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The Impact of Aid on Total Government Expenditures

Łukasz Marć

Foreign aid's effectiveness remains one of the most debated topics in development economics. This thesis investigates an important channel of the impact of aid on the recipient country's economy: the government's fiscal response to aid. Firstly, the impact of total aid, of on- and off-budget aid, and of bilateral and multilateral aid on government expenditures and revenues is estimated. Secondly, this thesis explores instrumental variable methods that have been used to account for potential endogeneity of aid in these regressions. Thirdly, the causal links between government expenditures and on-budget aid are analyzed. Aid is found to partially increase government expenditures, which indicates that governments adjust domestic revenues or net borrowing in response to aid. This suggests that aid's impact on development indicators is a sum of increased spending, increased private consumption and savings, and potential improvements in the structure and quality of government expenditures due to donor involvement.



Łukasz Marć graduated with a master's degree in economics from the Warsaw School of Economics (2009). During his studies in Poland, he worked at the Institute for Structural Research in Warsaw. He moved to the Netherlands and completed the Tinbergen Institute's MPhil program in 2011. Afterwards, he started his PhD research on the impact of aid on government expenditures at the Department of Development Economics of the VU University Amsterdam and at the Tinbergen Institute. Moreover, together with colleagues from the VU University and the Amsterdam Institute for International Development, he worked on health financial diaries projects in Nigeria and Kenya. His primary research interests are development economics and applied econometrics.

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