
Event Report

African Aid and Economic Development: The Role of the Local Business Sector

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*In a community forum held on October 28 at Columbia Business School, Dean Glenn Hubbard and a panel of Columbia Business School affiliates discussed the challenging question of how to best use aid to spur growth and development in African nations. The starting point for the discussion was Dean Hubbard's new book, *The Aid Trap: Hard Truths About Ending Poverty* (co-authored by Professor Bill Duggan, also in attendance). Panelists also highlighted additional ways in which Columbia Business School professors, graduates, and current students are engaging with this complex and challenging topic.*

It's a shocking fact: More than one trillion constant dollars have been spent on aid to sub-Saharan Africa, and the region today is poorer than it was in 1960. In fact, thirty years ago, the average income in sub-Saharan Africa was double that of South and East Asia. Today, after decades of aid, it's less than half. "When you see a failure at that level," Dean Glenn Hubbard said to open the discussion, "you have to step back and say, 'Gosh, what could we have done differently?'"

Due to the number of people affected by poverty in Africa and the sheer failure of many of the aid solutions targeted at them, there is an impassioned debate among economic theorists galvanized to answer Dean Hubbard's opening question. Some schools of thought are based on the idea that industrialized countries should target a percentage of their GDP for aid. "As an economist, I'm used to thinking about output, not inputs. I judge a program based on its success

and not how much it costs, so I put those arguments aside,” said Hubbard. Another school of thought claims that aid has only intensified the problems in the region, trapping developing nations in a cycle of dependency and poverty, and that nations should turn to other solutions – such as access to capital markets, microfinance and private equity – eschewing aid altogether. “I agree that aid has been a failure, but I feel that stopping aid altogether fails both a moral imperative and a practical test. There’s an abundance of economic evidence that suggests there’s much good we could be doing with aid,” disputed Hubbard.

In attempting to reconcile the various theories on African aid, Hubbard reflected back on his time as the chairman of the President’s Council of Economic Advisors, during which he developed the seeds of an idea that became the Millennium Challenge Account (MCA). The MCA, a bilateral development fund created by the Bush administration in 2004, was born out of research by Hubbard and fellow economists that showed good governance and economic freedom strongly correlated with economic growth. “What we found was that certain governance variables were very good predictors of growth, and so if we could somehow change institutional characteristics, we might have a better chance at success.” Though he used this as a major precondition to receiving assistance from the MCA, Hubbard now believes that the theory lacked a critical understanding. “While well-meaning, my argument missed a very important step because it really continued foreign assistance through a government-to-government channel. If you look at all episodes of meaningful growth – in both modern and historical times – they’re characterized by productivity and income growth of local business. Not multi-nationals, not microfinance... but local, mid-sized business. This was a critical realization.”

The Aid Trap

A few weeks before the 60th anniversary of Secretary of State George Marshall’s Harvard commencement address, Dean Hubbard found himself preparing for a speech commemorating the occasion at Oxford. “I did something that’s very unusual for an economist. I actually went back and read what Marshall said before I commented on it,” the Dean quipped. The Marshall Plan – the major American program to re-build Europe between the period of 1948 and 1952 – is often conceptualized as a massive assistance program. In the Dean’s view, however, the Plan is not an example of aid, but instead characterizes the one highly successful episode of

development’s restarting businesses in modern history. “What was interesting about the Marshall Plan was that Marshall was so focused on local business. If you look at the way the plan was set up, it made loans to Europe’s private businesses, which repaid them to a national fund, which spent the money on commercial infrastructure like ports and roads. This turns the current aid rule on its head. The idea is to build the software first and then the hardware. And it worked.”

With this insight, Dean Hubbard and Bill Duggan arrived at the thesis for their new book, *The Aid Trap: Hard Truths About Ending Poverty*. Their idea is two-fold: First, focus aid on local, mid-sized businesses; second, do it via a Marshall Plan-like structure in order to restore the power of business as a growth engine. Hubbard and Duggan argue that this plan is implementable, tangible, and economically feasible because it does not seek new funds but instead presents a novel way of targeting and leveraging existing ones.

Duggan’s and Hubbard’s concepts have received both praise and criticism. Addressing these head on, Dean Hubbard refuted the ideas that differences in business culture would render the Marshall Plan useless in Africa; that NGOs must play a primary role in growth; and that infrastructure must be in place for businesses to be viable growth-drivers. “I grew up in the American South, which, in the 1940s and 50s, suffered from infrastructure deficits. It wasn’t until the region became prosperous that public goods happened. Modern India’s growth is one in which business prosperity has led public goods and not the other way around. Even post-war Greece, which was a very poor nation without much infrastructure when the Marshall Plan was implemented... these types of situations can really serve as road maps for Africa today.”

10,000 Women

Segueing into a look at the “Marshall Plan for Africa” theory in practice, panelist Gita Johar, Meyer Feldberg Professor of Business at Columbia, presented *10,000 Women*, an initiative that seeks to create 10,000 women entrepreneurs in Africa over a five-year period. The organization has two over-arching mandates: increasing the number of underserved women receiving a business and management education, and improving the quality and capacity of business and management education around the world. Along with Goldman Sachs and a number of NGOs and other academic institutions, Columbia Business School has partnered with the

10,000 Women initiative on the theory that developing entrepreneurial talent and business education is key to reducing inequality and raising economic growth.

Johar took the room on a virtual trip to Tanzania, where – through video and pictures – she explained the work that she and other Columbia Business School affiliates were doing with the *10,000 Women* project at the University of Dar es Salaam Business School (UDBS). “Over the next five years we are looking to teach women to become entrepreneurs, work with faculty to help with curriculum development and case development, and provide a PhD education for future business faculty.” Putting a human face to the program, Johar told the story of a woman named Helen Lutege who is a current student in the *10,000 Women* program at UDBS. “Helen felt a moral calling to help her country. She didn’t have any money, but she knew it was something she had to do. So she came to the United States and worked as a home health aide for 15 years, all the while saving up her money. She went back to Tanzania and created a micro-finance venture in 2006, starting only with the capital she had saved during her years in America. That year, she was able to hand out something like twenty loans.”

Today, Helen has given out approximately 5,000 loans through her organization, which is called B.E.L.I.T.A. – standing for BEtter Life for TANzania – helping an extraordinary number of Tanzanians along the way. But this isn’t enough for Helen. She recently enrolled in the *10,000 Women* certificate program because she wants to learn how to scale up her business and help even more people. “These businesses are small – it could be a woman making conga skirts on the street, or a woman starting a small chicken farm, or even a woman who dries fruit in her backyard and sells it – but they’re businesses, and our goal is to help them grow.”

A View from the Ground

Last to present was Eric Tienou, a Burkina Faso native and ’03 Columbia Business School graduate, who lent his first-hand perspective on the problems of local business in West Africa. He began by asking how many of those present had taken out a loan in order to attend business school. Seeing the vast majority of hands raised, he said, “In a lot of places in Africa, it’s not possible to take out a loan in order to go to school, let alone to start a business that might have a return right away.”

Walking through the World Bank’s ‘Doing Business’ report, Tienou highlighted the indicators used to crystallize the difficulties of starting a business in Africa. With industrialized countries such as Singapore and the U.S. holding the top spots for their business-friendly climates, it is striking to see not only the abundance of African countries skewing towards the bottom-half of the list (63% of the bottom quartile of the list is comprised of African nations), but the downward slide that many of them have taken over time. “Ghana was the first sub-Saharan nation to gain independence from Europe 52 years ago in 1957,” Tienou said. “At that time it had a GDP roughly equal to that of Korea. It had a thriving business class. Now, we cook with Korean microwaves, we drive Korean cars, we use Korean cell phones... and we don’t really have anything from Ghana. South Korea is ranked #19 on the ‘Doing Business’ report. Ghana is #92.”

Despite these obstacles, the panelists urged those in attendance to remember the tremendous opportunities that exist in Africa today. The growing industries include the telecom business, consumer goods, agri-business, and commodities. Tienou also sees a tremendous need for financing – particularly private equity and small/medium enterprise financing – and notes that as financing flows and businesses burgeon, technical assistance will be in short supply. “Despite all the challenges that Africa faces from both the regulatory and poverty perspectives, more and more, the continent is open for business. And as there are more enlightened leaders on the continent, hopefully they will see that opening up the business sector is the best way forward to prosperity on a large-scale basis.”

LAUREN FRASCA MBA '10
Columbia Business School