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Unbalanced Ecological Footprint and Foreign Aid in the Perspective of Long-Term Global Economic Development

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Abstract

The unbalanced ecological footprint levels existing today among countries around the world represent an economic problem that Western countries have tried to solve with foreign aid. This unbalance can be seen as the result of many years of exploitation of the natural resources that some countries were able to find in abundance in foreign lands. By appropriating those resources, some countries experienced an economic growth that was much faster than the nations whose resources were being exploited. An uneven global economic growth translated in uneven consumption levels among countries. By consequence, the ecological footprint of some countries became much bigger than others.

Nowadays, those countries having the higher levels of ecological footprint (e.g.: USA or some European nations) are somehow trying to “give back” what they have been able to appropriate to less developed countries using foreign aid. The global aid system represents an effort to take less developed countries out of poverty, so that, in the long-term, all countries will be equally economically developed.

However, the aid system has failed in its mission. No matter if foreign aid comes from governments, NGOs or for-profit organizations, the evidence suggests that it is not working. Nations have adopted the wrong system to solve a global economic problem that has made some countries less developed than others. At times, foreign aid has been a tool to actually impose donors’ will on recipient countries, in an attempt to pursue personal economic interests abroad. Governments, sometimes having NGOs doing the job for them, were driven by personal objectives in the allocation of foreign aid. For-profit organizations, on the other hand, were able to use foreign aid as a marketing tool to improve their image and increase their sales.

The global aid system has caused more harm than it tried to alleviate. It has proven to be the wrong approach to equally balance the economic development of countries around the world.

Introduction

This study is going to analyse the unbalanced ecological footprint and foreign aid in today's world in the perspective of long-term global economic development. Attention has been given to what has caused this unbalance in the first place and the way the world has tried to somehow solve the problem – with foreign aid. In particular, the exploitation of natural resources is considered as being one of the main motivations of the different levels of resources consumption in the world we live in today. More access to natural resources has meant allowing certain countries to enjoy very high levels of consumerism while leaving other nations poor and underdeveloped. Such scenarios have been confronted by Western countries with foreign aid, for many years considered the solution to take entire nations out of poverty. Foreign aid has been displayed as the right pattern to follow to reach a long-term global economic development.

What has motivated me to deal with such topics is both a personal interest on the existing differences on wealth distribution that I developed over the years and my interest in marketing techniques that nowadays companies are using to increase their profits and enhance their reputation.

My passion for marketing allowed me to get to know TOMS Shoes, an American corporation producing shoes that for the first time introduced the 'One for One' business model: for every pair of shoes sold, TOMS is going to donate a free pair of shoes to a poor kid somewhere in the world. As a marketing student, I thought this was a very clever marketing strategy. TOMS was able to build up its entire business operations on a good cause. It created the demand for its products binding it to the good action of helping others. It allowed customers to do something good with their consumerism: putting a pair of shoes on a poor child's feet. From a marketing perspective, TOMS found the goose that lays the golden egg.

Everything changed when I read about a marketing strategy called cause-related marketing (C-RM). My interest for this topic grew immediately. From my initial understanding of cause-related marketing, TOMS could be considered another

company using such a marketing technique for personal gains. Was I admiring a company that was using poor children just to make money?

The objective of this thesis is to provide a detailed analysis – based on the existing literature – of foreign aid – no matter if it is coming from governments, NGOs or for-profit organizations – that considers it the wrong pattern to follow to reach a long-term global economic development. It is not the solution to make the world more balanced. On the contrary, it has been used to make the poor even poorer – making them dependent on others (Western countries) – and the rich wealthier than before. I want to make people reflect on something that might easily slip away from our attention. Looking under the surface can be extremely beneficial. Despite how good TOMS' intentions might seem, by looking a little bit better it might be the case that we discover a whole new truth. A painful truth. Painful because it happens that we, as consumers, while thinking that with our consumerism – which is one of the causes of today's unbalanced ecological footprint levels – we can help someone in need, when we see the truth we might get angry with ourselves for not seeing it before. The problem is that it is a mechanism so well-orchestrated that it just seems natural. It took me months to discover all its hidden sides. But once people get it right, things are going to change.

The thesis is largely based on the existing academic literature. My purpose was to connect the dots. To understand today's unbalanced ecological footprint levels, I analysed the actual distribution of wealth and poverty at a global level and how it can be connected to the exploitation of natural resources and the conflicts arising to gain control over those natural resources. Both exploitation and conflicts have caused enormous damages to some countries while bringing unmeasurable wealth to others, explaining the very different levels of wellbeing that people are experiencing nowadays. Furthermore, given that the existing literature is showing that foreign aid has several negative effects, it cannot be considered the solution to somehow bring some balance into the world. It failed when it was coming from governments, it did not do well when coming from NGOs, and it has been considered a marketing tool when it was coming from for-profit organizations.

What I did was bringing together the many pieces of a puzzle. Only after putting all the pieces in the right place one can see what is happening in the world from a complete different perspective.

The thesis consists of four chapters.

The first chapter starts with an analysis of the distribution of wealth at a global level, comparing it to the geographical locations in which some of the most valuable resources are concentrated. After seeing that some of the most resource-abundant countries in the world are also among the poorest ones, different explanations are discussed, based on the academic literature. Someone talks about a natural resource curse while others see the conflicts arising to gain control over natural resources as the possible cause. The chapter ends by discussing how natural resources – mainly in Africa – have been exploited by 'foreigners', with giant mining group Rio Tinto as a case study.

In the second chapter, the Ecological Footprint (EF) is discussed. In particular, it has been explained what it is, what it means to be 'Biocapacity Creditors or Debtors', what are the differences in Ecological Footprint levels and why they exist, and how material flows and trade can be considered as explanatory of today's unbalanced EF levels.

The third chapter starts the discussion on foreign aid. Attention is given to aid coming from governments and NGOs. A brief history of foreign aid is narrated, showing how it changed over the years. Then its several effects are discussed: on poverty reduction, on economic growth and human development, on political institutions, and on violent conflicts. After, donors' own interests have been considered as one of the major determinants of the aid allocation decision-making process. The chapter concludes giving some tips on how foreign aid could become a little bit more effective and, if this is still not enough, how aid recipients can free themselves from aid dependence.

The fourth and final chapter discusses foreign aid coming from for-profit organizations. Foreign aid is being used as a marketing tool. Companies deciding to donate part of their profits to a good cause are sometimes called 'social enterprises'. To reach such a *status quo*, firms can either use corporate philanthropy or cause-related marketing (C-RM). TOMS – a social enterprise –

and its ‘One for One’ model – a clear example of C-RM strategy – are finally discussed, ending the chapter.

This thesis has given me the possibility to explore a hidden side of communications and marketing which I never studied before. From a communications point of view, it allowed me to understand how easily people take what they hear for real: how would anybody think that the aid system is not helping the poor but is actually causing even more damages? The way people take things for granted without questioning them allowed foreign aid to impose itself as the solution to reach a long-term global economic development. Furthermore, when mere media communications do not seem to be enough, marketing techniques come on by. If corporations can convince people to buy their products using traditional marketing techniques, they can also very easily convince customers that their consumerism can do something good for the least fortunate, talking directly to their emotions and making them believe that they have the possibility – by purchasing something for themselves – to become active players towards the achievement of a long-term global economic development.

Chapter 1

Unbalanced global wealth distribution: an economic problem with different explanations

1.1 – Wealth distribution and natural resources concentration

In the 21st century, the world is still struggling with poverty and underdevelopment while some countries enjoy incredibly high levels of consumerism. This unbalance led to a specific image about Africa in the Western world: a poor continent that is merely living on the shoulders of rich Western economies. A continent where the poorest people in the world live, without food and with many diseases.

People might find further evidence of this "ideal picture" of a poor Africa they have in mind when looking at world maps like those in Figure 1 and Figure 2. The former clearly shows Africa hosting the poorest countries – nations where more than half of the population lives with less than $1.90 a day. The latter reveals which countries can be classified as low-income, lower-middle-income, upper-middle-income, and high-income. It is immediately clear how the highest concentration of '*blue-shaded*' countries (those with the lowest income levels) is in Africa. Obviously, as these maps come from the World Bank, the figures they show are real. African people are actually the ones most affected by poverty.

However, saying that Africa is poor is wrong. Africa is actually rich, but its inhabitants are poor. Africa has enormous reserves of some of the most valuable natural resources that the whole world needs. Among all the continents, Africa is the one with the richest concentration of natural resources: different sources estimate that 30% of earth's mineral resources are in Africa[1]. Africa is "the most valuable region in the world in terms of under and aboveground resources"[2]. Both

[1] https://www.worldatlas.com/articles/which-continent-is-the-richest-in-natural-resources.html / https://www.aljazeera.com/indepth/interactive/2016/10/mapping-africa-natural-resources-161020075811145.html

[2] https://www.gulf-times.com/story/492519/The-richest-continent-has-the-poorest-people

Tables 1 and 2 clearly show this richness. For instance, Table 1 reports that in 2010 Africa's share of global production of platinum-group metals (PGMs) – ruthenium, rhodium, palladium, osmium, iridium and platinum – was around 74%. In 2010, Africa had 62% of cobalt global production[3], 54% of diamonds global production, 42% of chromite global production, 19% of gold global production (Table 1). So when comparing Figures 1 and 2 with Tables 1 and 2, there seems to be a paradox. How is it possible that the richest continent in the world is hosting the poorest people in the world?

The existing literature suggests that abundance of natural resources does not necessarily mean faster economic growth and wealth (sometimes because of a *Natural Resource Curse*) and that natural resources attract foreign countries which, in order to pursue personal gains, fight for this richness and exploit these resources leaving local populations in very bad economic situations.

[3] "Due to its good high temperature resistance, corrosion resistance and magnetic performance, cobalt is widely used in aerospace, machinery manufacturing, electrical and electronic, chemical, ceramic and other industrial areas, and is one of the important raw materials for the production of high temperature alloys, hard alloys, ceramic pigments, catalysts and batteries." (http://www.samaterials.com/content/193-what-is-cobalt-used-in-everyday-life)

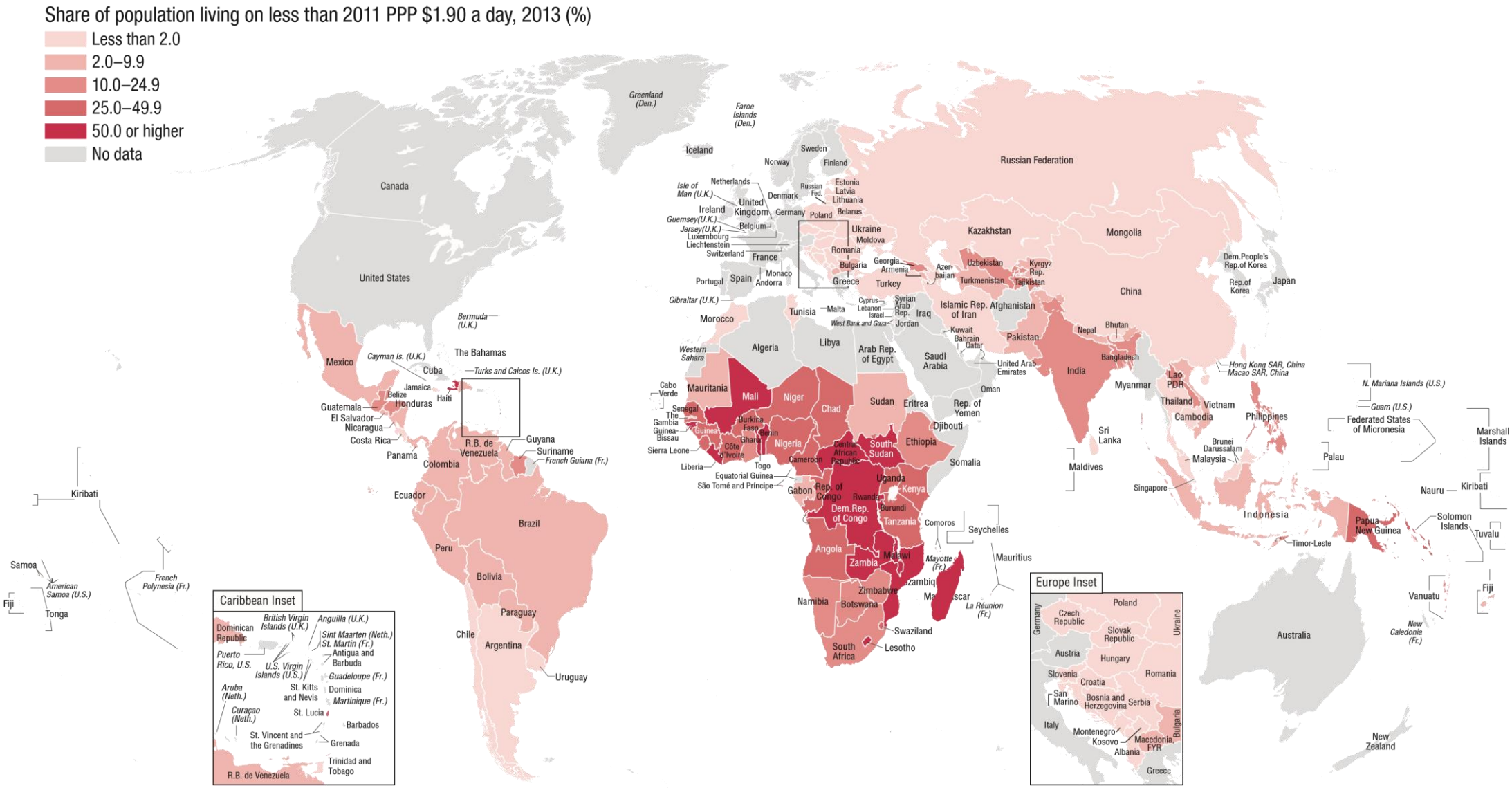

*Figure 1 – **Poverty**. World Development Indicators 2017 Maps. Available at: https://data.worldbank.org/products/wdi-maps*

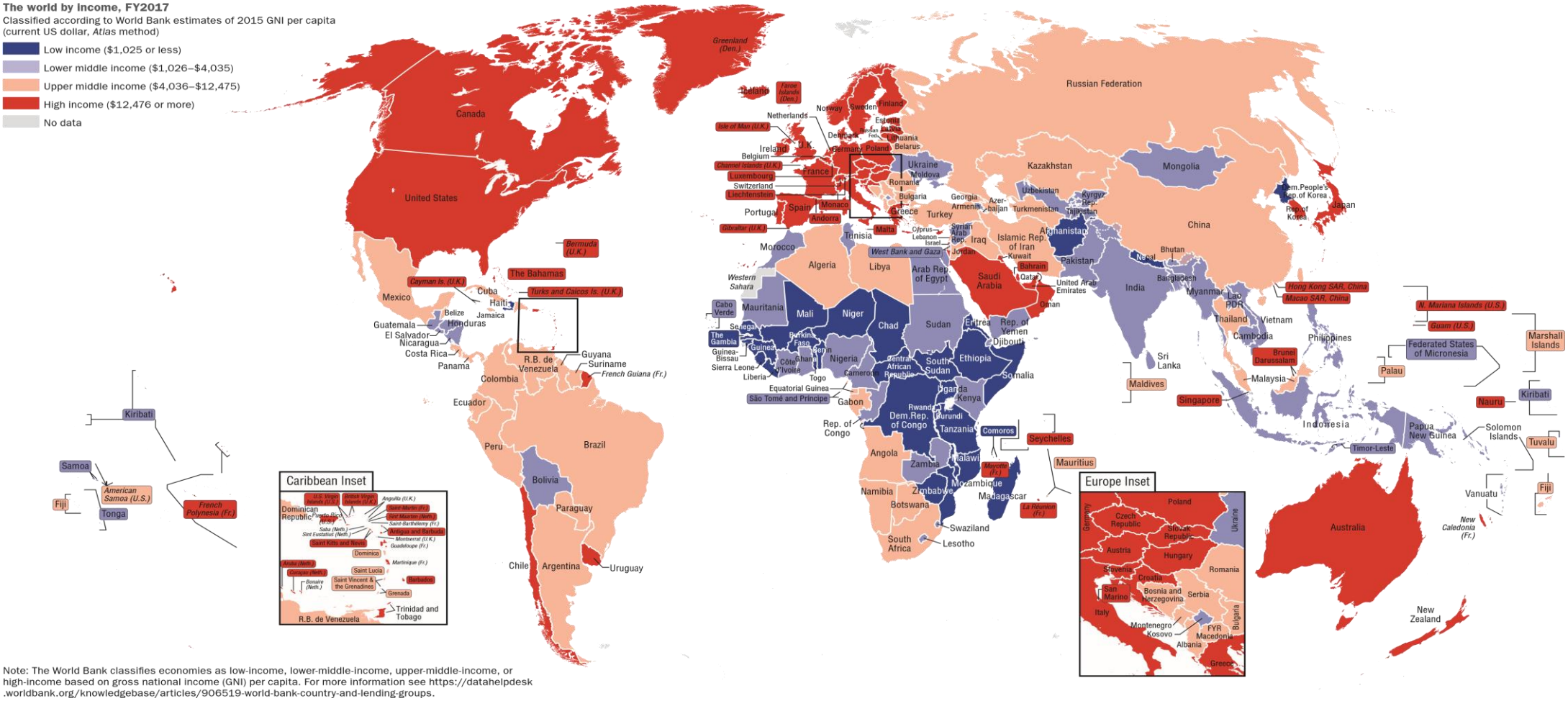

*Figure 2 – **The World by Income**. World Development Indicators 2017 Maps. Available at: https://data.worldbank.org/products/wdi-maps*

	2000			2010		
	Africa's share of global production in %	Value of Africa's production (2010 USD M)	Number of countries 2000	Africa's share of global production in %	Value of Africa's production (2010 USD M)	Number of countries 2000
PGMs	55	10 588	1	74	14 191	4
Cobalt	43	490	6	62	1 775	8
Diamonds	45	4 265	16	54	4 967	17
Chromite	51	1 578	4	42	2 442	4
Manganese	32	493	4	30	3 131	8
Phosphates	28	4 607	10	26	5 662	10
Gold	24	25 568	36	19	19 947	39
Uranium	17	111	3	19	1 013	4
Copper	3	2 871	11	8	7 806	12
Nickel	5	1 225	5	5	1 535	5
Iron ore	5	4 637	10	4	6 404	9
Mining total	14	59 592	44	12	73 286	44
Oil	10	216 001	18	11	284 875	19
Gas	5	39 036	14	7	68 423	18
Coal	6	21 266	15	4	23 759	13
Energy total	10	276 303	11	377 056		36
Food	8	195 082	54	9	260 910	54
Non Food	8	5 618	54	6	5 729	54
Agriculture t.	8	200 675	54	9	266 605	54
Timber	12%	77 267	46	13%	87 229	54

*Table 1 – **Africa's natural resource production**. African Development Bank, 2016, p. 6. Available at: https://www.afdb .org/fileadmin/uploads/afdb/Documents/Publications/anrc/AfDB_ANRC_BROCHURE_en.pdf*

Mineral	Share of world (%)	Major African producers
Cobalt	57	DRC, Zambia, Morocco
Diamond	53	Botswana, DRC, South Africa, Angola, Namibia
Manganese	39	South Africa, Gabon, Ghana
Phosphate	31	Morocco, Tunisia, Egypt, South Africa, Senegal
Gold	21	South Africa, Ghana, Mali, Tanzania
Bauxite	9	Guinea, Sierra Leone, Ghana
Nickel	7,5	South Africa, Botswana, Zimbabwe
Copper	5	Zambia, DRC, South Africa

*Table 2 – **Africa's Share of the World Total Production of Selected Minerals, 2005**. Custers and Matthysen, 2009, p.20. Available at: https://www.cncd.be/IMG/pdf/20090812_Natural_Resources.pdf*

1.2 – Natural Resource Curse

Natural resources can be considered a “free gift from nature” (Lange *et al.*, 2018, p. 47): some countries have been blessed with enormous reserves, a gift that could make countries very rich and their populations wealthy. However, abundance of natural resources does not always mean wealthy nations and people. This paradox has been addressed as the *Natural Resource Curse*. “It refers to the fact that resource-rich countries on average experience less development than do countries without those resources: lower economic growth rates, lower levels of human development, and more inequality and poverty” (Van Solinge, 2014, p. 1).

The paper by Sachs and Warner (2001) summarizes previous research on the existence of a natural resource curse in resource-rich countries and concludes that “almost without exception, the resource-abundant countries have stagnated in economic growth since the early 1970s, inspiring the term, ‘curse of natural resources’. Empirical studies have shown that this curse is a reasonably solid fact” (Sachs and Warner, 2001, p. 837). So the evidence is quite clear: resource-abundant countries have also been the poorest and most under-developed countries because natural resources did not allow them to grow economically. A confirmation of this comes also from more recent articles, such as the one by Badeeb *et al.* (2017) who found out that natural resource dependence negatively affects economic growth. Others, such as Gerelmaa and Kotani (2016), found evidence of a natural resource curse in resource-abundant countries only over the period 1970-1990 but not from 1990 to 2010, putting a sufficient growth of manufacturing sectors as the possible explanation.

In the existing literature, the most accepted explanation of this natural resource curse is that natural resources breed corruption which, in turn, lowers economic performance in resource-abundant countries. Bhattacharyya and Hodler (2010) found evidence that resource-abundant countries tend to be corrupt because resource windfalls – positive shocks to a particular flow of resource rents – push governments to engage in rent-seeking activities. Caselli and Tesei (2011) explain that resource windfalls have political effects in autocratic government

(making them even more autocratic) but have no effects in democracies. In fact, Bhattacharyya and Hodler (2010) also showed that efficient democratic institutions can control corruption – and thus prevent a possible natural resource curse – by making governments accountable to citizens. In particular, "resource rents increase corruption if and only if the quality of the democratic institutions is below a certain threshold level" (Bhattacharyya and Hodler, 2010, p. 619). Similar results have been found by the same authors some years later (Bhattacharyya and Hodler, 2014), suggesting that natural resource revenues can hinder financial development in countries with weak political institutions – whenever ruling elites have few incentives to foster strong contract enforcement while getting huge natural resources rents.

The same point of view is shared by Bjorvatn *et al.* (2012). Using data for 30 oil-rich countries, the authors showed that those countries having the weakest governments – here intended as *fractionalized* governments (e.g.: there is not one single political party in charge) – oil revenues appeared to be fully wasted. In other words, the weaker the government, the smaller the chances of resource rents having positive effects on income.

Being corruption the most widely accepted explanation to the natural resource curse, and being weak governments the perfect environment for corrupt activities to take place, some authors believe that the strengthening of political institutions could be a good solution to mitigate the negative effects of a natural resource curse (De Medeiros Costa and dos Santos, 2013). In line with this argumentation are Kolstad and Søreide (2009), viewing policies addressing rent-seeking and patronage[4] as the most valuable solution to guarantee better economic performances to resource-rich countries. Moreover, policies should also promote the impartiality of institutions (Kolstad and Wiig, 2009b) if the revenues coming from natural resources are to be equally distributed over the whole society.

Another widely accepted solution appears to be a higher degree of transparency of resource revenues to make governments accountable. The EITI (Extractive Industry Transparency Initiative) has been an international policy intervention

[4] Patronage has to be intended as payments made by politicians to supporters to stay in power.

aiming at the mitigation of the negative effects of natural resources abundance "by promoting the transparency of resource revenues and accountability of the governments of resource rich states" (Corrigan, 2014, p. 17). Studying data for approximately 200 countries, Corrigan found evidence that the EITI has been a successful initiative to prevent the natural resource curse from taking place. Furthermore, Williams (2011) joins Corrigan's standpoint, arguing that a lack of transparency can be associated with a decrease in economic growth.

However, Kolstad and Wiig (2009a) believe that transparency alone is not sufficient to somehow eliminate or reduce corruption, but it should be complemented by other policies. If transparency from governments means giving citizens access to information, people will need the "*ability to process* the information, and the *ability and incentives to act* on the processed information" (Kolstad and Wiig, 2009a, p. 524). The authors believe that *education* is a key necessity for a population to process information, and that corruption levels should not be high enough to bribe private citizens from taking action against corrupted political elites. Transparency by itself would do little to unmask illicit activities.

Despite the fact that so far the discussion has shown that there is actually evidence of a *Natural Resource Curse* slowing down economic growth in resource-abundant countries, the study by Havranek *et al.* (2016) examines two decades of empirical research on this subject and concludes that "the mean effect of natural resources on economic growth is negligible" (Havranek *et al.*, 2016, p. 143). This means that according to these authors, the *Natural Resource Curse* is not always the most valid explanation for the paradox seen in the previous paragraph of this chapter (resource-rich countries hosting some of the poorest people in the world).

A look should be taken to the conflicts arising for the control of natural resources and to the unsustainable exploitation of natural resources that for many years has enriched some countries while making others poorer and poorer.

1.3 – Fighting for natural resources

“The many armed conflicts on the African continent have become one of the greatest threats to development” (Van Solinge, 2008, p. 3).

For many years, the control over natural resources has been a major reason for conflicts arising in resource-rich countries. At times, these conflicts were just interstate conflicts, some other times they involved neighbourhood states. It even happened that countries coming from other continents got involved. After all, full control over natural resources extraction would bring enormous amount of money. However, conflicts do not bring anything good to local populations: only misery and suffering, leaving entire countries in bad economic situations.

Conflicts should not be seen as something completely detached from the *Natural Resource Curse* discussed before. Actually, Ross (2004b) explains how much civil wars in resource-rich countries can be connected to those same problems arising in resource-dependent nations. In particular, Ross addresses slow economic growth, high poverty rates, high corruption levels and authoritarian governments as responsible for the incidence of civil wars (Ross, 2004b, pp. 350-351). Furthermore, in his literature review, Ross extrapolates some indirect links between natural resources abundance and civil conflicts. For instance, he argues that resource exporting countries tend to tax citizens more softly: lower taxes impede democracy and make states weaker and thus more vulnerable to conflicts (Ross, 2004b, p. 351).

Conflicts do not arise for the control of all natural resources. Actually, the type of natural resources matters a lot in terms of fomenting conflicts. In fact, Welsch (2008) found out that mineral resources increase the risk of internal conflicts while agricultural resources actually reduce this risk. This finding is shared also by Ross (2004a) who, in an analysis of 13 cases, suggests that oil, nonfuel minerals and illicit drugs actually influence conflicts.

Ross (2004a) also showed that resource abundance increases the likelihood of foreign interventions for the control of specific natural resources. For instance, Ross argues that foreign countries might intervene lining up with rebels in a joint

effort to destabilize governments and actually gaining control over resources. Western economic development and population growth – placed side by side with high levels of consumerism – cause “lateral pressure” (Choucri, 1975 and North, 1989, in Reuveny *et al.*, 2011, p. 699), intended as an expansionistic manoeuvre to exploit foreign resources that might end up causing wars. And to use Mallence Bart-Williams’ words, the West accomplishes this “by systematically destabilizing the wealthiest African nations and their systems, and all that backed by huge PR campaigns, leaving the entire world under the impression that Africa is poor and dying, and merely surviving on the mercy of the West”[5]. No matter how abundant natural resources might be, leaders around the world know that they are limited and that control over them can generate huge profits and benefits for their citizens – without considering the misery that conflicts over resources leave after them. “The Sierra Leone civil war (1991-2002) cost an estimated 50,000 people their life and many other thousands of civilians, mostly children and teenagers, a future without hands or feet” (Van Solinge, 2008, p. 4). This last comment refers to a well-known example of resource exploitation related to armed conflicts: the blood diamonds in Sierra Leone.

Armed conflicts aiming at gaining control over natural resources are among the main threats to economic development in resource-rich countries. And of course, conflicts are linked to an unsustainable exploitation of natural resources: the presence of conflicts encourages a “[…] rapacious […] [and] […] voracious extraction” (Van der Ploeg and Rohner, 2012, p. 1714) that severely harms the total revenues coming from natural resources extraction.

1.4 – Natural resources exploitation

Exploiting foreign natural resources for personal benefits is an economic problem that has brought suffering to many people over the years. With exploitation, local populations are not only deprived of higher levels of well-being that they would

[5] **Change your channel**, Mallence Bart-Williams, TEDx Berlin Salon, 2015. Available at: https:// www.youtube. com/watch?v=AfnruW7yERA&t=610s

be able to enjoy as living in resource-abundant countries. Local populations are also harmed by conflicts arising to exploit natural resources.

A clear example is the one mentioned in the article published by Taylor & Francis, Ltd (2006) regarding the Democratic Republic of Congo. In 2005, the Lutundula Commission – led by parliamentarian Christophe Lutundula – was able to submit a report investigating mining and other different business contracts signed between 1996 and 2003 between the government and rebels while Congo was struggling with an internal violent war. In the report, dozens of contracts were found to be illegal or of limited value and were asked to be terminated. In addition, the report found clear evidence that belligerents were actually fighting to exploit mineral reserves – abundant in the country – causing the death of about four million people just in Congo (Taylor & Francis, Ltd, 2006, p. 159).

Furthermore, a case of a foreign 'exploiter' making African people suffer for personal gains is discussed by Van Solinge (2008). In 2005, Guus Kouwenhoven – a Dutch arms dealer – was sentenced to spend eight years in prison under the accusation of trading guns for timber rights in Liberia and using his timber company to bring arms that local militias would have then used to commit atrocities against civilians. Van Solinge further explains the Liberian situation, saying that in 2000 the UN's Expert Panel on Sierra Leone asked to the UN Security Council for an embargo on Liberia timber exports. However, this never happened: France and China (both members of the UN Security Council and among the main importers of Liberian timber) strongly opposed UN's Expert Panel's request, believing that there was not enough evidence to link timber exports to local conflicts (Van Solinge, 2008, pp. 6-7). Despite how bad this might sound, it seems like if France and China believed that economic gains were more important than human lives. And this is exactly what has been making some African populations suffering while other nations in other continents were prospering.

Many articles in the existing academic literature look at the end-users of the most exploited natural resources in African countries. Maybe not surprisingly, many of these end-users are nowadays some of the most developed countries in the

world. For instance, among the 17 end-users of Congo's natural resources were "Belgium, China, France, Germany, […] Malaysia, the Netherlands, the Russian Federation, Switzerland, […] the United Arab States, the United Kingdom and the United States" (UN Security Council, 2002, p. 26). The same evidence can be seen in Asiimwe (2004), who wrote that end-user countries of Congo's natural resources were "largely based in Europe" (Asiimwe, 2004, p. 195).

Other authors also looked at the legality of the origins of some natural resources and their end-users. Van Solinge (2014), analysing data from *Friends of the Earth* (2001) and *Jaakko Pöyry Consulting* (2005), says that "until only a few years ago, it was a common estimate that about half of the tropical timber on the European and Western markets was of illegal origin" (Van Solinge, 2014, p. 3). And this appears quite logic after looking at Matthew (2001) analysis of some countries' rates of illegal logging: 80% of logging was illegal in Brazil – where in 2003 92% of total deforestation was illegal (MMA, 2005 in Banerjee and Alavalapati, 2010, p. 492), 50% in Cameroon, 70% in Gabon, 73% in Indonesia, and 35% in Malaysia (Matthew, 2001, p. 4).

To conclude, a look at Kuuya (2008) analysis of the UN's Expert Panel report (2001) on the illegal exploitation of natural resources in DRC (Democratic Republic of Congo) tells us something very interesting. The Expert Panel reported the presence of "politically and economically powerful groups involved in exploitation activities which are highly criminalised" (Kuuya, 2008, p. 3). Governments and corporations formed relationships with these "elite networks" (Kuuya, 2008, p. 3) for the exploitation of Congo's natural resources, fuelling armed conflicts that were abusing human rights and causing severe damages to entire populations.

1.4.1 – A case study: Rio Tinto in Madagascar

"The continent of Africa is today facing a new colonial invasion, no less devastating in scale and impact than that which it suffered during the nineteenth century. As before, the new colonialism is driven by a determination to plunder

the natural resources of Africa, especially its strategic energy and mineral resources. At the forefront of this 'scramble for Africa' are British companies, actively aided and abetted by the UK government" (Curtis, 2016, p. 1). This is how Mark Curtis begins his report entitled *The New Colonialism - Britain's scramble for Africa's energy and mineral resources*. In this report, Curtis was able to find out that 101 companies listed on the London Stock Exchange (mostly British) have mining operations in Sub-Saharan African states, controlling overall around $1 trillion worth of Africa's most precious resources (Curtis, 2016, p. 3).

One incredible case discussed by Curtis is Rio Tinto – the third biggest mining company in the world[6] – in Madagascar (Curtis, 2016, pp. 15-18). Curtis starts with the premise that Madagascar is the fourth largest island on the planet, hosting thousands of species of plants and animals that cannot be found anywhere else, but it is one of the poorest countries in the world. There was a major project named QIT Madagascar Minerals (QMM), 80% of which is hold by Rio Tinto (a British mining giant) and the remaining 20% by the Madagascan government. QMM's mining operations, based near Fort-Dauphin – which are expected to last 40 years – cover over 6000 hectares of land and involved investments of around $940 million in the country. The purpose of the project is to extract ilmenite (used in titanium and as a pigment for toothpaste, paint and sunscreen) in Forth-Dauphin deposit containing almost 70 million tons of ilmenite, representing 10% of the world market (Curtis, 2016, p. 15).

The author reported this example because of the controversial activities the QMM project involves. Being located in an area extremely rich in unique biodiversity but strongly affected by high poverty levels to the point that local populations – around 6000 people live in rural villages inside and around forests – depend on the food they can find in forests and are farmers or fishers living with less than a dollar a day, the QMM project had devastating effects for many Madagascans. In fact, thousands of people have been affected by loss of land – large parts of forests were destroyed to make room for mining activities – and displacement, making life even more difficult for them. However, the controversial part is evident

[6] https://www.worldatlas.com/articles/the-leading-mining-companies-in-the-world-by-revenue-earned.html

once Curtis said that the QMM project also set up a ‘conservation zone’ in an effort to somehow balance the ecological impact the mines were having. This, of course, was good only from a PR point of view. In reality, this ‘conservation zone’ was taking away further land to local populations. “They have been denied access to the natural resources of the forest on which they depend for food, firewood and medicines, changing local cultures and customs, and destroying a way of life which had been passed down for generations” (Curtis, 2016, p. 16). And every time there were protests from local populations, diving the community, paying off ‘troublemakers’ to make them stop or even employing them, were all actions that the QMM was taking to keep things under control.

This was a great example of how a company like Rio Tinto – with sales revenues equal to $40.03 billion in 2017[7] – is able to make billions by exploiting natural resources in foreign lands, harming local populations that might already be poor. In addition, the creation of ‘conservation zones’ in foreign lands is a clear reference to Colonialism: it can be seen as an effort made by QMM leaders to impose their own will and somehow act on behalf of local communities, taking decisions for them.

Conclusion

Taking a look at the world’s economic situation is not difficult. What might actually be difficult for someone is living in a world that is so fragmented and divided by economic interests that have kept and are still keeping some countries underdeveloped and in very bad economic conditions. Africa has been addressed in this first chapter because despite being the richest continent in the world in terms of natural resources, it is also the one hosting the poorest countries and people. Some authors have argued that these might be the effects of the so called *Natural Resource Curse*, seeing resource-abundant countries more corrupted and thus having more difficulties in developing economically. Others believe that armed conflicts over natural resources and the exploitation that such conflicts will

[7] https://www.riotinto.com/documents/180207_2017_full_year_results.pdf

open the doors to, have to be considered as the most representative explanations of today's unbalance.

The next chapter is going to analyse the Ecological Footprint of different countries around the world in order to understand the differences in consumerism levels among nations. Excessive consumption automatically means deprivation of resources for somebody else somewhere else.

Chapter 2

The Ecological Footprint

2.1 – What is the Ecological Footprint

Whenever some countries enjoy extremely high levels of consumerism, some other countries do not even have enough food to survive. Too much consumption of resources from one side, inevitably deprives the other side from an even share of world resources.

The Ecological Footprint sheds some light on these uneven consumption levels affecting the world nowadays and what this means for different populations.

According to the Global Footprint Network, "today humanity uses the equivalent of 1.7 Earths to provide the resources we use and absorb our waste"[8].
Researchers have based their work on the so called Ecological Footprint Analysis, introduced for the first time in 1996 by Mathis Wackernagel and William Rees in their book *Our Ecological Footprint – Reducing Human Impact on the Earth*. The idea behind the Ecological Footprint is not about looking at how bad the current situation in the world is nowadays. Instead, it is about trying to understand how much dependent we are on nature and what can be done at a global level in order to secure Earth's capacity to support human existence for everyone in the future. In their book, Wackernagel and Rees stress the idea that if we do not take these matters seriously today, the price that future generations will have to pay will be higher and higher.

The authors used a great mental experiment when explaining what the Ecological Footprint is about. They propose to the reader to think of their city as being covered by a giant glass capsule.
If we consider big European cities like London or Paris, it will be clear that in a similar scenario, all the inhabitants would die after a few days as they mainly depend on what is coming from outside the main city (food, for instance). So how

[8] https://www.footprintnetwork.org/our-work/ecological-footprint/

wide should the capsule be so that the city inside would be able to sustain itself only with the lands and energy resources contained? That would represent the Ecological Footprint of the people living in the city, a measure expressed in gha (global hectares). “Since people use resources from all over the world and pollute far away places with their wastes, the Ecological Footprint accounts for these areas, wherever they happen to be located on the planet” (Wackernagel *et al.*, 2006). Wackernagel and Rees show that modern industrial cities occupy an area that is way larger than the area physically occupied by the city. In fact, big cities and countries rely on goods and services that come from all over the world through commercial trade. “Bits of a population’s Ecological Footprint can be all over the world” (Wackernagel and Rees, 1996, p. 53).

There is one important aspect to consider here: if our city would be for real under a glass capsule, there would be very severe policies and regulations in order to limit people’s consumption and wastes. After all, our lives would depend on those resources available under the capsule. Which are limited. But isn’t it the same with planet Earth? The world is not inside a capsule, but given that its resources are finite, we should think of it as if it was inside a capsule. So why not creating some policies at a global level? As Frassoldati (2014) suggests, we should have a “planetary eye” when thinking about our planet, meaning that we should look at the globe as an isolated system which can only count on internal limited resources (Frassoldati, 2014, p. 192). If we fail to understand this, auto-destruction will be inevitable.

The Ecological Footprint wants to be a consciousness-raising tool. It wants to show people that there is no more time available: we have to act now. The concept of *path dependence* is useful here: resources availability for future generations depends on the choices that we have made in the past and that we are making today.

2.2 – How to calculate the Ecological Footprint

From a theoretical perspective, to estimate the Ecological Footprint of a given population it is necessary to calculate how much land and water is required to produce all the goods consumed and to assimilate all the wastes produced by the population under consideration.

The first step in the calculation of the EF is to find out the average person's annual consumption of some particular items by diving total consumption by population size. The second step would be the estimation of land area appropriated per capita (aa) for the production of the consumption items (i_n): it is equal to the average annual consumption of item 'i' calculated before (c_i) divided by its average annual productivity (p_i). So $aa_i = c_i / p_i$. Lastly, to obtain the per capita footprint we should sum all the ecosystem areas appropriated (aa_i) by all purchased items (n): ef = $\sum_{i=1\ to\ n} \mathrm{aai}$

Instead, to obtain the Ecological Footprint of the population considered (EF_P), we multiply the per capita footprint (ef) by the population size (N). So $EF_P = N * ef$.

To go a little bit more into detail, the authors separated consumption into five different categories in their calculations: food, housing, transportation, consumer goods, and services (Wackernagel and Rees, 1996, p. 67). They also considered eight major land categories for EF assessments: land "appropriated" by fossil energy use, built environment, gardens, crop land, pasture, managed forest, untouched forests, non-productive areas (Wackernagel and Rees, 1996, p. 68). This said, the conventional Ecological Footprint analysis is sometimes "criticized" as it takes into account only those lands that are considered productive for human purposes, thus excluding deserts and ice caps. Instead, Zhao *et al.* (2005) used a different method – a combination of the conventional EF analysis and "emergy"[9] analysis – which allowed them to consider all types of lands, as in their opinion even lands in very extreme environments can be useful for human purposes. In addition to this, other authors deeply consider the role played by the carbon

[9] "Emergy (spelled with an 'm') is defined as the energy of one type required in transformations to generate a flow and storage" (Zhao *et al.*, 2005, p. 66).

Footprint component (the regenerative capacity of forests to sequester carbon dioxide emissions) in the evaluation of the EF of a country (Mancini *et al.*, 2016).

Wackernagel and Rees point out the simplicity of the EF. Several critiques of the Ecological Footprint can be found in the literature (Fiala, 2008; Moffatt, 2000; Weinzettel *et al.*, 2014). Being a model, it cannot include and consider all aspects of reality. However, its creators describe it as being a perfect balance between excessive complexity and excessive simplicity: in short, it is good enough to represent reality and simple enough to be easily understood by the masses.

2.3 – Being Biocapacity Creditors or Debtors

With the term biocapacity (diminutive for biological capacity) it is intended the capacity of an ecosystem to regenerate what people demand from its surface and to absorb the wastes generated by the population it hosts[10]. As previously noted, some countries around the world are able to regenerate the resources consumed and to assimilate wastes within their territorial boundaries, while others need external lands (from other countries). The former are called Biocapacity Creditors (the green countries in Figure 3), while the latter are Biocapacity Debtors (the red countries in Figure 3).

Biocapacity Creditors are labelled as ecological reserves: the biocapacity of the country exceeds the EF of its population. On the other hand, Biocapacity Debtors experience an ecological deficit, as the EF of their population exceeds the biocapacity of the area people live in.[11] Whenever the EF of consumption (EF_C) is bigger than the biocapacity, "the deficit can be covered by either (i) importing natural resources from other countries; (ii) depletion of natural capital; (iii) accumulation of waste; or (iv) a combination of any of these factors" (Uddin *et al.*, 2017, p. 168). According to Wackernagel and Rees (1996), this last group of

[10] https://www.footprintnetwork.org/resources/glossary/#biocapacity
[11] https://www.footprintnetwork.org/content/documents/ecological_footprint_nations/

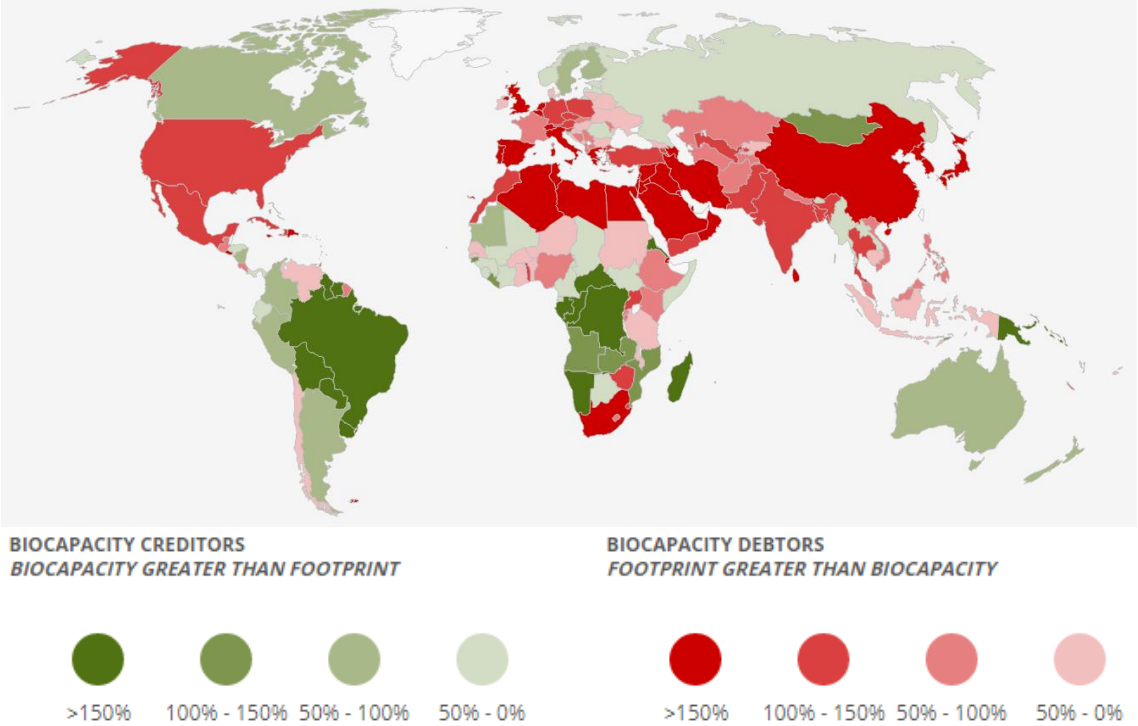

*Figure 3 - **Ecological Deficit/Reserve**.*
Source: https://www.footprintnetwork.org/content/documents/ecological_footprint_nations/

countries are in "overshoot" (Wackernagel and Rees, 1996, p. 55). "It is possible to exceed global biocapacity, entering overshoot, because trees can be harvested faster than they re-grow, fisheries can be depleted more rapidly than they restock and CO2 can be emitted into the atmosphere more quickly than ecosystems can sequester it" (Wackernagel *et al.*, 2006, p. 107). High levels of overshoot are not sustainable and should only be allowed temporarily, as they impose severe burdens on future generations. But what is really important to consider is that a country in ecological deficit is importing biocapacity from abroad through trade (Hubacek and Giljum, 2003; Wackernagel *et al.*, 2006). The EF methodology, in fact, has been vastly applied to illustrate to the masses how international trade contributes to an unequal exchange of natural resources among countries (Hubacek and Giljum, 2003).

This aspect will be considered later on in this chapter.

2.4 – Differences in Ecological Footprint levels around the world

In the United States of America, the average Ecological Footprint is equal to 8.6 gha, in the United Kingdom it is equal to 5.1 gha, in Italy 4.5 gha, in Russia 5.7 gha, in the Democratic Republic of Congo 0.8 gha[12]. Why do these differences exist? Aspects such as income and real GDP per capita (Uddin *et al.*, 2017), personal habits, values and behaviour, consumerism, and technologies play a crucial role (Wackernagel and Rees, 1996, pp. 80-81). But this is not the whole picture.

Baabou *et al.* (2017) tracked the Ecological Footprint of 19 cities around the Mediterranean area in 2017. The cities are based in South Europe, Middle East and North Africa. As can be observed from Figure 3, all these cities are situated in countries which are nowadays in a situation of ecological deficit (all the regions around the Mediterranean Sea are in red). In fact, according to Galli and Halle (2014), in 2008 the Mediterranean region's biocapacity was able to meet only 40% of the region's EF: the remaining 60% was met from both overconsumption of local resources and from imports from abroad (Galli and Halle, 2014, p. 384-385). Baabou *et al.* (2017) decided to focus on 19 specific cities in order to analyse their contribution to the level of EF of their respective countries and to see which drivers are working behind. Baabou *et al.* (2017) considered that around 220 million tourists arrive to the Mediterranean region every year, contributing to resources overconsumption and thus increasing the ecological deficit of the countries: 30% of biomass-based resources depend on external biocapacity. Keeping in mind that all the cities considered show levels of EF above their carrying capacities, European cities tend to have higher EF values than cities in North Africa. At the same time, higher income levels and higher EF levels are positively correlated. When analysing the Ecological Footprint by consumption categories, the authors saw food as being the major Footprint category (with its shares increasing in cities with low EF values), followed by personal transportation (its shares increasing in cities with higher EF values) and consumption of goods (such as clothing, furniture, electronics, etc.). Instead,

[12] https://www.footprintnetwork.org/content/documents/ecological_footprint_nations/

carbon Footprint was the largest component when considering EF by land-use types. In Rome, Genoa, Palermo and Naples it accounted for almost half of their EF values. Once again, income matters: the wealthier the household, the higher the consumption of energy intensive goods and the better the access to transportation, which in turn increases the carbon Footprint. (Baabou *et al.*, 2017, p. 99)

The study by Baabou and colleagues is very interesting because the authors tried to understand why only five of the cities considered actually showed EF levels lower than their hosting country. Three of these five cities are Italian: Venice, Palermo and Naples. The authors viewed the worse economic situation and issues such as black market as possible explanation for the EF levels of Palermo and Naples. Instead, speaking about North African cities (and countries), they might show higher levels of EF than other parts of the continent maybe because of the more consistent touristic affluence. (Baabou *et al.*, 2017, p. 100)

To sum up their results: the reason for which the majority of the cities considered have EF levels higher than national levels is that urban areas require more resources than rural areas; cities in high-income countries have higher levels of per capita EF than cities in low- and middle-income countries; tourism has been considered as a driver of cities' EF, a sector whose contribution is important to keep in mind.

Speaking about the Mediterranean area, Galli *et al.* (2017) studied how much important is food consumption as a driver of Ecological Footprint in 15 Mediterranean countries. With the exception of France, all these countries rely on foreign biocapacity to satisfy their demand for food. Considering all the 15 countries, food and non-alcoholic beverages account for 0.9 gha per person on average, representing 28% of the regional EF. Food is the major driver of EF in 9 out of the 15 countries analysed. (Galli *et al.*, 2017, p. 385) The authors found and explained some differences among these countries. For instance, Egypt has the lowest food Footprint intensity, while Portugal has the highest. The main difference is that people in Egypt prefer a less protein-based, more cereals- and vegetables-rich diet, while the Portuguese population tend to eat more meat and much more fish than in the rest of the region. Galli *et al.* (2017) suggest how

moderating diets (less meat and animal products in general) could positively impact the levels of Ecological Footprint of entire countries.

In 2015, Galli took Morocco as a case study as, according to the author, it is the only Mediterranean country where a strong correlation can be found among Ecological Footprint of Consumption Activity (EF_C), Ecological Footprint of Production (EF_P) and biocapacity (BC). Despite being a biocapacity reserve during the 1960s and 1970s, Morocco experienced an ever growing biocapacity deficit since 1977. In 2010, Morocco's biocapacity was able to meet only 56% of its total EF_C. The country is in fact an importer for all the different typologies of ecosystems services tracked by the EF analysis, with the sole exception of fish (Galli, 2015, pp. 215-216). The author linked Morocco's high levels of EF with the Human Development Index (HDI)[13] of the country. Galli showed that countries with higher HDI values also have higher EF levels (Galli, 2015, p. 221). Morocco perfectly fits in this trend: during the period 1980-2010, the country's HDI increases by 60%, coupled by a 37% increase of its per capita EF. In addition to this, even though the HDI growth slowed down between 2000 and 2011 (+0.04% per year), per capita EF_C increased by +4% during the same period (Galli, 2015, p. 220). As the author pointed out, this indicates that "Morocco is turning toward the resource-inefficient development path followed by high-income countries" (Galli, 2015, p. 220).

Considering income as a major contributor to the level of Ecological Footprint of a country, Szigeti *et al.* (2017) offer some useful results. Through an examination of the relationship between GDP and EF, the authors demonstrated that there is a positive correlation between income levels and EF per capita values: so the higher the income of a country, the higher its EF. However, there is more to take into account. Szigeti *et al.* analysed 131 countries and ranked them according to the ratio between their specific EF and GDP levels (EF/GDP). This ratio

[13] The HDI index emphasizes the importance of people and their capabilities as keys to understand the level of development of a specific country. The HDI index is based on three different dimensions: a long and healthy life (assessed by life expectancy at birth), knowledge (assessed by expected years of schooling and mean years of schooling), and a decent standard of living (measured by gross national income per capita). Source: http://hdr.undp.org/en/content/human-development-index-hdi

calculates the EF intensity of a country: a low EF intensity means high eco-efficiency. In 2009, among the top 10 countries with the lowest EF/GDP ratio there were five European countries (Norway, Switzerland, Germany, United Kingdom and Austria). The bottom 10 countries (those with highest levels of EF/GDP ratio) were all African countries (Szigeti *et al.*, 2017, p. 114). A lower level of EF intensity means that a smaller land is required to produce a unit of GDP. The authors used the term *decoupling* to refer to a decrease in the resources used to produce a given unit of GDP. African countries were the only ones showing no decoupling at all (Szigeti *et al.*, 2017, p. 115). But as the authors pointed out, this lack of eco-efficiency in African countries opposite to a much greater eco-efficiency in rich countries is partly explained by the higher levels of GDP (the higher the denominator, the lower the EF intensity).

"A country may be consuming either the land of other countries or the resources of future generations when 'overshoot' exists" (Teixidó-Figueras and Duro, 2015, p. 31). Teixidó-Figueras and Duro speak about the burden that today's levels of EF are imposing on future generations. Let's consider these data: in 2007, the world EF was equal to 18 billion gha; the world population was 6.7 billion, so EF per capita was 2.7 gha; however, in 2007 there were only 11.9 billion gha of biocapacity available (so 1.8 gha per capita). What about the remaining 6.1 billion gha necessary? They were all charged on future generations (Teixidó-Figueras and Duro, 2015, p. 31).

The authors took a closer look at the differences in EF levels among countries around the world. They concluded by saying that if in 2007 income was equitably distributed, EF inequality could have been reduced by 48% (speaking in intra-generational terms) (Teixidó-Figueras and Duro, 2015, p. 36). Basically, what determines the differences in EF among countries is the purchasing power of a nation. Income was once again positively correlated to EF levels (considered as the main driver in their paper). Demographic variables were considered as well, playing a critical role in EF inequalities: as more and more people have been moving (and will keep moving) from rural to urban areas, policy makers should be able to redesign cities in a more ecologically sustainable way.

Speaking about Ecological Footprint inequalities, the EF of high-income countries is five times higher than in low-income countries. However, according to a study conducted by Verhofstadt *et al.* (2016), if a country would decrease its level of EF, the well-being of its population would not decrease. In fact, the authors' results showed no significant correlation between EF and subjective well-being (SWB). According to the author, one thing that has a positive impact for both EF and SWB (so decreasing the EF and increasing SWB) is the consumption of fresh, seasonal products or, we can say, an environmentally friendly diet (Verhofstadt *et al.*, 2016, p. 83). This is just to say that when we think about ourselves, about our own consumption patterns, about our own lifestyles, we have to keep in mind that changing attitudes in order to decrease our EF levels will not decrease our well-being but it might rather increase it.

But why do international inequalities in resource use among countries exist? Teixidó-Figueras *et al.* (2016) answered to this question using some indicators and drivers. For instance, they considered environmental indicators such as emissions (CO2), – at the beginning of the century, per capita CO2 emissions in USA and Canada were exceeding those for Africa by a factor of 20 (Van Vuuren and Bouwman, 2005, p. 57) – material use (meaning domestic extraction and material consumption, and material footprint), and land use intensity. Carbon indicators are the most unequally distributed. Also material consumption exhibits high inequalities. The authors divided the drivers of inequality into three broad categories: "economic (income and active population share), demographic (urbanization and population density) and geographic (climate and bioproductivity of land)" (Teixidó-Figueras *et al.*, 2016, p. 166). Income is considered here as the most unequally distributed driver. Moreover, what the authors consider as the *active population* (people aged 15-65, who are considered economically active) play a critical role in the levels of EF of a country: consumption will be higher in countries with larger fractions of working age population and lower in the presence of more children or elderly. Speaking about population density, the higher it is the lower will be the use of resources per capita. Urbanization then is seen as a possible way to decrease EF per capita given that cities might be a mean to use resources more efficiently. Climate, in the end, is a significant driver

as well: the colder it gets, the higher will be the emissions due to an increase in heating energy demand.

Climate was seen as playing a crucial role in a study carried out by Van de Vliert and Vlek (2015). Their main findings show that countries (especially richer ones) have higher levels of EF under more demanding thermal climates. In other words, the harsher the climate conditions (demanding winters or summers, or both) the higher the EF level of a country, with this last variable increasing even more in rich nations. In addition to this, the authors were interested in the levels of environmental protection that both rich and poor countries were adapting under demanding and undemanding climate conditions. The study analysed the impact of the countries' environmental regulations and the levels of environmental marketing (e.g.: eco-labelling). What the authors found out is that there is a strong positive correlation between both the level of economic wealth of a nation and environmental protection (0.777) and between the level of economic wealth of a nation and environmental marketing (0.725) (Van de Vliert and Vlek, 2015, p. 955). Based on the 116 countries analysed, the authors were able to say that "compared to poorer populations in more demanding climates, richer populations in similar climates seem to consume more ecosystem resources and to also invest more in environmental protection including environmental marketing" (Van de Vliert and Vlek, 2015, p. 961). There is one very important aspect that must be considered here. The fact that economic wealth, EF levels and environmental protection are entwined, suggests that people living in richer countries introduced environmental protection when they realized how much their high levels of EF were endangering future access to crucial goods and services. Once again, the Ecological Footprint has been a consciousness-raising tool.

Charfeddine and Mrabet (2017) show some very interesting data of 15 MENA (Middle East and North Africa) countries' EF levels. This region experienced a rapid economic growth because of its abundance of natural resources: it is responsible for the production of around 38% of crude oil and gas and possesses 57% of oil reserves (Charfeddine and Mrabet, 2017, p. 139). However, this economic growth did not happen without costs: the ecosystem of the region has been put in danger. Different variables have been considered by the authors as

responsible for this environmental degradation: Real Gross Domestic Product per capita (RGDP); energy use (responsible for major pollutants like CO2 and SO2); urbanization (consumption levels of natural resources in urban areas are higher, making urbanization positively correlated to environmental degradation; however, urban areas also facilitate a more efficient use of space and transportation, making urbanization negatively correlated to environmental degradation); Political Institutional index variable; fertility rate (population growth can cause resource shortages in areas where people heavily rely on natural resources); life expectancy at birth (people are willing to invest more in environmental quality when they expect to live longer). The authors decided to use the Ecological Footprint as an indicator of environmental degradation. "By 2006, all countries of the MENA region were 'ecological debtors'. Therefore, in 2006, all countries demand more of ecological assets than nature can provide inside their borders. Compared with the world average, EF per capita in the MENA region (2.3 global hectares) remains below the world average EF per capita" (Charfeddine and Mrabet, 2017, p. 143). Dividing the 15 MENA countries in oil-exporting (Algeria, Iraq, Iran, Libya, Kuwait, Oman, Qatar, Saudi Arabia) and non-oil-exporting (Egypt, Jordan, Lebanon, Morocco, Syria, Tunisia, Yemen) countries, the authors arrived to some important conclusions. First of all, levels of EF, real GDP per capita, energy use per capita and urbanization are higher in oil-exporting countries than in non-oil-exporting countries. Then some results are worth noting. A 1% increase in energy use will increase EF by 0.6% (Charfeddine and Mrabet, 2017, p. 148). A 1% increase in urbanization can decrease EF between 0.223 and 0.558 (Charfeddine and Mrabet, 2017, p. 148). A 1% increase in life expectancy at birth and fertility rate variables will decrease the Ecological Footprint by 2.118% and 0.296% respectively (Charfeddine and Mrabet, 2017, p. 149). An increase of 1 unit of the political institutional index will increase the EF by 1.3% (Charfeddine and Mrabet, 2017, p. 149).

So far the analysis has been developed from the perspective of individual countries. Teixidó-Figueras and Duro (2014) instead focused on groups of countries. Let's start from the idea that "the international allocation of natural resources is determined […] by the dominance of market mechanisms" (Teixidó-

Figueras and Duro, 2014, p. 93). So we should think at this allocation as if it is driven by historically determined structural patterns: we are in “a world where natural resource allocation is structurally polarized between peripheral countries (which provide bioproductive land) and core countries (where high consumption patterns are thus maintained)” (Teixidó-Figueras and Duro, 2014, p. 103). This means that EF allocation is not driven by individual countries but by groups of countries. To paraphrase the authors, rich countries (historical core countries) consume lands and appropriate external resources at the expenses of poorer countries (historical periphery). And as long as rich countries group together to exploit someone else’s resources and lands, they will more easily develop their common interests than individual countries alone. The fact that groups of countries rather than individual countries are the main actors at a global level stands behind the idea of polarization measurement.

The study by Teixidó-Figueras and Duro (2014) refers to 119 countries for the period 1961-2007. These countries account for 90% of the world population, 91% of global GDP, 82% of World EF at 2007, and 79% of world land area (Teixidó-Figueras and Duro, 2014, p. 97). The authors were able to divide these countries in three different clusters, depending on their relative levels of Ecological Footprint. The low EF group is mainly composed by African and Southern Asian countries, the mid EF group by Latin America, Southern and some Northern African countries and Eastern Asia, while the high EF group by American countries, Western Europe and Australia. We can consider these groups as Periphery, Semi-Periphery and Core respectively (Teixidó-Figueras and Duro, 2014, pp. 97-98). The authors conclude that polarization is the main driver of EF distribution around the world and, for its part, it is driven by the relationship between core areas and their peripheries. “In this sense, capital accumulation on core countries depends on the appropriation of bioproductive land elsewhere (EF), whereas in peripheral countries their capital accumulation depends on providing such natural resources to the core” (Teixidó-Figueras and Duro, 2014, p. 104). This is what the authors refer to as ecological core-periphery frame.

To add some information about groups of countries, Duro and Teixidó-Figueras (2013) showed that the global EF per capita increased over the period 1980-2007

from 2.35 to 2.49. It is worth considering how some specific group of countries – and China, whose EF levels increased by 83.83% from 1997 to 2011 (Fu *et al.*, 2015, p. 467) – have been responsible for this increase, considering also their respective percentages of world population. Starting from OECD-Europe, EF per capita slightly increased, going from 4.83 to 4.84 (world population: 11.1% in 1980 – 8.5% in 2007). In OECD-North America, it increased from 6.44 to 6.87 (world population: 8.4% in 1980 – 7.7% in 2007); in OECD-Pacific, it increased from 3.92 to 4.96 (world population: 4.5% in 1980 – 3.5% in 2007); in Middle East, EF per capita dramatically increased from 1.75 to 3.54 (world population: 1.7% in 1980 – 2.4% in 2007); in Asia, it increased from 1.00 to 1.12 (world population: 30.3% in 1980 – 33.5% in 2007); in China, it increased from 1.34 to 2.25 (world population: 25.8% in 1980 – 23.1% in 2007). On the other hand, EF per capita decreased: in Non-OECD Europe countries, from 4.29 to 2.94 (world population: 0.9% in 1980 – 0.6% in 2007); in Africa, from 1.67 to 1.45 (world population: 10.0% in 1980 – 13.1% in 2007); in Latin America, from 2.87 to 2.56 (world population: 7.2% in 1980 – 7.6% in 2007) (Duro and Teixidó-Figueras, 2013, p. 38). The reason why it is important to consider these numbers is that they help us to understand the inequalities in EF levels among group of countries relative to their shares of world population. In a world where the global EF has increased, these inequalities mean that some countries (e.g.: OECD-North America and OECD-Europe) are consuming more and more resources at both the expenses of other countries (e.g.: Africa) and of future generations. In redistributive terms, this is a terrible scenario because, as Evans (2011) wrote, “inequalities in the distribution of goods must by definition disadvantage the worst-off: more for one party means less for another” (Evans, 2011, p. 9). To quote Galli and Halle: “We live in a world where daily media reports trumpet the smallest shifts in the NASDAQ, Nikkei and other indices. A 0.05% increase in the GDP of a nation is reported as a positive performance. It is, therefore, difficult to understand how we can ignore the risks of an entire region’s threatened access to resources and services, critical to their already struggling economies” (Galli and Halle, 2014, p. 391). Considering resources as commons rather than being privatised could be a good starting point to move towards a more equal and fair world (Evans, 2011).

2.5 – Material flows and trade

“Flows of materials related to international trade have increased by almost 60% between 1997 and 2007” (Giljum *et al.*, 2015, p. 792). With their study, Giljum *et al.* (2015) examined global flows of materials necessary to satisfy demand in different countries around the planet. The authors identify the differences between the Raw Material Consumption (RMC) indicator – known as material footprint (MF) – and the Domestic Material Consumption (DMC). The RMC can be considered as a development of the DMC: it is the sum of domestic extraction plus imports minus exports, both expressed in raw material equivalents (RMEs). – Interesting results about MF and RMEs of economic trade flows in 186 countries can be found in Wiedmann *et al.* (2015). – If in 2007 the average RMC per capita was equal to 19.7 tonnes in Europe and in the USA it was more 30 tonnes, in Africa it was only 4 tonnes – considering a global average RMC per capita slightly below 10 tonnes (Giljum *et al.*, 2015, p. 797). The aim of the authors was to identify major importers and exporters of materials consumed by single countries (like the US and China) and by group of countries (the EU). According to the data collected, global material extraction increased by 37% from 1997 to 2007, and materials embodied in international trade grew by 62% over the same period (Giljum *et al.*, 2015, p. 795). Taking into account the raw material trade balance (RTB) – materials embodied in imports serving domestic final demand ($IM_{Dom\ FD}$) minus domestically extracted materials embodied in exports (EX_{DE}) – the authors were able to clearly observe (Figure 4) a distinction between developed countries (North America and Europe) as net importers of embodied materials and the other continents as net exporters (Giljum *et al.*, 2015, p. 797). To be more precise: the biggest net importer of raw materials is the US (2.2 billion tonnes), followed by Japan (1.7) and some European countries (Germany 0.8, UK and Italy 0.7) (Giljum *et al.*, 2015, p. 798-799).

Considering what has been said so far, the authors shed light on the fact that developing countries are often those where material extraction takes place. However, despite the fact that after 2000 the prices of raw materials have significantly increased (thus making exports more profitable), the poorest parts of

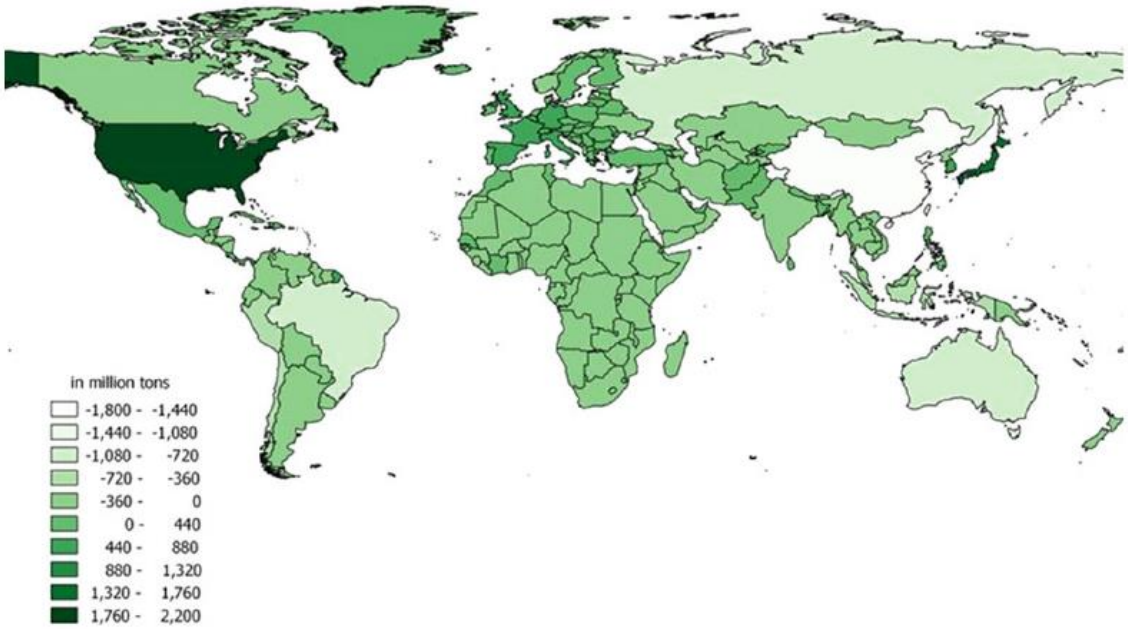

*Figure 4 - **Raw material trade balances (RTB) across the world, 2007, million tonnes**. Source: Giljum et al., 2015, p. 799.*

societies are not able to benefit from this anyway: according to Giljum *et al.* (2015), there are governance structures around the world favouring local elites and multinational enterprises. And yet Galli *et al.* (2016) wrote that "at the level of the whole planet the effect of trade is zero (it is a zero sum game)" (Galli *et al.*, 2016, p. 229), meaning that we should not be surprised to see countries externalizing their biocapacity needs through trade: after all, trade is all about exporting something you have in abundance to gain the money to get something you need. But, as we said, there are mechanisms working behind preventing this from happening.

Similar results have been found by Giljum *et al.* (2014), who saw China as the biggest consumer of materials at the global level, consuming together with USA, India, Brazil and Russia around 55% of all world-wide extracted materials (Giljum *et al.*, 2014, p. 327). This means that absolute material consumption is concentrated in just a few countries around the world. They found out that OECD countries imported the largest amounts of materials in all the years considered (from 1980 to 2009). In terms of global material consumption, in 2009 the authors saw Asia as being the first one (58%), followed by Europe (12%), Latin America (11%), North America (10%), Africa (7%) and Oceania (2%) (Giljum *et al.*, 2014, p. 326). Between 1980 and 2009, however, the world economy as a whole

experience a decoupling: the majority of countries were able to increase their GDP faster than their DMC. China, for instance, increased its GDP by 1500% while increasing its DMC by “only” 640%. On the contrary, oil-exporting countries in the Middle East experienced no decoupling at all. Even though these examples of absolute decoupling might be seen as “green growth”, this assumption should be questioned: in many cases, in fact, material-intensive production was outsourced to foreign countries, in this way reducing the DMC.

Connected to this idea of a more green, environmentally friendly growth, is the paper published by Holm and Englund (2009). The authors rely on the concept of gross rebound effect (GRB), the gap existing between the decreased use of resources which is expected from more eco-efficiency and the actual use of resources. The authors found out that improving the efficiency in the use of natural resources is not sufficient to prevent increases in the use of global resources. Quite the opposite might occur: the improved eco-efficiency experienced by many wealthy countries is connected to economic growth which in turn increases the EF of these countries.

Conclusion

Resources consumption is not balanced around the world. Some nations consume much more than others, leaving no resources to the less fortunate. This is the result of many years of Western countries’ exploitation of and control over natural resources coming from African resource-abundant states. It has allowed some countries to develop much faster than others and, to maintain this growth, to consume far more than others. The Ecological Footprint has proven to be an effective awareness-raising tool to see these huge differences and understand that things cannot go on like this for much longer. This uneven consumption – that makes someone miserable – is not promising anything good in the perspective of long-term economic development at a global level. If anything, it will make things worse.

A method that Western countries have adopted as a possible solution to this unbalance and that is believed to be beneficial for the long-term economic development of poorest countries is Foreign Aid. The act of giving to the neediest is publicised as a realisation from the West's side that much has been taken away from some countries in the past (mainly in Africa) and that Foreign Aid represents a way to give something back. By giving back, by helping the poorest and neediest people in the planet, the West will take underdeveloped countries and make them grow. The West will be the one taking care of the world. However, this view represents the same old view showing the West as the one making decisions for others, imposing its own will. Furthermore, as will be explained in the next two chapters, Foreign Aid has failed in its mission: the people it was supposed to take out of poverty are still poor and, sometimes, it even made things worse than before.

Chapter 3

Foreign aid towards Africa: an inefficient solution to solve global unbalances

3.1 – Changes in foreign aid: a brief history

Europe, representing the main battlefield of World War II, was absolutely devastated at the end of the conflict. Infrastructures were severely damaged, people were shocked and counting the dead. The nations that once were at the top of the hierarchy had lost their power, allowing the USA to impose itself as the main economic superpower in the world. But European nations' faith was not to disappear from the international scene or to become as economically weak and poor as other nations around the world. The Marshall Plan was introduced by the US, a 5-year aid programme disbursing US$13 billion to 14 European countries (1948-1952) (Moyo, 2009, p. 12). The Marshall Plan, although being considered a real aid programme after all, was extremely beneficial to Europe, as it allowed nations like Great Britain, France, Italy and Germany to rise from their ashes and regain the lost economic power. These nations regained their strong economic position in the international marketplace: aid helped to restore infrastructures, to bring political stability, to restore hope in people and to give them a future.

"[…] if aid worked in Europe, if it gave to Europe what Europe needed, why couldn't it do the same everywhere else? By the end of the 1950s, […] attention turned towards […] Africa" (Moyo, 2009, p. 13). Looking at the success of the Marshall plan, after gaining experience and ideas from it, rich countries saw Africa as a possible target for foreign aid. However, Western nations had different plans in mind. Seeing African states gaining independence one after the other, former colonial powers saw in foreign aid the vehicle to maintain strategic geopolitical positions, thus keeping somehow newly independent African countries dependent. On the other hand, the US used aid cleverly at their advantage during the Cold War: providing aid to some specific African countries was a way to get

and hold allies, to prevent communism from spreading, and to get the natural resources it needed to win the war. Foreign aid was a strategy.

According to Dunning (2004), “the Cold War marked a watershed in the politics of foreign aid in Africa” (Dunning, 2004, p. 409). In his paper, Dunning was able to demonstrate how aid conditionality and the relationship between aid and democracy changed after the Cold War. According to him, during the Cold War, aid conditionality (threats to withhold aid if not adopting democratic reforms) was not credible in the eyes of African recipient countries. If aid would have stopped arriving, they would have turned to the other player of the war (the Soviet Union). However, the end of the Cold War changed everything. Losing some of their geostrategic importance, African leaders lost a great part of the leverage they once were able to use to resist aid conditionality. As a result, Dunning was able to demonstrate the existence of a positive relationship between foreign aid and democracy in the post-Cold War period: having lost their leverage and seeing aid conditionality as more credible than before, African countries had to adopt democratic regimes if they wanted aid to keep floating in their pockets. Hence, the results presented in the article are consistent with the predictions of what Dunning calls the “credible commitment story”: conditioning aid on the level of democracy in a recipient country works only if certain global geostrategic circumstances are at play (like in Africa at the end of the Cold War) (Dunning, 2004, p. 422).

Foreign aid, however, changed again. To use Miles’ (2012) words, foreign aid evolved “from counter-communism to counter-terrorism” (Miles, 2012, p. 28). In his article, Miles explores the dynamics of development projects used as tools to prevent terrorism.

Since the tragic events of 9/11, African poor countries with high percentages of Muslims were seen as potential incubators for Islamic extremists. According to Miles, media were very fast in linking “terrorism to poverty, inequity and underdevelopment” (Miles, 2012, p. 31), even though those behind the terror attacks of 9/11 were from rich countries (mostly Saudi Arabia) and from middle-

class backgrounds[14]. “Development […] was advocated […] as a strategic tool in defending the homeland” (Miles, 2012, p. 31). And how would have development been brought? Through foreign aid. The idea was to bring aid to foster development in recipient countries (thus benefitting the recipients) and to use aid as a soft counterterrorism manoeuvre (benefitting the donor or, in this case, the USA). Countries perceived as possible nurturers of terrorists were seen as good candidates for aid. Miles argues that the development projects had a triple focus: on governance (a poorly governed country can more easily become an oasis for extremism), on youth (providing good education and job positions to young people can prevent them to join Islamic extremists) and on media (guaranteeing freedom to the press) (Miles, 2012, pp. 32-33). Despite the good (at first impression) intentions, the merger between development and security created a “militarization of American foreign policy and aid” (Miles, 2012, p. 47): when uniformed soldiers operate in African countries as humanitarian assistants while deploying soft counterterrorism actions, some observers might outweigh the effects of such manoeuvres even if there could be positive developmental outcomes.

Another article by Dreher and Fuchs (2011) is worth discussing. The article’s title is: “*Does terror increase aid?*” (Dreher and Fuchs, 2011). According to the authors, the answer is affirmative. In fact, they found out that while countries where a terror attack originates from do not have higher chances to receive aid from the attacked donor country, once these countries are selected, they receive higher amounts of aid than others. However, maybe not surprisingly, only the United States, according to the authors, increases its foreign aid to those countries responsible for terror attacks against its citizens. This cannot be anything else than clear evidence that foreign aid during the War on Terror period has been used to ‘fight back’ terrorism or at least preventing it from spreading and attacking again. Nonetheless, Miles’ words underline how wrong this approach has been: “American preoccupation with violent Islamism is disproportionate to the greater daily dangers of poverty, malnutrition, disease, and political corruption” (Miles, 2012, p. 45). Moreover, “the United States in the

[14] https://edition.cnn.com/2013/07/27/us/september-11th-hijackers-fast-facts/index.html

new millennium seems to be articulating a view whereby American interests are increasingly invoked as a justification for aid. An important aspect of these interests is likely to be the pursuit of the War on Terror" (Harrigan and Wang, 2011, p. 1291).

To conclude, recalling Moyo one more time seems unquestionable. The 21st century brought to a new form of aid towards Africa, a type of aid that asks for a global sense of pity and moral obligation towards the continent: this is what Moyo calls "glamour aid" (Moyo, 2009, p. 26). What is happening today seems to be a well-orchestrated, world-wide desire to do something good for Africa. Celebrity campaigns, for-profit organizations, together or alone, have been trying to move people's hearts to take action to improve Africans' lives. Africa has been described as a 'problem child' unable to solve its own problems and therefore that needs to be saved.

This aspect of foreign aid will be discussed more widely in Chapter 4, when social entrepreneurs and private forms of aid will be analysed.

3.2 – Effects of foreign aid

Backed by huge PR campaigns, Western governments have been publicising foreign aid as the solution to solve the previously discussed unbalances affecting the world. Foreign aid has been promoted as the path to follow to take millions of people out of poverty and guarantee a long-term global economic development.

The main protagonists of foreign aid (donor countries) actually believe that it is having a huge impact on recipient countries. If truth must be told, the impact of foreign aid is, after all, huge. The problem is that the effects of this impact are not always positive and are not exactly the right effects that foreign aid was designed to have.

To get a little bit more into detail, the discussion that follows will analyse, based on the existing literature, the effects that foreign aid has had on poverty reduction, economic growth and human development, political institutions, and violent conflicts.

3.2.1 – Effects of foreign aid on poverty reduction

The fact that foreign aid does not work properly has been known for a long time by now. Poverty reduction, if we think about it, should be one of the main purposes of foreign aid. The media are constantly showing us pictures and videos of a poor Africa that foreign aid can take out of poverty.

However, at the beginning of the 21st century, it was already clear among some academic researchers that foreign aid was not efficient in reducing poverty. Collier and Dollar (2002) were able to derive a poverty-efficient allocation of foreign aid and compare it to the aid allocations of the time. Basing their research on 59 developing countries (so not only African countries, but also South American and East European nations) during the 1990s, they demonstrated that would have foreign aid been allocated more efficiently, the productivity of aid would have almost doubled. But how to allocate aid more efficiently? According to the authors, "to maximize the reduction in poverty, aid should be allocated to countries that have large amounts of poverty and good policy" (Collier and Dollar, 2002, p. 1482). It means that addressing a country with very high levels of poverty, aid would have a larger effect on poverty reduction. And good policy in the recipient country assures a positive impact of aid. Thus a good and efficient reallocation of aid would require aid to be more clearly addressed to poverty and good policy *at the same time*. Collier and Dollar specify, however, that foreign aid should not (according to their reallocation model) be used to induce policy change and new reforms (the negative effects of this will be discussed later), but the reallocation of aid would become more efficient in reducing poverty if those newly reformed countries where good policies are abundant were chosen.

The fact that aid effectiveness is a matter of good policy in the recipient country is of primary importance even nowadays. Most of the times, the neediest and poorest countries are also the worst governed, making foreign aid inefficient. Bourguignon and Platteau (2017) take a step further and analyse if aid availability affects aid effectiveness in reducing poverty. In line with Collier and Dollar (2002), an effective aid allocation would require "a combined measure of the needs and governance quality in a country" (Bourguignon and Platteau, 2017, p. 7). Their main result is that greater aid availability actually decreases aid effectiveness.

But why? Simply because when aid is more abundant, donors will disburse it also to those aid-ineffective countries that would otherwise be left out if aid availability would have been smaller. In doing so, these aid-ineffective countries receiving aid will become even more aid-ineffective (maybe enriching local, corrupted elites that appropriate large amounts of the money the country receives) and still be considered as eligible if aid availability will be high in the future. Conversely, when aid availability is scarce, donors might focus mainly on richer and better governed countries that are able to manage aid more effectively.

According to other authors, foreign aid focused on the wrong strategies to reduce poverty. Page and Shimeles (2015) believe that there is a link between the employment problem and the poverty problem in Africa, and that foreign aid – to become more effective – should focus on a strategy that improves the growth of good jobs for young African people. Foreign aid was never able to address a structural change that Africa so desperately needed to create sufficient jobs for a growing labour force. A structural change that, by consequence, would have reduced poverty. "A new strategy for aid – one that supports job creating structural change – is urgently needed" (Page and Shimeles, 2015, p. 25). This new strategy should have a triple effect: raising agricultural productivity (as 60% of Africans are employed in farming[15]), improving infrastructures and addressing skills constraints, and assisting Africa to industrialize (African governments lack the ability to master some drivers of global competitiveness, such as task based exports, industrial agglomerations and firm capabilities[16]).

Donors around the world have enough proof that what they are doing with aid to reduce poverty is not working. The literature proposes some new alternatives and possible solutions, but unless some changes will occur, poverty will not be reduced and foreign aid will keep breaking the promise of a world without poor people.

[15] (Page and Shimeles, 2015, p. 25)
[16] (Page and Shimeles, 2015, pp. 27-28)

3.2.2 – Effects of foreign aid on economic growth and human development

When poverty reduction is not directly addressed by donors, economic growth and human development are two main objectives of foreign aid. Its supporters believe that what they are doing is actually fostering the economic development of recipient countries and the human development (often calculated using the Human Development Index[17]) of the local population.

Gillanders (2016), when looking at the effects of foreign aid, considers both economic and human development simultaneously. He analyses data for 31 Sub-Saharan countries over the period 1973-2005. His findings suggest that good governance and good policies in the recipient country play a crucial role. Only five of the 31 countries studied can be considered as having good policy, and in these five countries, the results show that aid had a slightly better impact in increasing GDP per capita growth (used as a measure of economic growth). Being a democracy, however, matters also for the effectiveness of aid on human development. Using 'life expectancy at birth' as a proxy for human development, Gillanders saw that aid shocks have larger responses in democratic countries, even though there is no evidence that foreign aid retards human development in autocracies. To sum up, what we get from this paper is a not a very pessimistic view of foreign aid as it showed that it can (very slightly) increase both economic and human development, even though the type of governance of recipient countries must be taken into account. For economic growth, the difference in the effectiveness of aid between democracies and autocracies is almost negligible (but more positive for democracies), while for human development, aid is more efficient in democracies.

A more positive correlation between aid and per capita income growth has been found by Loxley and Sackey (2008). They analysed 40 member countries of the African Union over a 28-year period (1975-2004). The authors confirmed their initial hypothesis that foreign aid had a positive, statistically significant impact on growth. To quantify, a 1% increase in aid led to around 0.13% increase in growth (Loxley and Sackey, 2008, p. 178). To explain the positive effects of aid on

[17] http://hdr.undp.org/en/content/human-development-index-hdi

growth, Loxley and Sackey argued that aid increases investments, which are seen as a major contributor in the aid-growth relationship. However, they also suggested that aid was having diminishing returns on growth when reaching very high levels of aid/GDP ratio (at 39%). With this final remark, the authors want to make those responsible for aid programmes aware that too much is never good. Creating dependency over aid will have negative effects for recipient countries, so the amount of aid that will be disbursed should always be well pondered in order to avoid catastrophic results.

Being a contested zone among academics, there is not a final answer in whether aid has positive or negative impacts on growth. In fact, while Loxley and Sackey (2008) show that aid increases investments thus contributing to a positive effect of aid on growth, Temple and Van de Sijpe (2017) show that aid leads to higher consumption and less evidence is found that it promotes investments. Drawing data from 1099 observations based on 88 countries around the world over the period 1971-2012, they looked at how domestic absorption of foreign aid took place in recipient countries. According to the authors, for absorption to take place, at least one of the following components of domestic final expenditure must increase: household consumption, government consumption, and gross investment (Temple and Van de Sijpe, 2017, p. 432). The findings show that a great part of foreign aid is reflected much more in higher household consumption rather than government consumption. And overall, aid increases consumption more than investments and growth. These results confirm a sad – and yet very often true – reality: “aid is often consumed rather than invested” (Temple and Van de Sijpe, 2017, p. 438). Not to be too pessimistic, but ‘consumed’ does not properly describe the state of affairs. At times, ‘*wasted*’ would rather be more appropriate.

At times, obviously. Because according to Askarov and Doucouliagos (2015), foreign aid can have a positive impact on economic growth. They studied whether aid promotes growth in transition countries, described by the authors as those countries that, being republics of the former Soviet Union, with the collapse of the USRR hosted a transition from a command economy to a market-oriented economy. These countries were the recipients of development assistance

programmes because of the negative impacts of this transition (recession, high inflation, unemployment, etc.). Analysing data for 32 transition economies over the period 1990-2012, the authors found that aid, on average, had a positive impact on economic growth for this specific sample of countries. But how did aid contribute to this growth? From the authors' point of view, it is actually surprising, but they gave some explanations: given that being a transition economy might mean starting from scratch, being effective could have been easier for aid; proximity to Europe might have allowed donors stricter supervision of aid spending; reunification to Europe might have put more pressure on making aid effective; aid was invested wisely, not consumed (Askarov and Doucouliagos, 2015, p. 395). However, the authors are aware that the positive relationship existing between aid and growth cannot be generalize to other nations in different scenarios, once again leaving the existing academic research without a final answer.

One final study worth considering is the paper by Asongu and Nwachukwu (2017b), focusing on whether increasing different types of foreign aid affects inclusive human development[18]. The paper analyses a panel of 53 African nations over the period 2005-2012. The authors considered different categories of development assistance: "humanitarian assistance, action on debt, programme assistance, aid to the multi sector, aid to the productive sector, aid for economic infrastructure and aid for social infrastructure" (Asongu and Nwachukwu, 2017b, p. 447). To confirm once again that one final complete answer does not exist, their findings show different effects for different typologies of development assistance: positive effects from programme assistance, but negative effects from aid for social infrastructure, from humanitarian assistance, and from aid to the productive sector.

Because of the mixed results that the existing literature provides, donor countries should understand whether what they want to do in a specific recipient country is the best possible solution to use aid effectively to increase both economic and

[18] Concerns of inclusive human development may be poverty reduction and employment enhancement.

human development. One common rule does not exist. Possible recipient countries have differences that must be understood *ex ante* by donors.

3.2.3 – Effects of foreign aid on political institutions

The slightly more optimistic view of some of the authors seen so far is completely dismantled when reading the article by Boone (1996). In analysing 96 countries, the author wants to understand if aid effectiveness is really related to the political regime of the recipient country. To do so, he contrasts how foreign aid is used under three different political regimes: an elitist government (it would transfer foreign aid to a high-income political elite), an egalitarian government (foreign aid to lower income households, thus reducing poverty), and a laissez-faire government (foreign aid to lower distortionary taxes, increasing both investment and income) (Boone, 1996, pp. 292-293). His results are quite pessimistic: he suggests that elitist regimes better predict the impact of foreign aid. In other words, foreign aid increases the size of government as (in his calculations) three quarters of the aid received is spent on government consumption. He finds no significant impact of foreign aid in lowering distortionary taxes, nor on improvements of life expectancy at birth, infant mortality or primary schooling ratios. He argues that “this is strong evidence that aid flows primarily benefit a wealthy political elite” (Boone, 1996, p. 293). The poor, on the other hand, receive a very small part of the benefits of foreign aid. According to Boone, this is clear evidence of government failure. So the question remains: does the type of political regime in recipient countries matter for aid effectiveness? Surprisingly, not so much. Boone’s findings indicate that more liberal political regimes do not use aid in very different ways than more repressive regimes, all allocating foreign aid to high-income political elites. However, looking into detail, would a new government become more egalitarian and representative of the poorest people, improvements in poverty indicators would be achieved (Boone, 1996, p. 319). As a possible solution, Boone believes that rethinking foreign aid is required: short-term aid programs supporting new liberal, egalitarian and representative political regimes may be more effective in reducing poverty than normal foreign aid.

Part of the ongoing debate seems to be supportive to the “Washington consensus that democracy is economically advantageous for poor countries” (Goldsmith, 2001, p. 135). Thus many times foreign aid comes with conditions requiring recipient countries to change their political regimes to more democratic ones, in an effort to prepare the basis for higher aid effectiveness. However, according to Goldsmith, good governance requires more than democratic institutions. Despite how much foreign aid coming from governments or their NGOs will increase, democratization of African countries will have to come from within those societies, not from outside. Not from the West. And yet Goldsmith concludes his article saying that clear-cutting aid flows would be counter-productive, going against those supporters of the idea that African states would nowadays be in better positions would aid never been sent. However, his words are very cautious: “On balance, […] I think it credible that African states have gained more than they have lost by taking aid” (Goldsmith, 2001, p. 144). Is he maybe suggesting that much more could have been done? Probably yes.

Jones and Tarp (2016) show similar results, yet using very cautious words as well: “our findings […] certainly provide no grounds to claim that aid has had a systematic negative net effect on institutions, on average” (Jones and Tarp, 2016, p. 275). In their analysis of 104 countries over the period 1983-2010, the authors studied the relationship between foreign aid and political institutions in recipient countries and if this relationship varies with different types of aid flows. Jones and Tarp consider three different aid categories: ‘governance’ (donors’ support to strengthening government policies and plans), ‘economic’ (support to production sectors) and ‘other’ (such as humanitarian assistance) aid. The results show that ‘governance’ aid displays the largest positive association with political institutions, maybe because of its higher frequency and stability with respect to the other types of aid. The typology of foreign aid that is disbursed thus matters a lot. This is evidence that when donors have plans in mind, an analysis of *what fits where* more effectively is necessary to guarantee the success of aid programs.

Another paper investigating the effects of foreign aid on governance in – more specifically, this time – African nations is the one by Asongu and Nwachukwu (2016). In an analysis of 52 African countries over the period 1996-2010, the

study is motivated by that part of the existing literature suggesting that foreign assistance should aim at improving political institutions in recipient countries, seen as the cause of foreign aid ineffectiveness. The authors focus on three different categories of governance: “political governance (voice and accountability and political stability/non-violence), economic governance (regulation quality and government effectiveness) and institutional governance (corruption-control and rule of law)” (Asongu and Nwachukwu, 2016, p. 70). The results of their research show that foreign aid deteriorates both economic and institutional governance but has an insignificant effect on political governance (Asongu and Nwachukwu, 2016, p. 80). According to the authors, the results are consistent with the branch of the existing literature seeing foreign aid as decreasing the quality of regulations (worsening bureaucratic quality) and government effectiveness (causing setbacks to democracy), as well control over corruption and rule of law (leading to more impunity for those violating the law). In addition, the insignificant effect of ODA[19] programs on political governance suggests the inability of Western donor nations to use aid to affect elections in recipient countries and replace political leaders not fitting in donors’ plans. So not only foreign aid hurts where it does not even want to have an impact in the first place, but it is not even able to fulfil its initial purpose (despite how wrong this purpose can be considered).

One final study worth considering in this discussion is the paper by Altincekic and Bearce (2014). Starting from the existing side of the academic literature that considers foreign aid as harmful for democracy (the so called “political aid curse”[20]) and the two views according to which aid is bad for political development both in democracies and non-democracies and only in non-democracies, the authors tried to understand if aid – like oil, and now we will see why – is bad for democracies or not. Both oil and aid can be considered as ‘unearned income’. However, oil not only harms democracies because of this property, but also – and in a larger extent – because of its fungibility, non-conditionality and constancy. In addition, non-democratic countries can avoid democratization in two different

[19] ODA: official development assistance
[20] Altincekic and Bearce, 2014, p. 18

ways: appeasement (increasing the provision of public goods, improving citizens' welfare thus not giving them reasons to revolutionize) or repression (suppressing the provision of public goods, especially free press or transparency). Oil producing countries, on their side, can use appeasement – for example – by not taxing oil to their citizens. Of course no taxation would not be enough, as some public goods must also be distributed. But, "at least in theory, oil revenues […] could be used to provide the redistributive concessions necessary for appeasement and/or to pay the costs associated with repression" (Altincekic and Bearce, 2014, p. 20). National oil revenues could be used in one of these two ways because of three critical properties (as seen before) that they possess: they are fungible (can be used in whatever way the state decides); they have no external condition about how this money should be spent; they are constant over time. But does foreign aid have the same properties as oil? If so, can money received from aid be used to avoid democratization either by appeasement or repression? As the authors found out, aid as the same characteristics as oil, but it "is less fungible, more conditional and less constant [than oil] […] making it less well-suited to paying for repression and providing redistributive concession [appeasement]" (Altincekic and Bearce, 2014, p. 20). Because oil has levels of fungibility, conditionality and constancy closer to cause a political resource curse but it is not always the case that this curse occurs, the authors can cautiously conclude that foreign aid, *in general*, does not necessarily bring to a political aid curse. Of course this cannot be overgeneralized, as aid can have anti-democratization effects in certain cases.

As a general conclusion, it is safe to say that donor countries – through governments and NGOs – over the years have been trying to address political regimes in recipient countries with different foreign aid programs in an effort to increase the level of democratization, as considered a better ground to gain aid effectiveness. However, as many have argued, this is mainly driven by donors' own interests (much of this later on in this chapter) and foreign aid has done little or has even harmed democracies in recipient countries. According to the articles analysed in the above discussion, different findings and contrasting points of view are nowadays populating the existing literature: sometimes foreign aid harms

democracies, sometimes it does not; sometimes it is effective in promoting democratization, sometimes it just increases the level of corruption of autocratic regimes. The literature has mixed results, but even in those articles suggesting that foreign aid does not do anything bad, the authors are always very cautious, prefer to use double negations instead of strong, affirmative sentences, and always say that results can never be overgeneralized.

3.2.4 – Effects of foreign aid on violent conflicts

Maybe one of the most shocking but very interesting effects of foreign aid is the one on violent conflicts. Despite the good (sometimes only apparently good) intentions of donors – both governments and NGOs – foreign aid might have tremendous consequences in recipient countries.

Nunn and Qian (2014) studied the effect of US food aid on violent conflicts in recipient countries. Such conflicts, as suggested, might occur because aid is stolen by armed factions and opposition groups that are able to assault the convoys transporting the humanitarian aid for long distances often in places not properly controlled by local governments. Also convoy vehicles and various equipment are stolen. In cases of more authoritarian regimes, the government, through its military, appropriates humanitarian aid, sometimes not allowing it to reach the neediest population and consequently causing conflicts (Nunn and Qian, 2014, pp. 1630-1635). From a panel data of 125 non-OECD countries over the period 1971-2006, the authors found out that food aid (specifically coming from the US) does not really affect the beginning of new conflicts, but it has a very strong positive effect on the duration of existing conflicts (it makes conflicts last longer). Of course this is not a homogeneous effect but it differs according to the specific characteristics of different recipient countries. In fact, Nunn and Qian confirm that food aid has fewer adverse effects on conflicts in countries that have been peaceful in the previous years, that it has a weaker connection to conflicts in resource rich countries and also a weaker effect in states characterized by low levels of ethnic fragmentation. To sum up, US food aid is a pure humanitarian aid program, and yet there is evidence that, *on average*, it promotes civil conflicts. It

does not start new ones, but it prolongs existing ones. This is, after all, a very pessimistic view of foreign aid.

Going a little bit in the opposite direction of Nunn and Qian is the article by Nielsen *et al.* (2011). Looking at 139 countries over the period 1981-2005, the authors found out that negative aid shocks (severe decreases in aid revenues) highly increase the probability of armed conflicts in recipient countries. This is because once a government that has been receiving aid (in various forms) sees these inflows stopping, it becomes weaker, not being able anymore to make enough side-payments and military investments. The domestic balance of power is shifted: rebels can now challenge a weaker government to destabilize it, using violence. Because of its high volatility and variance, foreign aid can have disastrous effects if coordination among different donors (would these be governments or NGOs) is not efficient enough to avoid sever negative aid shocks. In fact, according to Nielsen *et al.*, only big aid shocks would cause conflicts, not small ones. So does this mean that foreign aid should keep on going the way it is right now? Should Western governments and NGOs keep providing aid, knowing that if they stopped it would probably pull the trigger to violent conflicts? The answer is no. If the aid system has come to the point that – after all the damages it has done – even stopping it would be harmful, it means that recipient countries have become so dependent over it that they cannot live without. But sooner or later, if things have to change, the system must be stopped. It will not be an easy and immediate action, but it will take time. As Nielsen *et al.* (2011) suggest, small decreases in aid do not have negative consequences. So the path to a world without such a broken system like the aid system is very slow and will require many steps. But with enough patience, with enough coordination and effort, those that nowadays are ‘recipient countries’ will only be ‘countries’, no more dependent on aid.

3.3 – Donors' interests as drivers of foreign aid

Evidence that the aid system is, after all, a broken system is given by the self-interests that donor countries try to address when giving foreign aid. Despite how altruistic and apparently well-intentioned some donors might seem, the existing literature shows that foreign aid often comes with so many conditions set by Western donors just to achieve some personal gains. This is not something that has been understood only recently. McKinlay and Little (1978) found out that British bilateral aid over the period 1960-1970 was not based on moral and humanitarian considerations but created forms of commitment and dependency that helped the British government to maintain a sphere of influence for political self-interests. Aid is in chains, how David Sogge (2002), author of the book *Give & Take – what's the matter with foreign aid?*, would say. He argues that "aid chains are systems of power. They consist of lines of command run from the top. They afford a lot of control but they are not almighty" (Sogge, 2002, p. 65). "Captains of the aid industry tend to rubbish ideas coming from recipients" (Sogge, 2002, p. 65) and impose what they believe is better for themselves.

It is important to note that, as before, homogeneity cannot be found in donors' motives. Motivations are always mixed. However, a common aspect seems to be present in the existing literature: to use Sogge's words, "Official aid is seldom a tool of altruism" (Sogge, 2002, p. 65). Perfectly in line with this view is Berthélemy (2006) who – after dividing donors in three clusters, namely the altruistic, the moderately egoistic and the egoistic cluster – shows that most donors behave in an egoistic way. But how is it that a donor is egoistic? Isn't the meaning of 'donor' exactly the opposite of egoism? Well, it should be. But once a donor country gives aid looking mainly at its self-interests and not at the recipient needs, it becomes egoistic. Aid is not about helping anymore. There might be geopolitical interests (giving aid to assure potential political allies), but also aid linked to the colonial past of the donor country (former colonies receiving aid from their former colonizers); aid is also used to strengthen commercial linkages with recipient countries, to satisfy trade and financial interests (Berthélemy, 2006, pp. 183-184). This is the negative side of donors' motivations to give aid, and it has wide support among academics.

Alesina and Dollar (2000), for instance, found clear evidence that donors' aid allocation is primarily dictated by political and strategic considerations, while much smaller attention is given to the economic needs and policy performance of recipient countries. The authors analysed data for a wide range of donors (even though 70% of bilateral aid flows comes from four countries – USA, Japan, France and Germany) over the period 1970-1994. They understood that the US allocates foreign aid in favour of Middle East allies (thus guaranteeing to itself economic alliances) and UN friends (aid used as a tool to buy UN votes in favour of the donor, which are seen as a manifestation of political alliances). France and Japan care mostly about their former colonies and UN friends, with France giving no attention to the level of democracy of the recipient country and Japan (like Germany) giving only little attention to this variable. France and Japan are also – among the biggest donors – the least elastic to the level of income in recipient countries (they do not balance aid amounts in relation to recipients' income). Alesina and Dollar make it clear that the biggest donors were mainly looking at their interests when allocating aid at the end of the 20th century. But have things changed with the beginning of the new millennium? As a matter of fact, not that much. Furuoka (2017), for instance, shows that both China and Japan are mainly motivated by self-interests when giving aid. Both countries, in fact, over the period 2000-2012 tended to provide bigger amounts of aid to those African countries with the biggest market size. This is because "due to Africa's abundant natural resources, foreign aid donors may be guided primarily by their self-interest and aim to profit from the continent's considerable natural resources and economic potential" (Furuoka, 2017, p. 378). The trend thus has not changed: donors first look at what can be gained from foreign aid and then decide where to disburse aid flows. In this way, the system loses its essence: it stops being an altruistic movement and it starts satisfying egoistic desires. Of course such a pessimistic view cannot be overgeneralized to all donor countries, but for sure it is true for the majority. Differences among donors exist, given both by internal factors – Travis (2010) suggests that in the US even which political party is in charge (internally) affects foreign aid decision-making policies – and by more egoistic or altruistic motivations. But the strong evidence of self-interests as main drivers of

foreign aid has contributed – together with the negative effects discussed before – to render the aid system very ineffective.

Before going on, it seems appropriate to look back at David Sogge's book for a moment. In the third chapter, he discusses donors' motives to give foreign aid, dividing them in three clusters: strategic socio-political motives, mercantile motives, and humanitarian and ethical motives (Sogge, 2002, pp. 41-42). The first two clusters are in line with what has been discussed so far - Berthélemy (2006), Alesina and Dollar (2000), Furuoka (2017). The third cluster, instead, gives a more positive image of foreign aid, showing it as motivated by humanitarian and ethical reasons. However, looking at Sogge's words in a very critical way, when explaining this third cluster, he uses words like "to *show* concern and compassion for victims […] to *demonstrate* concern about poverty […] to *show* solidarity with a particular country" (Sogge, 2002, p. 42). So is it all about showing and demonstrating? Is it only about looking good or actually doing something good? Was Sogge not very convinced of the altruistic motivations that might sometimes guide donor countries? Answering to this question is not an easy task. When critically reading the existing literature, it seems like if governments are more motivated by egoism and thus self-interests seeking, while NGOs are more concerned with recipients' needs. However, NGOs at times are driven by not so honourable motives.

The article by Koch *et al.* (2009) is very representative of this view. Looking at 61 important international NGOs in 13 donor countries with data referring to the year 2005, the authors enrich that part of the existing literature seeing aid coming from NGOs as less motivated by commercial and political interests compared to governments' aid. Their findings only partially confirm this view, attacking the idea that NGOs mainly focus on the poor. Koch *et al.* found evidence that the level of poverty plays a significant role in the geographical choices of NGOs (giving more aid to poorest countries), but the evidence is not as strong as one might expect. Instead, the most negative results showed much clearer evidence. First, NGOs do not operate in difficult environments – in countries where political regimes do not allow aid effectiveness to be achieved easily – but prefer to disburse aid in more democratic countries. Would NGOs truly believe in helping recipient

countries, they would not look at the level of democracy but mainly at the real needs of the local population. Second, NGOs aid allocations are affected by official backdonors. In other words, NGOs address those same countries as the government in which the NGO is based addresses. Does it mean that NGOs are used to play the same game as governments? Does it mean that NGOs help governments with their political foreign interests? Someone might think this is exactly what is happening: NGOs playing as the "ventriloquist's dummy" (Sogge, 2002, p. 159) of their respective governments. Third, NGOs tend to operate in the same countries where other NGOs are already operating. The authors refer to this as "clustering of NGO aid" (Koch *at al.*, 2009, p. 904). They argue that this 'clustering' makes it more difficult to blame failure to a specific NGO when many NGOs are operating in the same location. Lastly, NGOs more often operate in countries sharing similar characteristics to the organization (e.g.: common language or common religion). Thus it might happen that NGOs address countries with former colonial ties with the nation in which the NGO is based.

Other articles that see NGOs – and so multilateral aid – as more effective than governments – bilateral aid – either use very cautious words or pull together positive and negative drivers of foreign aid.

The article by Neumayer (2005) looks at whether the allocation of food aid is free from donor interest bias or not. Looking specifically at what he has to say about NGOs, at the very beginning he writes "NGO food aid allocation appears quite sensitive towards recipient countries' needs" (Neumayer, 2005, p. 394). Only 'quite sensitive'… is that enough? It does not really seem to be in support of a very positive and effective impact of NGOs.

Further evidence of 'not honourable' motivations is the article by Brass (2012). Evaluating information of 4,210 organizations operating in 70 Kenyan districts, she found out that together with the level of need of the local population, also the convenience of the location plays a crucial role in deciding where to locate and operate the NGO. In her article, 'convenience' is explained according to different factors, specifically the distance between the headquarter and the capital Nairobi (the higher the distance, the smaller the number of NGOs), the density of the district's road network, and the district's level of urbanization (more urban areas

guarantee more physical comfort and higher quality of life, helping NGOs to attract more skilled workers). So despite the good intentions of NGOs workers (in some of her interviews, Brass found out that these people left private companies for lower salaries in NGOs because they wanted to do something good), these organizations at the end of the day cannot be considered as much better and much more effective in giving aid to the neediest than governments.

Donors' self-interests considered as the main drivers of foreign aid further confirm the image of the aid system as a broken system that needs to change. When those governments that through their most representative politicians speak about the need to end poverty and help other countries are the same governments that first look at how to fill their own pockets and then decide to allocate aid, it means that the aid system has come to the point of no return. People's minds have been filled with a lie so big but well-orchestrated that it has made the poor poorer and the rich richer while convincing most of us that great things were being achieved. Even NGOs – considered the good side of the aid system – have failed in their mission despite the good intentions of most of their workers. Would it be because of connections with governments or internal reasons, the motivations driving them do not make honour to the promises they have been making. When talking about foreign aid, it seems like if nobody is left to trust. Do at least private companies' motivations come without self-interests? More on this in Chapter 4.

3.4 – How can foreign aid become more effective?

Most of the existing literature condemns the foreign aid system, considering it ineffective to the point that substantial changes must come as soon as possible. This pessimistic view of foreign aid might appear to someone as not true or exaggerated. Part of the academic research is actually showing positive effects of foreign aid, such as the article by Arndt *et al.* (2015). According to what they have to say, a positive contribution of aid on growth can be attributed over the long-run (they studied the period 1970-2007). So maybe when we think about the impact of foreign aid, we should not be too hasty at pointing the finger but we should wait and consider the big picture, looking at it from a broader perspective.

But would this be enough? Does this mean that the aid system is actually working properly but to see its effectiveness we have to wait some decades? If the answer is ‘yes’, the entire part of the literature condemning the system and asking for change is simply wrong. Those authors should only give the system some more time. However, this is not a solution. Simply waiting and analysing the results in the future might worsen some conditions in recipient countries and make them even more dependent on aid. This does not mean that the process must be stopped immediately. If, as we have seen with Nielsen *et al.* (2011), severe decreases in foreign aid might have very negative effects on recipient countries (increasing armed conflicts), suddenly stopping foreign aid might have even more tremendous consequences. The dependency over aid that has been created is far too difficult to be stopped without negative consequences. So if foreign aid must continue a little bit longer until – step after step, with patience – it will be safe to end it once and for all, some changes in the aid system must occur.

The literature not only criticises the foreign aid system but proposes some possible solutions to make it more effective.

Maybe one of the most easy-to-understand solutions is the one by Bigsten and Tengstam (2015): higher donor coordination. Improving coordination among donor countries is shown to have a double positive effect: it would reduce transaction costs (which is good for donors) by reducing aid fragmentation (focusing on fewer partner countries or regions) and it would reduce poverty (which is good for recipients) if donors were able to jointly optimize aid allocation across countries. The authors, however, are well aware of the difficulties of this solution. Rich countries that are pursuing personal political interests abroad through foreign aid might want to be present in a broader set of countries. Asking them to rethink their aid allocation in a joint and coordinated way with other donor countries might be problematic. How much they will be willing to coordinate depends on the political goals they are currently pursuing.

In line with this argument are Bräutigam and Knack (2004) who see the need of a more selective official aid as urgent and found out that an overabundance of uncoordinated donors would increase transaction costs. Simply giving aid to different countries for personal reasons without coordination with other donors

has proven to be a failing system. But with a common effort, donors would be able to coordinate enough to model foreign aid as a form of global redistribution (Carter *et al.*, 2015): donors' generosity should be higher in some circumstances and lower in others, keeping the whole system balanced and fair. A system that, according to Asongu and Nwachukwu (2017a), should stop focusing on exclusive growth but should instead promote inclusive human development in Africa. In their opinion, donor states should support developing countries towards industrialization by focusing more on inequality and less on economic growth. "In general, high initial levels of inequality limit the effectiveness of growth in reducing poverty while growing inequality increases poverty directly for a given level of growth" (Fosu, 2011, p. 11 in Asongu and Nwachukwu, 2017a, pp. 293-294).

Other authors suggest how aid money could be allocated in efficient ways. This is the case of Page and Söderbom (2015) who give a possible solution to create employment in African countries. According to their research, donors (through the aid they disburse) should address the growth constraints that affect firms of all sizes, not only small businesses. The authors argue that aid donors have always considered small firms as 'job creators' (because they can grow and employ more people), giving them more aid compared to larger businesses. Page and Söderbom believe that donors should instead target growing firms, would they be small, medium or big companies, as all have the potential to create more 'good jobs' – "jobs capable of sustaining employment and paying decent wages" (Page and Söderbom, 2015, p. 44). In order to achieve this, the authors believe that aid should help to improve the 'investment climate' in recipient countries and should finance management and technical training programs for firms that were able to survive the so called start-up phase by themselves.

Possible solutions are, after all, real and part of the existing literature has actual proof that they can work. Donors thus have the information available to them to make some changes and increase aid effectiveness. The only problem is that governments may not want to adopt these solutions because they are driven by personal interests. So maybe NGOs – which, theoretically, should be less driven by selfish interests – may consider new solutions to make the aid system a little bit better before it can be stopped once and for all.

3.5 – A world without aid

If donors might not be willing to change the current state of affairs and will keep on going with the aid system as we know it today, recipient countries should be the ones taking action.

Dambisia Moyo's (2009) can be recalled one more time at this point of the discussion. The second part of her book is titled "A World without Aid" (Moyo, 2009, p. 69). She basically gives some possible solutions to African recipient countries to strongly reduce their dependency on foreign aid.

Four solutions have been considered in this study.

The first solution is what Moyo calls a "Capital Solution" (Moyo, 2009, p. 77): issuing bonds. According to her, in the first decade of the 21st century, 43 developing countries issued international bonds, but only three were African. Given that a bond can simply be considered a loan that the borrowing government promises to repay to the lender plus an agreed interest rate, African countries should have started getting money in this way rather than staying dependent on foreign aid. The money borrowed could have then be invested where the government wanted, without listening to what donors might have to say. This money would have been free from chains.

The second solution is recognizing the positive effects of Foreign Direct Investment (FDI). Moyo underlines the commitment of China to FDI, both directly through the government and, indirectly, encouraging Chinese companies to invest money in Africa states. "China needs fuel, and Africa has it" (Moyo, 2009, p. 111). This is a win-win scenario: investors have a certain level of economic growth to sustain, while Africa sees the money invested as a way to reduce poverty, to create new jobs, to acquire technologies and know-how, to build new infrastructures, without relying on foreign aid.

The third solution is trading. Moyo considers the double effect of trade on growth: it increases the amount of goods and services that can be sold abroad, and it rises workforce productivity. A clarification is needed: we cannot consider Africa as one big country exporting with the rest of the world. Inter-country trade is absolutely crucial here and its barriers must be dismantled. All African countries should be able to trade in and out of Africa. Trade generates income for the

country's exporters which are then taxed, in this way increasing the money the government can use for public expenditures. Money that do not come from donors but from doing business.

Lastly, Moyo considers micro-lending as a possible solution. Very small loans can sometimes make the difference in poor families, allowing them some food and improving their living conditions. Loans that can be granted with very easy solutions. She recalls the Grameen Model[21] as one way to guarantee money through a loan even to the poorest of the poor. With the model, a very poor person with no collateral at all can be eligible for a loan. The only condition is that the loan must be repaid with interests, in order to allow another person to receive the loan. Once again, no donors involved, no foreign aid coming from anybody. Just a pure, simple lending system.

Recipients thus cannot only sit there and wait until the aid system stops. They must take action, because donors are the one holding the reins and desiring things to keep on going the way they are. Recipient countries have the solutions to stop being dependent on others. They only need to implement them.

Conclusion

Despite the long history of foreign aid, what appears to be very clear from the existing literature is that the aid system is not working. It is active, it is having an impact, but it is not the impact it should have. If it was really 'aid', it would help poor recipient countries getting out of poverty and growing in economic terms. The evidence, however, does not show this. No matter the changes that foreign aid went through, its effectiveness has not improved. It got worse. It failed in reducing poverty and helping poor economies to grow, its effects on human development were rarely positive. When it tried to improve the political environments in recipient countries it made things worse than before. When donors tried to stop or severely decreased foreign aid it even caused armed conflicts. The aid system came to the point that even stopping it is dangerous.

[21] http://www.grameen.com/introduction/

And to get to such a catastrophic state of affairs, it means that the system has been fed with wrong decisions. Decisions that were not wrong in the eyes of who made them but that were actually going according to plans in their opinion. Those decisions to allocate aid were driven by self-interests and personal motives. This is true for governments and at times even NGOs – considered the most 'honourable' between the two – showed to be driven by not-so-honourable motivations when deciding where to allocate aid.

No matter how pessimistic the existing literature on foreign aid is, solutions are given. And if the possible solutions were discussed in this thesis, of course those responsible for giving aid have access to these same solutions. The only thing that is missing is their desire to change the system.

So should, as Moyo (2009) has shown, be the recipient countries the ones taking action to change things?

Or is it possible that the aid system changes and becomes more efficient when private companies in Western rich donor countries start 'doing good' in poor countries?

The fourth and final chapter of this thesis will address this final question.

Chapter 4

The privatization of the aid system

4.1 – Foreign aid as a possible Corporate Social Responsibility strategy

Foreign aid has shown to be a broken system so far. It does not seem the right way to reach a sustainable global economic development. Governments have been pursuing their own political and strategic interests in those countries where they were 'helping'. The aid they provided came with so many conditions that it was a way to impose their own will. Recipients were not allowed to decide how to allocate aid. In this way, disbursements became worthless. No attention was paid to the real needs of recipient countries. The manoeuvres that were taken did not help to get African nations out of poverty. In some cases, they even worsened things. So NGOs tried over the years to do what governments failed to do. Seen as detached from governments and purely driven by altruistic motivations, NGOs were and are considered to have a positive impact. However, the existing literature shows that even NGOs at times are not completely honest. It happens that some operate in environments that are easier to deal with. Sometimes they do not pay attention to the neediest but decide where to help looking at internal factors. Some authors even argue that NGOs can act as governments' puppets: they do what they are ordered to do, feeding a well-orchestrated plan that keeps rich Western nations under a positive light while causing even more damages in less developed countries.

So despite how altruistic in nature foreign aid seems to be, the truth is that it does not work. Or, at least, it does not work when it comes from governments and at times even from NGOs. Is it possible, then, that the aid system becomes more effective and efficient when private companies embrace it? Given that they may not have relations with the government of the country they come from, is it possible that they are free from personal interests and are only driven by altruistic desires?

The discussion that follows analyses the privatization of foreign aid. In the last 30 to 40 years, greater attention has been given to Corporate Social Responsibility (CSR) as a way to improve a company's image and reputation in the eyes of customers. From the company's point of view, CSR is the understanding that every firm has an impact on the society and environment in which it operates and they have to be accountable for it. This means that companies have to positively contribute to the society and the environment, not negatively. From the customer's perspective, this translates into a better image of the company and its brand. If people know that they are buying from a company that is socially responsible, they believe that the money they are spending for a product or a service are somehow coming back to them as they are part of the society in which the firm operates.

Companies can be socially responsible in many different ways. They can use renewable energy in their daily activities so as to preserve the environment, they can hire people from every part of the world no matter the colour of their skin, or they can make donations nationally and abroad. This last aspect is the one the discussion will be based on. Philanthropic companies understood that a very good way to enhance their image and reputation was by showing how generous and altruistic they can be. Donating to the local charity or to a non-profit organization (NPO) active worldwide is a way to show to existing and potential customers the company's good intentions. Many have argued that despite the real good intentions of some organizations, these philanthropic manoeuvres are just another way to increase sales. This seems to be true especially when new marketing strategies such as cause-related marketing are used. Donating may become a profit maximizing tactic.

4.2 – The social enterprise

"Social enterprises truly 'serve two masters' – they have a profit motive, but their social and environmental missions are at the core of their business models" (Plerhoples, 2012, p. 223). Despite how well-intentioned companies may seem when showing their social and environmental responsibilities to their customers,

people must always keep in mind that they are, after all, for-profit organizations. It means that at the end of the day, shareholders have to be satisfied: they have to see money. And how can they see this money? With profits.

To understand the social enterprise, Plerhoples (2012) talks about the organizational spectrum as being limited by two extremes. At one extreme, there are those companies that only seek profits, also called profit-maximizing firms, whose purpose is to satisfy shareholders' financial interests first. At the other extreme are non-profit organizations, driven solely by social and environmental missions. According to the author, the social enterprise lies somewhere in the middle: it blends profit seeking with social missions. This is a very clever way of doing business as customers might prefer – between two companies offering the exact same product at the exact same price – the company being also socially responsible. They might somehow see the money they spend as coming back to them – not exactly to them, but to the society they live in.

In order to become a social enterprise, when developing its business plan the company has to rethink its corporate form and adapt it to its conjoint mission of profit seeking and socially responsible organization. Plerhoples sees the 'flexible purpose corporation' as the best solution to allow top managers to pursue social objectives while satisfying shareholders economic interests (Plerhoples, 2012, p. 248). This type of corporation sees that blending profit seeking to social causes can increase return on investment (ROI) and satisfy shareholders even more.

But who would invest money in a flexible purpose corporation? Although there would still be traditional investors investing capital in this form of corporation, it will also attract "impact and social investors" (Plerhoples, 2012, p. 252). Specifically, these could be sustainable investing funds or venture philanthropic firms. Such investors, from their side, will need to evaluate the social return of the investment they have made. What they can use for such evaluations is what Plerhoples calls "Social Return on Investment (SROI)" (Plerhoples, 2012, p. 256). Impact and social investors are, after all, investors: what they need is a way to measure social returns as much as traditional investors need a way to measure financial returns. SROI can reliably show them if their investments created positive impacts in terms of social and environmental benefits.

To sum things up, more and more shareholders have both financial and social interests for their investments. The flexible purpose corporation is the corporate form that best suits those social enterprises that seek to satisfy this double interest of shareholders. But in order to stay in business, they have to attract impact and social investors that can rely on analysis tools showing them the real social returns of the investments they have made.

At this point of the discussion, one might be wondering what causes companies to start thinking about being socially or environmentally friendly – despite a pure desire to do something good. As already pointed out, one main motivation could be to enhance the company or brand image. In what follows, attention will be given on the motivations that push corporations to donate, would it be nationally or abroad.

Donating to charities or – more broadly speaking – to the 'neediest' is not something new. The scientific research studied companies that started to 'do good' more than 30 years ago. An example is the paper by Navarro (1988) that addressed one main question: *why do corporations give to charity?* In an analysis of 249 firms over the period 1976-1982, what the author found out is that donations were actually a way to maximize the firm's profits. He also saw evidence that contributions to charities were increasing with increasing advertising expenditures and with increasing price-cost margins. Others, such as Adams and Hardwick (2002), who used 1994 data drawn from 100 firms in the United Kingdom, found evidence that donation levels were higher in bigger (in terms of size) and more profitable firms. So when companies have extra money to spend, they might more easily donate to charities. However, despite how good intentioned this might seem, it is crucial to keep in mind that these donations might actually be an investment in the eyes of corporations. What they are doing is investing to create a better image of the company and become more appreciated among actual and potential new customers. Recognizing a company or a brand as socially responsible might end up affecting the purchase behaviour of customers who would feel good with themselves after spending money on a social enterprise. From the company's perspective, this status of social enterprise

can be seen as a sales-increasing machine and, by consequence, as a profit maximizing tool.

What has been said so far and what will be said later on in this chapter must not be generalized to all companies donating to charities, NPOs, research institutes, schools, or whatever they are donating to. Instead, the discussion must be considered as a critical and well-thought analysis that goes under the surface and beyond the appearance. There is a very fine line that companies must be very careful not to trespass too publicly when 'doing good' if they do not want to cause damages to their reputation. This said, in some cases this line has been trespassed on purpose by companies but in a way that is not apparent to the usual customer. At times, companies have been able to use strategies to show their altruism and care for a cause while exploiting the situation to increase their sales. In doing so, their status of social enterprise is maintained but in a very profitable way. The next two parts of the chapter analyse two of the strategies that organizations are using: corporate philanthropy (that can become purely strategic) and cause-related marketing (C-RM). The final part, instead, will analyse a case study: TOMS Shoes, an American shoe-maker that can be considered a social enterprise at all effects and has been using cause-related marketing strategies to increase its sales.

4.3 – Corporate philanthropy

When searching online the definition of *philanthropy*, a common meaning is attributed to this word: love for the human race and care for its welfare. It is an active effort to improve the overall welfare of humans no matter where they come from, in a way that enhances the quality of their life. Philanthropic donations are seen as the main way to reach such altruistic objectives. Individuals can donate to the local charity or to an international NGO. Businesses can do the same, often with much bigger donations.

Given its altruistic and caring nature, philanthropy is seen very positively by many people. After all, it is nothing else than a pure benevolent act of giving something yours to someone that might need it more than you do. Very often this 'something'

is money. It we think about it, giving money is the first thing that we would consider when deciding to help someone in need. Businesses, then, having large amounts of money, might end up giving part of this money to charities or NGOs. When this happens, we can talk about corporate philanthropy.

As previously stated, corporate philanthropy is considered a very powerful type of corporate social responsibility (CSR). Donating money in purely altruistic and philanthropic ways, businesses can show how much responsible they feel for the wellbeing of the society in which they operate. However, part of the existing literature on CSR has warned against this "convergence of business and government" (Sasse and Trahan, 2007, p. 30) in which companies want to be responsible for the society – something that governments usually are asked to do – as it could represent a clear search for profits.

Customers, from their side, easily believe in these good intentions of companies and start looking at them from a new, more positive perspective. Firms, in this way, enhance their image and reputation. In support to this last assumption is the study by Brammer and Millington (2005) who found clear evidence that companies spending more in philanthropic expenditures have better reputations. This is because different stakeholders (would they be customers, suppliers, investors or current and potential employees) will hold more positive impressions of philanthropic corporations. Furthermore, the authors showed how this varies across industries. Specifically, they demonstrated that the link between reputation and philanthropy is stronger in those industries that have serious social externalities, such as the alcohol and tobacco industries. Considering the negative effects that both alcohol and tobacco can have on consumers, companies selling these products may already have weaker reputations if compared to firms operating in other industries (e.g.: clothing). Philanthropy can then be used "to mitigate the negative reputational consequences of operating in controversial business sectors" (Brammer and Millington, 2005, p. 40). In other words, philanthropy can be used strategically. From the company's point of view, philanthropy becomes a way to obtain a positive public image that will associate the firm and its brand to a good cause, in this way affecting the consumer's

purchase behaviour who will have a stronger propensity to buy the company's products or services.

McAlister and Ferrell (2002) defined strategic philanthropy as "the synergistic use of organizational core competencies and resources to address key stakeholders' interests and to achieve both organizational and social benefits" (McAlister and Ferrell, 2002, p. 690). According to this definition, it becomes easy to understand how much social enterprises – whose purpose is to blend profit seeking with social objectives – would benefit from strategic philanthropy as the two concepts share the exact same purposes. Furthermore, the definition by McAlister and Ferrell tells us something very important: in order to be considered strategic, philanthropy has to be aligned with the core competencies and values of the company. Once this alignment is constructed, however, a long-term commitment to the philanthropic intentions has to be established. In addition, a detailed market research will be needed in order to understand stakeholders' expectations and their propensity to support and align with the activities the company intends to carry on. After all these issues have been satisfied, the full potential of strategic philanthropy can be reached. Customers – both existing and potential ones – will more easily believe in the altruistic desire of the organization to do something good.

A lot of research has focused on what makes philanthropy a strategic tool. For instance, in a survey of 200 large British organizations, Brammer *et al.* (2006) analysed how companies strategically manage their corporate philanthropic activities. What they found out is that philanthropy can be considered strategic under a set of different circumstances: if it is under the control of the main board of directors, if it is associated with specialized CSR roles, if it is subject to formal planning and budgeting, and if philanthropic expenditures are extensively communicated externally to the company. Looking deeply at their results, the authors saw that in a third of the companies considered, the CEO or someone else in the top management team was directly responsible for managing donations, underlying the importance (in strategic terms) of such expenditures in the eyes of directors. However, it was very common among the 200 companies that the management of donations was delegated to those organizational

functions that more often interact with the external environment, like the public relations function. This actually reflects the strategic need to externally communicate the philanthropic activities of the firm in a very efficient way. And to get it done, firms need to delegate those employees with the right communications skills. After all, being the result of scrupulous planning and budgeting, corporate philanthropy at times can be inserted in the marketing plan of the organization. When it happens, the message outside has to be heard loud and clear but in a way that does not make customers doubt the apparent good intentions of the company. Companies want external stakeholders to believe that their philanthropic efforts are purely altruistic and not driven by personal gains. To do so, everything has to be perfectly orchestrated and adjusted to the circumstances.

Liket and Maas (2016) further enrich the discussion on corporate philanthropy. In their opinion, in order to be considered strategic, corporate philanthropy should impact positively both the business and the society. It should not only be a way to enhance the company's reputation (Brammer and Millington, 2005) but it should seek both organizational and social benefits (McAlister and Ferrell, 2002). The authors define it as a "happy marriage of corporate social responsibility behaviour and corporate financial performance" (Liket and Maas, 2016, p. 889). However, according to the authors, firms cannot be strategic when practicing philanthropy if they cannot simultaneously measure the real impacts they had on both business and society, even though it is possible to measure them and still not be strategic. Impacts on business can be assessed by analysing the relationship existing between philanthropic expenditures and corporate financial performance. As corporate philanthropy is sometimes used as a marketing tool – it enhances a company image and reputation – its impact can be evaluated with techniques similar to those used to evaluate a marketing campaign (even if a specific measurement system should be developed). On the other hand, measuring the social impact is somehow more problematic and the existing literature is kind of short on solutions. What Liket and Maas tried to do was to understand if it exists a trend in favour of a simultaneous measurement of both business and social impacts, as this is what their perspective on the meaning of

strategic philanthropy implies. In an analysis of 262 companies over the years 2006-2009, the authors discovered that a measure of overall *corporate social performance* (CSP) was the most important driver of engagement in strategic philanthropy. CSP can be defined as "a set of descriptive categorizations of business activities that focus on the impact and outcomes for society, stakeholders, and the company itself" (Wood, 2010 in Liket and Maas, 2016, p. 899). To simplify a little bit, what the authors believe to be necessary to consider philanthropy as strategic – a simultaneous measurement of the impacts on both business and society – can actually be achieved by measuring the CSP. In this way, the company will be able to quantitatively assess the effects its philanthropic decisions have had on multiple stakeholders, both external and internal ones. By doing so, managers will be able to understand if the strategic moves have been successful or not at meeting the predetermined objectives.

To conclude, corporate philanthropy appears to be a strategic way to improve the company's reputation. Customers seeing an organization making philanthropic donations may develop a better image of the brand in their minds and associate it to a good cause, affecting their purchase behaviour in a positive way (making them more inclined to buy). Put in these terms, corporate philanthropy seems to be a deceptive marketing strategy. The fact is that at times this can be case, and some other times purely altruistic desires can instead drive corporations to donate. The ability of those companies using corporate philanthropy strategically – as a way to increase sales – lies on communicating their philanthropic actions in ways that show the organization's altruism – which may not even exist – so that customers will not question their *apparently good* intentions. Without generalizing this final comment to all philanthropic corporations, when this happens, corporate philanthropy becomes a pure marketing tool. It becomes an 'unethical' – for some aspects – way of pursuing financial interests through the exploitation of a good cause. The damages that a common understanding among customers of this deception can bring are enormous from a reputational standpoint. But if everything runs smoothly and the right message is communicated, the gains can be very large. It all falls down to basic marketing theory.

The next section on cause-related marketing further explores the potential of exploiting a good cause for businesses' personal interests and benefits.

4.4 – Cause-related marketing

Companies' interests in society's wellbeing started as a merely altruistic desire to do something good outside the business environment. This corporate philanthropy then blended organizational and social benefits, becoming in this way strategic and was seen as a way – in addition to doing good – to enhance the company's image and reputation. But when companies look at their social responsibility as an investment aimed at improving their financial performance, it becomes easier for firms to embrace the so called *cause-related marketing* (C-RM). "Cause-related marketing is the process of formulating and implementing marketing activities that are characterized by an offer from the firm to contribute a specified amount to a designated cause when customers engage in revenue-providing exchanges that satisfy organizational and individual objectives" (Varadarajan and Menon, 1988, p. 60).

As can be clearly understood from this definition, C-RM differs a lot from strategic philanthropy. No matter how exploitative strategic philanthropy can be at times, its focus is on achieving both organizational and social benefits at the same time using the company's core competencies and it is not tied to sales volumes. C-RM instead ties the amount that will be donated to the company's sales: if no product or service is sold, no donation will be made. In line with these final comments are McAlister and Ferrell (2002) who argue that when implementing strategic philanthropy, companies' primary focus is on the organization, while with C-RM, the primary focus is on the product. It seems like if strategic philanthropy associates the whole company to a good cause (in this way enhancing its image and reputation), while C-RM associates the product (or service) offered to a good cause (increasing the chances of people buying it and enhancing the company's image and reputation). Despite the fact that both aim – although with different approaches – to improve the brand or company image, Chen and Huang (2016)

demonstrated that, overall, C-RM helps less than strategic corporate philanthropy.

Another difference between strategic philanthropy and C-RM is on the time frame. McAlister and Ferrell (2002) consider the former as an ongoing process while the latter as traditionally of limited duration. This final consideration goes against Varadarajan and Menon (1988) who suggest a medium- or long-term focus of C-RM. However, according to the authors, the time frame changes whether C-RM is considered tactical or strategic. Overall, strategic C-RM is characterised by a longer commitment, more resources invested and higher management involvement than tactical C-RM. Van den Brink *et al.* (2006) schematically represented this differentiation (Figure 5) adding one more variable: the congruence between the cause and the company's core competencies is higher in strategic C-RM. The authors showed that strategic C-RM is better than tactical C-RM when creating brand loyalty: the longer-term commitment plays a crucial role.

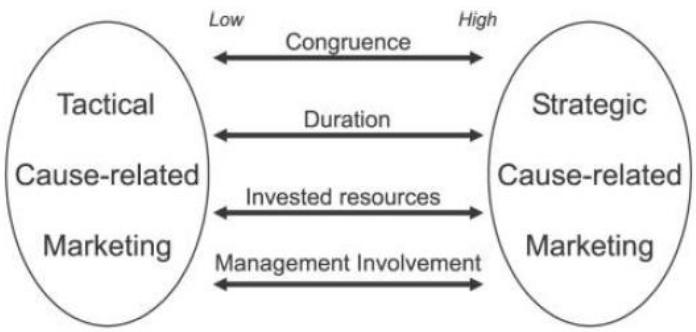

*Figure 5 - **Tactical and Strategic C-RM**. (Van den Brink et al., 2006, p. 16)*

4.4.1 – Cause-related marketing objectives

The definition of cause-related marketing already makes us understand how it can be used as a mere marketing tool aimed at increasing sales. Sales increment is the first and most clear objective of corporations adopting C-RM activities in their marketing campaigns. Linking sales volume to donations volume, customers might feel a stronger desire to buy from the company in order to fulfil a personal need of doing something good for someone else. This view finds wide support in the existing literature (McAlister and Ferrell, 2002; Varadarajan and Menon, 1988).

Varadarajan and Menon (1988) further explore which goals and objectives companies try to achieve with C-RM.

From a Public Relations perspective, C-RM can go right against the negative publicity that some firms may encounter in their life span, having a thwarting effect. Some companies can use it to pacify customer groups that have been protesting against the company and its way of doing business. All of this would enhance the company image – even though, as seen before, corporate philanthropy might lead to better results than C-RM (Chen and Huang, 2016).
From a marketing perspective, C-RM can be used to gain wider visibility thus increasing the brand awareness and recognition. Once this is achieved, the customer base can be broadened and the company will be able to reach new market segments, both nationally and internationally. In addition, if the C-RM campaign is well implemented, a long-term commitment to a good cause can be shown to customers who will be willing to come back to the company and purchase repeatedly.
All of this, when put together, will increase the sales of the product or service offered.

There are, however, other objectives that more altruistic and philanthropic companies may try to achieve: these are what Varadarajan and Menon call "Cause-Related Objectives" (Varadarajan and Menon, 1988, pp. 62-63). Most of the companies using C-SR may truly desire to generate as much funds as possible for a specific good cause. In addition, if the organization management and its employees truly care about the cause, the goal of the C-RM campaign would be to increase people's awareness of the cause and its mission and activities. In this thesis, as will be explained later on in this chapter, no one is pointing the finger saying that all those companies using C-RM do not care at all about the cause they are giving money to. Nor any generalization is being made. Companies might actually believe in what they are doing and this honours them. They are demonstrating how much they care about others despite being profit-seeking firms. However, as we will see, it might be the way in which C-RM is used that is wrong.

To conclude, C-RM consists of sending out clear messages about the company's intentions of 'doing good'. As a marketing tool, it has to be seen as an investment companies make to create a winning situation for themselves: increasing sales. But the message that gets out of the organization communicates something more. Customers have the tools (e.g.: the internet) to identify business strategies and activities and to collect enough information to understand that C-RM may actually benefit the company itself first. However, the C-RM campaign also shows how companies want to create a win-win-win situation. First, as customers understood by themselves, the firm increases its sales. Second, the charity or NGO or whatever/whoever the recipient might be, receives funds. Third, the customer himself/herself gets the product or service that he/she needed while contributing to a good cause. The consumer will feel good with himself/herself for the good action made. Everybody wins. Everybody gets what they need. An issue might be how this gain is distributed among the three characters involved (the company, the recipient and the customer). The next session discusses how both existing and potential customers perceive C-RM and how it influences their purchasing behaviour.

4.4.2 – Customers' perceptions of and responses to cause-related marketing

It is now time to look at how customers – being the first target of C-RM campaigns – perceive C-RM and how they respond to it. In particular, some questions will be addressed.

Which motivations, according to consumers, drive firms and NPOs to use C-RM campaigns? How do consumers react to these motivations?

Which factors more positively affect consumers' perceptions of C-RM?

The paper by Webb and Mohr (1998) answers to the first two related questions. Using data from 44 interviews with people aged between 18 and 86 years old, the authors' results were very interesting. According to half the respondents, companies engaged in C-RM activities for personal gains (increasing sales and profits, better publicity). The other half truly believe that part of the motivation was altruistic in nature. This means that half the interviewees considered C-RM as an

effort to create a win-win situation: the company benefits in monetary and reputational terms, while the recipient receives funds. The authors safely stated that half the respondents had positive attitudes towards companies using C-RM. The same people were also asked what, in their opinion, was driving NPOs to engage in C-RM activities with firms. Some people answered by telling what, in their opinion, NPOs were actually seeking: sometimes it was money, some other times publicity for their cause or help to achieve their goals. Other respondents concentrated on what they believed the NPO was going to do with the money received. The most positive answers implied people believing that NPOs were actually going to use the money to improve people's lives, while the most pessimistic ones thought the money was going in the pockets of NPOs' leaders. In general, although someone distrusted them, a positive view of NPOs engaging in C-RM activities with firms emerged among respondents, seeing them as the 'good guys' that actually want to do something good for the society they live in.

However, just listening to what people think about C-RM activities is not enough to understand the effects C-RM can have on their purchasing behaviour. On the basis of the comments received about companies and NPOs motivations to engage in C-RM, Webb and Mohr tried to understand if C-RM affected respondents' spending patterns. Only 17 interviews could be evaluated. Around one quarter were implying that C-RM does not affect their purchasing behaviour at all, while one quarter said it was strongly impacting their spending decisions. 41% said that C-RM was only having a little impact on their purchasing decisions (Webb and Mohr, 1998, p. 231). As evidence suggests, C-RM can actually impact people's purchasing behaviour positively – making them more willing to buy – as a pure marketing tool would do.

At times, interviewees said that C-RM was not changing their minds or affecting their spending behaviour. Rather, they made decisions based on price, quality or convenience. What might be very interesting to better understand consumers' responses to C-RM is the division of the respondents in four groups that Webb and Mohr have made based on the factors that actually dominate the way they perceive C-RM and influence their responses. These four groups are: *skeptics*, *balancers*, *attribution-oriented* and *socially concerned* (Webb and Mohr, 1998,

pp. 232-236). *Skeptics* actually believe that firms are just taking advantage of a good cause for personal gains, seeing C-RM as a marketing tactic used to manipulate people. *Balancers* have positive feelings about C-RM and its effects, but their purchasing decisions are rarely affected by such promotions. *Attribution-oriented* show to create in their mind a more positive image of the company using C-RM even though most of them did not change their purchasing behaviour (but it could happen in the long run). Lastly, *socially concerned* give more attention to the help given to the good cause than to the company's reasons for helping, making this group the most vulnerable to exploitation.
What this last categorization wants to highlight is the heterogeneity existing among consumers. However, it can be safely concluded that – for the majority of cases – C-RM does meet its objectives: it enhances the company image and even affects consumers' spending choices. This represents a winning situation for the company, now possessing a marketing tool that increases its sales and enhances its reputation simultaneously.

The article by Barone *et al.* (2000) further investigates the perceived motivations driving companies' C-RM activities and how they influence consumers' buying behaviour. What they found out is that the influence of C-RM on purchasing behaviour depends on the motivations consumers perceive to be moving companies towards C-RM efforts as well as whether consumers have to trade off the company's good intentions for lower levels of performance or higher prices of the product/service offered. The authors suggest some "boundary conditions" (Barone *et al.*, 2000, p. 258) for C-RM effectiveness. According to their results, between two companies offering the exact same product, customers will be more stimulated to buy from the company possessing a competitive advantage in terms of C-RM efforts. However, any investment made to increase the C-RM activities would be unnecessary in this case. Things change when brands heterogeneity is at stake. Between two different companies that present trade-offs across brands, customers will be more willing to buy from the organization with the biggest C-RM advantage. To sum things up, C-RM offers a competitive advantage when consumers believe it is cause-beneficial and not cause-exploitative. This advantage does not require further investments in conditions of brand

homogeneity, which are instead necessary to compensate the performance or price trade-offs occurring under brand heterogeneity. For marketing managers deciding to invest in C-RM – in merely exploitative ways – an analysis of competitors' C-RM efforts will be necessary as much as an understanding of consumers' perspective to guarantee the maximum return on investment.

It is now time to address the second question posed at the beginning of this sub-chapter. To recall it, the question was: which factors more positively affect consumers' perceptions of C-RM?

One single answer to this research question does not exist. Several factors have been found in the existing literature that suggest a more positive perception of C-RM campaigns in consumers' minds. The following discussion analyses – based on a literature review – some of these factors and their relative effects. Specifically, attention will be given to the *proximity* of causes, the *framing* of the C-RM campaign, the *donation quantifiers and donation size*, the *donation deadlines and donation caps*, the *campaign disclosures*, and the *brand/cause fit*.

Proximity

Generally, the higher the proximity of the cause supported – meaning a company giving funds to the local charity rather than to an international NGO – the higher the level of trust and the more positive consumers' perceptions of the C-RM campaign will be.

Grau and Folse (2007) were concerned with the lower levels of involvement with social causes among younger generations. A less involved and less socially conscious consumer requires companies to rethink their C-RM strategies. What the authors found out is that local donations represent much more favourable C-RM outcomes when less involved people are targeted than national or international donations. Grau and Folse explain that people "will be more inclined to participate in C-RM campaigns when they believe those within their closer physical space will be directly impacted" (Grau and Folse, 2007, p. 21). In this way, consumers will have a more tangible and concrete value of the C-RM campaign results.

Another study worth mentioning is the one by Ross III *et al.* (1992). They investigated whether gender and proximity of the cause were positively

influencing consumers to engage with companies' C-RM campaigns. According to their results, women's perceptions of C-RM campaigns were overall more positive than men's – who tended to see C-RM as cause-exploitative – but the proximity of the cause did not have a very strong impact. However, as the authors cautiously pointed out, firms' C-RM efforts would be perceived slightly more positively when local causes rather than national or international ones are addressed.

Framing

Grau and Folse (2007) – investigating how firms can more effectively target less involved and less socially conscious consumers – found out that the way in which the messages of the C-RM campaign are framed matters a lot. In particular, framing theory has proven over the years that presenting a particular message with positive (gains) rather than negative words (losses) can elicit different responses. The authors' results show that for less-involved consumers, positively framing the message will end up in higher levels of involvement across this market segment. This is because showing, for instance, the survival rates rather than the death rates in the message, less socially conscious consumers will develop more favourable evaluations of the C-RM campaign. The opposite is true for more involved consumers: being socially conscious, negative framing will have a stronger impact on them.

Managers seeking to maximize the returns from C-RM campaigns have to carefully analyse the market segment they want to target and frame the message accordingly.

Donation quantifiers and donation size

Consumers may differently evaluate a specific C-RM campaign depending on how precisely they can quantify the donations made by the company and on the actual size of these donations relative to the price of the product or service to which they are attached.

Grau *et al.* (2007) found out that 75% of the 112 respondents of their survey preferred to know the exact amount that was going to be donated to the cause before considering whether to buy or not. These people wanted details to diminish

as much as possible the ambiguity existing around the real amount donated, preferring more tangible information (Grau *et al.*, 2007, p. 78).

Furthermore, 65% of the 96 respondents believe that the price of the product or service attached to the donation matters in their evaluation of the C-RM campaign. Using the authors' example, it means that donating to the cause $1 for each vacuum priced $150 that is sold, consumers would become skeptical and would see the C-RM campaign as cause-exploitative (Grau *et al.*, 2007, p. 80).

Managers would better pay attention to the clarity given to consumers about the amount being donated and to the size of this amount relative to price.

Donation deadlines and donation caps

Donation deadlines limit the duration of C-RM campaigns. Donation caps limit the maximum amount that the entire C-RM campaign will donate to the cause, as a way to secure companies from excessive financial exposure.

Grau *et al.* (2007) demonstrated that "consumers do not generally view deadlines and caps negatively" (Grau *et al.*, 2007, p. 85). Specifically, out of 102 respondents, 60% felt having a deadline was reasonable for companies and 21% thought it was a negative thing. Concerning donation caps, out of 95 responses, 68% had positive perceptions about them, considering caps as fair and necessary as donors in this case are businesses after all. 23% of respondents viewed donation caps negatively, sometimes perceiving them as compromising the firm's commitment to the cause. (Grau *et al.*, 2007, pp. 81-85)

Managers should consider whether to insert deadlines or caps to the donations made through C-RM activities. Despite the literature suggests that consumers may accept such 'restrictors', someone might not share this positive viewpoint, negatively affecting the results of the C-RM campaign.

Campaign disclosures

The way the company externally communicates the results of its C-RM activities at the end of the campaign (under the assumption that a deadline exists), can have consequences on how consumers perceive the whole C-RM campaign. If people do not hear anything from the company, they may believe that the firm just made fun of them and exploited a good cause only for personal gains. From

the company's perspective, disclosing the results of the C-RM campaign represents a public relations challenge.

In order to address such issues, Grau *et al.* (2007) investigated consumers' feelings about the company's promotion of the C-RM campaign. In the scenario of a firm that spent more on promoting the C-RM campaign than the amount donated as a result of the campaign, out of 98 people, 76% of the respondents expressed negative feelings (Grau *et al.*, 2007, p. 85). In fact, someone believed that the company should have made the donation directly instead of spending money for the promotion of the C-RM campaign. Others saw the C-RM campaign as a merely publicity tool, aimed at increasing the company sales and not at actually caring about the cause.

Managers have to be very careful when disclosing the results of the implemented C-RM campaign. Just one wrong promotional move can result in very bad perceptions of the general intentions of the C-RM campaign and harm the reputation of the company itself. It is much easier to increase sales than to find remedies to a damaged reputation.

Brand/cause fit

The fit between the brand or company and the cause targeted by the C-RM campaign can affect consumers' choices. Overall, the existing literature seems to agree that a stronger brand/cause fit more positively impact consumers' purchasing behaviour.

In line with this view are Pracejus and Olsen (2004). Studying data drawn from 329 respondents, the authors found out that the perceived fit between the company and the cause can positively impact consumers' choices. In their first study, the high-fit C-RM campaign had 5 times the impact of the low-fit C-RM campaign, and 10 times the impact in their second study (Pracejus and Olsen, 2004, p. 640). These results confirm the strong impact that a perceived brand/cause fit can have on the C-RM campaign effectiveness.

Bloom *et al.* (2006) slightly disagree with Pracejus and Olsen. Although they believe that C-RM campaigns characterized by a high degree of brand/cause fit usually end up producing more positive consumer brand judgements and feelings with respect to campaigns with a weaker fit, some exceptions have been found.

In particular, they assumed that some consumers might see the high degree of brand/cause fit as opportunistic and merely seeking business gains, while a lower fit might more easily be perceived as a genuine act of generosity. The authors, however, cautiously conclude that a very poor brand/cause fit would damage a company's reputation.

Given these different opinions among academics, Barone *et al.* (2007) examined how the perceptions consumers have about brand/cause fit are moderated by the perceived company's motives for implementing a C-RM campaign and by the consumers' level of affinity with the cause. The authors concluded that when consumers perceive that negative motivations (e.g.: incrementing sales) have been driving C-RM activities, the existing brand/cause fit – would it be high or low – does not impact consumers' evaluations of the C-RM campaign. Furthermore, the higher the level of consumers' affinity with the cause, the lower the impact of brand/cause fit will be on consumers' evaluations of the C-RM campaign.

Managers implementing C-RM campaigns should bear in mind that a higher brand/cause fit does not always result in more positive consumers' judgements and evaluations of the C-RM activities. Although a higher fit is usually better, sometimes a cautious analysis of other factors might be necessary.

4.5 – A case study: TOMS and the 'One for One' Business Model

Blake Mycoskie founded TOMS in 2006, after a trip to Argentina. Seeing children walking barefoot around local poor villages of Buenos Aires and unable to go to school because of this lack of shoes[22], he decided to start a company making shoes to help the neediest children in the world. To do this, he invented what today is known as the 'One for One' Business Model[23]: for every pair of shoes that the company sells, TOMS is going to give away a free pair of shoes to a child

[22] Binkley, 2010: The Wall Street Journal (http://vandymkting.typepad.com/files/2010-4-1-charity-gives-toms-shoes-extra-shine---wsj.com.pdf)

[23] TOMS Teaching Guide: https://www.toms.com/static/www/pdf/SSTMTeachingGuide_Final_LR. pdf

in need. As of today, TOMS has been able to donate over 60 million pairs of shoes to children in need[24]. TOMS' intentions seems very altruistic.

Keeping in mind that TOMS is a for-profit organization, the company can surely be considered a social enterprise: it has a profit motive, but its social mission is at the core of its business model. And as a social enterprise, the 'One for One' model can be considered a cause-related marketing strategy: TOMS is only going to donate after a purchase occurs. And despite the fact that TOMS does not share its financial information, a simple calculation can show how much such a business model – fuelled by a C-RM strategy – is worth in monetary terms. By considering that, as of today, TOMS has donated over 60 million pairs of shoes[3], and that the first shoes were the classic alpargatas (Figure 6) costing between $50.00 and $60.00[25], we can multiply the same number of pairs of shoes donated (60 million) by an average price of $55.00 per pair of shoes, to get an approximation of the sales the company has been able to make with the 'One for One' model: the value is above $3 billion. Of course this represents just an elementary calculation, with no consideration of the pairs of shoes donated by the company without any purchase been made for them. However, in 2014, the company was valued over $625 million[26]: the 'One for One' business model has made TOMS a very high-value brand, reaching the first objective of a social enterprise – profit seeking.

*Figure 6 - **TOMS alpargatas***
Source: http://www.worksdesigngroup.com/brand-stories-toms-shoes/

But did the 'One for One' model also allowed TOMS to accomplish its social mission of bringing shoes to children in need? According to the company, it did.

[24] https://www.toms.com/about-toms
[25] https://www.toms.com/men/mens-shoes/classic-alpargatas
[26] https://www.bloomberg.com/news/articles/2014-08-21/bain-capital-buys-toms-the-625-million-do-gooder-shoe-company

However, looking more in depth, TOMS' business model has been criticised (despite being adopted by other brands[27]) and has even caused damages in some societies.

4.5.1 – TOMS 'One for One': explaining its [marketing] effectiveness

The 'One for One' model has without doubts been able to increase TOMS' sales. After all, a brand that gets valued around $625 million is a successful one. It is a brand that has adopted the right strategy: the name of this strategy is, of course, 'One for One'. This section will not look at whether TOMS has actually been able to help children in need. TOMS' impact on children has been widely reported by the company itself[28]. Instead, here the discussion will analyse how the 'One for One' model has been an effective cause-related marketing strategy for the company. As of today, TOMS' official Facebook page has over 4.1 million likes[29], its Instagram page has over 880 thousand followers[30], and almost 2 million people follow the company on Twitter[31]. To become so appreciated, TOMS has been able to convince people of its good intentions to so something good for the less fortunate through its 'One for One' model.

In order to understand how TOMS was able to make this happen, the previously discussed factors that somehow can enhance people's perception of C-RM campaigns can be analysed to understand people's perceptions of the 'One for One' model.

Proximity – as previously discussed, the higher the proximity of the cause to the company, the easier will be for people to trust the good intentions of the firm. However, according to Ponte *et al.* (2009), helping "distant others" (Ponte *et al.*, 2009, p. 304) gives to companies the possibility to be less accountable to its customers – as people will find it harder to know exactly the results of companies' donations. TOMS, by giving shoes to children in more than 60 countries around

[27] http://www.realclearlife.com/books/16-brands-use-toms-model-one-one-giving/
[28] https://www.toms.com/static/www/pdf/TOMS_Giving_Report_2013.pdf
[29] https://www.facebook.com/TOMSitaly/?brand_redir=8416861761
[30] https://www.instagram.com/TOMS/
[31] https://twitter.com/TOMS

the world – 64 in 2013, to be precise, 40% of which were African states[32] – can benefit from less local accountability would the donated shoes fail to bring the promised benefits.

Framing – in a marketing campaign, positive words will have more effects on people less involved with the cause. Given that TOMS actually aims at a younger generation of consumers, its main marketing videotape – which will be analysed in the next section – portrays TOMS as the good saviour that helps poor children who need shoes. As we will see, it shows young attractive boys and girls that go in poor communities and put little shoes on children's feet, making them smile. TOMS has been using the right words and scenes for its customer target.

Donation quantifiers and donation size – as it turned out, people prefer to know exactly what a C-RM campaign is going to donate after their purchase. They want to be able to quantify exactly how much they are contributing to the good cause. Once again, TOMS was very clever. The company tells exactly how much it is going to donate: one pair of shoes for each pair of shoes that is sold. Furthermore, the donations equal exactly what the consumer has bought (a pair of shoes): so people know the donation size. And this might be enough for them: they will see the donation as fair and altruistic, maybe becoming loyal customers. However, they might not know that TOMS spends only around $9 to produce a pair of shoes[33] which then it sells for even $100. In customers' mind, once they know exactly what is donated – a pair of shoes – no other information is necessary.

Donation deadlines and donation caps – although most people see both donations deadlines and caps as necessary (because, after all, these are for-profit companies), others believe that organizations – if they really mean to do something good for others – should not put limitations to their donations. TOMS never spoke of limiting its donations. On the contrary, as its 'One for One' model is actually its business model, donations will keep on going.

Campaign disclosures – people prefer to know what has been donated at the end of the C-RM campaign: they want to see results. TOMS – even though it is not going to end its 'One for One' model – discloses its results out loud to the public.

[32] https://www.toms.com/static/www/pdf/TOMS_Giving_Report_2013.pdf
[33] https://bizgovsociii.wordpress.com/2012/04/16/toms-shoes-doing-more-harm-than-good/

For instance, in the Giving Report 2013[34], the company answers to several questions that consumers might be interested about, such us which kinds of shoes are being donated and where, how many shoes have been given, how much time is needed between the purchase and the actual act of giving the free pair of shoes. This information is disclosed to make customers fully aware of what they are contributing to through their simple act of purchasing a pair of TOMS shoes for themselves.

Brand/cause fit – overall, the existing literature has shown that a higher brand/cause fit translates into a more positive impact on consumers' purchasing behaviour. TOMS – which started as a shoe-maker – based its business model on giving shoes – equal to the ones he was selling – to poor children who couldn't afford a pair. This obviously created a good first impression which translated in loyal customers believing in the company's mission of putting a pair of shoes on poor children's feet in order to allow them to go to school, get a proper education, and help their own countries getting out of poverty in the future.

4.5.2 – The messages and images of TOMS marketing campaigns

Bell (2011) examined the racialized representations of the 'Product (RED)'[35] website and its marketing campaign's use of a consumer-celebrity fund-raising model. Bell observed what (RED) 33-second video '*The Lazarus Effect*'[36] was all about. The title itself (*The Lazarus Effect*) is a Biblical reference to a miraculous return from death. Product (RED) is an initiative that Bono (the Irish rock star) launched at the World Economic Forum in Davos in 2006. Big corporations – such as Apple, Converse, Gap – designated (RED) products and donated part of the profits to the Global Fund, using the money in six African countries to fight AIDS. What is shown in '*The Lazarus Effect*' video is the miraculous transformation that can occur after people buy one of products (RED): someone in Africa will receive the pills to fight AIDS, saving their lives. "One can make a

[34] https://www.toms.com/static/www/pdf/TOMS_Giving_Report_2013.pdf
[35] https://www.red.org/products/
[36] https://www.youtube.com/watch?v=W82SoRp9Au4

consumer choice that is socially responsible and aesthetically pleasing" (Bell, 2011, p. 164). The consumer has the power to do something good: he/she can be what Bell calls the "white saviour" (Bell, 2011, p. 173), bringing hope to a continent that seems to be a problem child needing assistance.

The same assumptions can be made about TOMS' 3-minute video 'TOMS – Gives new shoes to children in need. One for One'[37] published by the company in 2012. Its images represent the same narrative of poor people needing white-people assistance to get out of misery. The very first image of the video shows a black kid's legs lower part (including the feet) standing in a very dirty place with a pig entering a puddle behind him/her (Figure 7). The following few images keep on showing many poor children without shoes and with very dirty (and maybe sick) feet. After this, a narrator (Blake Mycoskie – TOMS' founder) introduces the 'One for One' model. He explains that he started this social mission in Argentina in 2006, but that in 2012 TOMS had grown his reach (Figure 8). Notice how in Figure 8 there is also USA… and yet all the kids are black, reminding us of Africa. Because that's where the most children in need are, that's where the white consumer wants to help. The video then is an ongoing of images showing white young attractive people

*Figure 7 - Screenshot. Source: **TOMS – Gives new shoes to children in need. One for One**, 2012.*
Available at: https://www.youtube.com/watch?v=7MV3HWQHl1s

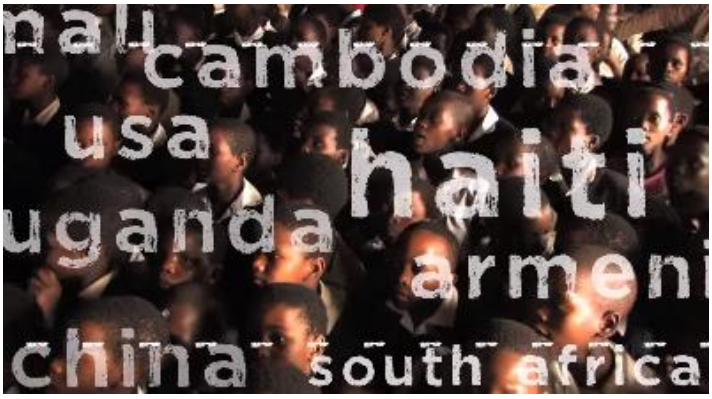

*Figure 8 - Screenshot. Source: **TOMS – Gives new shoes to children in need. One for One**, 2012.*
Available at: https://www.youtube.com/watch?v=7MV3HWQHl1s

[37] https://www.youtube.com/watch?v=7MV3HWQHl1s

Figure 9 - Screenshot. Source: ***TOMS – Gives new shoes to children in need. One for One****, 2012.*
Available at: https://www.youtube.com/watch?v=7MV3HWQHl1s

cleaning and measuring kids' feet, putting new TOMS shoes on their little feet and, of course, the miraculous 'Lazarus Effect': these kids can now smile again because they are free to run, jump (Figure 9), dance, play football, skateboarding… they can do what normal kids with shoes can do. All thanks to you, consumer, you, white saviour, who decided to purchase a pair of shoes for yourself but end up doing something good for a poor kid somewhere in the world.

Obviously, the video ends with a group of kids – presumably from the initial trip to Argentina – running after a cameraman that is leaving the village (Figure 10), thankful for the free gift they have received just because of the simple action of someone buying a pair of TOMS shoes for himself/herself.

Figure 10 - Screenshot. Source: ***TOMS – Gives new shoes to children in need. One for One****, 2012.*
Available at: https://www.youtube.com/watch?v=7MV3HWQHl1s

4.5.3 – Brand aid

"In Brand Aid, the problems themselves and the people who experience them are branded and marketed to Western consumers (through celebritised multimedia story-telling) just as effectively as the products that will 'save' them" (Ponte and Richey, 2014, p. 65). This is what happens according to Ponte and Richey (2014) whenever Brand Aid is used. In other words, companies "make development

appear simplified, manageable and marketable" (Ponte and Richey, 2014, p. 65). Products are sold in a way that consumers feel good with themselves because their purchases allow the recipients of the donations to achieve development. Consumers are the "new actors in international development through what we call 'Brand Aid' initiatives" (Ponte and Richey, 2014, pp. 65-66). In addition, Brand Aid entails some forms of cause-related marketing to take place, in which a business donation will occur only after a purchase has been made. Consumerism – which has been previously considered as one of the main causes of the different Ecological Footprint levels around the world – is now described as "activism" (Ponte and Richey, 2014, p. 67) and contemplated as a possible solution to reach international development.

Ponte and Richey (2014) built up a conceptual model of Brand Aid in which it "appears at the triple interface of causes, branded products and celebrities" (Ponte and Richey, 2014, p. 69).

One of the case studies in which Ponte and Richey used the conceptual model of Brand Aid was TOMS. In fact, all three elements of the model are present. Starting from the *celebrity* element, Blake Mycoskie (TOMS' founder) became famous after participating in '*The Amazing Race*', a US TV show. Blake was in Argentina playing polo when he met a group of foreigners donating shoes to local poor children. This was the turning point in Blake's life: when he went back to the US, he funded TOMS, a company selling alpargata shoes (the *branded product*) which with its 'One for One' business model was going to donate a free pair of shoes for each pair sold. According to TOMS' vision, shoes are essential for children's health, as they protect them from cuts, infections and diseases such as podoconiosis[38], and will allow them to attend school – where shoes are necessary – in order to get a proper education and, one day in the future, help their respective countries to develop and get out of poverty (the *cause*).

All three elements suggest the presence of Brand Aid in TOMS' C-RM strategy. In this way, the problems of some poor children and their lives are somehow branded and marketed to Western consumers who become the "development

[38] https://www.toms.com/static/www/pdf/TOMS_Giving_Report_2013.pdf

actors" (Ponte and Richey, 2014, p. 78). Talking directly to consumers' hearts and minds and emotions, TOMS shows how those poor kids can smile again after the purchase of its shoes. Every pair of shoes sold, represents a child being helped. Every pair of shoes sold, means allowing a kid to go to school (shoes are require to attend school), get a proper education and, in the long run, develop entire societies as children are the future of today's world. In other words, purchasing TOMS shoes can be a possible solution to contrast underdevelopment.

4.5.4 – TOMS' negative effects

The act of donating something for free to someone in need appears to be a very altruistic gesture. So when people see TOMS' 'One for One' model, it seems quite obvious that – at first glance – they create positive images of the brand. After all, they are donating free shoes to poor kids. How would this harm anybody?

Frazer (2008) was able to show that used-clothing donations in Africa had very negative effects on apparel production in the continent, "explaining roughly 40% of the decline in production and 50% of the decline in employment over the period 1981-2000" (Frazer, 2008, p. 1764). In fact, increasing used-clothing imports by 1% would result in a 0.61% reduction in apparel production (Frazer, 2008, p. 1774). According to Hansen (2000, in Frazer, 2008, p. 1766), in 1995, 16% of the containers in ships exporting American goods to Africa were filled with used clothing. Over the years, these huge donations have been largely criticised by African policy makers, considering them harmful for their domestic apparel industries. The used-clothes donated are sold in African poor countries' markets at very low prices. These prices are far below the ones that local producers can afford to put on their products, running them out of business. This said, we can easily imagine the effects that free shoes might have on local producers in those countries in which TOMS is donating. Furthermore, Frazer underlines the fact that people donating clothes – and, we can assume, also TOMS' costumers – do not think about the effects that donations can have on recipient countries' apparel production (Frazer, 2008, p. 1770). But those actually exporting these used

clothes – and also TOMS, presumably – know what they are doing. It would seem pretty illogical to think that they don't know. Remember that TOMS is a for-profit business. The important thing is not allowing customers to find out.

Specific evidence of the effects of TOMS shoe donations in El Salvador has been found by Wydick *et al.* (2014). Although the free shoes might end up benefitting recipients (the poor children), such donations could damage local markets, undermining long-term development in less-developed countries. The article showed "modest evidence" (Wydick *et al.*, 2014, p. 263) – to use the authors' words – that, after studying 979 households in El Salvador, the donated shoes had negative impacts on local shoe markets. But the authors said something else very much worth discussing. While they were going around communities to interview people and observe children (TOMS shoes recipients), Wydick and colleagues saw that out of the 1,492 children studied, only two of them – from age 6 to 12 – did not own a pair of shoes at all (Wydick *et al.*, 2014, p. 254). "Indeed, it appeared that most of the families, even the very poor ones, could afford a pair of shoes or sandals" (Wydick *et al.*, 2014, p. 254). In their study, 80% of children owned two or three pairs of shoes (Wydick *et al.*, 2014, p. 254). And when they were observing children or adults walking barefoot, the authors learned that it was rarely because they did not possess shoes, but rather they just preferred to walk barefoot. However, when we watch TOMS' most famous video[39] about the 'One for One' model, this is not what we see. On the contrary, TOMS seems to take some of the most extreme situations in some places and makes them look like the most common situations – what has been called '*Poverty Porn*' (Jensen, 2014). Moreover, TOMS says that giving shoes to these children allow them to attend school: Wydick *et al.* said that kids in El Salvador were receiving school shoes from the schools (Wydick *et al.*, 2014, p. 254). Parents were also saying that TOMS shoes were actually wearing out very quickly because of the environment and the heavy use by children, and that sturdier shoes would have been better (Wydick *et al.*, 2014, p. 254). So is it

[39] https://www.youtube.com/watch?v=7MV3HWQHl1s

possible that TOMS has been lying to its customers? As said, TOMS is a for-profit company.

To sum things up, giving free shoes will not help poor countries to develop in the long term. On the contrary, the existing academic literature shows that donating clothes harms recipient countries' apparel industry. And this is absolutely counterproductive if the objective of foreign aid is to guarantee a better future to entire countries, helping them to develop and get out of poverty. According to Frazer (2008), the apparel sector has played a crucial role in many countries during their initial stages of their development. If we consider this, donating clothes – or shoes – would not help them.

4.5.5 – Managerial implications

The previous analysis of TOMS' 'One for One' business model has been a critique to the utilization of such a C-RM campaign for personal gains. Although TOMS seems to have very good intentions, its real effects are not very positive. Nor is positive the way it has been using the images of the poor kids without shoes to sell its shoes. TOMS has been very clever in developing its marketing strategy: customers do not question the real effects of the donated shoes nor look under the surface of the marketing messages. All they know is that with their consumerism they can help someone in need. The same consumerism that has made some countries very poor can be a possible solution to reach a long term economic development for the most disadvantaged nations. This will be easily accepted by the least attentive consumers. But when people will start looking at TOMS under from a different perspective and the truth will be shared out loud, the company will lose its credibility.

As Warren Buffett once said:

"*It takes 20 years to build a reputation and five minutes to ruin it. If you think about that, you'll do things differently*"[40]

[40] https://www.forbes.com/sites/jamesberman/2014/04/20/the-three-essential-warren-buffett-quotes-to-live-by/#746798516543

Companies engaging in philanthropic activities, driven by the need to do something good with the money they make, should consider very carefully how they are going to pursue whatever social mission they have in mind. Because no matter how good someone's intentions might seem, the real consequences might not be crystal clear at first, but when they are understood, the reputational damages that they might cause would be devastating.

There is a lot of academic literature showing how much foreign aid has failed in its social mission to bring entire societies out of poverty. Foreign aid is not the key to long-term economic development in poor recipient countries. It has been proved wrong many times. Decision makers – in organizations – have all the information they need to understand that foreign aid – if chosen to be the company's corporate social responsibility strategy – might end up damaging the firm's reputation. There are other ways that companies could use to show their social responsibility: reducing emissions, using renewable energy, planting trees in the cities in which they operate, donating money to universities or schools, donating money to researchers, sponsoring the local football team, helping homeless people. Their reputation could be improved a lot using one of these strategies. And foreign aid? That is something companies should forget about.

Conclusion

The chapter aimed at analysing that part of the existing academic literature that deals with private forms of aid. In particular, great attention has been given to the role that businesses around the world are playing in the aid system through their altruistic desire to donate money to a good cause.

Social enterprises have been discussed, seen as corporations that blend together profit seeking and social missions. Companies can maintain this status of social enterprises with two different CSR tools: corporate philanthropy and cause-related marketing (C-RM). The former, becoming strategic, blends together internal financial interests with external social desires to do something good (usually giving donations). The latter ties donations to the products or services

sold by the company, making it a pure marketing tool aimed at increasing sales and profits. Both corporate philanthropy and C-RM can improve a company's image and reputation, as long as the right messages are developed after a good analysis of several factors from managers has taken place.

Despite the fact that some companies use such tools only for personal gains, others might truly have altruistic desires. However, the way the message is spread out might not be very ethical and the real consequences of these apparently altruistic donations might not be properly understood neither from companies nor from consumers. The final part of the chapter has discussed TOMS, an American shoe-maker that introduced the 'One for One' model as a type of C-RM strategy. The value of the company is indeed quite huge, but the consequences of its business activities are not as altruistic and positive as they appear to be.

Conclusions

The purpose of this study has been to analyse the unbalanced ecological footprint levels existing today and foreign aid in the perspective of long-term global economic development. A qualitative research has been carried out in order to understand why some countries today have ecological footprint levels much higher than others and how foreign aid has been publicised as a possible solution to reach equality in the world. Many papers, some books, reports and articles have been critically studied in an effort to connect the dots and reach the purpose of this thesis.

All this thesis did was taking evidence already existing in the academic literature to connect the unbalanced ecological footprint and foreign aid, in an effort to understand why none of them is going to guarantee a long-term global economic development.

By taking a look at today's wealth distribution around the world and natural resource concentration, it is easy to see that some of the poorest countries on the planet are also among the most resource-abundant ones. There is more than one reason explaining why, despite having enormous reserves of natural resources, some African countries have more than half of their population living with less than $1.90 a day. Some studies talk about a natural resource curse, others about the conflicts to gain control over natural resources as hindering development. Others see the exploitation of natural resources as the main explanation. Once it began, it never stopped.

The never-sleeping, tireless exploitation of Africa's natural resources allowed some nations – mainly USA and some European States – to enjoy huge level of consumerism while leaving almost nothing to others. This perfectly explains the unbalanced ecological footprint levels existing nowadays. The Ecological Footprint can be considered as a consciousness-raising tool. It shows that many countries in the world have consumption levels so high that their lands cannot absorb all the waste that is generated internally and cannot provide to their citizens all the resources they need. To survive, they need foreign lands and

foreign natural resources. Often, both in the past and in the present times, these resources are not purchased with fair open trade but are unsustainably exploited. One solution that the world used and is still using to solve this economic problem is foreign aid. However, the literature has shown that foreign aid – coming from governments, NGOs or for-profit organizations – failed in its mission. In the perspective of a long-term global economic development, foreign aid is the wrong path to follow.

The thesis has focused on foreign aid coming from Western economies – USA and European nations – and going to African countries.

When it was coming from governments, it was used as a way to impose Western values – bringing democracy – and to fulfil personal interests – keeping control over natural resource reserves. NGOs sometimes have been criticised for acting as “governments’ puppets”, doing their dirty work. Foreign aid failed in reducing poverty and it actually made poor people dependent on it. Controversial results have been found about foreign aid effects on both economic growth and human development, although, in general, more scepticism rather than optimism can be found. Foreign aid effects on recipients’ political institutions were mostly considered negative: donors were trying to impose democracy for personal interests and at times foreign aid increased the level of corruption in autocratic regimes. Furthermore, evidence suggested that foreign aid was even protracting the durability of violent conflicts. Overall, foreign aid effects were very negative in recipient countries. The existing academic literature seems to agree that this is due to a large extent to the presence of personal donors’ interests affecting the aid allocation decision-making process. As there is little desire from donor governments to change the aid system, recipient countries might be the ones taking action and free themselves from this economically unsustainable dependence which is doing nothing but obstructing their long-term economic development.

But stopping the aid system might be very difficult. Because even private, for-profit organizations have embraced foreign aid. The so called ‘social enterprises’ have been using corporate philanthropy and cause-related marketing techniques to enhance their reputation, strengthen their brand image and increase their

sales. Foreign aid has been used as a pure marketing tool: the misery of foreign distant poor people has been used to foster consumption. The same consumption that causes unbalances in the world is represented as the solution to end poverty and reach a long-term global economic development. Corporations started binding their donations to the products they sell. The act of donating something to someone in need is reduced to the simple act of buying for yourself. In this way, you, consumer, feel in your hands the power to take someone poor out of poverty. All you have to do is purchasing something for yourself. Nothing more than that.

At the end of the study, I analysed TOMS 'One for One' business model, considering it a cause-related marketing tool. TOMS donates a pair of shoes to a poor kid somewhere in the world for each pair of shoes that it sells. I criticised TOMS' marketing strategy starting from the papers by Bell (2011) and Grau *et al.* (2007), considering it both cleverly managed – from the company's perspective – and unethically implemented – from a marketing student's perspective who understands the mechanisms of marketing techniques. TOMS has taken advantage of some poor kids to make huge amounts of money, basing its marketing messages on some lies – Wydick *et al.* (2014) showed that kids in El Salvador receiving TOMS' shoes actually owned their own shoes. Evidence also suggests that free clothing donations can harm recipient countries' apparel industry: it decrease both production and employment (Frazer, 2008).

To sum things up, the thesis can be considered a strong critique to excessive consumption and to the aid system as we know it today. The former caused unbalances worldwide that will not allow a long-term global economic development. The latter has proven to be the wrong solution to solve such unbalances, causing more damages than the benefits it created. Foreign aid has failed when it was coming from governments and NGOs. It has also failed when it was coming from for-profit organizations: they paradoxically convinced consumers that with their consumption they can help poor people. Paradoxically because that same consumption caused the unbalances that foreign aid wants to end once and for all. It appears to be a vicious cycle.

What can be considered a possible limitation of this thesis is its lack of a strong empirical research. However, I must say that this thesis wanted to connect the dots of different research areas in order to understand how they relate to each other – something that might not be so obvious at first glance. For example, nobody would think about for-profit companies' foreign aid paradox. And yet it is something happening every day. As a marketing student, I never studied cause-related marketing strategies: with this thesis, I discovered a whole new side of marketing I did not know anything about before.

A possible recommendation that I could give for a future research on this topic might be to understand if University marketing students – who can be considered the future engine of companies' marketing strategies – are aware of cause-related marketing techniques and, if they are, if they know exactly the possible implications.

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