

Contents

Acknowledgements	i
Contents	v
List of Tables	vii
1 Introduction	1
1.1 Background	1
1.2 Thesis structure	5
2 The Impact of Aid on Total Government Expenditures: New Evidence on Fungibility	7
2.1 Introduction	8
2.2 Literature review	11
2.3 Data	13
2.4 Methodology and empirical framework	16
2.5 The impact of aggregate aid on government expenditures	24
2.6 The impact of off- and on-budget aid on government expenditures	29
2.7 The impact of multilateral and bilateral aid on government expenditures	35
2.8 Robustness	40
2.9 Conclusions	42
3 Instrumental Variables and the Impact of Aid on Government Expenditures	51
3.1 Introduction	52
3.2 System and difference GMM estimators	54
3.3 Instrument set based on cultural and geographical proximity	69

3.4	Conclusions	74
3.5	Appendix	76
4	The Causal Links Between Aid and Government Expenditures	81
4.1	Introduction	82
4.2	Methodology	85
4.3	Data	88
4.4	Results	90
4.5	Conclusions	95
4.6	Appendix	96
5	Conclusions	97
5.1	Summary	97
5.2	Further research	100
	Bibliography	103
	Samenvatting (Dutch Summary)	113

List of Tables

1	The share of government expenditures and aid by several characteristics, unweighted (Un) and weighted by GDP (W)	15
2	The impact of aid on government expenditures and revenues	26
3	The impact of aid on government expenditures - averaged data	27
4	Mean of on- and off-budget aid as a percentage of the recipient country's GDP, unweighted (Un) and weighted by GDP (W)	31
5	The impact of on- and off-budget aid on government expenditures and revenues	32
6	The impact of off- and on-budget aid on government expenditures - averaged data	34
7	The impact of bilateral and multilateral aid on government expenditures and revenues	37
8	The impact of bilateral and multilateral aid on government expenditures - averaged data	39
9	Data sources	44
10	The list of LDCs, LMICs and UMICs	46
11	The impact of aid on government expenditures for increases and decreases of aid	48
12	The impact of total aid on government expenditures minus military expenditures	49
13	The impact of off- and on-budget aid on government expenditures minus military expenditures	50
14	Results for the system and difference GMM estimator	63
15	Results for the system and difference GMM estimator for 4 year averages	64
16	Results for the system and difference GMM estimator using factorized instruments for 4 year averages	65

17	Tests of Chatterjee et al. (2012) FOD and system GMM regressions	68
18	Regressions for the instrument set based on cultural and geographical proximity	72
19	Results for the system and difference GMM estimator for 3 year averages	76
20	Results for the system and difference GMM estimator using factorized instruments for 3 year averages	77
21	Results for the system and difference GMM estimator for 5 year averages	78
22	Results for the system and difference GMM estimator using factorized instruments for 5 year averages	79
23	First stage results	80
24	Share of government expenditures and on-budget aid in GDP (%) .	90
25	Homogeneous Non Causality Hypothesis (HNC) and Homogeneous Causality Hypothesis (HC) tests	92
26	Granger causality and instantaneous Granger causality	94