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Articles

Aid Absorption and Spending in Africa: A Panel Cointegration Approach

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Abstra

This arti ... foreign aid. It invest ... and macroec ... dataset to assess t ... the recent empiri ... oying coint ... rage, Africa's ... ts. This suggests ... been used to financ ... eserves, perhaps ... absorption increase ... resources have be ... nly weak evidence that a share of aid flows have been 'saved'. Overall, these findings suggest

that the macroeconomic management of aid inflows in Africa has been significantly 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.

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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 005
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3 For a u

4 It is as red (through
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5 The sa

6 McKinl ue to a 'fear
of inflati ntral bank.

7 In prac ssional
loans.

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 fr

14 The t ed to vary, that is, (

15 Note

16 We h variable model both short- and

17 Buffie approach to manage have been correct t

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