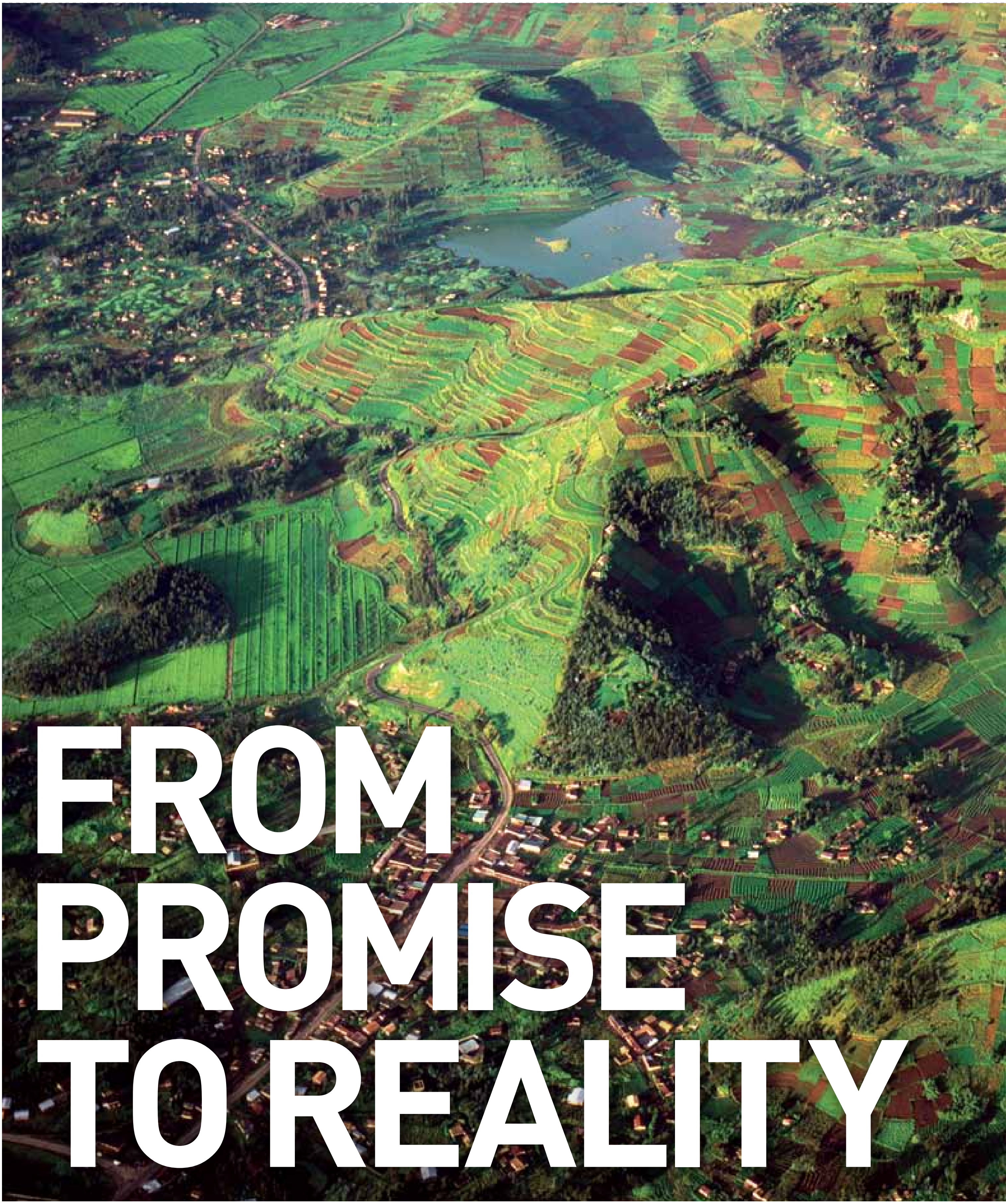


FROM PROMISE TO REALITY

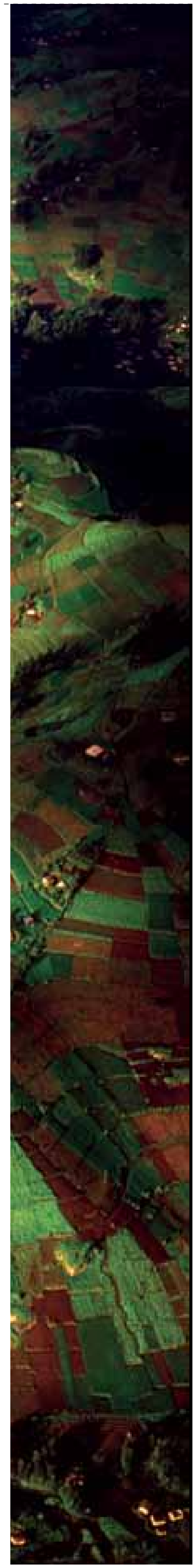
The world's eagerness to support Africa has, argues **Dambisa Moyo**, made the continent so dependent that, unless its governments are motivated to take control, it can never truly reform.

Every day around the world, about one billion people go hungry, of which the highest concentration, some 300 million people, lives in sub-Saharan Africa. Yet one-third of the world's untilled arable land is also in Africa.

Theoretically, these statements suggest three things: first, that Africa should be able to feed itself; second, that Africa should be a net supplier of food to the rest of the world; and third, we are dealing with a structural problem: a market failure or dislocation. On the last point, I believe the structural problem arises because a culture of foreign aid dependency has led to a situation where African governments are disincentivised from implementing necessary policy reforms that would set Africa on a path of sustained economic growth.

In the past 50 years, Africa has received nearly $1 trillion in international aid intended for healthcare, education, infrastructure and agriculture, among other things. Unfortunately, despite good intentions, much of it has been ineffective. This is because most aid is given without effective conditionality.

The economic development literature is littered with evidence of the shortcomings of foreign development assistance. Aid is associated with several well-documented negative externalities, from spurring inflation, creating untenable debt burdens (with few tangible economic benefits), to being fodder for civil unrest and clashes as political factions try to capture the state and, by extension, unfettered access to millions of ostensibly free aid dollars.



LAST REFUGE/ROBERT HARDING WORLD IMAGERY/CORBIS

As such, with the African region being the largest recipient of foreign aid, it should perhaps come as no wonder that, in the 1990s, the African subcontinent had more civil wars and unrest than the rest of the world put together or that over the last two years there have been at least four *coups d'état* or coup attempts across sub-Saharan Africa (Madagascar, Niger, Guinea and Mauritania).

Food production, at its most basic level, depends on quality physical infrastructure – roads, machinery and irrigation tools – and legally enforceable property rights and land title, which are largely absent across African states. Quite rationally, both domestic and international investors are unwilling to invest in these economies with these constraints in place.

Taken together, Africa is caught in a nexus of being long-term aid-dependent, while her governments are not encouraged to carry out essential reforms to attract much-needed investment, in particular in the agriculture sector. The continent's poor record in putting in place the basic elements to attract investment is demonstrated by three specific points.

First, fewer than half of the countries in Africa have credit ratings. According to 2010 Bloomberg data, only 19 out of 53 African countries have international credit ratings, yet a rating is an absolute prerequisite for governments and corporations to accessing other, better sources of capital privately to finance development.

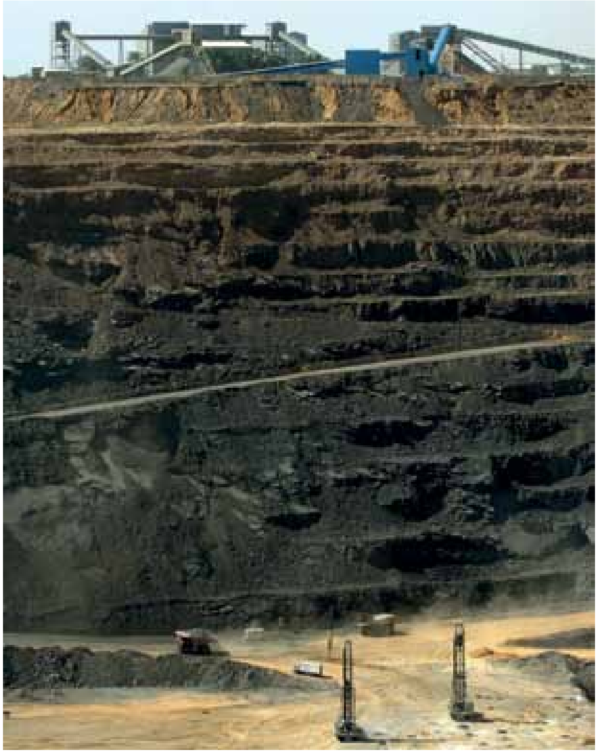
Then there is the fact that African countries remain among the most difficult places to conduct business. The 2010 World Bank Doing Business Around the World Survey finds that 30 of the world's worst 50 performers – 60 per cent of the list – are in Africa. And only 14 African countries, including well-known reformers such as South Africa and Botswana, make the *top* 132 countries (i.e. just 10 per cent of the list).

Finally, African countries remain among the most corrupt economies in the world. According to the 2009 Transparency International Corruption Perceptions Index, 40 out of 42 African countries scored below five on a scale where a rank of zero is perceived to be highly corrupt, and 10 is perceived to have low levels of corruption.

Nobel Laureate economist Amartya Sen has observed "there is no such thing as an apolitical food problem". This could in part explain why, around the world, governments use policy levers to influence both the demand and supply of food.

In China, for example, the one-child policy limits future demand for food. Whereas, by contrast, policies in the US and Europe around agricultural protection, such as subsidies, are designed to encourage an increase in food generation and supply.

PREVIOUS PAGE Intensive agriculture in Rwanda, where 80 per cent of people rely on land for their livelihoods. In many African countries, however, governments have abdicated responsibility for food production



DE BEERS

01 Jwaneng, a joint venture between De Beers and the Botswana government, is the world's richest diamond mine, and work is already under way to extend its life to at least 2025. Prudent management of its substantial diamond revenues has been the major factor behind Botswana's impressive economic performance in recent years

NATIONAL GEOGRAPHIC/GETTY IMAGES

02 Scenic spots, such as Victoria Falls on the border of Zambia and Zimbabwe, are a vital boost to the economies of both countries, annually attracting hundreds of thousands of tourists

POLICY INERTIA

Across many countries in Africa, although not all, policy inertia has had negative consequences in relation to food policy. Because the international community underwrites public goods across the board – education, healthcare,

03

ED KASHI/CORBIS

03 The Amenam-Kpono oil rig, about 40 kilometres off the coast of Nigeria. The country's oil wealth could help Nigeria to eventually become Africa's biggest economy – yet an estimated 70 per cent of the country's population lives below the poverty line

national security and infrastructure – African governments are able to abdicate their responsibilities in food production.

Furthermore, the pervasive and insidious culture of aid dependency makes it near impossible for Africans to hold their governments accountable for failing to provide the basic requirements to enable food production or to penalise them for bad behaviour, such as corruption.

As is well known, in more developed countries, a (sovereignty) contract exists between governments and citizens. In return for paying taxes, the governments provide a suite of public goods to their citizens. If the incumbent fails to deliver on a promise, then they are voted out of office. Put another way, driven by the desire to stay in office, the government is incentivised to deliver the public goods.

Consider now what happens when foreign aid replaces the need for government to depend on taxpayers' receipts. African governments spend more time courting and catering to their donors than their constituents. In this case, even if the incumbent does not deliver on the promise to provide public goods, as long as aid donors are happy to continue providing aid, there is often no way for the impoverished population to hold the government accountable for its failings. In essence, aid severs the connection between the individual and government and undermines the veracity of the contract between them.

More importantly, the international community has become conditioned to approach food security as a recurring emergency concern rather than as the structural problem it is.

Of course, in emergencies, such as the floods in Mozambique or droughts in Ethiopia, there is a moral imperative for the international community to act. But until African governments come to regard aid as temporary support, as opposed to a right in perpetuity, they will continue to fail to implement the necessary measures for self-sufficiency, including food production.

"Governance issues – corruption, political instability – remain the key logjam in unlocking Africa's potential."
DAMBISA MOYO

To be sure, there are some countries across Africa that are setting themselves apart from the pack by implementing the suite of growth-enhancing policies outlined above.

In 2009, weeks after the World Bank named Rwanda the "world's top reformer", the country attracted hundreds of millions of dollars in foreign capital for

BLOOMBERG VIA GETTY IMAGES

investment across key sectors. And Ghana continues to be viewed by many international investors as an investment destination of choice, particularly after its $750 million debut bond offering in 2007, which was heavily oversubscribed.

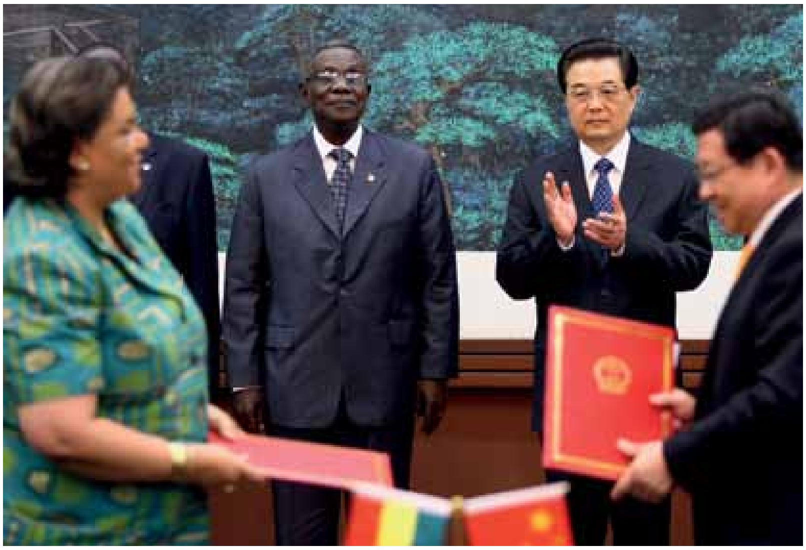
In the political arena, African countries have also made notable strides. Today, the continent boasts that, of 48 sub-Saharan African countries, over 50 per cent hold regular democratic elections that can be deemed free and fair. Unsurprisingly, countries like these that have been the most aggressive at implementing well-designed transparent policies that drive growth, spur entrepreneurs and stimulate job creation have reaped the greatest economic rewards.

But, still, sub-Saharan Africa remains the poorest region in the world, with annual per capita incomes hovering around $500, and the whole continent represents less than two per cent of global trade – less than the trade contribution of Spain. Furthermore, it's still fair to say that governance issues – the absence of the rule of law, corruption, political instability and a lack of transparency – remain the key logjam in unlocking Africa's full potential.

With around 60 per cent of Africans under the age of 24, getting this balance right will be critical for the continent's future prospects and success. On the basis of standard models of economic growth that argue that there are three ingredients that drive such growth – capital, labour and productivity (the ability to use capital and labour effectively) – Africa has lots of scope for upside. This partly explains the positive forecasts for Africa's economic prospects, such as Standard Chartered bank's recent forecast that sub-Saharan Africa's share of the world's economy will grow from two to five per cent by 2030 and its investment rate will accelerate to 30 per cent by 2020. The same research source also predicts Nigeria could overtake South Africa as the region's largest economy by 2023 if it capitalises on its oil wealth. Such euphoria must, however, be tempered by the United Nations warning that Africa must grow by at least seven per cent a year on a sustained basis in order to make a meaningful dent in poverty (today, around 70 per cent of Africans live on less than $2 a day).

01 A cotton factory worker in Mahalla, Egypt. In 2010, a World Bank survey ranked the country an impressive 18th out of 183 countries for starting a business – but a lowly 94th for "ease of doing business"

02 Ghana's president John Atta Mills joins Chinese president Hu Jintao at a ceremony in Beijing, September 2010, during a six-day visit to China. China's fast-track development model has proved appealing to many African leaders



REALISING THE POTENTIAL

With nearly three decades of emerging-markets success behind us, sadly the number of states from Africa in the winners' column remains woefully low. And until the structural issues outlined above are remedied, the potential to be realised from Africa's one billion-plus population will remain just that. Against this backdrop, what ideas should we consider to reverse the current unfortunate state of affairs? Here are three.

First, if one accepts the link between aid flows and disincentivisation, then, clearly, aid to Africa needs to be phased out in a considered and systematic way. Concerns over donors' budgets have made this necessary shift in thinking more urgent. At a time when leading donor countries such as the US face double-digit unemployment, gaping fiscal deficits – never before seen during peace times – and unsustainable debt burdens that are bound to lower their trend growth, and are themselves borrowing

"The international community has become conditioned to approach food security as a recurring emergency concern rather than as the structural problem it is."
DAMBISA MOYO

from China, it seems folly that for many African countries aid forms upwards of 50 per cent of the public purse. Further, any decrier of this unsustainable system is only too often met with derision and outcry from an ill-informed public.

Indeed, as most donors need to prioritise getting their own house in order, there is a real risk that Africa and African issues will slide down the ranks of priorities. We know that the success of aid programmes such as the Marshall Plan (see right) rested on short, sharp and finite interventions, rather than open-ended commitments as we see across much of Africa today. Phasing out aid to Africa in favour of more sustainable and transparent forms of development financing will take many years, but debate must start in earnest today.

If anything, over 300 years of economic evidence – Angus Maddison's growth database goes back to the 1500s – has shown us one thing is for sure: no country anywhere in the history of development economics has achieved sustainable long-term economic growth and a reduction in poverty by relying on aid to the extent that African countries rely on it today. The success of the BRIC countries – Brazil, Russia, India and China – and, even closer to home, South Africa and Botswana is just a modern-day manifestation of this point. But, also, the success of these countries is further evidence that more transparent forms of development financing, such as trade, debt financing in the capital markets, remittances, taxes, savings and foreign direct investment, are indisputably key to unlocking credible sustained economic growth and reducing poverty in the long term.

A NEW AID STRATEGY?

Second, greater conditionality needs to be attached to continuing donations. For example, rather than continue to offer up aid in lieu of access to the food markets in developed countries, which decimates African livelihoods (every year, Europe and the US earmark billions of dollars in farm subsidies to their citizens), a more constructive aid strategy with credible conditions should be able to gain more traction. Although the political imperative for this is weak, owing to the sensitivities surrounding aid to Africa, obtaining credit ratings and improving the business environment are clear, measurable objectives that recipient countries should be required to implement and achieve.

Finally, a lot of work needs to be devoted towards changing people's perceptions, particularly those potential investors in the international community, about the African continent. In particular, it will be critical for advocates and champions of the Africa story to transform the message from one of dependency and despair to that of Africa as a potential source of food and a key contributor to, rather than a drag on, the global economy. This is a daunting, but not impossible, task. After all, investment and job creation are desperately needed, but what rational investor would want to risk his capital investing in a continent characterised by death and disease; war; corruption; and poverty – the four horsemen of Africa's apocalypse?

It may today sound fantastical, that one day Africa might feed itself and the rest of the world. Its enormous area of arable land, although as yet uncultivated, offers great hope. If we were to reframe the terms of the aid debate so that international largesse can become more effective, it is just possible that such aspirations could become a reality.

PROFILES

Angus Maddison
A British economist historian and author, Maddison studied the world's economy extensively, going back as far as 1 AD. He was a professor at the Faculty of Economics for the University of Groningen in The Netherlands and held several posts at the Organisation for Economic Cooperation and Development in Paris. A self-titled "chiffrephile" – his term for economists who are prone to quantifying the world – Maddison died in 2010, aged 83.

George C Marshall
In June 1947, secretary of state George C Marshall called for American aid to help return Europe to political and economic strength, post-World War Two. Over four years and with $13 billion of assistance, the Economic Cooperation Act of 1948 – aka the Marshall Plan – restored European agricultural and industrial productivity. By 1952, the economy of each participating state had surpassed pre-war levels. The plan earned General Marshall a Nobel Peace Prize.

Amartya Sen
Born in India's West Bengal, Sen is the professor of economics and philosophy at Harvard University. He was awarded the Nobel Prize in Economic Sciences in 1998, recognising his work around welfare economics and his interest in poverty; he was nine years old during the Bengal famine of 1943, in which three million people are estimated to have died. He has stated his belief that poverty stems as much from the failings of food distribution as from a lack of food.