

# Economists see aid to poor nations as ineffective

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WASHINGTON (Reuters) - Aid to poor countries has little effect on economic growth, and policies that rely on such claims should be reexamined, two former International Monetary Fund economists wrote in a paper released this month.

"We find little evidence of a robust positive correlation between aid and growth," wrote Raghuram Rajan, who stepped down as IMF chief economist at the end of 2006, and Arvind Subramanian, who left the IMF this year, said.

"We find little evidence that aid works better in better policy or institutional environments, or that certain kinds of aid work better than others," they added.

Rajan is now teaching at the University of Chicago, while Subramanian joined the Washington-based Peterson Institute for International Economics.

"Our findings suggest that for aid to be effective in the future, the aid apparatus will have to be rethought."

The paper comes as rich nations struggle to meet global poverty-reduction targets set out in 2000 as part of the United Nations Millennium Development Goals.

The economists sought to adjust for unusual situations that could skew the data, like times when donations rise following a hurricane or earthquake, which can stunt economic growth. They found similar results regardless of the type of aid.

"One of the most enduring and important questions in economics is whether foreign aid helps countries grow," they wrote.

"There is a moral imperative to this question: it is a travesty for so many countries to remain poor if a relatively small transfer of resources from rich countries could set them on the path to growth."

But if there is no clear evidence that aid boosts growth, then handing out more money makes little sense, they said.

In a telephone interview, Subramanian said the aid money would be better spent on a research and development fund to get the private sector to make products to help poor countries.

Private companies have little financial incentive to develop a malaria vaccine, for example, but if rich nations pledged to buy the product for impoverished countries, firms would be more inclined to invest in the research.

"The challenge is, how do you harness this good intention and good motives into better results?" Subramanian said.