Annual International Conference 2015 of the Research Group on Development Economics of the German Economic Association

Abstracts

Parallel Session 1:

1.A. Insurance

The effect of formal insurance on transfer motives in informal risk-sharing groups, Karlijn Morsink.

The functioning of welfare systems depends heavily on individuals' willingness to help members of society who experience financial losses. Empirical evidence shows that many people are willing to redistribute some of their income to peers who experience losses as a result of 'bad luck'. The willingness to assist others, however, is also influenced by the extent to which peers are perceived as being responsible for their losses. In this paper I use data from framed-field experiments with 1536 farmers from informal risk-sharing arrangements in rural Ethiopia to investigate how farmers' redistribution decisions to peers with losses are influenced by their peers' decisions to protect themselves through indemnity insurance or take-on additional risk by purchasing index insurance. Furthermore, I explain these redistribution decisions by a model of social preferences in which individuals have distributional preferences and may punish peers for perceived unfair behavior based on beliefs about their risk preferences. First of all, if peers protect themselves through indemnity insurance, which reduces the variance of outcomes, individuals' are more likely to behave self-interested and average transfers are significantly reduced, suggesting crowding-out of redistribution. If peers take risk and experience losses individuals will still engage in some redistribution but they will punish peers for risk-taking by significantly reducing the extent of redistribution. This implies that redistribution is also crowded out by index insurance. My results show that punishment can be explained by farmers' beliefs about the fairness of their peers' behavior which individuals infer from beliefs about their peers' risk preferences. An explanation based on social norms dictating risk-taking behavior is not supported by my results.

Informal and formal insurance in ethnically diverse societies - experimental evidence from Vietnam, Hanne Roggemann.

I study the impact of formal insurance supply on informal risk sharing behaviour in the ethnically diverse society of the Central Highlands of Vietnam. I run Solidarity Games with 285 male household heads in groups of three. By introducing an insurance supply treatment, I determine the effect of formal insurance supply on solidarity behaviour. I find that the solidarity transfers are significantly reduced when a formal insurance opportunity is provided. This crowding out effect on informal risk sharing is irrespective of insurance demand and solely to a framing effect of insurance supply. By exogenously varying ethnic group composition, I am able to identify the effect of ethnic heterogeneity on insurance take-up rate.

I find that ethnic heterogeneity reduces insurance take-up as signaling trust in the informal insurance arrangement becomes relevant in heterogeneous society due to an uncertainty in behavioral norms.

Contract nonperformance and ambiguity in insurance markets, Andreas Landmann with Christian Biener, Martin Elin and Maria Isabel Santana.

Contract nonperformance risk refers to situations when valid claims are not reimbursed by the insurer, which is also known as probabilistic insurance in the literature. We extend probabilistic insurance models to allow for ambiguous contract nonperformance and loss probabilities. We experimentally test theoretical predictions from our model using a field lab experiment with a low-income sample. This is a persuasive context, since especially in emerging and poorly regulated economies there is significant contract nonperformance risk. In line with our predictions, insurance demand decreases by 17 percentage points in the presence of contract nonperformance risk and by 32 percentage points when contract nonperformance risk is ambiguous. Also, ambiguity does not easily disappear with experience.

1B. Skills and returns

Heterogeneous immigrants and foreign direct investment: The role of language skills, Tobias Stöhr with Matthias Lücke.

We estimate a gravity model for bilateral FDI out-stocks from panel data for OECD reporting countries with bilateral and year fixed effects. With this demanding test, we find a robust positive effect of bilateral immigrants on bilateral FDI - provided that residents of the two countries have few language skills in common. We find a similar effect, in terms of size and statistical significance, for immigrants from third countries who speak the language(s) of the FDI host country. They thus are potential substitutes for bilateral migrants. A 1 percent increase in average immigrants raises the FDI out-stock by 0.1 to 0.2 percent. Combined with various robustness checks, our findings suggest that immigrants facilitate outgoing FDI through their language skills, rather than through other characteristics like cultural familiarity. As most developing country residents have few language skills in common with rich country residents, developing country migrants in rich countries have a key role to play in facilitating FDI in their countries of origin.

Consumption risk, labor supply and human capital accumulation in India, Esther Gehrke with Andrew Foster.

In this paper, we analyze the effect of consumption risk on households' labor supply over different periods of the agricultural cycle. We show theoretically and empirically that uncertainty regarding future consumption increases current labor supply of women and reduces the time they allocate to household chores. We further show that this leads to a reduction in time children in those households spend on school activities (both in school and studying at home) because they have to perform part of the home production. Finally, we argue that an income smoothing policy (such as the Indian Employment Guarantee) could reduce labor supply of women at the intensive margin allowing children to spend more time in school and reducing periodic school dropouts.

Skill biased labor demand and the wage growth of younger workers: Evidence from an unexpected pension reform, Alexander Danzer.

Large-scale pension reforms can have redistributive wage effects across generations and education groups when the labour market suffers from skill mismatch. A quasi-experimental ‘retirement shock’ in Ukraine illustrates the effect of labour scarcity on wage growth and returns to education: it reveals that young and well educated workers enjoyed significant wage growth accelerations while older workers with outdated skills did not benefit from the retirement of their comparable peers. The estimated wage effects are in line with predictions from a simple heterogeneous labour demand model applied to a cross-section of Ukrainian firms. The paper illustrates that general equilibrium wage effects can be estimated in a policy evaluation framework if quasi-experiments fulfil very restrictive preconditions.

1C. Natural resources

Natural resources and diversification, Nouf Alsharif.

Can resource-rich countries diversify their economies? This paper examines the impact of natural resource rents on diversification in exports, in employment and in value added, covering up to 136 countries from 1962-2012. We find a significant negative relationship between resource rents and diversification. The results are heterogeneous across different country groups and resources. Moreover, we find that the higher resource dependency the less likely the country would go into diversification through its development, compared to less resource dependent countries where diversification takes a U-shaped path noted by Imbs and Wacziarg (2003). Instead, concentration grows rapidly.

Trade, conflicts and natural resources: A closer look at the diamond market, Stefan Borsky with Andrea Leiter-Scheiring.

In 2003, the Kimberly Process Certification Scheme (KPCS) went into force to stop the trade in those diamonds which are directly linked to the fueling of armed conflict and activities of rebel movements, also known as conflict diamonds. Using a structural gravity equation which is estimated by a Heckman's sample selection procedure, this article analyzes the impact of the KPCS on international trade in rough diamonds. We find that the KPCS has a strong significant impact on the extensive margin of rough diamonds trade. We also find that conflicts in the exporting country or both countries independently significantly increases the trade volume of rough diamonds. Further, the regression results reveal that trade in diamonds stemming from belligerent exporters is reduced by 6.5 % once the importer agreed upon the KPCS, whereas we find mixed evidence in the case the exporter signs the KPCS. This suggests that the KPCS is only partly effective in reducing the amount of internationally traded conflict diamonds. Finally, our findings support the often stated concern that KPCS fails in controlling for illegal smuggling activities. Our variable, which captures potential smuggling activities, is positive and statistical significant for the extensive as well as for the intensive margin of rough diamond trade.

The mining sector and income (in)equality in Peru, Christian Miranda.

The mining sector has played a key role on growth during the last decade in many resource rich developing countries, but its consequences over income distribution are not clearly settled at a microeconomic level. In a first stage, I evaluate a direct transmission channel namely the impact of labor participation in the mining sector on income and how homogenous this impact was on different parts of the income distribution using a panel version of a Peruvian Household Survey through a mincer equation framework and a quantile regression. Preliminary results show a global positive effect, decreasing at higher levels of the income distribution.

1D. Inclusive development

Are public health expenditures in Egypt pro-poor or pro-rich?, Ahmed Rashad with Michael Kirk.

Subsidization of health care can raise public health and productivity of labor increasing income for all. Egypt has been relying on subsidization policy for decades to help make health care more affordable. A significant proportion of public spending in Egypt goes to health care subsidization. This study uses data from Egypt Demographic and Health Survey and Egypt National Health Accounts to analyse how health sector subsidies vary with household economic status. The paper serves as a baseline for assessing equity in the distribution of subsidies in Egypt. To answer the research question, the paper uses Benefit Incidence Analysis coupled with dominance test of significance. The study's findings show that subsidies associated with University Hospitals are pro-rich and have inequality increasing effect, while subsidies associated with the Ministry of Health and Population have not been pro-poor but they have inequality reducing effect. The paper concludes while it is widely perceived that the poor benefit the most from health subsidies, reality in Egypt indicates its not.

Twinning the goals: How can promoting shared prosperity help to reduce global poverty?, Mario Negre with Christoph Lakner and Espen Beer Prydz.

The goal of eradicating extreme poverty by 2030 is becoming increasingly prominent in international development. This paper simulates a set of scenarios for poverty from 2011 to 2030, under different assumptions for growth and the degree to which this growth is inclusive. When holding within-country inequality unchanged and per capita growth similar to recent decades, our baseline simulations suggest that the number of extreme poor (living below $1.25/day) will remain above 450 million in 2030, resulting in a global extreme poverty rate above 5.4%. However, if the incomes of the bottom 40% in each country grow 2pp faster than the mean, the global poverty rate could reach 3% in 2030. Conversely, it would increase beyond 11% in 2030 if the bottom 40% grows 2pp slower than the mean. Our main findings hold up when we use the 2011 PPPs, rather than the 2005 PPPs. We also test the robustness of our results to alternative growth scenarios, as well as different formulations of how this growth is distributed across the distribution.

Towards inclusive rural development? Effects of governance on economic equality in Uganda's coffee cooperatives, Karin Wedig.

The revival of agricultural cooperatives in sub-Saharan Africa led to a renewed interest in the potential contribution of Producer Organizations (POs) to inclusive rural development. This chapter presents survey and qualitative data from Uganda's coffee sector to illuminate the organizational responses of cooperatives to small farmers' economic constraints in the region's liberalized agricultural markets. Some organizations are able to grow while simultaneously advancing the equitable distribution of benefits among members based on more democratic organizational structures. These POs achieve reduced defection rates and expanded membership numbers by maintaining secondary organizational structures, which allow disadvantaged members, including women and particularly poor farmers, to better represent their interests against local elite capture of resources. The results from Uganda indicate that although high levels of social capital in community-based organizations may support the establishment of economically viable POs, extensive control by local elites of core governance structures tends to weaken equitable organizational development.

1E. Education

Female genital cutting vs. education - two competing "investments"?, Vera Molitor.

Impact of nutritional interventions on cognitive skills: Evidence from India's Midday Meal Program. Rajshri Jayaraman with Tanika Chakraborty and Nidhi Pande

We study the effects of nutritional intervention in schools on children's learning outcomes using India's midday meal scheme, the largest school feeding program in the world. Staggered implementation across different states of an 2001 Indian Supreme Court Directive ordering the introduction of free school lunches in primary schools generates exogenous variation in program exposure across different birth cohorts. We exploit this to estimate short- and long-run effects of the program on math and reading test scores of primary school-aged children. Consistent with extant evidence, which has focused exclusively on short-run impacts of school feeding programs, we find that one year of program exposure has no effect on test scores. In the longer run, however, learning improves dramatically: between 2-5 years, each additional year of exposure improves test scores by 5-10%.

The impact of school fees on schooling outcomes and the intergenerational transmission of education, Stephan Klasen with Sonia Bhalotra.

We study the impact of the abolition of primary school fees on completed schooling levels and social mobility. Using a large and representative data set of about 1 million children from 67 developing countries and measuring cohort and country specific exposure to the reform, we find that attending all of primary school in a fee-free regime is associated with roughly 0.2 more years of schooling than attendance in a fee-paying regime. The increase in school years created by removing fees is systematically larger for children of women with less schooling, so the removal of fees is progressive in its impact and improves the inter-generational mobility of education. The benefits of free schooling are, on average, larger for boys than for girls, and slightly larger for Africa than the rest of the developing world; but in Africa the impact is less progressive than elsewhere. Also, in Africa and in Africa alone, transitional cohorts who experienced partial-exposure to the fee-free regime had lower educational attainment and we argue that this may be the result of over-crowding in schools just after the lifting of fees. Investigating differential pre-trends in education between reforming and non-reforming countries, we find that reforming countries had a weaker positive trend before they reformed, which implies that our estimates are likely to under-estimate the actual benefits of reform.

Parallel Session 2

2A. Energy and technology

Behave and save? Behaviour, energy efficiency and performance of MSEs in Uganda, Babette Never

This paper analyses the role of behavioural factors for the energy management of MSEs in Sub-Sahara Africa for the first time. Drawing on semi-structured interviews and focus group discussions in Uganda, it finds that behavioural barriers impeding energy efficiency contribute to the limited performance of MSEs in Uganda. Limited self-control and short-term thinking habits, a status quo bias and a lack of trust impede the uptake of energy efficiency, while first-hand experience with efficient technology, implementation intentions and social learning can be conducive. Behavioural insights on energy efficiency therefore present another piece of the puzzle on MSE performance.

A first step up the energy ladder? Low cost solar kits and household's welfare in rural Rwanda, Maximiliane Sievert with M. Grimm, A. Munyehirwe and J. Peters

More than 1.3 billion people in developing countries are lacking access to electricity. Based on the assumption that electricity is a prerequisite for human development, the United Nations initiative Sustainable Energy for All (SE4All) has proclaimed the goal of providing modern energy to all by 2030. In recent years, Pico-Photovoltaic kits have become a lower-cost alternative to investment-intensive grid electrification. Using a randomized controlled trial we examine uptake and impacts of a simple Pico-Photovoltaic kit that barely exceeds the benchmark of what the UN considers as modern energy. We find significant effects on households' budget, productivity and convenience. Despite these effects, the data shows that adoption will be impeded by affordability, suggesting that policy would have to consider more direct promotion strategies such as subsidies or financing schemes to reach the UN goal.

Does large scale infrastructure investment alleviate poverty? Impacts of Rwanda's electricity access roll-out program, Jörg Peters with Luciane Lenz, Anicet Munyehirwe and Maximiliane Sievert.

The United Nations' objective to provide electricity to the 1.3 billion people without access in developing countries comes at high costs. Little evidence exists on socio-economic impacts of electrification. This paper rigorously investigates effects of a large grid extension program in Rwanda on all rural beneficiary groups: households, micro-enterprises, health centers, and schools. While the program has led to a tremendous increase of connections, appliance uptake and electricity consumption remain low. We find only weak evidence for impacts on classical poverty indicators. To inform future policy design, we call for thorough cost-benefit comparison between on-grid and off-grid solutions.

2B. Political instability and investments

Household behaviour under political instability: Evidence from the Egyptian revolution. Almedina Music with Yvonne Giesing.

The year 2011 saw the onset of major political changes in Egypt: unprecedented popular mobilization and protests brought down Hosni Mubarak's government after 30 years in power. In a difference-in-difference model, we study the microeconomic effects of the revolution on household behaviour in terms of education and health investment as well as savings. We construct a new measure of political instability by looking at the number of arrested, injured and killed during political protests throughout the country. Our preliminary findings show that households living in areas particularly affected by the revolution decreased spending on adults goods in favour of their children's education. The result is driven by households with male students at secondary and tertiary education level. Households further decreased spending on health and increased their savings. While we are able to document only a portion of the effect of the political crisis, the magnitude and disruption we observe is already substantial and may provide an important channel through which political instability can affect long-term outcomes for households.

Terror and democracy: Evidence from disaggregated data, Krisztina Kis-Katos with Günther G. Schulze and Helge Liebert.

This paper analyzes the democracy-terror nexus in a disaggregated setting, distinguishing terror by large terror groups from terror by small groups or diffuse perpetrators. We argue that democracy has both terror-inducing and terror-mitigating features that affect small- and large-scale terror in an asymmetric way. We find that partial democracies are more prone to terror in the aggregate compared to autocracies, and that this effect is entirely driven by increased small-scale and diffuse terror. Full democracies are less affected by terror, which is due to a sharp decline in large-scale terror as well as its lethality.

FDI and the geography of terror in Pakistan, Günther G. Schulze with Omer Majeed.

Chinese roads in India: The effect of transport infrastructure on economic development, Simon Alder.

This paper uses a general equilibrium trade framework to estimate the contribution of transport infrastructure to regional development. I apply the analysis to India, a country with a notoriously weak and congested transportation infrastructure. I first analyze the development effects of a recent Indian highway project that improved connections between the four largest economic centers. I estimate the effect of this new infrastructure on income across districts using satellite data on night lights. The results show aggregate gains from the Indian highway project, but unequal effects across regions. China has followed a different highway construction strategy and has experienced more significant convergence across regions than

India. I therefore use the model to gauge the effects of a counterfactual highway network for India that replicates the Chinese strategy of connecting intermediate-sized cities. The results suggest that this counterfactual network would have benefited the lagging regions of India. I also construct additional counterfactuals and discuss their effects on economic development.

2C. Trade and FDI

Food price volatility in developing countries - the role of trade policies and storage, Lukas Kornher with Matthias Kalkuhl and Irfan Mujahid.

The work at hand contributes to the ongoing discussion on drivers of food price volatility and closes the gap with respect to the impact of trade and storage policies. A dynamic panel is estimated to account for country fixed effects and the persistence of volatility. Findings underline the importance of international price volatility and transactions costs, while international volatility spill-overs are significantly higher in countries with high imports. New evidence is provided with respect to the impact of anti-cyclical trade policies: Accordingly, both exporters and countries that switch between net-importer and net-exporter successfully stabilize domestic prices by insulating themselves from international markets. On the other hand, regional market integration, as a tool to reduce reliance on (unstable) international trade and to improve stable regional trade relations, reduces volatility at domestic markets.

New panel data evidence on Sub-Saharan trade integration - Prospects for the COMESA-EAD-SADC Tripartite?, Anja Slany with Jana Riedel.

In the year 2008 the member states of the three major trading blocs in southern and eastern Africa agreed on establishing a common free trade area (FTA). This so-called COMESA-EAC-SADC Tripartite is supposed to be an important milestone towards Africa's continental trade integration. This study analyzes the impact of regional integration among the Tripartite countries on their bilateral exports and evaluates the latest integration efforts. We estimate an extended gravity model on a panel data set using yearly observations from 1995 to 2010. Specifically, we apply two approaches to proxy limited market access and effectively applied tariff rates. Therefore, we combine Sub-Saharan- and country-average import and export tariff rates and indicator variables for the membership in regional FTAs to isolate distinct effects on real exports. We find a robust and significantly negative effect of tariff barriers with respect to the rest of the world. Interestingly, an FTA status does not show any export enhancing effect. From a methodological point of view, we detect a bias in our loglinear specifications when we compare the estimates with those we obtain from Poisson pseudo-maximum likelihood estimation.

Did Chinese outward activity attenuate or aggravate the Great Recession in developing countries?, Bernd Süßmuth with Bastian Gawellek and Jingjing Lyu.

Using data on Chinese large-scale investment and overseas project contracts by sector, we analyze in a quasi-experimental set-up whether Chinese outward activity (COA) before the crisis worsened or alleviated the contractionary phases in developing countries. We find that, on average, COA did not increase vulnerability to the global recession. However, both the sectoral targeting and the size of the pre-crisis engagement matter: While COA in clearly to financial markets tied sectors implied an aggravation, substantial pre-crisis investment in the energy, metals and transportation industries implied an attenuation of the slump.

The long-run effect of foreign direct investment on total factor productivity in developing countries: A panel cointegration analysis, Dierk Herzer.

This paper examines the long-run effect of the level of foreign direct investment (FDI) on the level of total factor productivity (TFP) for 70 developing countries for the period 1981-2011 using panel cointegration techniques. It is found that (i) FDI has, on average, a negative long-run effect on TFP in developing countries; (ii) causality runs in only one direction, from FDI to TFP, and (iii) the long-run effect of FDI of TFP differs between selected groups of countries: while the estimated long-run FDI-TFP coefficients are significantly negative for subsamples of countries with lower levels of human capital, financial development, and trade openness, the coefficients are insignificant or significantly positive for subgroups of countries with higher levels of human capital, financial development, and trade openness.

2D. Social networks and risks

The effect of peer oberservation on the consumption of temptation goods: Experimental evidence. Antonia Grohmann.

Kinship networks and social protection: Risk sharing and crowding out effects of a public employment program, Ingo Outes.

The paper investigates the heterogeneous impact of a social protection program in Ethiopia (the PSNP, a public employment scheme), with a focus on the role of extended family networks and the limits to network size. Kinship networks have high information flows and often show highly altruistic preferences. Accordingly, they have been shown to achieve high, though seldom perfect, levels of insurance. While a larger network provides a higher number of potential insurance links, large groups might find it harder to command high levels of altruism, and information might be more costly. Using a sibling-difference specification, we estimate the heterogeneous impact of PSNP on child work and nutritional outcomes of children and find a non-linear relation between network size and programme impact. Small networks provide near perfect insurance for both negative and positive shocks. While larger networks and households with no local kinship links, reach only partial levels of insurance. Transfers are found to be crowded out by PSNP participation.

Preference for hidden income and redistribution to kin and neighbors: A lab-in-the-field experiment in Senegal, Paola Villar with Marie Boltz and Karine Marazyan.

Informal redistribution play a preponderant role in individual risk management in developing-economies. However, strategies to reduce the pressure to redistribute are rather widespread and often costly, while under-explored in the economic literature. In this paper, we identify the potentially distortionary effects of informal redistribution on individual resource allocation choices, through exogenous variations on one hand of the share of unobservable income-and on the other hand, of the pool of observers. For this, we conducted an original experiment combining both a lab-in-the-field and a randomized controlled trial in poor urban communities in Senegal on a randomly selected sample. A first contribution of the paper is to elicit in the lab the willingness-to-pay to hide one's lab lottery gains from kin and neighbors. Second, we estimate the impact of the non-observability of this windfall income on resource allocation decisions of participants out of the lab. We find a high willingness-to-pay-for hiding: 65% of subjects prefer to receive their gains in private rather than in public and among them, they are ready to forgo on average 14.3% of their unobserved income for the-privacy option. Also, we find that the determinants of the willingness-to-pay to hide income while correlated with redistributive pressure differ across gender. Moreover, while lottery-public winners are found to spend 22% of their windfall income on transfers to kin, lottery-private winners showing preferences for hidden income transfer 24% less and reallocate this extra money in health and private expenditures.

Ownership of the commons and informal insurance against climate shocks, Marie-Catherine Riekhof with Frederik Noack, Salvatore Di Falco and Sven Wunder.

In low-income countries, many people have to deal with frequent shocks in agricultural income without well-functioning credit and insurance markets. Common pool resources like forests may constitute an informal insurance possibility. Using a global dataset with close to 8000 households from 24 developing countries in combination with climate data, we build a panel based on quarterly observations to empirically examine the effect of climate anomalies on different income sources. Results show that environmental income is not significantly affected by climate anomalies while agricultural income is. Environmental income supplies a basic income, but cannot compensate for reduced agricultural income. This changes when different resource ownerships are taken into account.

2E. Gender and development

The risk of polygamy and wives' saving behaviour, Marie Boltz with Isabelle Chort.

In a polygamous society, all monogamous women are virtually at risk of polygamy. However, both the anthropological and economic literature are silent on the potential impact of the risk of polygamy on economic decisions of monogamous wives. We explore this issue for Senegal using individual panel data. We first estimate a Cox model for the probability of transition to polygamy. Second, we estimate the impact of the predicted risk of polygamy on monogamous wives' savings. We find a positive impact of the risk of polygamy on female savings entrusted to formal or informal institutions, consistent with self-insurance strategies.

Forced marriage and birth weight: The consequences of bride kidnapping in Kyrgyzstan, Susan Steiner with Charles Becker and Bakhrom Mirkasimiov.

We study the impact of bride kidnapping, a form of forced marriage practiced in Central Asia, on child birth weight. We expect adverse consequences from the psychosocial stress often involved in forced marriages. Birth weight is an observable outcome realized soon after marriage. We analyze survey data from rural Kyrgyzstan and use district kidnap prevalence among older women as an instrument to address the endogeneity of bride kidnapping. Our findings indicate that children born to kidnapped mothers are of a substantially lower birth weight than children born to mothers who are not kidnapped. This has potentially strong implications for children’s long-term development.

Bride price and fertility decisions: Evidence from rural Senegal, Natascha Wagner with Linguere Mbaye.

This paper is the first to provide evidence about the relationship between bride price payments and fertility decisions in the African context. The results show that bride price payments reduce the fertility pressure for women and are robust to confounding socio-economic and contextual factors. The fertility-reducing impact of a high bride price is biggest for women who are economically dependent on their husband. In polygamous households and for arranged marriages, a lower bride price payment increases fertility pressure while in monogamous households and for non-arranged marriages, the bride price payment has no effect on the couple's decisions concerning fertility. As bride price payments have less power over (economically) independent women, empowerment will give leeway to girls in traditional societies even if the bride price system is not overturned.

Desire and development, Holger Strulik.

This paper explores the impact of gender differences in the desire for sex and the distribution of power in the household for the onset of the demographic transition and the take-off to growth. Depending on the price and efficacy of modern contraceptives, the gender wage gap, and female bargaining power the model assumes one of two possible solutions. At the traditional equilibrium, contraceptives are not used, fertility is high and education and growth are low. At the modern equilibrium, contraceptives are used, fertility is low and further declining with increasing income, and education and growth are high. The theory motivates a “desired fertility reversal”. At the traditional equilibrium (i.e. in poor economies) men want to have more children than women whereas at the modern equilibrium (in developed economies) men prefer fewer children than women. Female empowerment leads to lower fertility and more education at the traditional equilibrium and to an earlier onset of the demographic transition and the take-off to modern growth.

Poster Session, 11.00 - 12.30

Agriculture

The effect of aspirations on agricultural innovations in rural Ethiopia, Daniel Ayalew Mekonnen with Nicolas Gerber.

Previous studies on innovation in agriculture focus mainly on identifying observable and resource related deprivation or 'external' constraints. Yet, related literature suggests that 'internal' constraints, such as lack of aspirations, could reinforce external constraints and this may lead to a self-sustaining trap of poverty and lack of proactive behavior. Since both aspirations and innovations are future oriented they are likely to be intimately linked. Aspirations are motivators which can enhance innovations. On the other hand, aspirations are also affected by one's level of achievement implying that aspirations and innovations are simultaneously determined. To identify the effect of aspirations on adoption of agricultural innovations, we conduct both plot level and household level analysis using a purposely collected data from sample households in rural Ethiopia. Using econometric strategies that account for the endogenous nature of the variable of interest, we find that low aspirations (and having very-narrow/wide aspirations gap) are strongly associated with low innovativeness of farm households and low adoption of innovation products such as improved seed, and low involvement in row-planting and sustainable natural resource management practices. Results suggest that the effect of aspirations is stronger on the intensity of use of innovations (e.g. fertilizer use per hectare of land) than its effect on access to or use of individual innovations if those innovations are widely adopted in the study areas. We also find other internal factors such as self-esteem, internal locus of control, trust in others, subjective wellbeing, and perception on causes of poverty to be strongly correlated with aspirations and expectations.

Factors influencing collective action in natural resource management: The case of pastoral and agropastoral communities in south western Kenya, Evelyne Kihiu.

Collective action, such as common resource user groups have gained importance in the management of pastoral natural resources particularly in the case of missing markets and weak government control. This study aims at analyzing the effects of capabilities, among other factors on participation in collective management of pastoral resources among pastoral and agropastoral communities in Narok, Kenya. We apply binary and ordered probit models to examine decisions to participate in collective management and the extent of participation respectively. The models are applied on cross-sectional data collected through a household survey among randomly selected household. From the findings, 49 percent of the sampled households were participants in collective action initiatives. The main two forms of collective provision and appropriation of pastoral resources in the study area are: (i) re-aggregated parcels of individually owned land and (ii) group ranches where the entire group holds the title to the ranch and the resource use is controlled through an elected group ranch committee. Results indicate that increased capabilities reduce both the probability of participation and extent of participation in collective management of the pastoral resources. Social capital, neighborhood social influences, herd stocks, increased distances to the nearest main market and permanent watering point significantly increase the probability of participating in collective management of pastoral resources. On the other hand greater access to extension services, relationship between the pastoral resource system and resource user, improved road quality and the age of household head significantly reduced the probability of households participating in collective provision and appropriation of pastoral resources. Similar factors to those affecting participation decisions were observed to affect the extent of participation and in a similar direction. In addition to the factors mentioned, involvement with external organizations and increased credit access were associated with higher extent of participation. Policy implications drawn by this study encourage strategies to increase economic benefits with collective management of pastoral resources as they are likely to lead to a crowding in effect triggering reciprocity of households. Higher benefits could be achieved by recognition and realization of emerging values and functions of rangelands in addition to the traditional ones.

Aid Allocation

What determines earmarked funding to international development organizations? Evidence from the new multi-bi aid dataset, Bernhard Reinsberg with Vera Eichenauer.

Earmarked funding to international development organizations has quadrupled over the last two decades, which suggests that it is an attractive aid modality for donor governments. However, there are large differences in donors' use of this "multi-bi" aid, a variation that is unexplained in the literature. We introduce a novel dataset on multi-bi aid that covers the 1990-2012 period and is based on more than 100,000 hand-coded projects taken from the OECD/DAC's Creditor Reporting System. Using aggregated amounts for multi-bi aid based on these data, we are the first to be able to systematically test the tentative explanations for the supply of multi-bi aid among OECD/DAC donors proposed in the literature and raised in interviews with development practitioners. Using random effect regressions, we test sixteen hypotheses and find that politically globalized donors with high quality ODA provide significantly more multi-bi aid. A pro-active multilateral policy is associated with lower amounts of earmarked aid, as is ideologically dividedness within the government, a change in the aid minister, and stronger political motives for aid provision. As suggested by anecdotal evidence, we confirm that multi-bi aid is increasing in debt relief and humanitarian aid. Using Extreme Bounds Analysis to insulate our inference against the arbitrariness of specific model choices, we confirm that a donor's political globalization is significantly associated with higher multi-bi aid and that multi-bi aid relates positively to aid amounts spent for debt relief and humanitarian aid. We find no systematic evidence that the volume of multi-bi aid is related to economic hardship in the donor country. Finally, we use Seemingly-Unrelated

Regressions to compare the factors influencing the size of multilateral, bilateral, and multi-bi aid budgets, we find that bilateral and multilateral aid are significantly related to the same factors while multi-bi aid is associated with different covariates.

"Bilateralizatong" multilateral aid? Aid allocation by World Bank trust funds, Vera Eichenauer with Stephan Knack.

Over the last decade, donors of foreign aid quadrupled their annual contributions to trust funds at the World Bank. This earmarking of contributions to donors' preferred recipient countries and issues has raised concerns about a "bilateralization" of multilateral aid, potentially to the detriment of aid effectiveness. While we expect trust fund aid to generally benefit poor countries, we hypothesize that the timing of donors' contributions to country-specific trust funds is influenced by geopolitical events. The timing of trust funds disbursements is more likely to be related to recipient's domestic politics, in particular when this aid is implemented by the recipient country. Using new data on World Bank trust fund contributions and disbursements for the 2002-2012 period, we are the first to investigate the cross-country allocation of these trust funds and their relationship with donors' political and economic interests. Analyzing the contribution and disbursement stage, we further test whether trust fund aid is allocated according to the IDA's performance-oriented rule, or whether it complements for IDA inflows and bilateral aid. Taking account of donor-recipient invariant characteristics, we find that donors allocate more aid via country-specific trust funds to politically aligned countries and to better-governed non-IDA countries receive more aid. The United Kingdom, the largest bilateral trust fund donor, contributes significantly more to trust funds supporting non-aligned temporary members of the Security Council. Regarding disbursements, we find IDA eligible recipients to receive more trust fund aid in average though unconditional on their quality of policies as measured by the World Bank's Country Policy and Institutional Assessment (CPIA) index. We also find robust support that disbursements by trust funds implemented by recipient countries are used for electioneering in recipient countries.

How much development aid is fragmented among recipient countries?, Daniela Buscaglia with Anjula Garg.

The paper mainly contributes to the problem of measurement of aid fragmentation, prioritized by the Accra Agenda for Action in 2008. A new index is proposed by considering the significance of donor-partner country aid relations in financial terms as suggested in the OECD approach as well as multiple aspects of this phenomenon, connected to the coordination among the donors, the commitment between the donors and the recipients and the resilience of the recipient countries. As measurability makes countries accountable and a good system of accountability is able to change the behaviour in the development community, this analysis and its maintenance trough time can have a crucial role in order to orient further efforts of donors in development aid and to guide their budget allocation.

Risk and social protection

Risky environments, hidden knowledge, and preferences for contract flexibility: An artefactual field experiment, Sebastian Kunte with Meike Wollni.

Contract flexibility can be expedient for economic exchange in environments with high ambiguity and risk, but may also encourage post-contractual opportunism. We run a modified investment game, including the choice between two different contract designs and asymmetric information about the realized surplus (i.e., hidden knowledge). We examine if Nairobi slum dwellers choose flexible over rigid contracts when interacting in risky environments and whether preferences for contract flexibility are sensitive to the exogenous probability of experiencing a negative shock. We find that most interaction is realized through flexible agreements. Principals offer a higher level of flexibility if the likelihood of a shock is high, relative to the low-risk environment. Agents are somewhat more reluctant to sign rigid agreements when facing the threat of a bad state. While agents and the overall efficiency benefit from higher flexibility, principals always do better by opting for a rigid contract.

Stochastic transfers, risky investment and incomes: Evidence from a price guarantee program in Thailand, Juliane Zenker with Andreas Wagner.

The Government of Thailand implemented an income guarantee program for rice, tapioca and maize farmers from 2009 to 2011. Essentially, this program added a non- negative but correlated background risk to the incomes of registered farmers. These stochastic features make its study empirically and theoretically interesting. We evaluate the impact of the program on risk attitudes and investment behavior of small-scale rice farmers in relatively poor North-eastern Thailand. To control for self-selection into the scheme, we use propensity score matching. We find that that participation in the program significantly makes farmers less risk-averse, induces higher investments and boosts incomes.

Social pension development in India and the well-being of elderly poor and their families, Viola Werner with Ankush Asri.

As social pension amounts across Indian states have developed very differently from 2004-2012, their impact on well-being is expected to be heterogeneous across the country. The preliminary findings of this study confirm that while in 2004-05 an “all-India” positive effect of social pensions on consumption expenditures could be observed, the differential development in Indian states since then led to increasingly heterogeneous impacts of social pension amount across Indian states. Future steps to analyze under which conditions social pensions were implemented more effectively include the usage of additional data sources. Analyzing consumption expenditure data in combination with coverage records and inflation data, this study aims at improving the understanding of how social pensions can contribute effectively to the reduction of old-age poverty in India yielding potential insights for other ageing developing countries.

Migration

Donors' openness to immigration and the effectiveness of foreign aid, Anna Minasyan with Peter Nunnenkamp.

We argue that donors could improve the effectiveness of foreign aid by pursuing complementary and coherent non - aid policies. In particular, we hypothesize that aid from donors that are open to immigration has stronger growth effects than aid from closed donors. We estimate the aid-growth nexus in first differences to mitigate endogeneity concerns. Our empirical results support the hypothesis that donors' openness to immigration strengthens the growth effects of foreign aid.

Climbing atop of giants' shoulders: The role of migration in endogenous growth, Thomas Lebesmuehlbacher.

I analyze the effect of endogenous migration and its spillovers on economic development in a 2-country, 3-sector endogenous growth framework. Particularly, three spillovers from migration are considered: remittances, technology diffusion, and re-migration after gaining knowledge abroad. Firms in the developing South initially accumulate physical and human capital to spur growth, while firms in the developed North conduct innovative R&D. Over time, the South accumulates enough human capital to make R&D profitable, thus becoming an innovator itself. Wage difference between the North and the South create an incentive for migration. Numerical analysis suggests that individual spillovers from migration do not affect Southern steady state and welfare levels, but do have idiosyncratic effects on the transition period from a physical capital accumulating economy to an innovating economy: spillovers from remittances and education abroad have the largest potential to speed up development, while technology diffusion slows down the transition process. Under the assumption of an immobile Southern workforce the transition from a capital accumulating economy to an innovative economy occurs fastest, however at the cost of forgone welfare in the innovative economy's steady state.

Growth

Ethnic cleavages, institutions and the duration of economic slumps, Richard Bluhm with Kaj Thomsson.

This paper analyzes the duration of large economic declines and provides a theory of delayed recovery. First, we develop a formal political economy model that illustrates a simple mechanism of how weak constraints on the political executive can lead to longer declines in ethnically heterogeneous countries. The model shows how uncertain post-recovery incomes and a 'winner-take-all' threshold effect create a commitment problem rendering a cooperative equilibrium inaccessible. Holding out can benefit groups by reducing the threshold effects in subsequent periods, thus limiting the remaining uncertainty. Placing strong constraints on the executive solves this commitment problem by reducing the uncertainty from the threshold effects, which brings about cooperation earlier on. Second, we then test several empirical predictions from the model using standard data on linguistic heterogeneity and more detailed data on ethnic power configurations. We find that the partial correlations are consistent with the proposed theory. The effect of executive constraints on the length of declines is very large in heterogeneous countries, but practically disappears in ethnically homogeneous societies. The adverse effect of heterogeneity is driven by the number of groups; increasing political concentration works in the opposite direction

OHADA mempership and business reforms - a driver for growth, Alexa Tiemann.

Aid and growth. New evidence using an excludable instrument, Sarah Langlotz with Axel Dreher.

We use an excludable instrument to test the effect of foreign aid on economic growth in a sample of 96 recipient countries over the 1974-2009 period. We interact donors' government fractionalization with a recipient country's probability of receiving aid. The results show that fractionalization increases donors' aid budgets, representing the over-time variation of our instrument, while the probability of receiving aid introduces variation across recipient countries. Controlling for the levels of the interacted variables as well as country- and period-specific effects, the interaction provides a powerful and excludable instrument. Making use of the instrument, our results show no significant effect of aid on growth in the overall sample. We find that growth decreases with aid in a sample of countries with good economic policies. Our results also show that consumption decreases with aid, savings increase with contemporaneous aid, and investments increase with lagged aid.

Output growth and volatility. The role of financial integration in developing and industrial countries, Izabela Sobiech.

This paper sheds new light on the volatility-growth relationship and on the impact of international financial flows on it. I point out differences between industrial and developing countries in these aspects. The results of my cross-country panel data fixed effects regressions show that only developing countries suffer from output fluctuations, while advanced economies can benefit from them if international financial flows are sufficiently large. Some European countries have been able to profit from globalization in this manner over extensive periods of time. Some developing countries also reached these financial flows levels but nonetheless cannot mitigate the negative effects of output fluctuations on growth. Differences between the two country groups cannot be explained by the composition of international capital flows, nor by political or economic policies. The discrepancy recorded for the time period 1972 - 2006 weakens in the more recent years which might be related to the composition of the flows. Indeed, there is some evidence that developing countries can profit the most from foreign direct investment flows to mitigate negative effects of volatility and that these flows were less affected by the global financial crisis than portfolio flows, most relevant for industrial countries.

Financial inclusion and firms performance, Lisa Chauvet with Luc Jacolin.

This study focuses on the impact of financial inclusion and financial development on the performance of firms in countries with low financial development. Using firm-level data in panel for a sample of 29 countries, we find that the impact of financial depth on firms growth depends on the degree of financial inclusion, i.e. the distribution of access to financial services. Contrary to developed countries where financial inclusion is nearly universal, differences in access to credit among firms help explaining differences in firms performance. We measure financial inclusion as the share of firms who have access to bank overdraft facilities at the sector level. We find that whereas financial development does not affect firms performance on average, financial inclusion at the sector level has a positive effect on firms growth. Where financial inclusion is low, financial development may create crowding out effects in favour of a minority of firms. Additional testing show that these effects affect all firms, irrespective of various characteristics such as size, or whether they have access to bank credit or not. We interpret these results as showing that financial deepening increases firms growth only if it widely distributed among firms, i. e. financial inclusion is high.

Parallel Session 3

3A. Health

The nutrition-learning nexus: Evidence from Indonesia, Maria Lo Bue.

This paper investigates the effect of nutritional status on subsequent educational achievements for a large sample of Indonesians children. I use a long term panel data set and apply a maternal fixed effect plus an instrumental variables estimator in order to control for possible correlation between some of the components of the error term and the main independent variable which will likely to cause a bias in the estimates. Differences in nutritional status between siblings are identified by using exposure in the earliest months of life to the drought associated with the Indonesian wildfires of late 1997. Estimation results show that health capital (measured by height-for-age z-scores at childhood) significantly and positively affects the number of completed grades of schooling and the score on cognitive test. Nevertheless, I only find little robust evidence of an effect on the readiness to enter school.

Long-term effects of access to health care: Medical missions in colonial India, Rossella Calvi with Frederico Mantovanelli.

We study the long-term effect of access to health care on individuals' health status by investigating the relationship between the proximity to a Protestant medical mission in colonial India and health outcomes today. We use individuals' anthropometric indicators to measure health status and geocoding tools to calculate the minimum distance between the location of individuals today and Protestant health facilities founded in the nineteenth century. We exploit variation in activities of missionary societies and use an instrumental variable approach to show that proximity to a Protestant medical mission has a causal effect on current individuals’ health status. We investigate some potential transmission channels and we find that the long-run effect of access to health care is not driven by persistence of infrastructure, but by improvements in individuals’ health potential and, possibly, by changes in hygiene and self-care habits.

Multilevel modelling of child mortality in Africa, Judith Santer with Kenneth Harttgen and Stefan Lang.

Whereas child mortality has been decreased globally in the last 20 years, high levels persist in Sub-Saharan Africa. This paper analyzes child mortality in 25 sub-Saharan countries based on household survey data. We employ a new multilevel approach with structured additive predictor within the Bayesian framework. This allows us to take into account the hierarchical data structure and use the heterogeneity within and between countries as well as to assess non-linearities in the relationship between child mortality and socio-economic determinants. We find that household’s economic well-being, mother’s education and age, and geographical regions strongly influence child mortality risks.

3B. Agriculture

Building trust in rural producer organizations in Senegal: Results from a randomized controlled trial, Pia Unte with Tanguy Bernard, Markus Frölich, Andreas Landmann, Angelino Viceisza and Fleur Wouterse.

Trust is crucial for successful collective action. A prime example is collective commercialization of agricultural produce through producer organizations. We conduct a cluster-randomized controlled trial in rural Senegal in which we vary the number and the type of smallholder farmers — ordinary members and/or leaders of local producer organizations invited to a three- day training on collective commercialization. We use this variation to identify effects on intra-group trust, both direct treatment effects of participating in the training and spillover effects on farmers who did not partake. Looking at different measures of trust in leaders’ competence and motives and of trust in ordinary members we find that participating in the training significantly enhances both trust in leaders and trust in ordinary members. For trust in leaders, we also find a strong spillover effect. Our findings suggest that the composition of the audience in group trainings is likely to matter for the training’s impact, and that relatively soft and non-costly interventions such as a group training appear to be able to positively affect trust within producer organizations.

Are large families worse off? Evidence from Nigeria, Olivia Bertelli.

A vast literature has traditionally associated high fertility with low economic growth and poverty. Recent microeconomic studies have shown that fertility does not actually decrease individuals' outcomes, such as education and occupation. Yet, there is still no causal evidence concerning the impact of fertility on household's welfare in developing countries. This paper fills that gap by looking at the mid-run impacts of positive weather shocks on reproductive behaviour and the consequences in terms of food security. By solving the endogeneity of the initial number of children with the gender of the first-born as instrument, I show that large households having benefited from a positive rainfall shock adjust their reproductive behaviour to weather shocks. As a result, fewer children die and fewer children are born two years after the shock, as predicted by standard theory. However, fertility increases, because parents only partially reduce the number of newborns. Such adjustment has multiple effects in terms of household food security. On the one hand, dietary changes decrease food quality, while, on the other hand, given the increased number of children, adults reduce their own food consumption to help buffer that of young children. Finally anthropometric measures get worse and fewer children are vaccinated.

Weather shocks and education in Mongolia, Valeria Groppo with Kati Krähnert.

This paper analyzes the impact of extreme weather shocks on education outcomes in Mongolia. Our focus is on particularly harsh winters that caused mass livestock mortality (called dzud in Mongolian) between 1999-2002 and in 2009/2010.The timing of events allows us to analyze both short-and long-term effects of weather shocks on education. Our analysis disentangles the effects by age of exposure. Moreover, we provide new evidence on which households' socio-economic characteristics and coping strategies are associated with worse or milder impacts of the shock. The data basis is an unusually detailed household survey that comprises rich information on households' shock experience and retrospective information on households' pre-shock socio-economic status. Various measures of shock intensity are derived from data on snow depth and livestock mortality. We mainly employ a difference-in-differences econometric approach, which allows to draw causal inference by exploiting exogenous variation in shock exposure across space and age cohorts. Results show that weather shocks negatively affect education both in the short-and in the long-term. Individuals from herding households with poorer socio-economic backgrounds appear to be particularly affected. Individuals exposed during pre-schooling age bear persistent negative human capital effects

3C. Remittances

Do transfer costs matter for foreign remittances? A gravity model approach, Junaid Ahmed with Inmaculada Martinez-Zarzoso.

Using bilateral data on remittance flows to Pakistan for 23 major host countries, in the first study of its kind, we examine the effect of transaction costs on foreign remittances. We find that the effect of transaction costs on remittance flows is negative and significant; suggesting that a high cost will either refrain migrants from sending money back home or make them remit through informal channels. This can be better understood in terms of migrant networks and improvements in home and host country financial services. Distance, which has been used in previous studies as an indicator of the cost of remitting, is found to be a poor proxy.

The impact of remittances on economic performance, poverty and the distribution of income, Anna Katharina Raggl.

Using data on a large panel of countries we assess empirically the impact of international remittances on economic growth, inequality and poverty rates in the receiving economies, thereby distinguishing between countries of different income levels. The findings suggest that remittances improve growth rates, in particular in low and middle income countries. The impact of remittances on the distribution of income is ambiguous. While the general picture is that income gaps within countries widen due to inflows of remittances, the allocation of remittances in high income countries appears to have an equalizing effect. Finally, the estimates show that remittances reduce poverty rates in the full sample as well as in different subsamples. All findings are based on estimators that account for endogeneity of the remittance variables and are robust to specification.

The effect of remittances on public spending and the quality of governance, Toman Omar Mahmoud with Carl von Schweinitz and Andreas Steinmayr.

This paper investigates the effect of remittances income on local public spending. Based on administrative micro data from Moldova, we show that an increase in remittances leads to a shift in public spending away from public services with private-sector substitutes towards education, which does not have private-sector substitutes in Moldova. Unlike previous cross-country studies, we do not find that remittances increase the share of administrative expenditures that might be associated with inefficient administration or patronage. To address the endogeneity of remittances, we exploit differences in village-level exposure to exchange rate shocks. Appreciation of a migrant’s currency against the Moldovan Leu increases the local value of remittances sent back by the migrant and thus provides an exogenous shock to household income.

3D. Public Economics

Debt relief, tax effort, and fiscal incentives. The donkey and the carrot revisited, Marin Ferry.

The multilateral debt relief initiatives of the early and mid-2000s have canceled around $76 billion of external public debt that severely weighed on low-income countries' governments, most of them located in sub-Saharan Africa. Using an event-study framework, this paper tries to empirically assess a relation that has not yet been investigated: the impact of debt relief on government's tax effort. Our results suggest that having reached the decision point leads to higher level of tax e ort. But our findings also reveal that HIPCs seem to deploy the bulk of their tax effort before the decision point in order to get debt relief, and then loosen this e ort.

Indeed, once debt relief has been provided, data suggest that HIPCs gradually reduce their tax effort. This result therefore stresses the recurrent moral hazard issue in development financing where required improvements from international financial institutions provide positive fiscal incentives which nevertheless vanish as soon as countries have been rewarded for their effort. However, additional tests expose that post-debt relief tax effort remains higher than the level recorded before the anticipatory effects took place, thus emphasizing an overall positive effect of the Enhanced HIPC initiative on government's tax effort.

Tax revenue effects of sectoral growth and public expenditure in Uganda, Joseph Mawejje with Ezra Munyambonera.

This paper highlights some mismatches in sectoral GDP contributions to overall tax revenue performance. Employing ARDL bounds testing techniques, we show that growth in the agricultural sector holds the biggest potential to improve tax revenue performance in the long run. The industrial sector also exhibits a positive long run relationship with tax performance. However, the services sector, which has been the major driver of growth in Uganda, has demonstrated a negative long-run relationship with tax revenue performance. We attribute this negative relationship to revenue losses arising from, among others: tax evasion, informality, And tax exemptions. On the expenditure side, there is a positive long run relationship between tax revenue performance and both development and re-current expenditures, albeit insignificant for the development expenditures. In addition, we demonstrate that aid grants depress tax revenue performance in the long run. Moreover, there is some scope for improving tax revenue performance by exploiting trade opportunities through measures that enhance the openness of the economy. We propose policies to support the growth of the agricultural and industrial sectors while emphasizing the need to control tax evasion, widen the tax base, review tax exemptions, and improve the productivity of public expenditure.

Social spending and aggregate welfare in developing and transition economies, Miguel Niño-Zarazúa with Fiseha Gebregziabher.

3E. Aid allocation

Who is the development minister and does (s)he matter?, Katharina Richert with Andreas Fuchs.

Aid on demand: African leaders and the geography of China's foreign assistance, Andreas Fuchs with Axel Dreher, Roland Hodler, Bradley C. Parks, Paul A. Raschky and Michael J. Tierney.

This article investigates whether China's foreign aid is particularly prone to political capture by political leaders of aid-receiving countries. Specifically, we examine whether more Chinese aid is allocated to the political leaders' birth regions and regions populated by the ethnic group to which the leader belongs, controlling for indicators of need and various fixed effects. We have collected data on 117 African leaders' birthplaces and ethnic groups and geocoded 1,650 Chinese development finance projects across 3,097 physical locations committed to Africa over the 2000-2012 period. Our econometric results show that current political leaders' birth regions receive substantially larger financial flows from China than other regions. On the contrary, when we replicate the analysis for the World Bank, our regressions with region-fixed effects show no evidence of such favoritism. For Chinese and World Bank aid alike, we also find no evidence that African leaders direct more aid to areas populated by groups who share their ethnicity, when controlling for region-fixed effects.

With a little help from my friends: Global electioneering and World Bank lending, Erasmus Kersting, with Christopher Kilby.

This paper investigates how World Bank lending responds to upcoming elections in borrowing countries. We find that investment project loans disburse faster when countries are aligned with the United States in the UN. Moreover, disbursement accelerates in the run-up to competitive executive elections if the government is geopolitically aligned with the U.S. but decelerates if the government is not. These disbursement patterns are consistent with global electioneering that serves U.S. foreign policy interests but jeopardizes the development effectiveness of multilateral lending.