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**TRANSFERS IN THE  
GRAVITY EQUATION:  
THE CASE OF FOREIGN AID**

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# Transfers in the Gravity Equation: The Case of Foreign Aid

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## Abstract

This paper presents a theoretical gravity model of trade in which foreign aid is considered as a transfer instead of being part of the trade cost, as it has been previously done in the related literature. We argue that the usual specification leads to invalid out-of-sample predictions, biased coefficients and moreover it ignores heterogeneity. The proposed model is estimated for a sample of 188 countries over the period 1988-2013 using panel fixed effects and PPML techniques and the resulting trade elasticities with respect to aid are compared with those obtained from the traditional specification. The main results show that average effect of one additional US \$ of aid is around 0.56\$ of total imports according to our model, whereas with the alternative model an average effect of an implausible amount of 11\$ of imports is obtained. In addition, a decomposed version of the model provides a new framework to disentangle the political effects of aid from the budget effects. While we consider the case of foreign aid, the modeling framework also applies to the study of other transfer, as for example remittances.

**Keywords:** International trade, development, foreign aid, gravity

**JEL:** F14, F35

## 1 Introduction

Foreign development aid is an important source of monetary resources for many low-income countries. While low and lower-middle income countries receive on average aid worth around 3% of their respective GDP, in some extreme cases (like Tuvalu after 2008, or Guinea-Bissau in 1996) aid is around 50% of GDP. Palau even received aid worth more than twice its GDP in 1994, the year of its independence. For donors, on the one hand, aid can be a way to fulfil a perceived responsibility to share their wealth with the needy. On the other hand, it can also be a powerful tool, to attain economic or strategic foreign policy goals.

Especially in the latter sense, the impact of aid on trade has been studied extensively. Most of the studies focus on the benefit for donors in terms of higher bilateral exports. Nilsson (1997) was the first author to estimate a gravity model of trade augmented with foreign aid for European Union donors. Wagner (2003) extended the approach to evaluate aid given by OECD countries. Martínez-Zarzoso et al. (2014) and J. Silva and Nelson (2012) consider all donors and recipients. In other studies single donors have been examined (Martínez-Zarzoso et al., 2009; Hansen and Rand, 2014; Martínez-Zarzoso, Nowak-Lehmann D., Klasen and Johannsen, 2016). Usually, an effect of aid on donors' exports is found, and the political effect is significant, even though displacement is found in few instances. Other studies, such as Nowak-Lehmann D. et al. (2013) and Petersson and Johansson (2013) focus on the effect of aid on bilateral exports from recipient to donor. While the latter finds

positive effects in some cases, the former shows that there is no effect on exports when multilateral resistance terms are controlled for.

There is another reason why it is important to understand the relation between aid and recipient imports, which has been mostly neglected in the literature. Trade is a key issue to understanding the effectiveness of foreign aid in terms of development goals. On the one hand, aid could deteriorate recipients' export performance, for instance due to a Dutch disease effect (Rajan and Subramanian, 2011). On the other hand, aid is a *nominal* transfer, and to have a *real* impact—beyond monetary policy, and redistribution—it has to materialize in imports of goods and services<sup>1</sup>. Of course such an effect does not warrant higher economic *growth*. It could simply be that aid is mainly consumed as Werker et al. (2009) have found for Muslim recipients, and Temple and Van de Sijpe (2015) for a broader set of countries. This does not necessarily mean that aid is not helping developing countries. After all, it is an international transfer program, and it could be thought of, similar to unemployment benefits, as ensuring some sort of social minimum. But it would be hard to see how aid could materialize in higher growth in this case. If no effect of aid on imports should be found, however, that would preclude any effect on growth.

This paper contributes to the literature by raising, and addressing a specification issue for gravity models including transfers. In particular, we develop a simple extension of the theoretical model by Anderson and van Wincoop (2003) allowing for international transfers. This framework allows us to study both the effect of total transfers and bilateral transfers received. To our knowledge, there is only one paper (J. Silva and Nelson 2012) that provides a theoretical model including foreign aid, but it treats aid as a trade cost determinant rather than a transfer. Outside the gravity literature Cali and te Velde (2011) and Vijil and Wagner (2012) derive theoretical models, but they do not explicitly model aid as a transfer, either. Moreover, they do not consider the general equilibrium effects in their theoretical models.

Our model suggests that the elasticity of trade with respect to aid depends on the ratio of aid to GDP. Hence, aid matters to the extent that it loosens the budget constraint, or to the extent it *inflates* the budget set. The relevant variable according to our model is what we call the inflation factor  $1 + \frac{Aid}{GDP}$ . This, in turn, implies that the estimated *average* elasticity of trade with respect to aid will differ if the distribution of the share of aid to GDP changes. Previous studies assumed a constant elasticity of trade with respect to aid. This way, they were not able to account for heterogeneity in the effects of aid, and for the fact that the estimated elasticities are not valid for out-of-sample predictions. Furthermore, our model implies general equilibrium effects that work in a very different way than in previous studies. Aid increases market size, and thus affects the market clearing conditions of partner countries.

In empirical terms, there are three important studies linked to ours. Temple and Van de Sijpe (2015) find a positive effect of total aid on total imports using an instrumental variable approach. Our paper, on the other hand is less concerned with endogeneity—which is a minor issue using bilateral trade data—but rather about specification issues. The second and third studies, by Hansen and Rand (2014) and Martínez-Zarzoso, Nowak-Lehmann D. and Klasen (2016) introduce an inflation factor in their empirical specifications of the gravity model, but do not provide a theoretical model and their analysis is restricted to Danish and Dutch bilateral aid, respectively. Our study complements these empirical findings by providing a general theoretical framework from the recipient perspective and considers aid flows—total and bilateral—from many donors. We estimate a model with a constant elasticity of aid, and compare the results with the model using an inflation factor, that captures by how much aid inflates existing resources (GDP). The models are estimated using the within estimator with bilateral fixed effects and a Poisson Pseudo-Maximum Likelihood (PPML) estimator, also with bilateral fixed effects. Based on our theoretical model we are able to compare the coefficient estimates of the two approaches. We find that moderately sized coefficients in the standard model, in some cases imply (implausibly) huge coefficients for the inflation factor. In most cases, however, the implied *average* parameter values

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<sup>1</sup>That also holds for investment projects. If resources are idle, aid could work as monetary policy and increase demand. If the economies in question are not demand constraint, however, aid may facilitate investment by financing imports of capital goods, and construction material, or consumption goods for workers.

are comparable. Due to the heterogeneity that our model implies, the monetary return of aid in terms of imports differs substantially. Moreover, allowing for country specific coefficients we find that the estimated pattern of heterogeneity is reversed when using the respective alternative specifications.

While we discuss foreign aid in this paper, the model is stated in very general terms, and is in principle applicable for many types of transfers. One example of a possible additional application would be remittances.

The remainder of this paper is structured as follows. In section 2 we present the augmented Anderson and van Wincoop (2003) model, and derive partial and general equilibrium effects of aid. In section 3 we describe the data sources used for our estimation. Section 4 presents the main empirical results, and section 5 concludes.

## 2 Theoretical Model

We use a slightly modified version of the widely cited Anderson and van Wincoop (2003) model. Consumers maximize the following CES utility function with homothetic preferences:

$$\left( \sum_i \beta_i^{(1-\sigma)/\sigma} c_{ij}^{(\sigma-1)/\sigma} \right)^{\frac{\sigma}{\sigma-1}} \quad (1)$$

All variables are defined in accordance with Anderson and van Wincoop (2003).  $c_{ij}$  is the consumption of country  $i$ 's good in country  $j$ .  $\beta_i > 0$  is a distributional parameter.  $\sigma$  is the elasticity of substitution. The main change in the setup as compared to Anderson and van Wincoop (2003) is in the budget constraint. Let  $t_{ij}$  be the net ODA inflow from country  $i$  to country  $j$ . If  $t_{ij} > 0$  country  $j$  is a net recipient. If  $t_{ij} < 0$  country  $j$  is a net donor to country  $i$ . In turn  $t_{ij} = -t_{ji}$ . Each country receives or gives transfers to multiple countries. Let  $T_j = \sum_i t_{ij}$  be net total aid inflows of country  $j$ . Then, the budget constraint is:

$$\sum_i p_{ij} c_{ij} = y_j + T_j, \text{ with } \sum_j T_j = 0 \quad (2)$$

$p_{ij}$  is the price of the good from country  $i$  in country  $j$ . Assuming Iceberg trade costs this reduces to  $p_{ij} = p_i \tau_{ij}$ .  $y_j$  is the income (GDP) of country  $j$ . This income is reduced if the country is a donor ( $T_j < 0$ ).

The export value from country  $i$  to  $j$  is as before  $x_{ij} = p_{ij} c_{ij}$ , and total production (GDP) equals the sum of all bilateral exports and domestic absorption:  $y_i = \sum_j x_{ij}$ , i.e. the market clearing condition. Optimizing (1) subject to (2) yields:

$$x_{ij} = \left( \frac{\beta_i p_i \tau_{ij}}{P_j} \right)^{(1-\sigma)} (y_j + T_j) \quad (3)$$

where  $P_j \equiv \left[ \sum_i (\beta_i p_i \tau_{ij})^{1-\sigma} \right]^{\frac{1}{1-\sigma}}$  is the optimal price index. Based on the market clearing condition we get:

$$\begin{aligned} y_i &= \sum_j x_{ij} = \sum_j \left( \frac{\beta_i p_i \tau_{ij}}{P_j} \right)^{(1-\sigma)} (y_j + T_j) \\ &= (\beta_i p_i)^{1-\sigma} \sum_j \left( \frac{\tau_{ij}}{P_j} \right)^{1-\sigma} (y_j + T_j) \end{aligned} \quad (4)$$

Solving for  $(\beta_i p_i)^{1-\sigma}$  and plugging the result into (3) yields an expression similar to the well known gravity equation:

$$x_{ij} = \frac{y_i (y_j + T_j)}{y_w} \left( \frac{\tau_{ij}}{P_j \Pi_i} \right)^{1-\sigma} \quad (5)$$

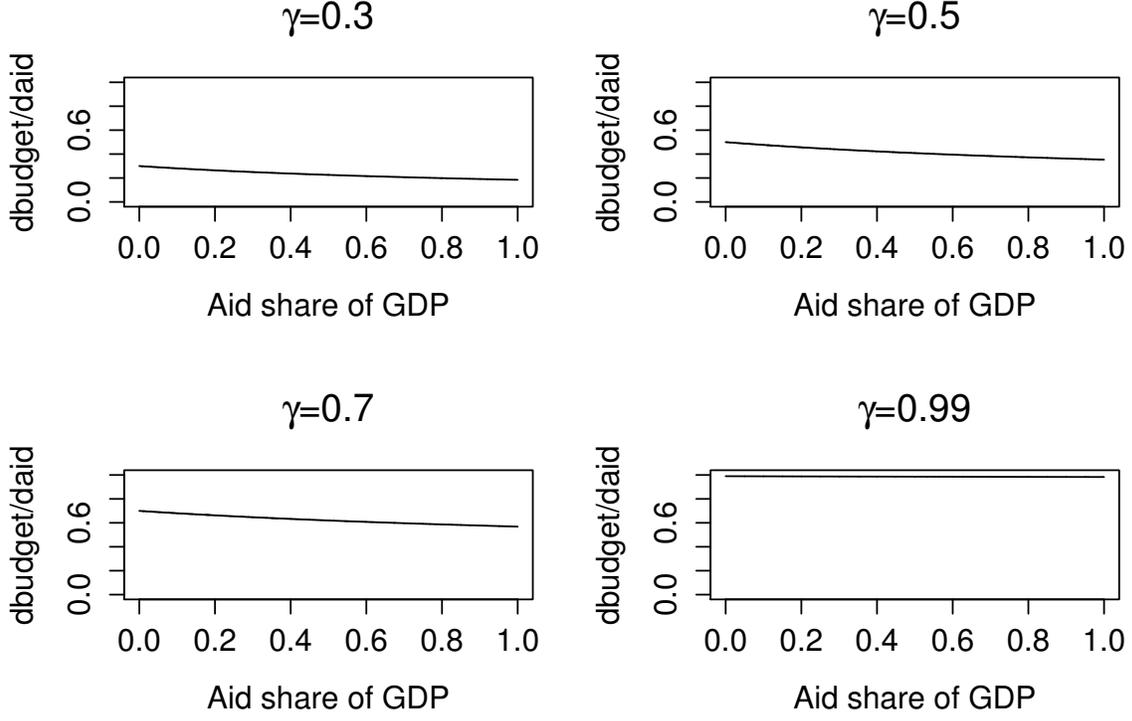


Figure 1: Marginal effect of aid on budget line for different values of  $\gamma$

where

$$\Pi_i \equiv \left[ \sum_j \left( \frac{\tau_{ij}}{P_j} \right)^{1-\sigma} \psi_j \right]^{\frac{1}{1-\sigma}},$$

$$\text{with } \psi_j \equiv \frac{y_j + T_j}{y_w} = \frac{y_j}{y_w} \left( 1 + \frac{T_j}{y_j} \right) \quad (6)$$

and

$$P_j = \left[ \sum_i \left( \frac{\tau_{ij}}{\Pi_i} \right)^{1-\sigma} \theta_i \right]^{\frac{1}{1-\sigma}}, \text{ with } \theta_i \equiv \frac{y_i}{y_w} \quad (7)$$

Up to now, we assumed, that total aid to a given recipient ( $T_j$ ) shifts the budget constraint outwards. In order to account for the fact that some aid never reaches the recipient country rewrite (2):

$$\sum_i p_{ij} c_{ij} = y_j \left( 1 + \frac{T_j}{y_j} \right)^\gamma \quad (8)$$

This implies that the fraction of aid that gets lost is slightly increasing in the share of aid in GDP. Figure 1 shows the marginal effect of aid on the budget simulated for different values of  $\gamma$ . As can be seen the deviation from a proportional effect are generally not dramatic.

Introducing this type of friction has a bearing on the remaining equations. (5) becomes:

$$x_{ij} = \frac{y_i y_j}{y_w} \left( \frac{\tau_{ij}}{P_j \Pi_i} \right)^{1-\sigma} \left( 1 + \frac{T_j}{y_j} \right)^\gamma \quad (9)$$

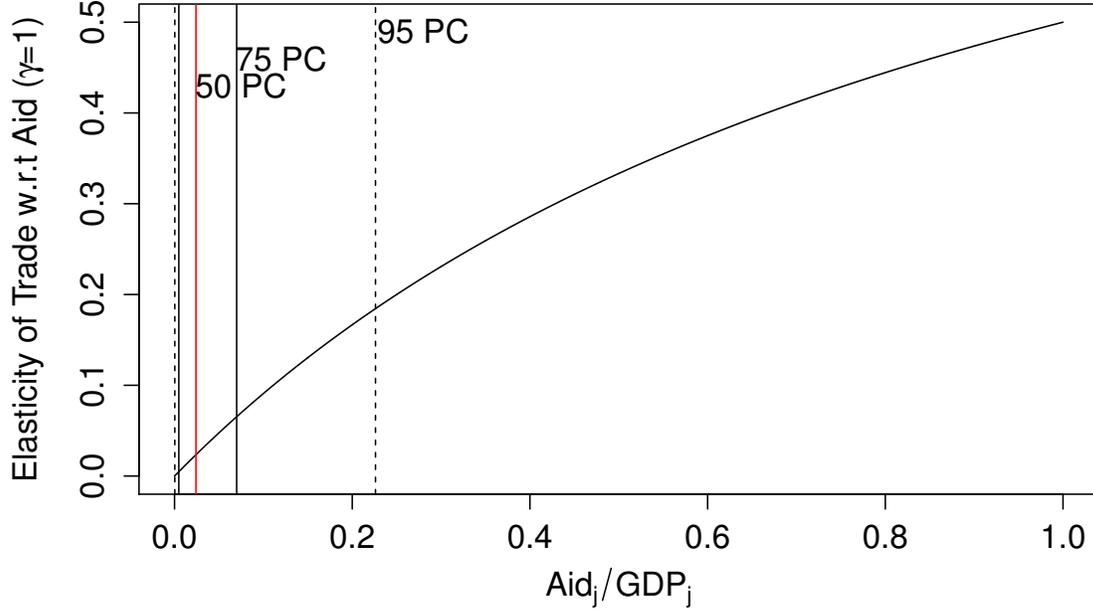


Figure 2: Elasticity of trade w.r.t to aid

Hence, the partial effect of aid with respect to trade is non-linear, and depends on the ratio of aid to GDP. This implies that there is a bias in typical studies of aid effects on trade. Typically, aid is included in logs (Nilsson 1997; Wagner 2003; Nowak-Lehmann D. et al. 2013; Martínez-Zarzoso et al. 2014; among others), which implies a constant elasticity of trade w.r.t aid, i.e.  $\frac{d \ln x_{ij}}{d \ln T_j} = const$ . On the contrary the model derived here implies<sup>2</sup>

$$\frac{d \ln x_{ij}}{d \ln T_j} = \gamma \frac{T_j}{y_j + T_j} \quad (+ \text{ General Equilibrium Effect}) \quad (10)$$

Hence the average elasticity (ignoring GE effects) should be

$$\left( \overline{\frac{d \ln x_{ij}}{d \ln T_j}} \right) = \gamma \int_0^1 \frac{T_j}{y_j + T_j} dF \left( \frac{T_j}{y_j + T_j} \right) \quad (11)$$

where  $F(x)$  is the cumulative density function of the share of aid to GDP. That means, that according to the theory presented here the elasticities of trade with respect to aid should vary according to sample. In particular, when countries are included that do not receive any aid, a lower effect of aid will be found.

Figure 2 shows the relation of aid to GDP and the elasticity of trade w.r.t. aid. Additionally, vertical lines are inserted that represent different percentiles of the empirical distribution for the aid

<sup>2</sup>It is important to note, that this implication is only valid for positive values of aid—in line with the limited applicability of the traditional model.

to GDP ratio (using a sample of low and lower middle income countries). The red line refers to the median, the solid black lines represent the 25th and 75th percentile respectively and the dashed lines show the 5th and the 95th percentile. The median aid to GDP ratio is around 2.4%, and the empirical distribution seems to be quite concentrated around the median. About 50% of observations are located in a range of 6 percentage points around the median. Of course there are a number of notable outliers (e.g. Afghanistan, Eritrea, Liberia, North Korea, Palau). But if estimation is dominated by low aid to GDP observations we are posed to find a low elasticity of trade w.r.t. aid, and thus potentially underestimate positive effects aid could have, in particular the effect of increased aid flows to specific countries.

Beyond out-of-sample predictions there is a further problem regarding the estimation of the aid elasticity if aid is included in levels. It is straightforward that:

$$\gamma \ln \left( 1 + \frac{T_j}{y_j} \right) = \gamma \ln T_j + \epsilon_j \quad (12)$$

with

$$\begin{aligned} \epsilon_j &= \gamma \ln \left( \frac{1}{T_j} + \frac{1}{y_j} \right) \\ &= \gamma \ln \frac{1}{T_j} + \gamma \ln \left( 1 + \frac{T_j}{y_j} \right) \end{aligned} \quad (13)$$

$\epsilon_j$  enters the error term if aid is included merely in levels. This can lead to a substantial downward bias of the estimates. The bias can be quite severe, as the variable of interest is perfectly correlated with part of the error term:  $Corr \left( T_j, \frac{1}{T_j} \right) = -1$ . The bias due to the second term in equation (13) depends on the specific sample. It is crucial to realize that the most important part of the bias, is thus due to the omission of the term “+1” in (12). Thus, while we fully agree with Wagner (2003, p. 162) that adding one is not “an immaterial adjustment”<sup>3</sup>, the conclusion here is the different: The “+1” adjustment is *required* to take the nature of aid as a transfer into account, and the *omission* of “+1” leads to a serious bias. In extreme cases, this can even affect whether we attribute a positive or negative effect to aid.

For completeness, note that the inclusion of a transfer also affects the exporter price term, and rules out  $\Pi_i = P_i$  as a general solution.<sup>4</sup> In order to allow for  $\gamma \neq 1$  in the expression for  $\Pi_i$ , and all following derivations we have to replace  $\psi_j$  by  $\psi_j^* \equiv \frac{y_j}{y_w} \left( 1 + \frac{T_j}{y_j} \right)^\gamma$ . Then, using first order Taylor series expansions in the same way as Baier and Bergstrand (2009) we get:

$$\begin{aligned} \ln \Pi_i &= \sum_{j=1}^N \psi_j^* \ln \tau_{ij} + \sum_{k=1}^N \theta_k \ln \tau_{1k} \\ &\quad - \sum_{i=k}^N \sum_{m=1}^N \theta_k \theta_m \ln \tau_{km}, \quad i = 2, \dots, N \end{aligned} \quad (14)$$

$$\ln P_j = \sum_{i=1}^N \theta_i \ln \tau_{ij} - \sum_{k=1}^N \theta_k \ln \tau_{k1}, \quad j = 2, \dots, N \quad (15)$$

The domestic price index  $P_j$  is the same as in Baier and Bergstrand (2009). However, there is a change with respect to market potential  $\Pi_i$  regarding the weights. If a country receives aid (from another country) it gains importance as a potential market. Any country that is farther away from the recipient than from the donor will, then, find it more difficult to sell their products and thus have to reduce prices to clear their market. If a country is closer to the recipient than to the donor the reverse applies.

<sup>3</sup>Wagner (2003) discussed the practice of adding one in order to allow for zero aid flows.

<sup>4</sup>That is, except  $\Pi_i = P_i = 1$ . Note that this holds already in cross-sections, not only in Panels (as in Baldwin and Taglioni, 2007)

### 3 Data

Bilateral trade data from 1988 to 2013 for 188 countries is taken from UN-COMTRADE. Data on income and population variables are drawn from the World Bank (World Development Indicators Database, 2015). Distances between capitals computed as great-circle distances using data on straight-line distances in kilometres, latitudes and longitudes, trade impeding or promoting factors such as being a former colony and sharing a common language or a common border are taken from the CEPII data base. The RTA dummy is from de Sousa (2012). Data on aid flows are obtained from the OECD’s Development Assistance Committee (OECD, 2015). Table A.1 in the Appendix reports summary statistics.

### 4 Empirical Application

In this section we present estimation results for different versions of the gravity model augmented with foreign aid, by applying the model presented in the theoretical section and compare it with a model that adds aid as a part of trade costs. The main results are reported in Table 1. In columns (1)-(3) log-linearized versions of equation (5) are estimated using panel fixed effects techniques with heteroskedasticity robust standard errors. In columns (4)-(6) the multiplicative model is estimated using the Poisson Pseudo-Maximum Likelihood (PPML) estimation with logarithmic link function. In both sets of specifications country-pair fixed effects capture time-invariant trade cost determinants and the multilateral resistance terms (14) and (15). Additionally, we include time-fixed effects to control for global shocks.

In column 1 results for the traditional model are reported. Since  $\ln Aid$  is not defined for  $Aid \leq 0$  the sample is restricted to aid recipients. Column 2 retains this restricted sample and reports results for the inflation factor  $1 + \frac{T_j}{y_j}$ . Since the inflation factor is positive for almost all plausible values of  $T_j$  this specification can be expanded to a much larger sample. In column (3) we lift the restriction and estimate the specification with the inflation factor for the full sample.

In all cases the coefficients on aid are highly significant. In accordance with theory, the coefficient on the inflation factor is considerably larger. However, in terms of magnitudes the coefficients are not strictly comparable. Column (1) gives the average elasticity of bilateral aid with respect to  $GDP_j$ . In column 2 and 3 the estimates for our parameter  $\gamma$  are reported. It can be interpreted as the pass-through or multiplier effect. A coefficient of 1 indicates that aid fully enters the receiving countries’ budget. A value below 1 but higher than the coefficient of country  $j$ ’s GDP means that aid is spent relatively more on imports. A value that is indistinguishable from GDP indicates that aid is just another part of the receiving countries’ budget. A value below that, indicates incomplete pass-through. However, it is also possible that the coefficient surpasses 1 in which case there would be a multiplier effect of aid, somehow crowding in other parts of the budget or new sources of funds.

In order to make the coefficients comparable we calculate the implied average aid to trade elasticities using equation (11) for the specifications using the inflation factor. For the specifications using  $\ln Aid$  we use the inverse function of (11) to calculate the implied values of  $\gamma$ . Note that the continuous mapping theorem implies that the same significance levels and t-statistics apply for the transformed parameters. For brevity, however, we report them only once.

The result of a high pass-through is robust through all specifications. In column 2 the coefficient is statistically indistinguishable from 1 suggesting full pass-through. Exploiting the full sample—i.e. including importers with no aid received—the coefficient is slightly reduced, but still indistinguishable from 1. In column 1 the implied value for  $\gamma$  is smaller, only slightly above the coefficient of GDP. In all cases the result suggests that the pass-through is very high, and at least in terms of imports, aid seems to in fact inflate the existing budget. In accordance with these patterns, the estimates for the average elasticity are higher in column 2.

In their seminal article, Santos Silva and Tenreyro (2006) argue that due to Jensen’s inequality log-linearized estimations of the gravity equation produce biased elasticity estimates if the multiplicative

Table 1: Fixed Effects Estimation

	(1)	(2)	(3)	(4)	(5)	(6)
	Fixed Effects			Poisson FE		
	Levels	Factor	Full Sample	Levels	Factor	Full Sample
$GDP_i$	0.690*** (25.70)	0.688*** (25.60)	0.745*** (33.21)	0.731*** (15.75)	0.732*** (15.53)	0.757*** (20.44)
$GDP_j$	0.630*** (30.97)	0.666*** (31.72)	0.720*** (40.25)	0.657*** (14.48)	0.638*** (13.89)	0.692*** (19.61)
$Aid_j$	0.0257*** (3.40)			0.0756*** (6.41)		
$1 + \frac{Aid_j}{GDP_j}$		1.058*** (8.18)	1.006*** (7.93)		0.748*** (3.35)	0.748*** (3.53)
RTA	0.115*** (4.46)	0.111*** (4.33)	0.102*** (4.96)	0.134*** (3.78)	0.123*** (3.40)	0.114** (2.78)
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
C.-Pair FE	Yes	Yes	Yes	Yes	Yes	Yes
$N$	264161	264161	360390	466009	466009	611316
$\frac{\partial \ln trade_{ij}}{\partial \ln aid_j}$	0.0257	0.040	-	0.0756	0.0326	-
$\gamma$	0.680	1.058	1.058	1.736	0.748	0.748

Note: All variables, except RTA in logs.*t* statistics in parentheses \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

error term is heteroskedastic. In turn, they advocate the Poisson Pseudo-Maximum Likelihood (PPML) estimator to become the new workhorse of gravity estimation. Table 1 reports the results for this set of estimations in columns (4)-(6). Note that another widely discussed feature of PPML is its ability to cope with zero trade flows. Hence, the sample is much bigger when using PPML estimation. Qualitatively, the results look similar, even though the coefficient on  $\ln Aid_j$  in column (4) is higher now, while for  $\ln \left(1 + \frac{Aid_j}{GDP_j}\right)$  in columns (5) and (6) the effect is lower.

The PPML procedure practically eliminates the difference between the full sample (column 6) and the restricted one (column 5) compared to the fixed effect regressions in columns 3 and 2. However, results using  $\ln Aid$  change dramatically. While the elasticity estimate of 0.075 does seem reasonable, it implies an average pass-through of 1.7. That would mean that the effect is 1.7 times higher than if it was simply part of the budget. I.e. it would imply considerable crowding in.

The comparison above uses averages and does not take into account, that the effect of aid is constant in one case while it is decreasing in GDP in the other. This difference comes to bear when calculating the average implication in \$ terms for *total* trade. Let  $\hat{\gamma}_1$  represent the estimated coefficients from the  $\ln Aid$  specification, and  $\hat{\gamma}_2$  the coefficient for the inflation factor. For  $\ln Aid_j$  the effect in US \$ can be calculated as  $\frac{dx_j}{dT_j} = \hat{\gamma}_1 \frac{\sum_i x_{ij}}{T_j}$ , whereas for  $\ln \left(1 + \frac{T_j}{y_j}\right)$  the correct formula is  $\frac{dx_j}{dT_j} = \hat{\gamma}_2 \frac{\sum_i x_{ij}}{y_j + T_j}$ . Despite the fact that  $\hat{\gamma}_2 > \hat{\gamma}_1$  the dollar effect will be much smaller in the specification using the inflation

Table 2: Partial Effects of Aid in \$ terms

Specification	Sample	PE						PEA
		Obs	APE	Std. Dev.	Min	Max	Median	
<i>A. Fixed Effects Estimation</i>								
$\ln Aid$	restricted	3561	11.045	139.315	.004	5318.578	.349	.761
$\ln 1 + \frac{Aid}{GDP}$	restricted	3561	.563	2.605	.016	67.034	.281	.127
$\ln 1 + \frac{Aid}{GDP}$	full	4460	.492	2.217	.015	63.733	.262	.111
<i>B. Poisson PML</i>								
$\ln Aid$	restricted	3637	31.504	404.913	0	15633.78	.957	2.473
$\ln 1 + \frac{Aid}{GDP}$	restricted	3637	.389	1.824	0	47.426	.194	.113
$\ln 1 + \frac{Aid}{GDP}$	full	4589	.355	1.627	0	47.418	.19	.104

*Note:* The number of observations (Obs) is much lower here than in the estimation equation, since we are looking at the effect of total aid on total imports of a country, while before we were considering bilateral imports. APE is the average partial effect. Std. Dev., Min, Max and Median are the Standard Deviation, Minimum and Maximum and Median for the individual partial effects. PEA is the partial effect at the average.

factor.<sup>5</sup> We report both average partial effects (APE), and partial effects at the average (PEA) in table 2. In the former case the average of ratios is calculated while in the latter case it is a ratio of averages. In terms of interpretation, the APE reports the effect of an additional US \$ of development aid on average. I.e. it is the mean of the partial effects calculated for each observation separately. The PEA calculates the partial effect of an additional US \$ for a hypothetical observation where all variables have their respective mean value. While the literature tends to report the PEA we prefer the APE, as a) the PEA does not take into account the correlations between the variables, hence the hypothetical observation might be greatly unrepresentative of the sample, and b) a main implication of our model is the heterogeneity of the effect of aid; calculating the effect at the mean of all variables does not properly take that into account.

Table 2 reports the number of unique country-year observations, the average partial effect (APE), the standard deviation of the individual partial effects, minimum, maximum and median, and lastly the partial effect at the average (PEA).

In fact, the implied \$ changes in imports differ. Firstly, individual partial effects are far more dispersed in case  $\ln Aid$  is used<sup>6</sup>. The standard deviations are higher than for the inflation factor by several orders of magnitude. The reason for this is straightforward, since with a constant elasticity of trade with respect to aid, for those countries that receive relatively little aid or export a lot, a percentage change in aid is absolutely small, whereas a percentage change in trade is absolutely high. I.e., a constant elasticity implies that countries with a higher ratio of exports to aid have a higher absolute effect of aid (In our sample the most extreme such cases include Bermuda, Croatia and Macedonia). With the inflation factor — implying that the elasticity is lower for countries with higher GDP — these outliers play a much smaller role. The reason is that countries that export relatively more, or receive relatively small amounts of aid tend to have a higher GDP on average. The role of outliers becomes even more apparent when looking at the stark difference between median and mean for the individual partial effects. The median is much lower and especially so, when looking at either specification including  $\ln Aid$ .

Secondly, in both cases the APE (i.e. the mean of PE) is significantly higher if  $\ln Aid$  is used, but

<sup>5</sup>The derivations are as follows:  

$$\frac{dx_{ij}/x_{ij}}{dT_j/T_j} = \hat{\beta} \Leftrightarrow \frac{dx_{ij}}{dT_j} = \hat{\beta} \frac{x_{ij}}{T_j} \Leftrightarrow \frac{dx_j}{dT_j} = \hat{\beta} \sum_i x_{ij}$$

$$\frac{dx_{ij}/x_{ij}}{d(1+\frac{T_j}{y_j})/(1+\frac{T_j}{y_j})} = \hat{\gamma} \Leftrightarrow \frac{dx_{ij}}{d(1+\frac{T_j}{y_j})} = \hat{\gamma} \frac{y_j x_{ij}}{y_j + T_j} \Leftrightarrow \frac{dx_j}{dT_j} = \hat{\gamma} \sum_i \frac{x_{ij}}{y_j + T_j}$$

<sup>6</sup>This finding is in accordance with Hansen and Rand (2014)

hardly realistic. An average of 11\$ more trade for each 1 \$ of additional aid already seems outlandish, let alone 31\$. However, using the PEAs results seem less extreme, and results for  $\ln Aid$  might even look more plausible now. We already made the case, that APE is more representative of the sample. But the stark contrast between PEAs and APEs nonetheless makes it worthwhile delving into the reasons for this disparity. In purely technical terms, the reason is that within the highest quintile of importers (judging by total annual imports) there is a significant negative correlation (-0.07) between imports and aid, generating some values for the import-aid ratio that are extraordinarily high. (Dropping these countries drastically reduces the APE); i.e. the fact that aid and imports are moving in opposite directions makes these observations extremely powerful concerning the average partial effect, but much less so for PEA. (Since PEA uses averages of each variable, the co-movement does not matter.) But if the individual partial effects appear unrealistically high, this tells us something important about the treatment of heterogeneity in the specification. After all, the assumption in the usual approach is that there is a *constant* elasticity. Calculating the PEA — i.e. the partial effect at average values — makes it impossible to assess the implication of that assumption. Only when looking at the APE do we see that the heterogeneity in the effects is better captured (or at least more plausible) when using the inflation factor. And since this is the main point of the new method, this should be preferable.

#### 4.1 Heterogenous Slopes

In the preceding section we were looking at heterogeneity as implied by the two alternative models based on the assumption of equal slopes for all countries. Still it is by no means plausible to argue that our proposed model captures all the heterogeneity in the effects of aid. If our model is really better to capture heterogenous effects it should also have less dispersed parameter values. To assess this question we estimate the models allowing for recipient specific slopes. The summary statistics for the implied parameter values are reported in Table 3.

Table 3: Summary Statistics for  $\gamma$  and average elasticities with recipient-specific slopes

Specification	Obs	Mean	Std. Dev.	Min	Max	Median
(Implied) estimates for $\gamma$ :						
$\ln Aid$	158	15.031	110.312	-714.65	539.537	.237
$\ln 1 + \frac{Aid}{GDP}$	158	1.908	94.924	-497.16	581.2	1.033
(Implied) estimates for average Elasticities						
$\ln Aid$	158	.042	.336	-1.181	1.8	.003
$\ln 1 + \frac{Aid}{GDP}$	158	.077	.3	-.737	1.211	.042

*Note:* The number of observations indicates the number of countries for which the parameters have been estimated.

Evidently, the implied average elasticities are less dispersed using the inflation factor, showing a smaller range of values and a smaller standard deviation. Also the standard deviation for  $\gamma$  is much smaller using our approach, as indicated by the standard deviation in column 3 (first part of Table 3). All in all it seems, that there is less heterogeneity when using the inflation factor, even though a lot of heterogeneity remains unexplained.

Strikingly, however, the pattern of heterogeneity seems to be *negatively* related across specifications. Table 4 reports correlation coefficients among the estimated parameters. The values for  $\gamma$  for the two specifications have a highly significant correlation coefficient of around -0.4, and the correlation for the elasticities of trade with respect to aid the corresponding figure is -0.11 albeit insignificant. Also correlations between  $\gamma$  and average elasticities are negative and significant across specifications, while positive and significant within specifications (as expected). This illustrates the relevance of choosing the specification. Table A.2 in the appendix reports the average parameter values by country. It reveals that the negative correlation does not only pertain to the ordering of the effects. In some cases the use of the alternative specification even changes the sign of the effect.

Table 4: Cross-correlation table for heterogenous parameters

Variables	Estimates for $\gamma$		Elasticities	
	$\ln Aid$	$\ln 1 + \frac{Aid}{GDP}$	$\ln Aid$	$\ln 1 + \frac{Aid}{GDP}$
(Implied) estimates for $\gamma$ :				
$\ln Aid$	1.000			
$\ln 1 + \frac{Aid}{GDP}$	-0.438***	1.000		
(Implied) estimates for average Elasticities				
$\ln Aid$	0.329***	-0.137***	1.000	
$\ln 1 + \frac{Aid}{GDP}$	-0.165*	0.332***	-0.114	1.000

*Note:* Excluding Saudi Arabia. \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$

## 4.2 Political Extension

Aside from studying aggregate aid flows the advocated framework also lends itself to the study of political effects of aid.<sup>7</sup> Consider that:

$$\left(1 + \frac{T_j}{y_j}\right)^\gamma = \left(1 + \frac{\sum_{k \neq i} t_{kj}}{y_j}\right)^{\gamma_{ROW}} \left(1 + \frac{t_{ij}}{y_j + \sum_{k \neq i} t_{kj}}\right)^{\gamma_{bil}} \quad (16)$$

which holds as long as  $\gamma = \gamma_{ROW} = \gamma_{bil}$ . The first right hand side term measure by how much the existing domestic budget is inflated by aid from the rest of the world (ROW). The second term captures by how much this inflated budget is further inflated by bilateral aid. The first term can be thought of as simple budget effect. The second term can be thought of as a political effect and—reasonably—imposes that the effect of bilateral aid should not only depend on the given GDP of the receiving country, but also be negatively related to other countries aid. The condition under which equation (16) holds states that all aid is budgetary, i.e. that there is no political effect of aid. A political effect of aid prevails iff  $\gamma_{bil} > \gamma_{ROW}$ .

From there the average elasticity of bilateral aid is easily determined. Similar to (11) we get  $\gamma_{bil} \int_0^1 \frac{t_{ij}}{y_j + T_j} dF\left(\frac{t_{ij}}{y_j + T_j}\right)$ . Perhaps somewhat more interesting, it is possible to distinguish the network and the budget effect of ROW aid.

$$\begin{aligned} \frac{d \ln x_{ij}}{d \ln \sum_{k \neq i} t_{kj}} &= \underbrace{\gamma_{ROW} \frac{\sum_{k \neq i} t_{kj}}{y_j + \sum_{k \neq i} t_{kj}}}_{\text{budget effect}} - \underbrace{\gamma_{bil} \frac{\sum_{k \neq i} t_{kj}}{y_j + \sum_{k \neq i} t_{kj}} \frac{t_{ij}}{y_j + T_j}}_{\text{network effect}} \\ &= \left[ \gamma_{ROW} - \gamma_{bil} \frac{t_{ij}}{y_j + T_j} \right] \frac{\sum_{k \neq i} t_{kj}}{y_j + \sum_{k \neq i} t_{kj}} \end{aligned} \quad (17)$$

I.e. the budget effect looks like before except that bilateral aid is excluded. As for the political effect, the detrimental effect of aid from the rest of the world is relatively high, when both bilateral aid and aid from the rest of the world are an important source of income. Equation (17) also illustrates that the overall effect can only be negative when either the pure budget effect is small or when the bilateral effect or the importance of bilateral aid is big enough.

Table 5 presents the results for this exercise. For brevity, we only report fixed effects estimation and focus on the implicit values for our parameters of interest. The implicit bilateral  $\gamma$  is extremely high in the traditional specification. The value implies that the effect of bilateral aid is 16-times an

<sup>7</sup>Hansen and Rand (2014) use this approach for Danish bilateral aid, and Martínez-Zarzoso, Nowak-Lehmann D. and Klasen (2016) for Dutch aid.

Table 5: Parameters for the disaggregate specification

Specification		$\gamma$	Elasticities	Network	Budget
$\ln Aid$	BIL	16.864	0.0462*** (9.58)		
	ROW	1.474	.0580*** (5.20)	-.0019	.0599
$\ln \left(1 + \frac{Aid}{GDP}\right)$	BIL	3.308** (2.61)	.0091		
	ROW	1.587*** (7.65)	.0641	-.0004	.0645

*Note:* BIL and ROW refer to the bilateral and rest of the world specific parameters respectively. Elasticities are average elasticities. Network and Budget denote the decomposition of the effect of ROW aid into its network effect and its budget effect..  $t$  statistics (reported only for original regression estimates) in parentheses \*  $p < 0.05$ , \*\*  $p < 0.01$ , \*\*\*  $p < 0.001$ .

ordinary budget effect and hence much higher than in our preferred specification. Here, there still seems to be a considerable network effect, but it is much smaller. Similarly, the estimated average elasticity is much higher in the traditional estimation. However, results regarding aid from the rest of the world seem remarkably similar. Both specifications suggest (using the decomposition in equation (17)) that aid from the rest of the world on average has hardly any detrimental effect on trade.

Table 6: Partial Effects of Aid in \$ terms

Specification	Sample	PE						
		Obs	APE	Std. Dev.	Min	Max	Median	PEA
<i>A. Bilateral Effects</i>								
$\ln Aid$	restricted	61290	43.015	406.201	0	32261.01	.773	1.025
$\ln 1 + \frac{Aid}{GDP}$	restricted	61290	.058	.597	.001	32.991	.022	.015
<i>B. ROW Effects</i>								
$\ln Aid$	restricted	61290	.501	13.586	0	2286.27	.007	.056
$\ln 1 + \frac{Aid}{GDP}$	restricted	61290	.024	.449	-.057	72.521	.003	.007

*Note:* The number of observations (Obs) indicates the number of country pairs in the sample. APE is the average partial effect. Std. Dev., Min, Max and Median are the Standard Deviation, Minimum and Maximum and Median for the individual partial effects. PEA is the partial effect at the average.

In Table 6 we report the implied values in \$ terms. Clearly, there is more heterogeneity in the bilateral effects. But even more clearly our approach significantly reduces heterogeneity in comparison with the traditional approach. The implied values are always smaller when using the inflation factor. An average increase of 0.02\$ Cents of *bilateral* (not aggregate) trade for each additional 1 US \$ of aid from other countries (ROW effects, APE) seems reasonable, given that all trade partners enjoy this effect. Even though there remains a strong budget effect, there is also a benefit from bilateral aid, albeit a meagre 0.06\$ Cents (on average) for 1 \$ of aid. Still this effect is more than twice the effect from other donor's aid.

However, a considerable amount of heterogeneity remains. Interestingly, in few cases other donor's aid in fact seems to reduce bilateral trade. For some donors aid clearly seems to pay for itself with values of up to 33\$ of additional imports, in return for 1 additional US \$ of aid.

## 5 Conclusions

The theoretical model presented in this paper takes the nature of aid as a transfer into account and implies a non-constant elasticity of aid with respect to trade. In particular, the elasticity is increasing in the share of aid to GDP. The intuition behind this is simple. For a comparatively richer country receiving little aid, a 1 percent change of aid is negligible. However, for a poorer country, getting

more aid, a 1 percent change might be a significant shift in the budget constraint. Hence, what really matters for recipient countries is by how much aid flows increase their purchasing power and not the percentage change of aid per se.

Not taking this fact into account invalidates out-of-sample predictions, potentially induces biases and neglects an interesting heterogeneity in the effect of aid.

Our theoretical model implies that foreign aid changes the so called multilateral resistance terms. As the country gains economic importance, its influence on other countries' market clearance grows. For the infinitesimal changes we consider in this paper the implied general equilibrium effects are negligible. When considering more extreme scenarios (i.e. complete elimination of aid) they will come to bear, and should be considered in such analyses.

The empirical results obtained suggest that the pass-through of aid, i.e. the extent to which aid shifts the budget constraint, is surprisingly high. In all specifications the effect is at least as high as the effect of GDP, suggesting that aid in fact enters the budget of the recipient almost fully. While the traditional and the proposed specifications are in agreement in this point, there are substantial differences concerning the implied change in monetary terms. The reason for this disparity is due to the different underlying patterns of heterogeneity. While in the traditional specification the aid elasticity is constant, using the inflation factor implies that the elasticity is *increasing* in the share of aid to GDP and hence *decreasing* in GDP. In turn, also the effect in money terms is constant in GDP in the first case, but strongly declining in GDP in our model framework.

In summary, the theoretical case for using the proposed inflation factor is strong, and also empirically, we find that the inflation factor produces more plausible results.

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## Appendix

Table A.1: Summary statistics

Variable	Obs	Mean	Std. Dev.	Min	Max	Median
$x_{ij}$	952,864	188.349	2,892.34	0	369,063.9	0
$GDP_j$	844,376	228,269.4	1,002,129	8.825	16,768,053	10,693.28
$GDP_i$	851,067	232,486	1,011,183	8.825	16,768,053	10,908.94
$Aid_j$	952,864	-9.271	1,629.871	-21,505	22,034.77	69.24
$Aid_{ij}^{BIL}$	72,773	18.442	105.588	-17.74	11,227.79	1.18
$1 + \frac{Aid_j}{GDP_j}$	844,376	1.046	.096	.925	3.417	1.011
$RTA_{ij}$	904,176	.068	.252	0	1	0

*Note:* Values for trade flows ( $x_{ij}$ ),  $GDP_i$  and  $GDP_j$ , total aid received ( $Aid_j$ ), and bilateral aid ( $Aid_{ij}^{BIL}$ ) are reported in Mio. US \$. The period considered is 1988-2013. The sample include 180 countries.

Table A.2: (Average) parameter values by country

Recipient	$\gamma$		Elasticities	
	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$
Afghanistan	1.226334	3.721543	.2978756	.90396
Albania	4.513301	1.93214	.1754128	.0750941
Algeria	-35.68293	-19.07618	-.1292148	-.0690785
Angola	4.713269	.9845901	.0878889	.0183598
Antigua and Barb	-3.051042	-6.433904	-.0218107	-.0459934
Argentina	-10.69971	-215.3741	-.006185	-.1244969
Armenia	7.231614	-3.428824	.250126	-.1185957
Azerbaijan	28.50694	5.269245	.2854455	.052762
Bahamas, The	81.54074	104.178	.0441298	.0563811
Bahrain	-11.26563	-8.007477	-.1387373	-.0986128
Bangladesh	19.03865	-6.190984	.3207214	-.1042921
Barbados	-2.77553	5.091329	-.003358	.0061598
Belarus	-19.08194	-50.60176	-.054585	-.1447493
Belize	-.7872586	-.1861894	-.015773	-.0037304
Benin	12.79482	-12.01071	.7322305	-.6873568
Bermuda	1.194223	10.62525	.0016165	.0143828
Bhutan	-1.1877055	3.857236	-.0148436	.3050269
Bolivia	-1.224295	-2.073028	-.0663436	-.1123358
Bosnia and Herze	.9180527	-.460226	.0560803	-.0281134
Botswana	-5.967887	-4.553458	-.0649757	-.049576
Brazil	539.5368	-497.1605	.2614705	-.240934
Brunei	257.9533	330.8431	.1475539	.1892482
Bulgaria	-1.278625	-6.097946	-.0113495	-.0541275
Burkina Faso	5.307407	-3.660756	.3801827	-.262229
Burundi	-.8950558	1.717742	-.0992059	.1903904
Cambodia	1.062734	1.720298	.0585427	.0947658
Cameroon	-2.272159	-4.109486	-.0889774	-.1609268

*Continued on next page*

Table A.2: (Average) parameter values by country (*continued*)

Recipient	$\gamma$		Elasticities	
	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$
Cape Verde	-2.42654	4.041399	-.2880095	.4796793
Central African	1.932685	3.43073	.1242386	.2205373
Chad	-2.431536	-2.682319	-.1089325	-.1201676
Chile	87.31839	23.81815	.1371499	.0374109
China	481.3984	-288.5346	.86078	-.5159236
Colombia	4.982672	23.86352	.0187017	.0895679
Comoros	.7424377	3.886545	.0524255	.2744392
Congo, Rep.	.0316082	-1.987543	.0015394	-.0968004
Costa Rica	-10.53956	-7.317943	-.0747636	-.0519107
Cote d'Ivoire	1.641893	.8245935	.0635883	.0319354
Croatia	-3.08283	-6.726064	-.0065436	-.0142767
Cuba	24.50299	212.6856	.0302566	.2626265
Cyprus	91.56712	128.9371	.2531972	.356531
Czech Republic	-9.194921	-74.89803	-.006792	-.0553248
Djibouti	1.270588	-1.057527	.1327993	-.1105306
Dominica	1.641232	9.301082	.0583057	.330426
Ecuador	37.64967	-12.73532	.2461803	-.0832726
Egypt, Arab Rep.	.1309382	1.588649	.0037193	.045126
El Salvador	-11.26313	-.2295326	-.2759007	-.0056226
Equatorial Guine	-.5334172	.4224029	-.0245441	.019436
Eritrea	6.912528	6.922538	.6581854	.6591386
Estonia	-75.1203	-32.91456	-.3740943	-.1639124
Ethiopia	-4.292961	2.866421	-.2623843	.1751947
Fiji	-10.84648	21.96251	-.2151872	.4357219
French Polynesia	-7.61988	-3.258528	-.7370492	-.3151881
Gabon	-19.58849	-16.44054	-.2839784	-.2383419
Gambia, The	-3.474612	-.1136166	-.160456	-.0052468
Georgia	15.9074	-.254835	.5280133	-.0084587
Ghana	4.435884	1.145071	.2422591	.0625363
Grenada	3.44727	15.63791	.0645902	.2930019
Guatemala	4.541725	3.710566	.0563361	.0460263
Guinea	-2.694586	-11.09648	-.127627	-.5255766
Guinea-Bissau	4.583149	3.064694	.5685827	.3802041
Guyana	1.212179	.7439855	.0789894	.0484804
Haiti	.3936486	.4690231	.0332961	.0396715
Honduras	2.654929	2.257969	.1219474	.103714
Hungary	151.7269	135.3613	.2465384	.2199463
India	379.8876	-237.5034	1.178447	-.736758
Indonesia	-20.89115	-8.532689	-.1947459	-.0795411
Iran	151.5083	581.1996	.1247075	.4783892
Iraq	-3.20321	-1.392368	-.1998055	-.0868512
Israel	.130268	12.53479	.0016298	.1568262
Jamaica	5.771855	1.740169	.1043725	.0314675
Jordan	-2.357513	2.609621	-.118288	.1309375
Kazakhstan	81.28778	-5.994748	.3142214	-.023173

*Continued on next page*

Table A.2: (Average) parameter values by country (*continued*)

Recipient	$\gamma$		Elasticities	
	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$
Kenya	1.500013	.701467	.0605035	.0282939
Kiribati	-1.523612	3.337258	-.2986314	.6541104
Korea, Rep.	99.93499	68.10997	.0554432	.0377869
Kyrgyz Republic	9.386153	6.925885	.4990072	.368209
Lao PDR	.4542615	7.250776	.0311536	.4972633
Latvia	-102.6644	-81.03691	-.4764269	-.3760618
Lebanon	-4.933118	4.902682	-.0772081	.0767318
Lesotho	-6.44415	-13.37866	-.2862116	-.5942022
Liberia	-.5044496	.2757152	-.1021227	.0558168
Libya	22.70844	-24.06873	.0269666	-.028582
Macedonia, FYR	-1.539116	.6256868	-.0311728	.0126725
Madagascar	.8010929	.5512943	.0496633	.0341772
Malawi	.5210624	4.253654	.0580582	.4739535
Malaysia	-42.5288	-13.67032	-.1201646	-.0386253
Maldives	2.658445	-4.939665	.0838367	-.1557774
Mali	1.285963	-2.313391	.107456	-.1933086
Malta	-11.92346	-9.81339	-.0586425	-.0482647
Marshall Islands	3.985872	.6411968	1.174339	.1889128
Mauritania	11.81561	-2.225838	.7792544	-.1467969
Mauritius	-2.65878	11.31631	-.0260552	.1108963
Mexico	379.2228	-360.1867	.1762844	-.1674353
Micronesia, Fed.	-.1471958	.5556799	-.0426247	.1609128
Moldova	10.85324	10.8829	.301737	.3025616
Mongolia	6.032866	4.540836	.3942061	.2967122
Morocco	2.348104	3.453646	.0367097	.0539934
Mozambique	3.574963	1.32483	.5727832	.2122652
Myanmar	2.279722	3.842756	.1270964	.2142368
Namibia	13.3942	2.854886	.2663579	.0567724
Nepal	-25.86885	23.52978	-1.180704	1.073944
New Caledonia	-8.966558	8.256502	-.9940169	.9153014
Nicaragua	-.7811147	1.080702	-.0747845	.1034673
Niger	-1.840711	-1.443221	-.1391446	-.1090972
Nigeria	-7.168458	-1.155938	-.0638972	-.0103036
Oman	.7021845	1.156424	.004297	.0070767
Pakistan	-10.06826	15.62148	-.1252782	.1943763
Palau	-.7186934	.5508747	-.1375743	.10545
Panama	-1.697725	9.406248	-.0094363	.0522819
Papua New Guinea	6.150868	8.315672	.3528058	.4769761
Paraguay	21.492	-14.2837	.2396817	-.1592938
Peru	11.76925	-11.98224	.0989489	-.1007395
Philippines	20.17158	18.56116	.2478127	.2280282
Poland	16.27513	11.53909	.1239724	.0878966
Qatar	-714.6505	292.2937	-.2133091	.0872439
Russian Federati	-5.667235	-1.247493	-.0229356	-.0050487
Rwanda	-.3382215	2.387833	-.0353807	.2497865

*Continued on next page*

Table A.2: (Average) parameter values by country (*continued*)

Recipient	$\gamma$		Elasticities	
	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$	$\ln Aid$	$\ln \left(1 + \frac{Aid}{GDP}\right)$
Samoa	-5.075453	5.825443	-.4971542	.5706177
Sao Tome and Pri	-2.443327	6.219546	-.3744511	.9531742
Saudi Arabia	-915.8856	1905.213	-.092969	.1933928
Senegal	.3420724	-8.242673	.0223083	-.5375462
Seychelles	-2.057588	-2.860932	-.050682	-.0704698
Sierra Leone	1.918553	2.002789	.1768375	.1846018
Singapore	413.1668	124.2659	.1564619	.0470582
Slovakia	308.7274	-320.7794	.3574258	-.3713789
Slovenia	146.1892	70.20056	.0989421	.0475124
Solomon Islands	-.1922726	-.041994	-.0313134	-.0068391
Somalia	7.477108	5.029118	1.800403	1.210954
South Africa	70.43328	111.9085	.1910529	.303556
Sri Lanka	-24.63256	14.04317	-.6530735	.3723211
St. Kitts and Ne	3.379732	6.961891	.0505379	.1041028
St. Lucia	-1.669532	3.411763	-.027653	.0565101
St. Vincent and	8.689585	7.869837	.1720409	.1558111
Sudan	1.74604	5.081222	.0439511	.1279039
Suriname	-1.187117	3.039338	-.0511206	.1308824
Swaziland	-13.96527	-4.277328	-.1530119	-.046865
Syria	5.359267	3.47168	.071706	.0464505
Tajikistan	-4.124682	2.77959	-.1536233	.1035255
Tanzania	-.7078924	2.895812	-.0564151	.2307802
Thailand	-16.36561	-26.13592	-.0806437	-.1287882
Togo	2.812524	-1.373324	.1539972	-.0751951
Tonga	-6.573617	.0313353	-.6785379	.0032345
Trinidad and Tob	-66.31525	-53.3279	-.0408504	-.0328501
Tunisia	-4.225856	21.15823	-.0633604	.3172362
Turkey	-37.39783	-37.13886	-.0809111	-.0803508
Turkmenistan	-30.91418	36.46746	-.1533314	.1808751
Tuvalu	-.6308667	.0420318	-.203302	.0135451
Uganda	1.682623	.773871	.111689	.0513679
Ukraine	50.90607	-28.15848	.2777193	-.1536193
Uruguay	-1.621712	-19.14514	-.0031995	-.0377722
Uzbekistan	13.34225	10.04827	.1026571	.0773128
Vanuatu	-1.304023	9.873247	-.1492798	1.130253
Venezuela	-373.1108	234.9735	-.1518613	.0956375
Vietnam	32.03507	-17.73078	.744083	-.4118352
Yemen	-18.81025	26.14915	-.3501095	.4867063
Zambia	-2.670928	4.293599	-.2327039	.3740788
Zimbabwe	-4.022487	-7.35253	-.1769976	-.3235263