby, enabling the country to escape from the poverty trap. As a result of this policy, the total flow of aid to Sub-Saharan Africa from 1960-2019 was \$1.5 trillion USD in today’s money. One of the ardent advocates of foreign aid is Professor Jeffrey Sachs of Columbia University.

Q3: Why has foreign aid failed?

The reasons for the failure of foreign aid are many. The three main reasons presented in the lectures are:

- 1) The lack of political and economic freedom in recipient countries that undermines incentives or development.
- 2) The lack of accountability on the part of both the recipient country and the donor country in terms of outcomes.



Professor Easterly's graph above illustrates this point using the example of Zambia. The solid curve shows to what the expectation of income per capita had the foreign aid been used as envisioned. The dotted curve shows the actual outcome due to corruption, the lack of metrics to assess progress, etc.

- 3) Donor self-interest. For example, during the ideological struggle between the US and Western Europe on the one hand and the Soviet Union and its Eastern bloc allies on the other (the Cold War), donors gave to those countries in Africa who were allied with their ideology or those who were client states. Most of these countries were ruled by autocrats who misused the aid. Instead of using the funds to develop infrastructure, healthcare systems and so on, the funds were diverted for the personal use of rulers and their entourages. Although there was a brief respite of blatant support to autocratic regimes in Africa during much of the 1990s (after the Cold War ended), the picture changed again in the wake of the events of 11 September 2001, which ushered in the Global War on Terror (GWT). Determined to defeat terrorist threats on the African continent, the US and its Western European allies provided significant foreign aid to governments that would assist the GWT. Unfortunately, many of these governments

were authoritarian, reverting to a Cold War-type scenario with the continued misuse of foreign aid.

Other negative effects of foreign aid to Africa

- 1) The overuse of single-export strategies such as an over-reliance on commodities.
- 2) The “romanticising” of poverty that feeds on the “the soft bigotry of low expectations”. This is the assumption that Africans have no agency over their affairs and rely on external assistance.
- 3) What Professor Easterly termed “the tyranny of experts”. This refers to the scenario where foreign technical assistants are hired to help a people whom they do not understand. In the process, many programmes are enacted that are counterproductive, both culturally and practically.
- 4) From 2005 to 2022 the decline in GDP is due to African leaders focusing more on securing foreign aid than generating domestic revenue.
- 5) According to UNCTAD, Africa loses \$85-90 billion in USD every year to illicit funds transfers. The US puts this number at \$107 billion USD yearly.

Q4: What can be done to ameliorate the situation?

The consensus of the three lecturers is that there is a need for proper accountability on the part of both recipient and donor countries. In brief, we are talking about good and accountable governance without which, corruption will remain endemic and sabotage “development” efforts. To measure progress, or the lack thereof, recipient countries will need to produce reliable statistics. Dr Mo Ibrahim stressed that, without credible statistics, the metrics that are being used to gauge progress are highly inadequate and misleading. That said, the consensus is that targeted development projects, such as improvements to healthcare systems can be of great benefit.

Also important is the need for African countries to invest heavily in domestic revenue generation. This could help to reduce the large amount of illicit funds transfers out of the continent. Significant attention should also be given to job creation. The establishment of trade and technical schools will provide Africans with more avenues for employment and self-sufficiency.

Further Reading

Ayittey, George B.N., *Africa Unchained: The Blueprint for Africa's Future* (2005).

Easterly, William, *The Tyranny of Experts: Economists, Dictators, and the Forgotten Rights of the Poor*, (2021).

Easterly, William and Jessica Cohen, eds., *What Works in Development? Thinking Big and Thinking Small*, (2009).

Moyo, Dambisa, *Dead Aid: Why Aid is not Working and How there is a Better Way for Africa*, (2008).

Piombo, Jessica, ed., *The US Military in Africa: Enhancing Security and Development?* (2015).

Sachs, Jeffrey D., *The End of Poverty: Economic Possibilities for Our Time*, (2006).