

Explaining development aid allocation by growth: A meta study

Hristos Doucouliagos, Deakin University, Melbourne, Australia, douc@deakin.edu.au

Martin Paldam, University of Aarhus, Aarhus, Denmark, mpaldam@econ.au.dk

Abstract:

The empirical literature explaining the driving forces behind the flows of development aid consists of (at least) 166 studies. The AAL studies the motives driving aid by analyzing their effect. Motives are often intertwined in practice as policies are generated by coalitions, and different motives often lead to related outcomes, so it is difficult to untangle what drives aid. One factor that has been analyzed in 30 of these studies is growth in the recipient country. *A priori*, the effect may as well be positive as negative. This is an interesting factor for two reasons: (1) It is relatively easy to interpret the results, and (2) it is an important piece in the picture which suggests development aid ineffectiveness.

The paper is a meta-analysis of the 211 growth-aid estimates found in the 30 empirical studies. Additionally, we present new evidence using a panel data for 147 countries for the period 1967-2004. The paper commences with a correlation study of the raw data, and then it presents a meta study of 30 papers that estimated the allocation effect of growth in the recipient country on aid to the country. The results of the correlation study suggest that the aid allocation effect of growth may on average be marginally *negative*, but the meta-analysis of the partial correlation from the 211 model estimates in the 30 studies find a more complex picture where the average result is *positive*. A positive effect of growth on aid emerges also from our own analysis of 147 countries, using data that extends into the new century.

The credibility of the meta-analysis estimates is enhanced by the fact that: (a) the meta tests have rejected that publication selection biases are important in this literature, and (b) the results are confirmed by the primary data analysis.

The dominating effect of growth on aid is positive. This may be attributed, at least in part, to the aid given as concessional loans from the World Bank, as such loans are given to finance projects with high benefit/cost ratios in accordance with the Bank charter. We conclude that the (short-run) humanitarian motives, as measured by growth, do not dominate. Commercial and efficiency considerations turn out to be more important.

The full version of this paper can be found at:

http://www.econ.au.dk/vip_htm/MPaldam/Papers/Growth-to-aid.pdf