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Does development aid have to be stopped?

A calm response to Moyo's stimulating and provoking theses

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List of abbreviations

CHF	Swiss Francs
CLP	Core Learning Partners
DAC	Development Assistance Committee
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PAF	Performance Assessment Frameworks
PRS	Poverty Reduction Strategies
SDC	Swiss Development Cooperation
SECO	Swiss State Secretary for Economic
UN	United Nations
WTO	World Trade Organisation

1 Introduction

"The notion that aid can alleviate systemic poverty, and has done so, is a myth. Millions in Africa are poorer today because of aid (...)."[1]

Provocative and stimulating; these are the appropriate adjectives to describe the theses presented in Dambisa Moyo's „Dead Aid - Why Aid Is Not Working and How There is Another Way for Africa".[2] Indeed, the book is tackling a sensitive issue that is gradually gaining in importance in the international development community: the effectiveness of aid.[3] Born and raised in Zambia, Dambisa Moyo completed her studies in the US. She holds several academic titles, among others a Master of Public Administration in International Development from Harvard University and a Doctorate in Economics from Oxford University. Moyo has worked at the World Bank and for eight years at Goldman Sachs. The Time magazine named Moyo one of the world's 100 most influential people. She can be considered to have the background and the qualifications to give a special insight into the topic of development aid.

According to the author, "in the past 50 years more than $1 trillion in development-related aid has been transferred from rich countries to Africa."[4] However, in spite of this aid, Africa's economic, political and social conditions have not improved. Consequently, the author concludes that the post-war aid strategy has failed. Indeed, she claims that aid has a destructive effect on African countries' development. Through aid false incentives are set, economic growth is stalled and poverty increased, which in response triggers a new flow of aid. Countries relying on aid are thus trapped in a vicious cycle of aid dependency. Moyo argues that alternatives to the current aid system do already exist in the private sector. She proposes a set of free-market tools, enabling poor countries to efficiently finance development and eventually leading to sustainable long-term growth, reduce poverty, aid dependency and foster good governance. The latter is important because, "(...) in a world of good governance, which will naturally emerge in the absence of the glut of aid, the cost (risk) of doing business in Africa will be lower (...)."[5] But how can good governance be fostered? Moyo proposes to

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[1] Moyo, 2009, p. xix. This paper follows the American Psychological Association's system of citations in text and reference format. However, for better ease of reading the authors chose to use footnotes instead of in-text citations.

[2] Moyo, D. (2009). Dead Aid. Why Aid Is Not Working and How There Is Another Way for Africa. London: Penguin Books.

[3] Unsurprisingly, "Dead Aid" was a resounding success. Shortly after its publication in 2009, the book figured on the New York Times bestseller-list.

[4] Moyo, 2009, p. xviii.

[5] Moyo, 2009, p. 143.

gradually reduce and finally, within five years, to cut systematic aid altogether. She argues that when aid decreases, developing countries will be forced to implement her proposed financing alternatives in order to maintain their level of spending. Consequently, the growing wealth and the use of the tax money will strengthen the citizens in holding their government accountable for its actions, ultimately leading the country in a virtuous circle to good governance and prosperity.

Basing development's success on markets, the author challenges the role of the international institutions and NGOs as actors in the development policy and criticizes their "aid-business". In Moyo's view, these institutions are one of the key sources of the problem and understandably, the book has provoked much discussion in this sector. Therefore, the Swiss Agency for Development and Cooperation (SDC) looked for arguments with which it could react to Moyo's criticism.

The aim of this paper is to have a closer look at the effectiveness of development aid. Is the money indeed wasted and should it be stopped like Moyo suggests? How could the SDC react to the provoking theses of „Dead Aid"? In order to answer these questions, Moyo's propositions are examined critically. Once this is done, a set of proposals are developed that could serve as a vital ground for new strategies within the field of aid.

The text will be structured as follows: Firstly, the book's content is presented in adequate detail with a special focus on her main arguments against development aid and her proposed alternative strategy to finance African development. In a second part, Moyo's theses are scrutinized for its strengths and weaknesses. Thirdly, the most important criticism is examined more thoroughly and illustrated with practical examples of the SDC. Finally, deriving from this evaluation, the paper offers a set of arguments, which a development agency like the SDC could use as a response to the theses brought up in "Dead Aid".

2 Moyo's theses

In this chapter Moyo's main ideas are discussed. First, we present her arguments about the negative effects of aid and then describe her alternative solutions in an aid-free world.

2.1 The negative effects of aid

Moyo distinguishes between three different types of aid. Firstly, humanitarian or emergency aid, which is dispensed in response to catastrophes; secondly, charity-based aid, which is disbursed by charitable organizations to people or institutions on site; and thirdly, systematic aid, which include aid payments made directly to governments, either bilaterally by government-to-government transfers or multilaterally through institutions such as the World Bank.[6] In her book, Moyo focuses on systematic aid and leaves aside the other two types of aid. Moyo's definition of systematic aid includes concessional loans – meaning loans offering interest rates below the common market rate and longer repayment periods – and grants, which need not be repaid.

On the one hand, Moyo argues that one can criticize all three forms of aid, humanitarian aid and charity-based aid are bound to continue especially due to reconstruction policies in the future. On the other hand, she holds systematic aid responsible for holding back Africa economically and hampering development. Since systematic aid is directly paid to African governments, the economic and political conditions are biased and the absence of strict regulations and conditions leads to increased leeway for governments and therefore reduces incentives to efficiently use the aid money.

Moyo draws a historical overview of the aid-centric development policies. She concludes that during the last sixty years, competing aid approaches have tried to achieve development in Africa, but they were all ineffective in generating economic growth. Furthermore, Moyo argues that systematic aid is not only economically unproductive, but also has negative consequences on development. These consequences include political, social and economical aspects.

2.1.1 Political effects

Among the negative political effects of systematic aid, bad governance, including corruption and aid-dependency (or "rent-seeking"), is the worst. "Aid-dependency has hindered good governance for so long"[7]: According to Moyo, aid positively correlates with bad governance,

[6] Moyo, 2009, p. 7.
[7] Moyo, 2009, p. 143.

fosters and facilitates corruption and thereby hinders the economic growth of a country.[8] Moyo finds the cause of corruption in the fact that systematic aid is fungible and can be "easily stolen, redirected or extracted."[9] The weak legal and regulatory framework with its lack of transparency along with unreliable bureaucracies and governments that are able to steal money for their own benefits, create a bad policy environment, which is too risky for domestic and foreign investors. As a consequence, this political context leads to diminished growth, falling investments, increased poverty and finally makes new aid flows necessary. Moreover, aid money only reaches relatively few, very selected people, which keeps the rest of the population in a constant state of poverty.[10] Skilled people, who are the ones that could lead Africa to economic prosperity, often become perverted by the prospect of gaining considerable amounts of aid money illegally. To make things worse, the bad economic situation in Africa with its poor job opportunities has led to a brain drain. In Moyo's view all this creates "the vicious cycle of aid."[11]

Another problem constitutes aid-dependency. Aid engenders aid and therefore it is continuously needed: some African governments consider aid inflows as a permanent source of income and encourage "the use of government authority to take and make money without trade or production of wealth"[12], which Moyo calls "rent-seeking". As a consequence, they have no reason to seek alternative funds for development, there is no need to export and develop industries, no incentive for long-term financial planning which causes "laziness" and "a kind of insouciance."[13] Aid substitutes tax revenues and taxation becomes nearly irrelevant. Furthermore, aid-dependency hampers the ability of African governments to freely decide over their own policies. These effects of aid lead to a reduction of the provision of public goods. Public expenditure and aid-money is rather spent on unproductive projects with the aim of diverting funds for personal use.

2.1.2 Economic effects

Since revenues are secured by aid inflows the government has little interest in economic growth. Bad economic performance is a cause of poverty and leaves little incentives for alternative development financing strategies. To put it simply, Moyo argues that aid does not relieve poverty but on the contrary increases it. Specifically, in her view aid poses four

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[8] Moyo, 2009, p. 48.
[9] Moyo, 2009, p. 52.
[10] Moyo, 2009, p. 61.
[11] Moyo, 2009, p. 49.
[12] Moyo, 2009, p. 52.
[13] Moyo, 2009, p. 66.

economic challenges: lacking capacity to absorb aid, higher inflation, reduced savings and investments, and adverse effects on the export sector.

Poor countries with underdeveloped financial institutions cannot effectively absorb and use large amount of aid money because they lack investment opportunities and skilled people. It is therefore possible that aid money does not lead to stronger economic growth because it cannot be invested properly. Investment and private foreign capital fall as aid rises.[14] Furthermore, Moyo argues that economic studies have confirmed a correlation between an increase in foreign aid and declining saving rates.[15] As a consequence of the declining saving rates local banks have less money to lend and consequently investments fall again.[16] To make things worse, the additional aid money is used for consumption, which can lead to inflation.[17] To combat inflation, governments raise interest rates and hence less money is invested and borrowing decreases. This has a negative impact on economic growth: unemployment rate rises, poverty increases and more aid is needed, which again increases the risk of inflation. The result is a constant aid cycle.

Additionally, an inflow of a large amount of aid money in a foreign currency has negative impacts on the export sector and employment. In a flexible exchange rate regime, an increase of foreign currency leads to an appreciation of the domestic currency: exports become more expensive and therefore less competitive on the global market. This reduces long-term economic growth.

2.1.3 Social effects

Moyo mentions three social effects of aid, which include decreasing government accountability, civil wars and the erosion of social capital. Firstly, "a person who is levied will almost certainly ensure that they are getting something for their taxes"[18], but since aid acts as a substitute for tax revenues, African governments are no longer financially dependent on their citizens and the governments' accountability is hampered. In other words, if taxation in return of government accountability does not apply anymore, the civil society looses its control over the government actions. The natural checks and balances and the social structures of a country are weakened, governments overlook development projects and consequently poverty increases. Secondly, in poor African countries, the government enjoys privileged access to financial assets in the form of aid. This creates competition between different groups

[14] Moyo, 2009, p. 61.
[15] Moyo, 2009, p. 61.
[16] This is what is called crowding-out effect.
[17] If demand increases and supply remains on the same level prices rise. This results in an increase of the inflation rate.
[18] Moyo, 2009, p. 66.

in society to seize power and gain access to unlimited aid wealth.[19] Therefore the larger the amount of aid flows, the more likely are social unrest and civil wars. Thirdly, Moyo defines social capital as the relationships between business, economy and politics.[20] Trust is an essential part of social capital, without trust relationships in society cannot work. Moyo argues that aid weakens the social capital because it erodes the essential entity of trust needed for a functioning society.[21] Hence, the social effect of aid is the erosion of social capital, which hampers development.

2.2 A world without aid

Moyo's "ultimate aim is an aid-free world"[22]. To get rid of corruption, aid dependency and its related problems, Moyo outlines a "Dead Aid model" in order to stop aid and seek alternative sources of financing for African countries. Her "Dead Aid" – proposal "envisages a gradual (but uncompromising) reduction in systematic aid over a five- to ten-year period"[23]. Alternatives to aid should be implemented. Since they are predicated on transparency, these alternatives do not foster corruption but can serve as a basis for economic and social capital growth.[24] Exceptions would be made only in cases of emergency, e.g. emergency aid after natural disasters.

The "Dead Aid model" includes three stages for African countries to wind themselves of aid: Firstly, an economic plan has to be established outlining the measures in order to reduce aid-dependency. At the same time, the proposed financing alternatives, depending on the circumstances of the country, have to be implemented. Secondly, after setting the economic plan, a thrifty management of the public budget is needed. The third stage includes the strengthening of governmental institutions, as governments must be held accountable if they fail to deliver.[25]

2.2.1 The importance of good governance

Moyo believes that good governance "trumps all" and that it is the key to growth and development.[26] But how can good governance be fostered? She argues that measures to gradually reduce and finally cut systematic aid altogether would force the governments to find alternative sources of revenue, which will lead to good governance. These can be either

[19] Moyo, 2009, p. 59.
[20] Moyo, 2009, p. 58.
[21] Moyo, 2009, p. 59.
[22] Moyo, 2009, p. 76.
[23] Moyo, 2009, p. 76.
[24] Moyo, 2009, p. 75.
[25] Moyo 2009, p. 147.
[26] Moyo, 2009, p. 143.

achieved by issuing bonds on the international capital markets or by increasing tax revenues. In order to achieve the latter the government becomes interested in economic growth and thus will foster foreign direct investments (FDI), (free) trade, microfinance, remittances, savings and unlocking latent resources. This change would make a country attractive for international investors and in the end create incentives for local entrepreneurs. The growing wealth and the use of their tax money would strengthen the citizens in holding their government accountable for its actions, ultimately leading the country in a virtuous circle to good governance and prosperity.

2.2.2 The alternatives to aid

Bonds

As one financial alternative Moyo suggests bonds. Bonds induce governments to use their budget resources more responsibly than in the case of systematic aid, because of their higher interest rates and stricter measures in case of non-payment.[27] To issue bonds, a country first needs to acquire a rating from a rating agency. The rating then shows the investors the risks involved in investing in a certain country and serves as a basis for potential investors. African bonds might be interesting for investors because of their higher returns, as they are riskier than bonds from safer countries.[28] Moyo argues that the market for African bonds exists for those African countries which seriously intent on transforming their economies for the better.[29] However, among the forty-three developing countries that have issued bonds in the last ten years, only three were African ones (South Africa, Ghana and Gabon). Moyo explains the small number with the fact that bonds have not been of interest for most African countries since the financing received from development aid has been sufficient in order to cover their budgets.[30]

Foreign direct investment

According to Moyo, the positive impact of increased FDI in Africa would be diverse as it would create jobs, assist in the transfer of new technology, improve management expertise, stimulate the capital market, and help African firms to open up to the international markets. Additionally, foreign investors often have a long-term focus and would thus choose countries with a sound and positive economic outlook.[31] African governments would therefore be

[27] Moyo, 2009, p. 77.
[28] Moyo, 2009, p. 80.
[29] Moyo, 2009, p. 78.
[30] Moyo, 2009, p. 93.
[31] Moyo, 2009, p. 102.

forced to create a business friendly environment by investing in their physical, political, social and educational infrastructure.

In 2006, FDI to sub-Saharan Africa only reached $17 billion. This is very low compared to the $400 billion FDI flow to developing countries together.[32] Moyo finds this surprising because "foreign capital should flow from richer countries to poor. The marginal product of a unit of capital should be higher in poor countries than in rich (…). Typically in these countries labour is more abundant and cheaper, thus increasing its appeal to FDI."[33] However, in Africa there are hurdles to FDI such as poor infrastructure, a bureaucratic maze, corruption, red tape and an insecure legal and regulatory environment.[34]

In her opinion the case of China shows that FDI can work in Africa. China is highly committed to FDI and has invested $900 million in Africa since 2004.[35]

Trade

Another alternative source of financing is increased trade. Moyo states that besides the benefits from increased trade such as lower unemployment, improved trade balances, lower prices of consumer goods and income from exporters "perhaps most importantly, trade produces income that accrues to governments through tariffs and income taxes."[36] However, the African countries that increased trade have been the losers of globalisation and did not encounter the associated economic growth. Even though Africa is commodity-rich, its share of global trade is merely about 1 per cent. The low labour costs and the central location of the continent alone do not count for successful trade. Moyo lists three main reasons why Africa has not been able to successfully take part in global trade. One reason is the protectionist policies of rich countries, especially in the form of trade tariffs and agricultural subsidies.[37] These subsidies allow Western farmers to sell their products under world market prices abroad and above world market prices at home. As a result, African farmers are not even able to compete in their local markets.[38] With China's presence, Africa has found a fairer market player to trade with. Secondly, Africa lacks the know-how and technological infrastructure to produce products, for which it would have a comparative advantage.[39] Thirdly, the unreliable nature of African governments, high transportation costs and insufficient communication networks further reduces the attractiveness of the continent.

[32] Moyo, 2009, pp. 98-99.
[33] Moyo, 2009, p. 99.
[34] Moyo, 2009, p. 100.
[35] Moyo, 2009, p. 103
[36] Moyo, 2009, p. 118.
[37] Moyo, 2009, pp. 114-115.
[38] Moyo, 2009, p. 116.
[39] Moyo, 2009, p. 119.

Lastly, Moyo highlights the importance of businesses' needs of alternative sources of financing. Moyo also suggests improving trade conditions within Africa by abandoning trade barriers on the national level. Small and medium enterprises need to be strengthened and demand for local products and services has to be generated.[40]

Microfinance

Moyo argues that small-scale banking like microfinance has the capacity to create growth in developing countries through the creation of enterprises.[41] This is because microfinance allows the poor, which formerly had no access to the financial system due to their lack of collateral, to take out loans. The substitute for collateral in this case is trust among community members. Microfinance institutions lend money to groups of poor people and issue the individual loan one after another, if the members repay them. If a member fails to repay, the whole community of lenders does not receive any more loans.[42] This creates peer pressure within the community and repayment rates are supposed to rise.

Remittances

Remittances make an important and growing contribution to the African economy. They may possibly be the biggest source of external funding, as 5 per cent of Africa's population are emigrants.[43] The problem is that the transaction costs of remittances are high. Therefore, competition in the remittance industry and increased access to banking are needed.[44] Moyo's views on remittances are favourable since they bypass governments and hence do not increase corruption.[45]

Savings and unlocking latent resources

Moyo states that the core problem facing Africa is the inefficiency of the financial markets and not the absence of cash.[46] She highlights the opportunity of unlocking latent resources, as poor Africans' main property is land. Moyo's proposition is to establish a legal framework of property rights so that people can convert "land into collateral against which they can borrow and invest."[47] Therefore, more innovation in the financial sector and a legal system free of corruption is needed.[48]

[40] Moyo, 2009, pp. 121/124.
[41] Moyo, 2009, p. 130.
[42] Moyo, 2009, p.126.
[43] Moyo, 2009, pp. 133/135.
[44] Moyo, 2009, p. 135.
[45] Moyo, 2009, p. 136.
[46] Moyo, 2009, p. 137.
[47] Moyo, 2009, p. 138.
[48] Moyo, 2009, pp. 138-139.

3 General assessment of Moyo's theses

Moyo's idea is not new. Pro-market economists like William Easterly and Peter Bauer (to whom the book is dedicated) argued for years that aid hurts the people that it was supposed to help.[49] Despite, the book has provoked discussions. Paul Collier calls Moyo's analysis „over-optimistic“. In fact, he states, she „ exaggerates the opportunity for alternative finance and underestimates the difficulties African societies face."[50] Collier argues that

> "(…) African societies need international help to overcome these problems; it is just that the help they need is not predominantly money. Aid is not a very potent instrument for enhancing either security or accountability. Our obsession with it has detracted from the more important ways in which we can promote development: peacekeeping, security guarantees, trade privileges, and governance."[51]

Collier acknowledges that aid is problematic, however it is not part of the problem but part of the solution.[52] Moyo is criticised as well from Jeffrey Sachs, US economist and adviser to the UN:

> "Goldman Sachs, Ms. Moyo's former employer, gives out more in annual bonuses to its workers than the entire rich world gives to the Global Fund each year to help save the lives of poor children. And when Goldman Sachs got into financial trouble it got bailed-out by the US Government."[53]

Former UN secretary-general Kofi Annan on the other side mainly defends Moyo's argument:

> "Dambisa is hard – perhaps too hard – on the role of aid. But her central point is indisputable. The determination of Africans, and genuine partnership between Africa and the rest of the world, is the basis for growth and development."[54]

These few examples give some insight into the debate that "Dead Aid" has provoked. But readers of the book are not only confronted with the wide range of critics for or against Moyo coming from the field of scientific and non-scientific writers, but will themselves come upon some arguments brought up in the book that seem justified and others that are not. First, we will present a range of arguments where Moyo is right in our view. Second, some problematic aspects of "Dead Aid" are evaluated.

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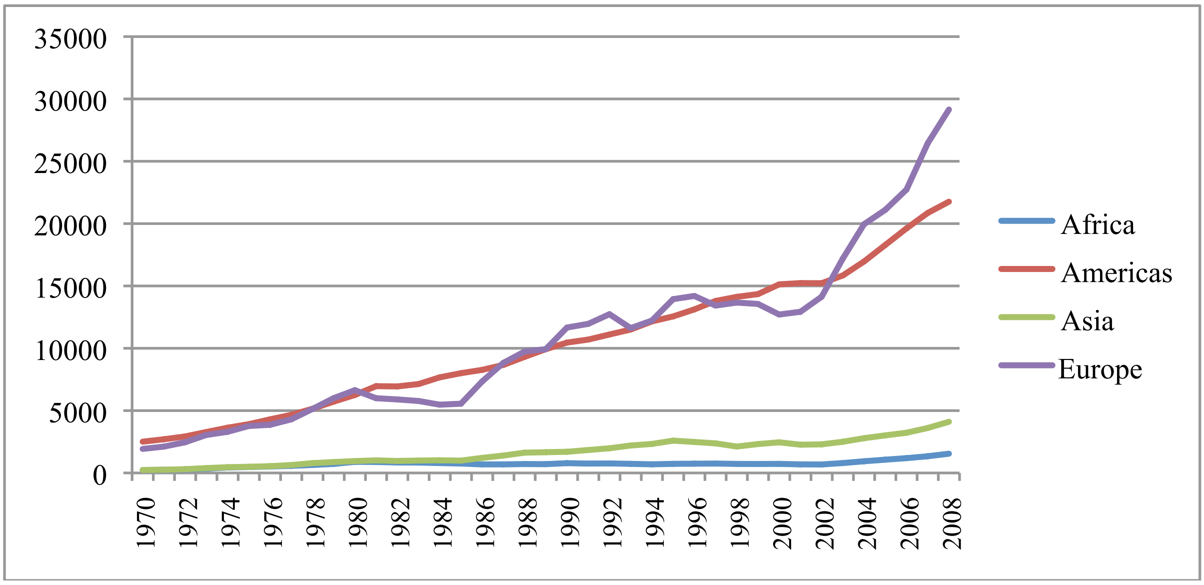
[49] Lawler, 2009.
[50] Collier, 2009.
[51] Collier, 2009.
[52] Collier, 2007, p. 1 as cited in ONE, 2009.
[53] Sachs, 2009.
[54] Moyo, official website.

3.1 Where Moyo is right

3.1.1 African development conundrum

Moyo is right in pointing out that Africa's development over the last 50 years in economic terms has been moderate at best.[55] As figure 1 illustrates the GDP per capita has stagnated and sometimes even declined in the 1980s and 1990s. Given the enormous amount of aid money that has flown to Africa this fact seems astonishing by itself, especially in contrast to the performance of other developing regions, which have not benefited from comparably favourable loans and grants. The record of foreign aid for African development in this light seems to justify the existential question of "Dead Aid". But it would be oversimplifying to focus simply on aid in the analysis of the African development conundrum. There are other variables that are deemed responsible for hindering Africa's growth, among them mainly geographical, historical and cultural circumstances are brought forward. On the other hand, it is also a chicken or the egg question: Does so much foreign aid flow to Africa because of its dismal development or has aid actually become the cause of it? It is not a question that should be taken lightly, and it is, unfortunately, not a question that can be answered as easily as Moyo would like to make us believe.

Figure 1: Per capita GDP development at current prices.[56]



Thus Moyo is right in reminding us that economic growth in Africa has been dismal. The link to development aid is just less clear than she states. We will come back to this discussion in our chapter 3.2.5 on aid effectiveness.

[55] Moyo, 2009, p. 46.
[56] UNDATA, 2010.

3.1.2 Good governance

There is a general consensus on the international level that good governance defined "as management of government in a manner that is essentially free of abuse and corruption, and with due regard for the rule of law" plays a central role for the development of a country.[57] Dambisa Moyo is no exception here. What she has in mind is a state that cares for its own people due to pressure from within and without. It has become common sense that without a state that acts accountably and guarantees a minimal amount of rule of law no market economy can prosper. Whether such a state has to be democratic or not for its economic development (and only for its economic development) has become a debatable question since the rise of China. What is fundamentally different from the general opinion is that she draws a direct link from aid to bad governance. In her opinion "aid dependency [...] has hindered good governance for so long."[58] On the other side, she sees a natural or automatic correlation between a stop of aid flows and good governance: "a world of good governance [...] will naturally emerge in the absence of the glut of aid."[59]

Thus she is right in emphasizing the central role of good governance, yet the causation lines she draws are disputable. We will pick up these points in chapters 3.2.6 and 4.3.

3.1.3 Trade not aid

Moyo points out that it would be much more helpful for Africa's development, if the West opened its borders, rather than send money to Africa. She is not the first one to complain about barriers to trade. But it is an important voice that adds to the tenor of developing countries and brings up a painful subject that is little disputed on argumentative grounds, but fell simply victim to Western domestic politics. The subsidies for its own agricultural sector and the tariffs on imported goods diminish Africa's comparative advantage in the production of agricultural goods. It is thus fair to say that "if the West wants to be moralistic about Africa's lack of development, trade is the issue it ought to address, not aid!"[60] This holds not only true for trade relations with rich countries, but also within Africa the barriers to trade are obstructing the economically stimulant flow of goods across boarders. Moyo is right to highlight that if the rich countries are seriously interested in the development of Africa it should stop protecting its home market. Also, the African governments would be well advised to intensify an African economic integration process, especially in the face of a West reluctant to compromise.

[57] OECD, 2007.
[58] Moyo, 2009, p. 143.
[59] Moyo, 2009, p. 143.
[60] Moyo, 2009, p. 119.

3.1.4 Aid has to render itself redundant

Aid cannot be an end in itself. Organizations are known to generate their independent reason for existence, even though the *raison d'être*, they were created for, has been fulfilled. The organizations, such as the World Bank, always have to keep in mind that they were created for a purpose and have to be prevented from falling into the unproductive condition of grand bureaucracies. The same holds true on the side of the receivers. The rise of a perception that there is a constant stream of systematic aid flowing to African governments has to be prevented by all means. Therefore the development programs have to be conditional, limited in time and internationally coordinated. If these premises are not fulfilled, then Moyo's argument holds true: Moral hazard is created by the constant flow of money which offers strong potential for corruption and destroys incentives. The danger of such moral hazard makes it necessary that donors act consistently and decisively in the case of malicious abstraction of funds.

3.2 Where Moyo is wrong

3.2.1 Scientific thoroughness

There are several points where Moyo can be criticised. Generally, many of her examples and figures are not proven by sources. However, if there are, she repeatedly relies on evidence just from single sources and selected examples that always reinforce her general argument that aid is bad.[61] Moyo has also been criticised to use simplified, generalised, polemic and sometimes inconsistent arguments.[62]

3.2.2 Africa as an emerging market

In many cases, Moyo addresses the opportunities, which the international financial markets offer for emerging markets, e.g. investors are attracted due to the high return rates of emerging-market debt (2006: 12%). In these cases she aggregates and over-simplifies strongly, yet. African countries on which she puts her main concern generally do not belong to this group. In fact, South Africa is the only Sub-Saharan country that can be considered an emerging market.[63] Moyo herself mentions that "globally, developing countries are moving up credit tables. (…) Sadly, apart from South Africa, Africa has played no part in this."[64] It is thus questionable if it is really only the matter of whether African countries do not 'want',[65]

[61] ONE, 2009, p. 2.
[62] Barder, 2009, pp. 2-3.
[63] MSCI Barra. Furthermore, the following Southern African countries are considered "frontier markets": Botswana, Ghana, Kenya, Mauritius and Nigeria.
[64] Moyo, 2009, p. 86.
[65] Moyo, 2009, p. 93.

as Moyo states, or if they simply ‘cannot’ participate in the international financial market at this stage.

3.2.3 China’s engagement in Africa

China does not impose conditions on its cash flows, instead it expects to get something for its money and this is exactly why Moyo welcomes China’s way of “aid” in Africa. However, there are many objections to China’s involvement in Africa. Critics accuse China of not respecting human rights and environmental standards.[66] Furthermore, they claim that China does not care about the kind of regime they are dealing with. The Zambian Economist states that “(…) we should be honest enough to consider the possibility that China’s closeness to many African governments (which are not all democratic) may have similar negative impacts as aid.”[67] Critics also fear that China could flood African markets with cheap manufactured goods, putting local producers out of business[68] and by its aggressive economic strategy become a tool for a new „colonialism“ and a new dependency on the continent. Here, like in other instances, Moyo acknowledges the problematic parts of her theses but finally neglects them without convincing arguments:

> “(…) in the immediate term a woman in rural (Africa) (…) cares less about the risk to her democratic freedom in forty years’ time than about putting food on her table tonight. China promises food on the table today, education for her children tomorrow and an infrastructure she can rely on to support her business in the foreseeable future.”[69]

Moreover, Moyo states that „it is better to face economic hardship in a thriving economy with prospects than to be confronted by it in an aid-dependent economy, where there are none.”[70] The question is if Chinese investments indeed inure to the benefits of the African population as Moyo argues or if they only bypass them. If the latter were the case it would be interesting to know if the governments are strong and willing enough to implement sanctions against the Chinese investors.

3.2.4 Narrow definition of aid

Moyo’s vague definition and confusing application of different aid forms are problematic. In her conclusions Moyo usually refers to aid without any specifications. That makes her seem to reject the whole system of current development aid, while in her main arguments she utters critique only against grants and concessional loans that she defines as “systematic” aid and

[66] Moyo, 2009, p. 107.
[67] The Zambian Economist, 2009.
[68] Moyo, 2009, p. 122.
[69] Moyo, 2009, p. 152.
[70] Moyo, 2009, p. 122.

that in fact belong to financial forms of aid.[71] Yet she does not distinguish between budget support and project aid that both are forms of financial aid. Moreover, she neglects technical support (for example know-how-transfers). Especially project and technical support, however, make up big parts of Switzerland's development assistance. Humanitarian and charity-based aid are shortly addressed but Moyo states that she will not focus on them and considers both "small beer when compared with the billons transferred each year directly to poor countries' governments."[72] It is surprising that on the one side "Dead Aid" condemns aid generally and on the other side focuses just on loans and grants. This narrow and simplified focus might be the reason why a more careful analysis of the pros and cons of different forms of aid is missing. Therefore in section 4.1 the different forms of financial aid are discussed more thoroughly to give a more accurate account of its complexity and effectiveness. Indeed, not all types of aid lead to bad incentives and perpetuate dependency.[73]

3.2.5 Aid effectiveness

Is aid bad?

As stated above Moyo rightly points out that economic growth in Africa has been dismal over the last 50 years. Yet it is highly questionable if she is right in identifying aid as the major culprit.[74] In general, there is no scientific evidence for either a positive or a negative relationship between aid and growth.[75] Aid critic William Easterly admits that "virtually any result on aid and growth is possible and indeed all possible results have already been presented in the literature."[76] The World Bank states: „Foreign aid in different times and different places has been highly effective, totally ineffective, and everything in between."[77]

Aid seen in a nuanced light

One of the reasons why aid-effectiveness is hard to evaluate is the fact that aid flows to developing countries before 1990 and especially during colonialism and the Cold War were mainly driven by geopolitical and strategic intentions. Aid was for example used for military instead of humanitarian purposes.[78] Paul Hoebink argues that "aid is and has been used in wrong ways many (…) times in its sixty years history and thus produced often poor results, but that doesn't say that the instrument in itself is wrong or inadequate and can not be used to

[71] Moyo, 2009, pp. 7-9.
[72] Moyo, 2009, p. 8.
[73] The Zambian Economist, 2009.
[74] Moyo, 2009, pp. 46-47.
[75] Barder, 2009, pp. 2-3.
[76] Easterly, 2008, p. 18.
[77] World Bank, 1998, p. 2.
[78] Haffner, 2010.

bring economic and social progress.“[79] Instead, Hoebink calls for a realistic assessment of aid: “(…) it is explicitly or implicitly supposed that aid can heal all ills and wounds, that it is a magic potion that in itself can bring economic and social progress. The other side of that same argument is that if that progress doesn’t come, if there is stagnation, aid is being accused of failing, (…).”[80] Moreover, it is also recommendable to see aid flows in a wider context: Gesine Krüger argues that some fifty years since Africa’s independence are historically a short time and that European countries had much longer time for development. Given that, in this time period, the African population has tripled, what would have happened to this growing population without aid?[81]

Moyo is thus right in pointing out the flaws of aid. It has been used inefficiently and ineffectively in several instances, but she fails to see aid in a more nuanced light and ignores the fact that the development community is making progress towards a new aid approach and more effectiveness.

Paris Declaration on Aid Effectiveness

Indeed, in 2005, more than 100 countries settled on the Paris Declaration on Aid Effectiveness to enhance development cooperation.[82] The declaration does not aim at one particular form of aid, instead it states that “enhancing the effectiveness of aid is feasible and necessary across all aid modalities.“[83] The goal is to “develop a genuine partnership, with developing countries clearly in charge of their own development processes.”[84] The Paris Declaration sets targets for the year 2010 and has the aim to add to the fulfilment of the Millennium Development Goals.[85] The declaration includes the following partnership commitments:

- Ownership: Partner countries (thus the recipients of aid) take the lead and responsibility in their development. Additionally, the participation of civil society and the private sector is encouraged. All this happens through a dialogue with the donor countries.[86]
- Alignment: Donors adapt to the partner countries’ development strategies and support them to attain their goals. Instead of establishing parallel institutions, donors have to use or support the existing institutions of the partner countries. According to the declaration, this leads to a higher effectiveness of aid because the partner countries’ governments can

[79] Hoebink, 2009.
[80] Hoebink, 2009.
[81] Münger, 2010, pp. 6-7.
[82] OECD, 2008.
[83] Paris Declaration, 2005, p. 2 as cited in OECD, 2008.
[84] Accra Agenda for Action, 2008, p. 1 as cited in OECD, 2008.
[85] Paris Declaration 2005, pp. 1-2 as cited in OECD, 2008.
[86] Paris Declaration 2005, p. 3 as cited in OECD, 2008.

implement measures by themselves and have to justify them to their own citizens.[87]

- Harmonisation: Donor's actions are more transparent, effective and better harmonised. The goals are to divide labour more complementary and effectively as well as increase the incentives for collaborative behaviour, deliver effective aid in fragile states and promote a harmonised approach to environmental assessments.[88]
- Managing for results: The aims of this commitment are resource management as well as improving decision-making for results.[89] Donors and partner countries work together to strengthen their capacities and demand for result-based management.[90]
- Mutual accountability: Donors and partners inform each other about their development results and conduct mutual ratings.[91]

In 2005, the Swiss Agency for Development and Cooperation (SDC) and the Swiss State Secretariat for Economic Affairs (SECO) have formulated the joint Swiss Implementation Plan on which they agreed to implement the Paris Declaration.[92] In order to accelerate and deepen the implementation of the Paris Declaration on an international level the Accra Agenda for Action was adopted in 2008.[93]

3.2.6 Causation of the argument

Moyo's analysis is built around the suggested causation between systematic aid flows to sub-Saharan Africa and bad governance.[94] Her argument for a resolution of the vicious cycle elaborates on this causation and wants to substitute the putrid element by supposedly healthier alternatives that would turn the cycle around and lead to good governance and economic growth. However, both of these central (assumed) causations lack systematic empirical evidence to sustain the claim for a drastic abolishment of systematic aid Moyo is advocating. She spends little time contemplating the risks her radical policy changes entail, especially if the causation between aid and bad governance proves to be oversimplified or even invalid. And if the scientific debate over the last 50 years on foreign aid and development has taught us anything, it is that there are no simple solutions. Let us now first look a bit closer at the two central pillars of her argument and how they fail to convince.

Firstly, as we will construe in this and chapter 4 in more detail, it is quite obvious that this line of argumentation is an oversimplification of a complex problem. Foreign aid does not

[87] Paris Declaration 2005, pp. 3-5 as cited in OECD, 2008.
[88] Paris Declaration 2005, pp. 6-7 as cited in OECD, 2008.
[89] Paris Declaration 2005, p. 7 as cited in OECD, 2008.
[90] Paris Declaration 2005, p. 8 as cited in OECD, 2008.
[91] Paris Declaration 2005, p. 8 as cited in OECD, 2008.
[92] Swiss Agency for Development and Cooperation, 2005b.
[93] OECD, 2008.
[94] See chapter 2.1.1.

lead by design to aid-dependency, corruption and consequently bad governance. The argument is not that foreign aid cannot and has not had these effects, but that these effects can be limited, if the instruments of foreign aid are built with a sensitivity to the incentives they set. The Paris Declaration on Aid Effectiveness presents guidelines of what should be taken into consideration in any development engagement.[95] Thus adapted, foreign aid can actually strengthen good governance and further economic development, contrary to Moyo's believes. What is more, with her narrow-minded focus on the malicious effects of certain aid flows in the past, she ignores other variables undermining Africa's growth potential. Malaria and AIDS, to name just two obvious examples in the realm of the rampant health problems that plague Africa, are an important obstacle to growth, which hinders the work force and civil society to reach its full potential. Development agencies and NGOs have made substantial progress in fighting malaria and mitigating the consequences and spread of AIDS. These problems cannot be left aside in a complete analysis.

Secondly, Moyo considers concerns about the consequences of her policy proposal only monosyllabically. She is well aware of the risks that are posed by a coordinated stop of systematic aid within 5 or 10 years. But "probably not", "unlikely" and "doubtful" are simply not good enough arguments, when facing scenarios of more severe poverty and hunger, wars over the remaining wealth and resources and a discontinuation of the construction of basic infrastructure such as schools, hospitals and roads.[96] These risks are real and as long as there is so little convincing evidence of a direct causation between foreign aid and bad governance, such an undertaking is dangerous. It is by no means self-evident that the state-elites will simply be able to draw money from the international financial markets. As stated above many African countries have low credit ratings. There is a reason why the World Bank works as an intermediary. Moreover, a stop of aid flows and the consequent lack of government income could, instead of good governance, trigger further exploitation of the population or wars over resources with neighbouring countries. It thus seems much wiser to pursue Moyo's outlined goals directly and support the African countries in tapping their own resources and in their pursuit of responsible and accountable governance. The negative incentives could prove to mount too much pressure on the feeble African states, risking a contagious breakdown. Fostering good governance and stimulating independence by (sound) means of positive incentives is the more promising alternative.

Thirdly, Moyo assumes that increased welfare is positively correlated with economic growth. However, it is questionable if growth automatically leads to less poverty of the (whole)

[95] See chapter 3.3.5.
[96] Moyo, 2009, p. 144.

population. Growth is just one aspect of increased welfare. South Africa for example is considered an economic success, yet HIV and unemployment rates are still high and have a detrimental effect on welfare.[97] Indeed, a country needs not only economic growth but also a base of well-educated and healthy people to take off: "(...) while growth is important it is not everything. There have been other benefits from aid – such as big increases in live expectancy – which are much more clearly the result of aid."[98] In addition, it can be asked if the elimination of systematic aid would really lead to the outcome that Moyo has in mind. Is the causation of good governance (born out of an aid-free environment) leading to economic growth true?[99] Couldn't it be the other way round? Development could also start with a free market, which leads to economic growth and eventually to good governance and democracy. In truth it is probably a mutually reinforcing mechanism, which makes it important that development agencies support both developments simultaneously: On the one hand trying to strengthen the framework for the private sector and civil society and on the other hand supporting and pressuring the government in their good governance efforts. Moyo herself produces the questionable argument that at the beginning of development a benevolent dictator might be more suitable than democracy, which is harder to control.[100]

3.2.7 Weaknesses of the proposed strategies

If the free-market tools that Moyo proposes are applied, several questions arise. First, it is doubtful if these tools are as effective as she assumes. Owen Barder states that,

> "(…) apart from trade – the evidence for these measures is no better than the evidence for the benefits of aid. As with aid, we can show that there are gains for the direct beneficiaries, but unlike aid, nobody has yet shown any correlation between microfinance and overall growth and development. Moyo clearly sets a different evidentiary standard for the interventions of which she approves."[101]

Abdih et al. for example found that remittances as well have negative impacts on growth.[102] Moreover, Moyo's proposals are not new and already part of mainstream development thinking.[103] Second, Moyo is overwhelmingly positive about her proposed free-market alternatives' implementation possibilities: "(…) investment prospects lie all around, in every sector (…). With roughly a billion people Africa is a big continent. This continent needs

[97] Münger, 2010, pp. 6-7.
[98] Barder, 2009, p. 3.
[99] North Korea for example is not an aid-recipient and despite of this, cannot be considered to dispose of good governance.
[100] Moyo, 2009, p. 42.
[101] Barder, 2009, p. 6.
[102] Abdih, Chami, Dagher, & Montiel, 2008.
[103] Barder, 2009, p. 6.

everything. (…) There is inordinate demand, and supply is not coping."[104] In the "Dead Aid"-world there is a stash of money out there on the international financial markets that is just waiting to be tapped by Africa.[105] However, it is questionable if the free-market tools are viable and could be effectively implemented in all situations and countries. Indeed, „the global financial crisis has drastically reduced investor appetites for risk."[106] For African countries borrowing money from financial markets is much more difficult now than when the book was published.[107] Third, Moyo limits the notion of development to a financial aspect only and does not take into consideration social and human issues such as education, health and knowledge that are as well important prerequisites for the development of a country. According to Krugman, the Asian high-grow economies succeeded, apart from economic prosperity, thanks to rapidly improving educational levels among the work force.[108] It is exactly here where development aid can and does play a crucial role. Fourth, aid and free-market tools in principle do not exclude each other (with exception of bonds) and could even well work together. Indeed, Barder states, "there are many examples of aid being used to promote exactly the policies which Moyo supports."[109] If implemented correctly, aid creates a fertile ground on which Moyo's alternatives flourish. For example, aid could contribute to a functioning infrastructure that might attract FDI or improve trade. Moreover, it could provide education in order to instruct the poor how to deal with money or to be aware of corruption. Concretely, the OECD and WTO have launched the Aid-for-Trade Initiative. Its aim is to „help low income countries overcome structural limitations and weak capacities that undermine their ability to produce, compete and maximise the benefits from trade and investment opportunities."[110]

[104] Moyo, 2009, p. 142.
[105] The Zambian Economist, 2009.
[106] Collier, 2009.
[107] ONE, 2009, p. 8. "Dead Aid" was published in 2009.
[108] Krugman & Obstfeld, 2006, p. 640.
[109] Barder, 2009, p. 7.
[110] OECD/WTO, 2009, p. 17.

4 Specific assessment: Examples of the SDC

This section draws on our above criticism to Moyo's arguments. We focus on her narrow definition of aid, her neglect of the issue of aid effectiveness and her causation arguments regarding good governance. Within these fields we assess the validity of her points by referring to several examples of the SDC. Thereby the basis is laid for our final argumentation as a reaction to Moyo's book.

4.1 Different forms of financial aid

As discussed above, Moyo applies a narrow and simplified definition of aid. Moyo's criticism refers to systematic aid, which she sees as financial aid in the form of concessional loans or grants. Yet there are several forms of financial aid. Since the mid-1990s budget support has evolved as complementary instrument to the traditional project aid.[111] In order to take up the full complexity of development financing Moyo should have distinguished between these forms of financial aid. In the following the advantages and disadvantages of project aid and budget support are discussed to give a more accurate view on financial aid especially with regard to its effectiveness.

4.1.1 Project aid

Project aid is the classical form of financial aid. According to the OECD it accounts for roughly 70% of the worldwide official development assistance (ODA).[112] Project aid directly finances a project (e.g. in infrastructure) in the recipient country, which in some cases endorses the project beforehand. This form of financial aid has some advantages. It does not require preconditions on the side of the partner country since the project can be implemented through "parallel structures" run by the donors. Thus it is also applicable in countries where cooperation with the recipient country is difficult due to corruption and resource mismanagement (fiduciary risks) or lack of capacity. Furthermore, project aid offers chances for innovative ways of development policies. Pilot projects can be run and if successful be spread afterwards. In the case of failure the negative impact can be limited to the project itself.[113] Moreover, project aid is adequate for activities promoting the growth of the private sector.[114]

At the same time it has disadvantages especially if regarded in the light of the principles of the Paris Declaration on Aid Effectiveness. In general, it does not pass the ownership of the

[111] Bernasconi, 2006, p. 47.
[112] Swiss Agency for Development and Cooperation, 2005a, p. 25.
[113] Hadorn, 2006, p. 3.
[114] Bernasconi, 2006, p. 50.

development policy to the partner government. Instead it bypasses the institutions and structures of the recipient country. It might be argued that thereby the efficiency and effectiveness of aid increases especially in countries with high fiduciary risks (see advantages). Yet the donors' use of parallel structures does not address the problems of corruption and mismanagement of resources at its origin, i.e. at the level of the partner state. Therefore project aid does contribute very little to capacity building in the partner country, which is central for passing the ownership. Moreover, with every donor running his own projects, a comprehensive and coordinated development strategy for the country as a whole is missing.[115] This contradicts the Paris Declaration's principle of donor harmonization in order to increase aid effectiveness. If project aid is in fact given in that ways it is likely to be ineffective and unsustainable: The effect is limited to the region or sector where it is implemented and given the lack of capacity building in the partner country the project is likely to break down once the donors leave the country. In her criticism Moyo has probably in mind this form of aid where uncoordinated project aid is given by a multiplicity of bilateral and multilateral donors without much focus on its effectiveness. In her view "for most developmental organizations, successful lending is measured by the size of the donor's lending portfolio, and not by how much of the aid is actually used for its intended purpose."[116] Unfortunately, project aid of this type dominated in the past. Adrian Hadorn notes that "Africa is a huge graveyard of such old-fashioned projects" which served mainly the interest of the donors and were the result of bureaucracies primarily concerned with their own reproduction.[117] Therefore, Moyo is surely right in criticizing it. At the same time, however, Moyo neglects more recent developments, especially the increased focus on aid effectiveness. As noted above, the Paris Declaration explicitly states that the effectiveness of all forms of aid, including project aid, can and should be increased.[118] In this context Hadorn sees scope for "good projects". Those are characterized by "precise context analysis, clear goals, competent implementation with high involvement and control of the affected, embedding in local/national structures and processes, careful impact analysis" as well as the coordination among donors.[119]

[115] Klasen, 2009, pp. 1-2.
[116] Moyo, 2009, p. 54.
[117] Hadorn, 2006, p. 3, own translation.
[118] Paris Declaration 2005, p. 2.
[119] Hadorn, 2006, p. 3, own translation.

4.1.2 Budget support

Since the mid-1990s budget support has evolved as a new form of ODA.[120] Donors give direct contributions to the budgets of partner states in order to support the partner governments' poverty reduction efforts. General budget support allows the partner to decide freely on the use of the aid while in sector budget support the use is limited to the respective field.[121] The flow of budget support is linked to Poverty Reduction Strategies (PRS) elaborated by the partner governments. This is supposed to increase the partners' ownership of the development process since they are able to set their own priorities and implement them through their government spending. The results are monitored closely in so called Performance Assessment Frameworks (PAF) by the donors and ideally also by local stakeholders such as parliaments and civil society organizations.[122] Usually a certain share of the budget support flow is made conditional on the achievement of the self-set goals. Especially since the Paris Declaration there has been a trend to increase the share of budget support in ODA. In 2005 it accounted for roughly 10% of the ODA.[123]

Budget support has several advantages but also disadvantages compared to project aid. On the positive side, it promises to have a broader impact since budget support helps to finance a comprehensive development strategy and not only a project. Through the increased ownership of the partner government it can lead to a qualitatively improved cooperation and policy dialogue with the partner.[124] By using the partner's structures and institutions it builds up the partner's capacity to implement the developing strategy, which is essential for a sustainable development process even after the donors have left the country. Furthermore, if the flow of budget support is linked to the achievement of goals it sets positive incentives for the responsible use of government resources (good governance). To increase this effect the consequences of a self-inflicted and enduring failure by the partner government to reach the goals (exit plan) have to be laid down transparently beforehand.[125] Another advantage is that budget support allows for a better coordination among the donors since the inflows are all directed to the budget of the partner government.[126] This increases the transparency of the donors' involvement and of the purposes of the aid flows. An independent evaluation of general budget support which was commissioned by the Development Assistance Committee

[120] Klasen, 2009, p.1; Bernasconi, 2006, p. 1. Some commentators argue that it is just a new version of programme aid which became prominent in the 1950s and 1960s (Hemmer, 2010, p. 1).
[121] Swiss State Secretariat for Economic Affairs, p. 5.
[122] Swiss State Secretariat for Economic Affairs, p. 6.
[123] Swiss Agency for Development and Cooperation, 2005a, p. 25.
[124] Swiss State Secretariat for Economic Affairs, p. 6.
[125] Swiss State Secretariat for Economic Affairs, pp. 6/11.
[126] Klasen, 2009, p. 1.

(DAC) of the OECD in 2006 confirms these points. It was found that budget support contributes, among other achievements, to the "improvement of the financial management systems" due to a more efficient use of the budgetary means in the partner countries and some "improvement of the aid management system" due to increased donor coordination.[127]

One limitation of budget support is that it depends on several preconditions in the recipient country.[128] In order to be able to implement the Policy Reduction Strategy the partner government needs basic government spending capacities and structures. This implies a rather stable political system and macroeconomic policy. Moreover, the partner government has to show the clear will and determination to reduce poverty.[129] Since some of these features are lacking especially in the poorest and failing or failed states budget support does not seem applicable to them. In these cases project aid combined with stabilization policies could be used to reach the preconditions, which are necessary for the use of budget support. Because of this and other reasons most commentators suggest that budget support is not a substitute to project aid but rather a complement.[130]

Another frequently mentioned problem of budget support is the fungibility of budgetary means and thus an increased fiduciary risk. Yet some commentators point to the fact that the fiduciary risk of project aid is not necessarily smaller. An independent evaluation on budget support commissioned by the OECD indeed found that budget support is not more prone to corruption risks than project aid.[131] The risk of the latter might be smaller for the financed project if the aid bypasses a largely corrupt regime. However, as Klasen argues, this allows the regime to withdraw its own resources from the area concerned and to use them as it wants to (even for corruption). Project aid ignores this kind of fiduciary risk since it mainly focuses on the financing of the project. Budget support instead offers an opportunity to address the fiduciary risk at its origin, namely within the partner's budget. Through adequate incentives such as achievement-based payments or increased accountability to the own citizenry the efficient and effective use of budgetary means by the partner can be enhanced.[132]

One example of how budget support can set positive incentives is Burkina Faso. There budget support amounted to around CHF 300 million or 15% of the government expenditure in the year 2008. Among other donors such as the African Development Bank, Denmark, Germany, the European Commission, France, the Netherlands and Sweden, Switzerland contributed

[127] Nilsson, 2004, p. 58.
[128] Gerster, 2006, p. 3.
[129] Swiss State Secretariat for Economic Affairs, p. 8.
[130] Hadorn, 2006, p. 2; Swiss State Secretariat for Economic Affairs, p. 6; Bernasconi, 2006, p. 49.
[131] Nilsson, 2004; Bernasconi, 2006, p. 50.
[132] Klasen, 2009, pp.1-2.

CHF 8 million.[133] The budget support was linked to Burkina Faso's own Poverty Reduction Strategy, which defined the mobilization of own tax revenues and fighting corruption as major goals. One of the criteria for disbursement, which was chosen by the government itself, was the "improvement of Burkina Faso's ranking in the Transparency International's corruption index."[134] Switzerland supported these efforts to "build Burkina Faso's capacities in the financial sector" in a policy dialogue and tied the payment of half of its CHF 8 million support directly to the achievement of the fiscal reform and anti-corruption goals. In a move to increase transparency the prime minister established a top-level authority, which oversees the state's actions and cooperates directly with the judiciary. The country consequently reached its objectives in 2008 and Switzerland disbursed the entire amount.[135]

This example shows how budget support can contribute to capacity building and good governance in the partner country. These achievements correspond to some of the goals Moyo strives for. She repeatedly points out that it is essential for the development of African countries that they reach good governance and are able to finance the budgets on their own. However, the way to reach these objectives is different: Budget support sets positive incentives while Moyo only regards negative incentives, i.e. the stop of aid flows. Yet as has been shown above, there is no automatic causation between a stop of aid flows and good governance. Rather it could further destabilize the respective countries and thus might carry significantly bigger risks than positive incentives through budget support.[136]

Hence, as an overall conclusion of this section it can be said that Moyo, due to her vague definition of aid as concessional loans and grants, fails to discuss financial aid in all its forms and complexity. The main part of her criticism probably refers to traditional project aid, which is given in an uncoordinated way by a multiplicity of bilateral and multilateral donors and run through parallel structures because the recipient state is (supposed to be) corrupt. Due to these characteristics and also due to other, e.g. geostrategic, intentions such forms of aid did hardly focus on the effectiveness of aid. Unfortunately, they have dominated in the past and especially Africa is "a huge graveyard" of such projects. Hence, Moyo makes an important point in criticizing them. Moyo does not take into account recent improvements in these fields, however. Through incorporation of the principles of the Paris Declaration, namely ownership, harmonization and result orientation, project aid can be made more

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[133] Gerster (a), pp. 2-3.
[134] Gerster (b), p. 2.
[135] Gerster (a), p. 3; Gerster (b), p. 1.
[136] See chapter 3.2.6.

efficient (donor coordination) and effective (involvement of both public and private local actors).

Moreover, Moyo does not discuss budget support as a newer form of financial aid, which sets positive incentives and can reach similar goals to the ones she strives for. These incentives are for example that partner governments themselves are to decide on development priorities and that aid is often only disbursed if the self-set objectives are reached. This promises to lead to good governance and stronger result orientation and hence increased aid effectiveness. It can be argued that Moyo's rather simplified discussion of financial aid does not allow for the insight that positive incentives can contribute to reach these goals. Instead, she focuses on negative incentives, i.e. the stop of aid flows. Her conclusion does not take up the full complexity of the development process and might even be risky and detrimental to it.

4.2 Aid effectiveness and evaluation

As just shown and already mentioned several times, Moyo does not discuss measures to raise the effectiveness of aid. She rather concludes that aid has to be withdrawn to induce development. Thus it can be assumed that she does not think that the effectiveness of aid can be increased. To the contrary, the Swiss Agency for Development and Cooperation (SDC) puts strong emphasis on this topic. One important way of raising the effectiveness of aid is through learning processes triggered by the evaluation of its programmes, which will be discussed in the following.

4.2.1 SDC's evaluation policy

The SDC defines evaluation as the "sum of systematic assessments, which provide empirical information in order to determine the worth (relevance), efficiency and effectiveness (extent of target achievement on the several levels of the results chain), the impact (intended and unintended, positive and negative effects) and the sustainability of an evaluation object."[137] There are internal and external evaluations according to their degree of independence. In internal evaluations the staff responsible for the planning and implementation of a project itself evaluates the project. This is usually done during the project in order to optimize its implementation (formative evaluation). The SDC runs roughly 100 of such project reviews per year. External evaluations are done by consultants and specialized institutions, which are not involved in the respective project. These usually are ex-post analyses of what went right and what went wrong (summative evaluation). The most frequently used form within this

[137] Swiss Agency for Development and Cooperation, 2008, p. 6, own translation.

group is the “implementation- and impact-analysis”.[138] Analyses of the strategic orientation of country or regional programmes also fall in this category.[139] A very relevant precondition for all forms of evaluation is that the development programmes at their starting point define baselines and outcome and impact hypotheses etc. to which the evaluation’s results can be compared.[140] It will be illustrated in the example below that in practice this prerequisite is not always met.

The evaluations serve two main purposes. First, they are means to show accountability to the citizenry, parliament and other national and international stakeholders. It gives them the opportunity to assess if the SDC delivers on their political mandates. Furthermore, empirical evidence enhances the understanding of development projects and programmes and thus support among stakeholders might be gained. Second – and this is where the link between evaluations and increased effectiveness appears – evaluations promote organizational learning. Based on evaluation reports it can be analyzed which projects, programmes and policies work and which do not and why this is the case. One of the basic principles of SDC’s evaluation policy is that evaluations have to be relevant in terms of strategic management. Accordingly, the information gained is used for strategic planning within the SDC: Each evaluation is followed by a Senior Management Response in which SDC’s Senior Management states where it agrees and disagrees with the assessment and indicates follow-up measures to improve future interventions. Only through such learning effects the relatively high costs of evaluations can be legitimized.[141]

Therefore, the SDC has adopted several principles in its evaluation policy, which put the focus of its evaluation process increasingly on results and aid effectiveness. First, it subscribes to the principle of “Managing for Development Goals”. The management of development projects is primarily oriented towards the planned and achieved goals. The management through activities and processes is still important but must not interfere with the goal orientation. Accordingly, the focus of the evaluations is also shifted towards the results.[142] Second, the SDC follows the “Whole of Government Principle” which suggests that the effectiveness of development policy can be increased if the relevant state actors within a country cooperate. The evaluation of projects then has to be done on a “Whole of Government” basis as well. The different perspectives and policies of the several state actors

[138] Swiss Agency for Development and Cooperation, 2008, p. 8, own translation.
[139] Swiss Agency for Development and Cooperation, 2008, p. 5.
[140] Swiss Agency for Development and Cooperation, 2008, p. 12.
[141] Swiss Agency for Development and Cooperation, 2008, pp. 5, 9-11.
[142] Swiss Agency for Development and Cooperation, 2008, pp. 3-4.

must be included which makes the evaluations increasingly multi-factor based.[143] Third, coordination does not only take place within a country but also between donors from different countries. The focus should shift from the donors' own projects to a more comprehensive overall development view in order to increase the efficiency and effectiveness of aid and benefit from synergies. On the level of the measuring of results this implies that there increasingly are "Joint Evaluations" in which actors from several countries participate.[144] Finally, the SDC subscribes to the principle of "Partnership" with the public and private actors in the developing countries. A "consistent coordination of the [development policy] intervention with the development strategies of the affected partners" is demanded. This implies the inclusion of the partners into the evaluation process. In this context, the SDC also transfers know-how about evaluation methods to the developing countries.[145]

These principles have "normative character", i.e. they describe how evaluations should be run.[146] Therefore, in the following section an example will be discussed to examine how the link from evaluations to organizational learning and increased aid effectiveness works in practice.

4.2.2 Evaluation of SDC's SERI 2000 and SIDBI programmes in India

This section discusses the evaluation report of SDC's SERI 2000 and SIDBI programmes in India.[147] First the two programmes, their goals and the evaluation results are briefly presented to show the basic background facts. Afterwards it is demonstrated how the results are used within the SDC in order to promote learning processes.

SERI 2000 and SIDBI programmes and their results

SERI 2000 was "a programme for supporting disadvantaged and poor people in the sericulture (silk farming] sector" in India.[148] It aimed at reducing poverty through an increase of productivity, quality and sustainability in sericulture. This included improvements of the regulatory framework, programmes for human and institutional development, facilitation of community participation, promotion of micro-enterprises and access to finance as well as technology generation and transfer.[149]

The evaluation report shows mixed results of the programme. The quality clubs, which have been established for the mobilization of the poor community, were a major success. Among

143 Swiss Agency for Development and Cooperation, 2008, p. 4.
144 Swiss Agency for Development and Cooperation, 2008, p. 4.
145 Swiss Agency for Development and Cooperation, 2008, p. 4, p. 11, own translation.
146 Swiss Agency for Development and Cooperation, 2008, p. 3, own translation.
147 Swiss Agency for Development and Cooperation, 2009.
148 Swiss Agency for Development and Cooperation, 2009, p. 31, own translation.
149 Swiss Agency for Development and Cooperation, 2009, pp. 39-40.

the targeted poor people they enhanced "better communication with decision makers, access to credit, awareness of market factors, legal rights and government programmes, direct access to markets, better knowledge of sericultural technologies and less dependency on outsiders via mutual support."[150] On the negative side, the projects to generate and transfer technology, which accounted for around 45% of the total budget largely failed. Moreover, there was a "lack of policy dialogue and of ownership by the (Indian) partners in the public sector."[151]

SIDBI "was a programme to support a development bank (Small Industries Development Bank of India, SIDBI) for improving its assistance to small and micro-entrepreneurs in rural and semi-urban areas."[152] It consisted of three phases. In a first, experimental phase the SDC supported "small scale entrepreneurs in their own efforts to generate employment and sustainable livelihoods." [153] The second phase focused on providing loans to small enterprises for their marketing activities. The staff of SIDBI therefore was trained in order to be able to assist small-scale entrepreneurs more effectively (small scale enterprise-oriented approach). In the third phase the SDC implemented, among others, the Rural Industry Programme to increase SIDBI's outreach and relevance to small, rural entrepreneurs.[154]

The overall evaluation of the SIDBI programme is positive: "The SDC intervention has contributed significantly towards the change of SIDBI's institutional profile towards the poorer parts of the population, the small and micro-enterprises in remote areas and a general improved attitude towards risk taking in these areas of business." This has especially been due to the "'out of the box thinking', and the innovative approach of SDC" in many areas.[155]

How the SDC uses evaluation reports

Such findings of evaluation reports can only contribute to increased aid effectiveness if the report's recommendations trigger an organizational learning process. Within the SDC, first the Core Learning Partners (CLP), a group of "primary intended users of the evaluation" (e.g. the line staff responsible for the evaluated programme), comment on the evaluation results. Afterwards SDC's Senior Management discusses the evaluation as well as the CLP comment and indicates follow-up actions to incorporate valid recommendations (Senior Management Response).[156] In the following it is shown along several of the recommendations of the SERI

[150] Swiss Agency for Development and Cooperation, 2009, p. 32, own translation.
[151] Swiss Agency for Development and Cooperation, 2009, pp. 32/54, own translation.
[152] Swiss Agency for Development and Cooperation, 2009, p. 31, own translation.
[153] Swiss Agency for Development and Cooperation, 2009, p. 31, own translation.
[154] Swiss Agency for Development and Cooperation, 2009, pp. 44-45, own translation.
[155] Swiss Agency for Development and Cooperation, 2009, p. 33, own translation.
[156] Swiss Agency for Development and Cooperation, 2009, p. 4.

2000 and SIDBI evaluation report and the Senior Management Response to it how the process of organizational learning takes place within the SDC.

The evaluation report first recommends "for future programmes to collect baseline data and derive qualitative and quantitative indicators." As mentioned above, this is indispensable for any assessment. In both projects this information was lacking at the beginning, which made monitoring and corrective actions in the course of the project (formative evaluations) impossible. Both the CLP and the Senior Management agree to this recommendation. The latter commits to include the creation of baseline indicator in its "ongoing efforts within SDC HO (head office) and field to strengthen focus on outcomes of development interventions in not only planning, but also in M&E (monitoring and evaluation) activities and reporting."[157] Thus the incorporation of these evaluation results might lead to a stronger focus on aid effectiveness.

One of the main problems of the SERI 2000 programme was that social and economic factors often inhibited the technology transfer to the poor population. Many poor people did not adopt the newly developed, productivity-enhancing technologies since they were not informed about the benefits or did not have access to financing possibilities.[158] The evaluation report recommends that "economic viability as well as marketing aspects should be taken into account in technology development (early in the R&D cycle)."[159] Senior Management acknowledges this necessity and suggests that the Employment and Income Network within SDC should find ways how "a right balance between technology development and economic/social factors for an effective technology transfer" can be achieved.[160] Here again the evaluation result triggered organizational learning and the work of the "Employment and Income Network" can contribute to increased aid effectiveness if it finds options to increase the accessibility of new technology for poor people.

With regard to the lack of policy dialogue and ownership of the Indian public actors in the SERI 2000 programme the report recommends that prior to a project the SDC should put stronger effort in understanding the partner's institutions and their roles. Senior Management agrees and concludes that "an early identification of 'allies' or 'agents of change' can be important to foster the dialogue and bring the programme towards successful completion."[161]

Moyo might argue that the process of organizational learning illustrated here is rather vague with the Senior Management only agreeing on the recommendations or delegating the further

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[157] Swiss Agency for Development and Cooperation, 2009, pp. 15-16, own translation.
[158] Swiss Agency for Development and Cooperation, 2009, p. 56.
[159] Swiss Agency for Development and Cooperation, 2009, p. 16.
[160] Swiss Agency for Development and Cooperation, 2009, p. 17.
[161] Swiss Agency for Development and Cooperation, 2009, pp. 19-20.

discussion of the raised issues to other bodies within the SDC. Yet it still shows that evaluations, which assess the results of development programmes, have a strong potential to trigger learning effects and follow-up actions, which in turn contribute to, increased aid effectiveness. Moyo might well underestimate those learning effects of result-based monitoring and evaluations.

4.3 Good governance

As presented above, Moyo believes that systematic aid has systematically undermined the emergence of responsible and accountable governments in Africa. Indeed, she argues that the constant inflow of money has corrupted the governmental elite, inducing rent-seeking and violent competition. We agree that aid money, especially in the form of concessional loans and grants, can and has been spent in ways that were not sensitive to the incentives that it set (the large sums spent in the Cold War to the most lunatic dictators to fight proxy wars is just one inglorious example). But we do not agree that these examples can be generalised or even transformed into a genuine rule. As presented in the two previous sub-chapters the picture is more complex and there are practices that can improve the efficiency of aid flows so it does reach its designated beneficiary and has an impact. This holds true as well in the case of good governance. Foreign aid can indeed pave the way to good governance rather than block it. Exemplary for the possibility of fostering good governance by way of foreign aid, we will present the SDC's efforts to promote the rule of law in the Great Lake area in Burundi. This case presents how a development agency's engagement can provide the capacity and know-how to strengthen the rule of law and thus build the foundation for a working economy without setting perverse incentives.

The rule of law has been advocated as one of the central pillars for development over the last 30 years. However, as the Economist outlines, the perception of the importance and the definition of the rule of law for development has evolved over time.[162] The evolution by itself is an indicator that development economics is in constant movement and in a learning process towards a more efficient and effective form of development aid. On the other hand, the difficulties to define the rule of law are a reflection of the core problem of the debate whether the impact of foreign aid in sub-Saharan Africa has been positive or not. The 'thick' definition of the rule of law describes it as the "core of a just society" and "inextricably linked to liberty and democracy."[163] The definition thus has the (outdated?) normative connotation that the Western model of liberal democracy is superior in living conditions and performance, thus a

[162] The Economist, 2008.
[163] The Economist, 2008.

good in itself. The 'thin' definition on the other hand is more limited. Its focus lies more on the preconditions for doing business and luring investment and has at its core the establishment of property rights, the lowering of transaction costs and enabling of economic organisation.[164] Viewed from an economic perspective African development over the last 50 years has been feeble at best, but in societal and health terms development agencies are able to present a far more sustainable record of progress. Just as with the definitions of 'thick' and 'thin' rule of law, they have both their self-justification and depend on the values and priorities that are set. Finally, Moyo has a point in suggesting that economic growth might indirectly be the better panacea for poverty-stricken sub-Saharan Africa than the direct focus on poverty reduction. A change in priorities might be due, but a complete stop is not necessary. The following case demonstrates that development agencies can actively support African governments in process of the establishment of stable and predictable laws and thus laying the foundation of future economic growth.

The SDC's engagement in Burundi seeks to aid the government in the efficient settling of border disputes to enable farmers to concentrate on farming rather than on worrying if the land they are working on and investing in today will still be theirs tomorrow.[165] The problem is rampant and urgent as 80% of the conflicts brought before court are on border issues. This is hardly astonishing as three quarters of the country's people that live in rural areas depend on arable land and the recent return of refugees along with the demographic pressure has only aggravated the situation. The transaction costs of officially registering one's property rights in Burundi are high, due to a centralized and inefficient bureaucracy. The SDC in cooperation with the government of Burundi, the European Union and the embassy of the Netherlands encouraged a reform of the frontier code and a decentralisation of the authority handling border affairs to the communal level. The decentralisation effectively helps in preventing and solving the conflicts on a local level, allowing the involvement of all parties concerned. The SDC helps training the local agents in the application of the law and the building up of the necessary capacities. Furthermore it actively supports the national government as an advisor in reforming the frontier code and its application directives. Last but not least, it engages in strengthening the civil society by means of education and raising the accountability of the state.[166]

It is such a holistic approach that includes the national, provincial and local level that promises the best results. Knowledge transfer, an instrument neglected by Moyo, and the

[164] The Economist, 2008.
[165] Swiss Agency for Development and Cooperation, 2010, pp. 1-3.
[166] Swiss Agency for Development and Cooperation, 2010, pp. 1-3.

building of local infrastructure in close cooperation with the government and in coordination with international actors can help to reinforce good governance, if perverse incentives are carefully circumvented. By strengthening the civil society and decentralising the institutions the government can be made more accountable thereby bringing it closer to the people. Yet the development agencies should not substitute the government, but leave the ownership with the government or the people. Furthermore, the solution of a concrete problem that obstructs the economic prosperity seems most promising since the results of the engagement can be effectively monitored. If the programme is successful, it could be transferred and adapted to other regions.

But most of all, this case could prove that foreign aid rightly and sensitively applied does by no means foster bad governance, but indeed, against Moyo's argumentation, leads to better governance. However, if one followed Moyo's line of argumentation and abstained from such an involvement the governmental interference might come too late and prove too slow. First pressure on the central government would have to build up until it becomes unbearable, conflicts rather than being solved legally and peacefully would be more likely to result in violence. The deescalating effect of the support in the enforcement of the rule of law can hardly be seen as having a malicious impact. This example, however, shows only one of the aspects of good governance that can be supported by means of foreign aid. Other aspects that only have been touched on in this programme are the strengthening of the civil society from the bottom up, the support of the government in collecting its own fiscal resources, the increase of the efficiency of bureaucracy or the stimulation of business (e.g. by microfinance and -insurance institutions).

5 Conclusion: Argumentation as a reaction to Moyo's theses

In a final step we sum up our raised points to present an argumentation as an elaborate response to Moyo's theses.

Good governance is a central issue. Moyo is right to put strong emphasis on this point. Moreover, she rightly points out that African governments have to take up more responsibility in their role "as a strategist, as a coordinator and even, to some extent, as a financier" in the development process – especially in poor countries where the private sector is still weak a capable state can make a difference.[167] We agree that in order to play a positive, development-enhancing role African governments have to become interested in the economic growth of

[167] Moyo, 2009, p. 74.

their countries. It is important that governments start to raise their own tax revenues or to issue bonds on international capital markets in order to finance their government spending. Economic growth increases tax revenues and can, in concert with sound policies and a stable environment, improve the countries' credit ratings. In turn, governments will have to use their budgetary means more responsibly and efficiently and care more about the effectiveness of their public spending in order to foster economic growth. This has positive effects on the development of their countries and leads the way to an end of aid-dependency. Thus, we agree with Moyo that good governance with a renewed focus on economic growth is the goal a developing strategy should strive for. Where we fundamentally disagree is on the ways to achieve it and on her opinion that development aid and good governance are mutually exclusive.

In our view, it is questionable, whether the sole reliance on negative incentives in the form of a stop of aid flows can reach the aspired goals. Moyo argues that aid flows destroy the incentives of poor countries' governments to pursue economic development and that thus only a stop of the influx of money can achieve the aspired goals. Her arguments are attractive at first sight, but turn out to be an oversimplification of a more complex problem. The causation between a stop of aid flows and good governance is by no means as natural or automatic as Moyo puts it. She is well aware of the risks that are posed by such a strategy, but gives little evidence that these scenarios are as unconceivable as she tells us. The danger is that already feeble states will collapse in the harsh wind of the free market. Such a collapse would hit the poor the hardest and there is the danger that other states suffer under negative spill over effects. Furthermore it is unclear, whether corrupt states would turn to the constructive alternatives outlined by Moyo or instead they would resort to more violent policies and exploit their own people or wage wars against their neighbours.

According to our view, aid can help achieve the aspired goals. Aid can play an important role in setting positive incentives to achieve good governance, which do not entail the immense risk of the negative ones. However, aid must be adapted to prevent the danger of moral hazard. One example, which has been designed accordingly, is budget support. It sets positive incentives in the form that partner governments themselves are to decide on development strategies and that aid is often only disbursed if the self-set objectives are reached. In Burkina Faso, Switzerland tied part of the disbursement of the budget support to the achievement of the country's own fiscal reform and anti-corruption goals. Burkina Faso eventually reached the objectives and the aid was disbursed. Another example is the direct support of governments in the context of concrete and limited project. In Burundi Switzerland directly supports the government in improving the efficiency and the spread of the rule of law in the field of property rights. The partner government still owns the project and keeps the responsibility, but can draw on the experience, expertise and funds of the SDC, provided it acts according to the agreed upon policies (i.e. decentralisation and bureaucratic efficiency).

However, focusing only on top-down strategies might not be an adequate solution because unilateral cooperation with the government can cause ineffective results due to a too powerful state. Instead, support to the government has to be combined with bottom-up strategies by which the civil society is strengthened. One example through which a development from the bottom can be initiated is microfinance institutions. By applying such a twofold development strategy (aid at the national as well at the local level), a reinforcing development process that involves all parts of a society is facilitated.

Thus, these forms of aid are still useful, especially to establish a state framework (good governance, rule of law) and a strong civil society, which both are conducive to economic and social development. As discussed above, some of Moyo's proposed alternatives to aid, such as FDI, depend on such a framework. It can be argued that Moyo's narrow definition of aid as concessional loans and grants does not allow her to take such positive effects of aid into account which leads to our next argument.

Moyo fails to discuss financial aid in all its forms and complexity. She defines (systematic) aid as concessional loans and grants and does not distinguish between project aid and budget support. The main part of her criticism probably refers to traditional project aid, which indeed in the past had other priorities than its effectiveness. For this case her criticism is warrantable. However, she neglects that recently the focus of aid has increasingly been put on effectiveness. Through the application of the principles of the Paris Declaration on both project aid and budget support, a stronger orientation towards the partner countries and improved donor coordination has been facilitated, which has consequently increased the effectiveness of aid. The fact that Moyo does not take up these recent discussions on the one hand shows her very selective treatment of aid issues. On the other hand it could imply that she simply does not think that the effectiveness of aid can be increased. We do not share this view.

In our view the effectiveness of aid can be increased. One important way to do this is through learning processes triggered by strict and comprehensive evaluation of development programmes and projects. Recently there has been a shift from the evaluation of processes to that of results. This has been part of a broader effort to focus the management of development projects towards the planned and achieved goals. Referring to the example of SDC's evaluation procedure in two programmes in India, the paper at hand has shown that an assessment of the results of development programmes has a strong potential to promote organizational learning and follow-up adaptations. This process in turn can increase the effectiveness of future programmes and projects. Moyo does not discuss such procedures and might well underestimate the respective learning effects of result-based monitoring and evaluations.

Aid has to render itself obsolete. We agree with Moyo that financial (systematic) aid must not be an end in itself and that its flow has to peter out at a certain point. She proposes to gradually reduce and eventually stop aid flows within five to ten years time. In our view, effective forms of aid flows have to continue until a stable state framework is established in the partner country. A functioning state offers a conducive surrounding for private sector growth and the possibility for the government to finance its public spending through tax revenues, bonds etc. A clear time horizon will probably enhance the efficient use of the aid inflows by the recipient country. Yet the effect will be stronger if it is given for a concrete development programme (as it already is the case e.g. for Switzerland's budget support) rather than for all aid flows (as Moyo suggests). Furthermore, aid flows can contribute to establish a certain education and health level so that the society is able to use the opportunities provided by a stable state framework and hold its leaders accountable.

Thus, Moyo's proposals do neither live up to the complexity of the development challenge in very diverse developing countries, nor the complexity and different forms of financial aid. In the end, financial aid has to render itself obsolete after having created a conducive surrounding for private sector growth and a functioning civil society. A premature stop of aid flows, on the contrary, is likely to have detrimental effects on the respective country and might make even higher aid flows in the future necessary. Rather than to stop the flows the focus should further be put on increasing its effectiveness.

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