



The dark side of aid

We all know that aid to sub-Saharan Africa has not always been put to good use. But I also agree with Mark Sundberg and Alan Gelb ("Making Aid Work," December 2006) that much of the money was never intended to be spent on development in the first place.

Too often, aid money is diverted for personal use. But some of it also ends up funding subversive activities—including unjust wars—in sub-Saharan Africa. Where else would these countries get the money to pursue expensive wars?

A donor nation that gives aid to an illegitimate government or rebel group intends to serve its own geopolitical objectives—for instance, destabilizing the recipient country or installing a puppet government. At the end of the day, however, donors still tally up the gains and losses of their aid in terms of development despite their original hidden intentions, and then turn around and blame the country for not having put the aid to good use. The time has come to set the record straight. The failure of aid development should no longer be spoken of in general terms but should be broken down country by country.

Donors are themselves partly to blame for failed aid money. Let us from now on call a spade a spade so that aid can finally be allowed to yield the desired results.

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The authors respond:

Mr. Okoye makes an important point, with which we fully agree: donors must bear part of the blame for aid failures and the diversion of a significant share of aid for nondevelopmental purposes. He suggests that donors shouldn't continue to give aid to corrupt regimes. This point of view is gaining increasing currency with donors. Indeed, for multilateral agencies, good governance is the single most important criterion for aid allocation, and it's increasingly important for bilateral aid. But governance is a complex issue. Some countries with weak governance have had strong growth and improved social indicators (consider Bangladesh and Cambodia), and many poorly managed countries (including fragile states) still have major social and humanitarian needs. Aid needs to be better allocated but also directed through forms that reach people who really need it.

Stop misusing PPP calculations

Tim Callen's article on PPP calculations ("PPP Versus the Market: Which Weight Matters?" March 2007) does an excellent job of framing the main issues concerning the use of PPP exchange rates.

However, when it comes to using PPPs to arrive at an overall measure of the relative size of rich and poor economies, he greatly understates the



problematic nature of the exercise, a view that is reflected in many other IMF publications.

PPPs are indeed essential for comparing living standards across countries, especially when exchange rates are misaligned. It is also true that they help us avoid distortions caused by transitory deviations of market exchange rates from medium-term equilibrium values.

But PPPs systematically exaggerate the productivity and output of poor countries. This is because the PPP exercise in effect revalues the output of all countries at prices that are close to those in rich countries. Therefore (as is indeed acknowledged by Callen), the largest adjustments are to the prices of nontraded goods and services cheaply and plentifully produced by low-skilled labor in poor countries. But assigning these rich-country prices to such products implicitly and very misleadingly attributes rich-country productivity to the labor employed, thereby greatly overstating the productive potential of poor countries.

In short, PPPs exaggerate the "size" of poor economies. Their use in this role, widespread at present, should be discouraged.

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Make antiretroviral drugs available to all

FD's "In Brief" section (September 2005) highlights the desperate need for new AIDS funding in Africa, which carries 60 percent of the global AIDS burden. Granted, social diseases—such as sexually transmitted infections—are difficult to eradicate. But the threat they pose to public health can be reduced. Take the case of Uganda, which has received aid on a large scale in recent years. Yet it still has a relatively high fertility rate of 6.9 percent, annual population growth of 3.4 percent, and a steady 6–7 percent HIV prevalence rate.

The problem is that no amount of aid can achieve results if policies are not based on evidence. The key to controlling the spread of HIV/AIDS would be to put a stop to new infections. We now have ample evidence that short-term therapy using combination antiretroviral drugs prevents transmission of the HIV virus from mother to infant. We also know that heterosexual HIV transmission risk is reduced by 98 percent if the concentration of HIV in blood circulation (the so-called viral load) is held below 1,500–1,700 RNA copies/ml—something that can be achieved with antiretroviral drugs.

It would seem logical to advocate the use of such drugs as an additional tool in the fight against new HIV infections. Policies need to change to permit antiretroviral drug treatment to jump from the current 15 percent coverage in Uganda to cover everybody who has been diagnosed with HIV/AIDS.

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