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The opportunity costs of aid
Bernadette O`Hare, Dr David Southall MD, FRCPCH, OBE Hon. Medical Director CAI (Childhealth Advocacy International) Website: www.caiuk.org (26 January 2009)

The opportunity costs of aid

26 January 2009

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Re: The opportunity costs of aid

This article reflects what one repeatedly witnesses in Africa. Foreign experts shuttle between ministries which are stretched by juggling donor efforts. Go into the children`s ward or maternity units and see mothers and children die for the want of simple equipment or nursing and medical care limited by the loss of locally trained and precious staff to the West and to the private sector.

The efficiency of aid has long been debated. Official aid, paid from taxes dwarfs charity aid. Around one third of official aid is channeled through international organizations such as the UN and two thirds through bilateral channels (rich government to poor government) (1). Before we expect too much from aid, it is important to remember, that after debt relief, administration and consultancy spending (38%), only 41% of aid is actually transferred to disadvantaged countries (2). Another factor reducing effectiveness by up to 30% (3), is the practice of tying; where countries stipulate that the aid must be spent in the donor country. Also, contrary to popular belief, bilateral aid does not always go to the countries most in-need, other factors such as the countries UN voting pattern may have more influence than the level of poverty (4).

The publicly funded organizations disbursing aid lack the disciplining influence of a profit margin and shareholders. There is no constituency monitoring how aid money is spent. We are not able to monitor how our tax is being spent and the people who are supposed to benefit have little influence. Countries have multiple donors working in an uncoordinated fashion, using up time of the countries key personnel. Aid`s time scale is often short which make long term planning difficult.

While some recent gains have been made in health when, for example, debt relief is used to pay for the misjudged “user fees” overall, it is easy to see why aid does not appear to achieve its aim of reducing poverty.

However, the downside of aid is potentially much more important than its inefficiency. Harmful effects of aid include the conditions attached to debt relief and aid such as pushing countries to open their markets to subsidized agricultural products thus ruining their own market and exacerbating poverty (5). By being falsely reassured that our official aid is making a significant difference, we may not lobby hard enough to insist that our governments act to reduce inequalities in trading which would actually reduce poverty.

Thus the opportunity costs of aid are the real tragedy.

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