

The Journal of Development Studies > Volume 47, 2011 - Issue 12

698 16

Views CrossRef citations to date Altmetric

**Articles** 

# Aid Absorption and Spending in Africa: A Panel Cointegration Approach

Pedro M.G. Martins

Pages 1925-1953 | Accepted 14 Feb 2011, Published online: 01 Dec 2011

**66** Cite this article ▶ https://doi.org/10.1080/00220388.2011.579115

> Sample our Business & Industry Journals >> Sign in here to start your access to the latest two volumes for 14 days

Full Article

Figures & data

References

**66** Citations

**Metrics** 

➡ Reprints & Permissions

Read this article

## **Abstract**

This article focuses on the macroeconomic management of large inflows of foreign aid. It investigates the extent to which African countries have coordinated fiscal and macroeconomic responses to aid surges. In practice, we construct a panel dataset to assess the level of aid 'absorption' and 'spending'. This article departs from the recent empirical literature by utilising better measures for aid inflows and by employing pirical short-run results in cointegrati

Africa's

About Cookies On This Site

suggest perh

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect

from you, please see our Privacy Policy

ts. This Accept All been used Essential Onleserves, absorption Settings resources nly weak s suggest ificantly

to financ incre have be evidence

that the

better than often portrayed in comparable exercises. The implication is that African countries will be able to efficiently manage a gradual scaling up in aid resources.

## Acknowledgements

This article was written when the author was a doctoral researcher at the Institute of Development Studies, Brighton, UK. He would like to thank the financial support provided by the Fundação para a Ciência e a Tecnologia.

## Notes

- 1 This approach may also have its limitations, as recipients may under-report the total amount of aid. Nonetheless, we still believe that this data is superior to the data reported by donors.
- 2 These were embedded in the 2002 Monterrey Consensus an outcome of the United Nations International Conference on Financing for Development and the 2005 Gleneagles G8 summit.
- 3 For a useful review of this literature see McGillivray and Morrissey (2001).
- 4 It is assumed that neither public spending is increased nor revenues lowered (through tax cuts), which means that aggregate demand remains unchanged. However, a 'balanced budget' approach (that is, a combination of higher/lower spending and taxes that leaves the non-aid fiscal deficit unchanged) is compatible with this result and can

have a s

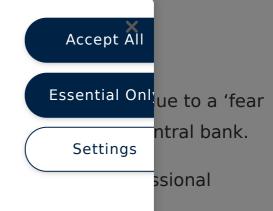
5 The sa

6 McKin of in

7 In practions.

#### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>



- 8 Not surprisingly, the full sample shows lower absolute averages and higher standard deviations for the aid variables.
- 9 The robust versions of the Breitung and Hadri tests are implemented by the new STATA command 'xtunitroot.' See also Breitung (2000) and Hadri (2000).
- 10 The LLC and IPS tests require N to be relatively smaller than T, which is not the case here.
- 11 For each time period, the mean of the series (across panels) is calculated and then subtracted from the observations.
- 12 The PMG methodology, for example, requires that foreign aid is exogenous. This may not constitute a major concern since our aid variable only includes aid grants. Aid loans (such as IMF lending) tend to be more responsive to domestic conditions (for example, balance of payments crisis and fiscal imbalances).
- 13 There might be concerns of reverse causality (for example, higher fiscal deficits causing higher inflation), since only the first two methodologies provide corrections for endogeneity. However, an increase in the non-aid fiscal deficit does not necessarily translate into an increase in money supply. It can be covered by the additional aid inflow, which appears to be the case. Moreover, the coefficients are almost identical to those from SYS-GMM.
- 14 The two long-run coefficients of the explanatory variables are now allowed to vary, that is, (25-1)\*2 = 48.
- 15 Note that an increase in DRY means a fall in international reserves.

16 We have also estimated OLS-FE and DIF-GMM for the lagged dependent variable model, and the results indicate that these estimators tend to underestimate both short-

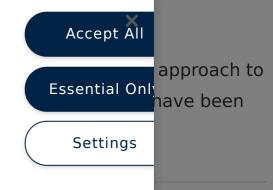
and long

About Cookies On This Site

17 Buffie

mana

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>



Information for

Authors

R&D professionals

**Editors** 

Librarians

Societies

Opportunities

Reprints and e-prints

Advertising solutions

Accelerated publication

Corporate access solutions

Open access

Overview

Open journals

**Open Select** 

**Dove Medical Press** 

F1000Research

Help and information

Help and contact

Newsroom

All journals

Books

### Keep up to date

Register to receive personalised research and resources by email



Sign me up











Copyright © 2024 Informa UK Limited Privacy policy Cookies Terms & conditions



Accessibility

Registered 5 Howick P

#### About Cookies On This Site

We and our partners use cookies to enhance your website experience, learn how our site is used, offer personalised features, measure the effectiveness of our services, and tailor content and ads to your interests while you navigate on the web or interact with us across devices. You can choose to accept all of these cookies or only essential cookies. To learn more or manage your preferences, click "Settings". For further information about the data we collect from you, please see our <a href="Privacy Policy">Privacy Policy</a>



Essential Only

Settings

