

Aid Disaggregation, Endogenous Aid and the Public Sector in Aid-Recipient Economies

By

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Abstract

The paper examines the impact of different aid types, namely project aid, programme aid, technical assistance and food aid on the fiscal sector of the aid-recipient economy by using time-series data for Côte d'Ivoire over the period 1975–99. Empirical results obtained by estimating correctly the solution of the theoretical model show that when a single value (or aggregated) for aid is used, foreign aid is fully consumed in the case of Côte d'Ivoire. However, results obtained under the assumption of aid heterogeneity clearly suggest that the government responds differently according to the nature of the aid inflows. Our approach sheds plenty of light on how the aid-recipient government reacts to different categories of foreign aid inflows and the empirical findings clearly demonstrate the importance of the aid disaggregation approach for delving deeper into aid effectiveness issues.

Keywords: foreign aid, aid effectiveness, aid disaggregation, fiscal response literature.

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