**Foreign Aid in Africa: How Continued Financial Aid Stifles**

**Economic Stability in African Nations**

**Written by Christina Gorey**

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**Abstract:**

Africa continues to be the among the poorest, if not the poorest continent in the world. Hundreds of billions of dollars have flooded across the Pacific Ocean destined to help alleviate the extreme poverty in many African nations.. However, over the past decades little, if any, change has been made in the economic and political stability of the region. Intergovernmental Organizations, Regional Organizations, Non-governmental organizations, and multinational collaborations have all crusaded a specific mission ( providing food, medical assistance, military, or financial aid) and yet only in recent years has Africa slowly began to make forward progress. This study will examine the effects of prolonged financial aid, and why the continued flow of financial aid into Africa is a detriment to any significant economic growth. This study will argue that the continued pouring of aid to Africa simply blankets the problem and only serves to cover up the instability in the region for a short period of time, and that the only hope for true progress in social, political, and economic aspects is to encourage investment in African companies and/or resources, and to develop trade relations between African nations and foreign states. The establishment of strong trade relations will allow for continued economic growth and greater stability in the structure of African communities. In examining the above problems, this project will highlight the necessity of engaging foreign states in the increased development of African trade and socioeconomic structure.

**Literature Review**

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**Aid Policy: Helping Whom, Exactly? (2013, April 27). Retrieved March 31, 2015, from The Economist website: http://www.economist.com/news/united-states/21576697-administration-proposes-overdue-reforms-americas-overseas-food-aid-helping-whom?zid=301&ah=e8eb01e57f7c9b43a3c864613973b57f**

The Economist (2013) is examining the United States policy for oversea food aid. They conclude that since America began donating surplus wheat, corn meal, vegetable oil and other farm commodities to impoverished nations across the globe six decades ago, the programme has been “captured by an “iron triangle” of farm interests, shippers and voluntary organisations, with plenty of help from Congress.” The U.S. policy mandates that food being brought to foreign nations must be transported by American ships, food bought from American farmers, and all the food must also be processed in America. Because of the format this aid was created in, a few companies have claimed a monopoly on this process, thus having the ability to overcharge for services, eating up 16% of the budget for the largest food-aid programme, World Peace.

**CHOUKROUNE, L. (2013). China into Africa: Trade, Aid and Influence /The Dragon's Gift: The Real Story of China in Africa/China and Africa: A Century of Engagement. *China Perspectives*, *2013*(2), 82.**

Choukroune (2013) compiles historical evidence of China’s presence in Africa. She found that *In China in Africa: A Century of Engagement,* China has had trade relations with Africa since the time of Cleopatra. However, it was not until the fifthteenth century under Emperor Yongle in the Ming Dynasty, after a naval expedition to Africa, that the trade relations between China and Africa began to strengthen. Shortly after that, trade between China and Africa was stunted as China closed its borders. From the 1980s, African- Chinese relations began to become more business-oriented, Africa offered both a new and open market for China’s manufactured products and a location for investment in resources. In the early 2000s, the establishment of the Forum on China-Africa Cooperation (FOCAC) concretised these new relations by offering a diplomatic window to a fast-evolving partnership culminating in the newly adopted “Beijing Action Plan for Africa (2013-2015).”

**Davis, D. D. (2009). CHINA INTO AFRICA: TRADE, AID, AND INFLUENCE. *Reporter*, *36*(2), 29.**

Davis (2009) is reviewing *China Into Africa: Trade, Aid, and Influence*, which is written by Robert I. Rotberg. He discusses the large amount of potential Africa possesses due to its strategic location between the East and West, and across the Mediterranean from Europe, which has a population of over one billion people. Analysts have estimated that “in 1991 Chinese FDI in Africa was just under $5 million a year. In 2006, it was between $1.2 and $6 billion. Looking as far back as the 1980s, trade with China was only about $12 million a year. During the 1990s, trade between China and Africa grew by an enormous 700 percent, reaching $10 billion in 2000. In 2006, trade between China and Africa skyrocketed to $55.5 billion. In that same year, Chinese officials set a target of $100 billion in trade between Africa and China by 2010. It appears that the target was conservative, as trade between China and Africa was just under $120 billion in 2008. To put this in perspective, United States-Africa trade for 2008 was estimated to be roughly $161 billion.

**Faille, D. d. (2010). Dead Aid: Why Aid Is Not Working and How There Is a Better Way for Africa. *Canadian Journal Of African Studies*, *44*(2), 422.**

Faille (2010) discussed various works written by Dambisa Moyo, who is a well-known economist and educator on foreign aid in Africa. Moyo promotes three major principles as a model for potential changes in African aid. She focuses on direct investments from foreign nations (ie. China’s investment in Africa), the transformation of local small entrepreneurship and market economy, and improved accountability in business practices and public governance.

**Farmer, P. (2013, December 12). Rethinking foreign aid: Five ways to improve developmental aid. Retrieved March 31, 2015, from Foreign Affairs website: http://www.foreignaffairs.com/articles/140495/paul-farmer/rethinking-foreign-aid**

Farmer (2013) is offering evidence and verifiable solutions to developmental aid in Africa and third world countries across the globe. While 80 percent of aid from major bilateral and multilateral donors to fragile countries still bypasses the systems of local public institutions, the aid enterprise has contributed to a number of achievements around the world, not the least of which is the distribution of public goods that have led to higher rates of child survival and reduced HIV infection, malaria, and other infectious diseases. He cites the example of Rwanda who nineteen years ago lay in ruins. Today, it is the only country in sub-Saharan Africa on track to meet all health-related UN Millennium Development Goals, among them reducing under-five mortality by two-thirds, between 1990 and 2015. Rwanda, in fact, has seen one of the most dramatic declines in premature mortality ever recorded. Although many economic measures of well-being miss important disparities, the trends in Rwanda are encouraging: since 1994, per capita income has almost tripled and GDP has quadrupled, growing at a rate of 8.1 percent annually from 2000. He points out that research shows a link between progress towards key targets of the Millennium Development Goals and direct investment in government institutions. He suggests that first,we must reward aid institutions and staff who localize aid dollars. Secondly we should, prioritize implementation with national counterparts at every step of the process, and thirdly we need to prioritize the transfer of aid functions to local authorities. As a result, all aid implementers should consider every decision they make within the context of a long-term plan to transfer their tasks and functions to local institutions.

**Graham, C., & O’Hanlon, M. (1997, August). Making foreign aid work. Retrieved March 31, 2015, from Foreign Affairs website: http://www.foreignaffairs.com/articles/53229/carol-graham-and-michael-ohanlon/making-foreign-aid-work**

Graham and O’Hanlon (1997) look at the effectiveness of foreign aid. They claim that while aid has had success in humanitarian relief, family planning, and reducing infant mortality, its record in promoting economic growth has been mixed. He goes on to identify that a number of countries, many in sub-Saharan Africa, are poorer than when they began receiving aid several decades ago. In these nations, foreign aid has perpetuated poor policies and weak economic performance. Graham and O’Hanlon have found that the average aid-to-GNP ratios suggest that countries that receive greater amounts of aid do not grow faster than those that receive less. Within Africa, countries with poor economic policies have received more aid per capita than those with responsible policies. They point out that various studies by the World Bank have found a negative correlation between aid flows and growth, other studies, using broader measures of aid flows, find that aid on average has no effect on growth.

**Herbst, J., & Mills, G. (2006). Africa in 2020: Three Scenarios for the Future. *The Brenthurst Foundation*.**

Herbst and Mills (2006) identify three scenarios for Africa in 2020: Where Africa takes charge,where it follows, and a ‘patchwork quilt’ where some countries lead and others fall behind. They have concluded that one major factor would be economic growth— a necessary if insufficient condition for African stability and prosperity. There is a general consensus that Africa must implement economic reforms and improve governance in order to grow at a rate of at least 6% annually, the minimum that most countries will require to reduce poverty. Growth at 6% or higher will not solve all problems, but will allow African countries considerable leeway in addressing the other problems that they confront. A country growing at 6% or more will inevitably have a well-functioning private sector that will take some of the pressure off government, not least because ambitious men and women will join companies to become rich instead of trying to prosper by stealing from the state. African countries growing relatively quickly will also have resources to pay for education, to address AIDS, and to fund police and military units that promote security. On the other hand, if African countries continue to stagnate with 3% or lower growth (essentially zero per capita growth, because of equivalent population growth), they will not be able to address any of the pressing social problems that so severely limit the life chances of their citizens. Indeed, without growth, it is hard to see how African countries can address the complex political, social, and epidemiological agendas that they face. African countries must grow or they will die.

**Perry, A. (2009). #6 Africa, Business Destination. (cover story). *Time*, *173*(11), 58.**

Perry (2011) looks at Togo, a small town in Africa that has recently faced a revitalization of its economy due to EcoBank which employs 11,000 people in 620 branches in 26 countries, with a balance sheet of $8 billion. In 2006, according to the Organization for Economic Cooperation and Development, foreign investment in Africa reached $48 billion, overtaking foreign aid for the first time. That gap has only widened, reflecting a quadrupling of foreign investment since 2000. The IMF puts Africa's average annual growth for 2004 to '08 at more than 6%--better than any developed economy--and predicts the continent will buck the global recessionary trend to grow nearly 3.3% this year. The World Bank says the percentage of Africans living on $1.25 a day or less dropped from 59% to 51% from 1996 to 2005 and has decreased further since.

**Sachs, J. (2014, January 21). The case for aid. Retrieved March 31, 2015, from Foreign Affairs website: http://foreignpolicy.com/2014/01/21/the-case-for-aid/**

Sachs examines the effectiveness of developmental aid, and comes to the conclusion that aid, when developed and implemented correctly helps save lives and promote genuine economic growth. He goes on the say that the only way to achieve progress is to use technology to develop meaningful aid programs, and collaborate with national and local communities to correctly evaluate the need in each region. Sachs also claims that aid is not the only method of improving progress, and that aid alone is not effective, He states that “Aid is one development tool among several; it works best in conjunction with sound economic policies, transparency, good governance, and the effective deployment of new technologies.” Sachs mainly cites advances in public health (AIDS, malaria, HIV, etc) as the greatest progress being made by foreign financial aid.

**Saigal, K. (2014). Power Africa receives $6 billion boost. *Euromoney*, 9.**

Saigal (2014) examines President Obama’s Power African initiative where various banks in the United States have "banded" together to pledge vast amounts of financial support. He talks about how essentially Power Africa is an initiative to establish and provide electricity to the sub-Sahara region, but it also shows other businesses and investors that there is a new market that is free to be built upon. This new development of strengthening economic ties with Africa may partially be in response to the growing trade between Africa in China which grew to $210 billion in 2013, about 21 times more than in 2000. As it stands only about 1% of exports from the Unites States heads toward Africa, and trade between the U.S. and Africa has been decreasing since 2011 (trade was $85 billion in 2013). In order to adequately solve the financial problems in Africa the Unites States needs to strength, support, and develop economic ties by encouraging American corporations to invest in African industries, and develop concrete initiatives that go beyond handing African nations a large check for a "quick fix".

**van de Walle, N., Carlsson, J., & Somolekae, G. (Eds.). (n.d.). *Foreign Aid in Africa Learning from Country Experiences* (Research Report No. 91-7106-414-1). Nordiska Afrikainstitutet.**http://www.diva-portal.org/smash/get/diva2:272899/FULLTEXT01.pdf

Development aid is a phenomenon of the post-war period. As such, it has grown considerably and given rise to a number of institutions, bilateral as well as multilateral, solely employed in delivering aid to poor and developing countries. Aid has traditionally been seen as something temporary, something that can only complement existing national resources and efforts. After almost forty years in existence, aid has become something permanent. Furthermore, in some countries, aid has become a considerable force in the national economy, making those countries more or less completely dependent on it.

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International Politics 2

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The financial turmoil that has long been present in a great multitude of African nations since the Age of Imperialism, continues to plague the continent. Burdened down by increasing global wage inequality, lack of a strong tax revenue, continued social poverty, and immense national debt, African nations, Sub-Saharan countries in particular, struggle to maintain any sense of economic stability. The implications of continued financial aid through loans and NGOs (non-governmental organizations) include decreasing the competitiveness of the nation, stifling economic growth, and preventing maturation in infant industries and agricultural objectives.. However, when financial aid is coupled with investment in infant industries and hard-line government and economic reform, growth must follow. A research programme led by Jerker Carlsson at Nordiska Afrikainstitutet evaluates “Aid effectiveness in Africa”. Carlsson examines the effects of long-term financial assistance from foreign countries and how it influences the GDP growth rate, and the development of industries in third world countries. Fighting poverty by supporting economic growth in developing countries has been and continues to be a major objective of aid. However, in many countries it has been difficult to see any positive connection between aid and growth and development. Foreign aid began as a temporary assistance program to combat the immediate, harsh effects of poverty, but as time has gone on, the same aid that was sent to lift these nations out of poverty, has sunk nations even deeper into debt and poverty.

The paradox that is humanitarian aid has been a long debated topic since the early age of imperialism. In the name of “civilizing” African tribes, European nations conquered lands and stripped African nations of their resources. Much like this “rape” of African nations by European powers, long-term financial aid by various world powers, does little except hinder any forward progress when foreign dollars pour across the continent. Michael O’Hanon and Carol Graham discussed this issue in an issue in *Foreign Affairs.*“While aid has had success in humanitarian relief, family planning, and reducing infant mortality, its record in promoting economic growth has been mixed. Economic growth is not the sole objective of U.S. foreign aid, and it may be the least important goal for policymakers concerned with security, short-term solvency, human rights, or democracy.”(Graham, 1997) While humanitarian aid from NGOs, IGOs and GOs has been successful in promoting limited growth in some nations, it a large number of other countries, these efforts have failed and could even be considered counterproductive. A majority of countries, namely in sub-Saharan Africa, are more impoverished than when they began to receive aid from abroad decades ago. Over the past 60 years at least $1 trillion of development-related aid has been transferred from rich countries to Africa. Yet real per-capita income today is lower than it was in the 1970s, and more than 50% of the population -- over 350 million people -- live on less than a dollar a day, a figure that has nearly doubled in two decades. (Moyo) Average aid-to-GNP ratios suggest that countries that receive greater amounts of aid do not grow faster than those that receive less. Within Africa, countries with poor economic policies have received more aid per capita than those with responsible policies. While some studies of World Bank lending find a negative correlation between aid flows and growth, other studies, using broader measures of aid flows, find that aid on average has no effect on growth. (Farmer)

The fact remains that something must be done to increase economic growth and overall stability and prosperity across Africa. In recent years the influence of direct investment into African industries, as well as, forging strong trade ties and pulling various African nations into a stronger position in international trade, has done more to further the growth of African economies than decades of foreign financial aid. While financial aid is not inherently bad, it is not effective without the reinforcement of other direct investments or economic reform. Jeffrey Sachs, a strong proponent of foreign aid stated in a recent article in *Foreign Affairs* that “Aid is one development tool among several; it works best in conjunction with sound economic policies, transparency, good governance, and the effective deployment of new technologies.” (Sachs, 2014) China’s increased trade relations with many African nations show the immense influence strengthening world trade position has on economic growth. From the 1980s, African-Chinese relations began to become more business-oriented, Africa offered both a new and open market for China’s manufactured products and a location for investment in resources. In the early 2000s, the establishment of the Forum on China-Africa Cooperation (FOCAC) concretised these new relations by offering a diplomatic window to a fast-evolving partnership culminating in the newly adopted “Beijing Action Plan for Africa (2013-2015).”(Choukroune 2013) Analysts have estimated that “in 1991 Chinese FDI in Africa was just under $5 million a year. In 2006, it was between $1.2 and $6 billion. Looking as far back as the 1980s, trade with China was only about $12 million a year. During the 1990s, trade between China and Africa grew by an enormous 700 percent, reaching $10 billion in 2000. In 2006, trade between China and Africa skyrocketed to $55.5 billion. In that same year, Chinese officials set a target of $100 billion in trade between Africa and China by 2010. It appears that the target was conservative, as trade between China and Africa was just under $120 billion in 2008. To put this in perspective, United States-Africa trade for 2008 was estimated to be roughly $161 billion. (Davis 2009) Along with trade relations, investment in infant industries, promoting the development of rural areas, and supporting economic initiatives that protect African industries also demonstrates substantial positive growth on African economies.

Focusing on direct investments from foreign nations (ie. China’s investment in Africa), transforming local small entrepreneurships and market economies, and improving accountability in business practices and public governance (Faille 2010) allows the volatile state of African nations to reach a point of stability. For example, Togo, a small town in Africa has recently faced a revitalization of its economy due to EcoBank which employs 11,000 people in 620 branches in 26 countries. In 2006, according to the Organization for Economic Cooperation and Development, foreign investment in Africa reached $48 billion, overtaking foreign aid for the first time. That gap has only widened, reflecting a quadrupling of foreign investment since 2000. The IMF puts Africa's average annual growth for 2004 to 2008 at more than 6%--better than any developed economy--and predicts the continent will grow nearly 3.3% this year. (Perry 2011) A country growing at 6% or more will inevitably have a well-functioning private sector that will take some of the pressure off government, not least because ambitious men and women will join companies to become rich instead of trying to prosper by stealing from the state. African countries growing relatively quickly will also have resources to pay for education, to address AIDS, and to fund police and military units that promote security. (Herbst) Power Africa,created by President Barack Obama, is an initiative to establish and provide electricity to the sub-Sahara region, but it also shows other businesses and investors that there is a new market that is free to be built upon in Africa. This new development of strengthening economic ties with Africa may partially be in response to the growing trade between Africa in China which grew to $210 billion in 2013, about 21 times more than in 2000. (Saigal 2014)

While African nations have begun to see the positive effects of foreign investment, there is still much that must be addressed before African nations are released from the burden of foreign financial aid. African nations, currently, rely on the financial aid they receive to support health, education, and social programs to relieve the burden of severe poverty, and while this financial aid is not ideal, it is a necessary evil until African nations’ economies and governments are stable enough to support the populations. The transition to a socially and economically stable Africa is a long way off, but by focusing on the support of infant industries, direct investment, and economic reform, the growth rate will continue to increase, and the hopes for an Africa free of momentous aid may be realized.

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