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Does foreign aid reduce migration?

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KIEL POLICY BRIEF

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Does Foreign Aid Reduce Migration?



No. 169 October 2023

- Foreign aid can reduce migration aspirations and irregular migration.
- Mere public announcements of upcoming foreign aid projects temporarily reduce migration aspirations.
- Disbursements of aid cause *reductions* in asylum seeker numbers for some time. In the longer run, they improve living conditions and, as people's migration capabilities improve, aid *increases* regular migration.
- However, foreign aid is no quick fix for (irregular) migration and a costly way to reduce numbers.
- Instead, foreign aid should be viewed as a tool for improving development in a broad, long-term manner, ideally combined with easier regular migration pathways for students and workers.

OVERVIEW/ÜBERBLICK

- Foreign aid can reduce migration aspirations and irregular migration.
- Mere public announcements of upcoming foreign aid projects temporarily reduce migration aspirations.
- Disbursements of aid cause reductions in asylum seeker numbers for some time. In the longer run, they improve living conditions and, as people's migration capabilities improve, aid increases regular migration.
- However, foreign aid is no quick fix for (irregular) migration and a costly way to reduce numbers.
- Instead, foreign aid should be viewed as a tool for improving development in a broad, long-term manner, ideally combined with easier regular migration pathways for students and workers.

Keywords: Migration, Foreign Aid, Root causes, Irregular migration, Refugees, Asylum, Development

- Entwicklungshilfe kann Migrationsaspirationen und irreguläre Migration verringern.
- Die bloße öffentliche Ankündigung bevorstehender Entwicklungshilfeprojekte verringert vorübergehend Migrationsaspirationen in Empfängerländern.
- Die Auszahlung von Hilfsgeldern führt eine Zeit lang zu einem Rückgang der Asylbewerberzahlen; längerfristig verbessern sie die Lebensbedingungen, und da sich die Migrationsmöglichkeiten (capabilities) der Menschen verbessert, erhöht Entwicklungshilfe die reguläre Migration.
- Entwicklungshilfe ist jedoch keine schnelle Lösung für (irreguläre) Migration und es benötigt erhebliche finanzielle Ressourcen, um damit die Migrationszahlen zu verringern.
- Stattdessen sollte Entwicklungshilfe als ein Instrument zur breiten und langfristigen Entwicklung betrachtet werden, idealerweise in Verbindung mit Erleichterungen regulärer Bildungs- und Arbeitsmigration.

Schlüsselwörter: Migration, Entwicklungshilfe, Fluchtursachen, Irreguläre Migration, Flüchtlinge, Asyl, Entwicklung

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DOES FOREIGN AID REDUCE MIGRATION?

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The widespread use of foreign aid to address the “root causes” of irregular migration lacks a robust empirical foundation. In a new study (Fuchs et al. 2023) that we summarize here for a wider audience, we provide the first comprehensive causal analysis that examines micro-level evidence across all developing countries that received assistance from the World Bank between 2008 and 2019. Our analysis is the first to disentangle the impacts of foreign aid on various aspects of migration: individuals’ aspirations, capabilities, and actual migration patterns. In alignment with the notion of utilizing aid to mitigate the root causes of irregular migration, our study reveals that the announcements and disbursements of new aid projects significantly reduce people’s migration aspirations. This effect is temporary in nature and is notably absent in fragile countries. Over the longer term, the critical factor is whether aid ultimately enhances living conditions. Our findings provide some evidence supporting this, as improvements in living conditions bolster individuals’ capabilities. This can lead to increased migration, yet the notable difference is that these individuals tend to follow regular channels for migration. These findings hold substantial significance for policymakers and those involved in foreign aid allocation that we discuss towards the end of this policy brief.

1 INTRODUCTION

Irregular migration, typically by crossing borders without a valid visa,² is one of the most pressing policy issues for the EU and the United States today. About 42% who entered the EU to claim asylum recently received refugee status or another form of protection on the first instance (EUAA 2023); some more are also given this status after successfully challenging first decisions on appeal.³ Still, this means that there are hundreds of thousands of refused asylum seekers and undocumented migrants in the EU, and returns to the origin countries are extremely difficult to enforce. The situation is similar in the US. Therefore, the response of the EU and the United States has been to devise ways of reducing irregular migration inflows.

¹ This paper summarizes the results of the study by Fuchs et al. (2023) in a non-technical way.

² Key terminology (IOM 2023):

Asylum seeker: Individual who is seeking international protection.

Irregular migration: Movement of persons that takes place outside the laws, regulations, or international agreements governing the entry into or exit from the state of origin, transit, or destination.

Regular migration: Migration that occurs in compliance with the laws of the country of origin, transit, and destination.

³ To our knowledge, there are no numbers of the recognition rates after the end of the legal process.

In recent years, in reaction to large inflows of irregular migrants, Europe and the United States have spent billions of dollars on foreign aid⁴ to reduce migration from poorer countries to Europe or North America (Whitehouse 2021, EUTFA 2023). The idea is simple: foreign aid should reduce “root causes” of irregular migration in origin countries, such as poverty, lack of opportunity, and insecurity. Successful aid projects would thus improve local living conditions, making emigration less attractive. Foreign aid would then decrease the number of people aspiring to leave their country of origin and the number of migrants crossing their borders without visas or applying for asylum.

However, it is unclear whether aid projects indeed deliver those intended effects. There are two key puzzles at the heart of the question. First, is foreign aid effective at mitigating the root causes? Second, do positive foreign aid effects really cause a reduction in migration?

Despite an apparent consensus among policymakers in high-income countries that the root causes approach can work, the scientific evidence about the effect of foreign aid on international migration and development is incomplete and inconclusive at best. A long-standing theoretical and empirical dispute exists between optimists and critics that remains unresolved to date. The effect of foreign aid on development must be considered theoretically and empirically ambiguous (see review papers by Doucouliagos and Paldam 2009 and 2015 and Qian 2015). Regarding the effect of aid on migration, findings are also mixed. The literature is so far mainly based on country-level studies. Initial research mainly documents a positive correlation between foreign aid and stocks of emigrants (Berthélemy et al. 2009, Belloc 2015), and more recent papers that focus on migration flows instead of stocks often find small negative effects of aid (Gamso and Yuldashev 2018, Lanati and Thiele 2018a, 2018b). These are typically restricted to certain forms of aid or occur with significant time lag (Dreher et al. 2019). The literature is so far plagued by difficulties in measuring causal effects in sufficient detail (Clemens and Postel 2018). Part of the dispute revolves around the argument that additional income in developing countries should cause more migration rather than less if people were previously too financially constrained to move abroad, as some individual-level studies suggest (Clemens 2014, Angelucci 2015, Bazzi 2017).

Our new study (Fuchs et al. 2023) provides a rigorous analysis using causal estimation techniques on exceptionally rich data to base policymaking on broader evidence. We use a sample of almost one million individuals in 106 countries (Gallup World Poll) with subnationally geocoded data on World Bank aid project allocation for 2008–2019, allowing us to study these questions in unprecedented detail. For the first time, we are thus able to systematically document shifts in migration aspirations and flows due to local foreign aid project allocation alongside potential mechanisms for both the short and longer run.

Due to global data availability, we use World Bank aid.⁵ The World Bank is the world’s largest international financial institution and has the mission to reduce global poverty and promote

⁴ We use the term “foreign aid” in its broad definition, which includes Official Development Assistance (ODA) as defined by the OECD and other types of development finance, such as credit-financed development projects, provided by official agencies.

⁵ We study World Bank aid projects because it is arguably one of the most transparent donor organization that provides fine-grained data on their activities, including project-level information on announcements, project locations, and project implementation.

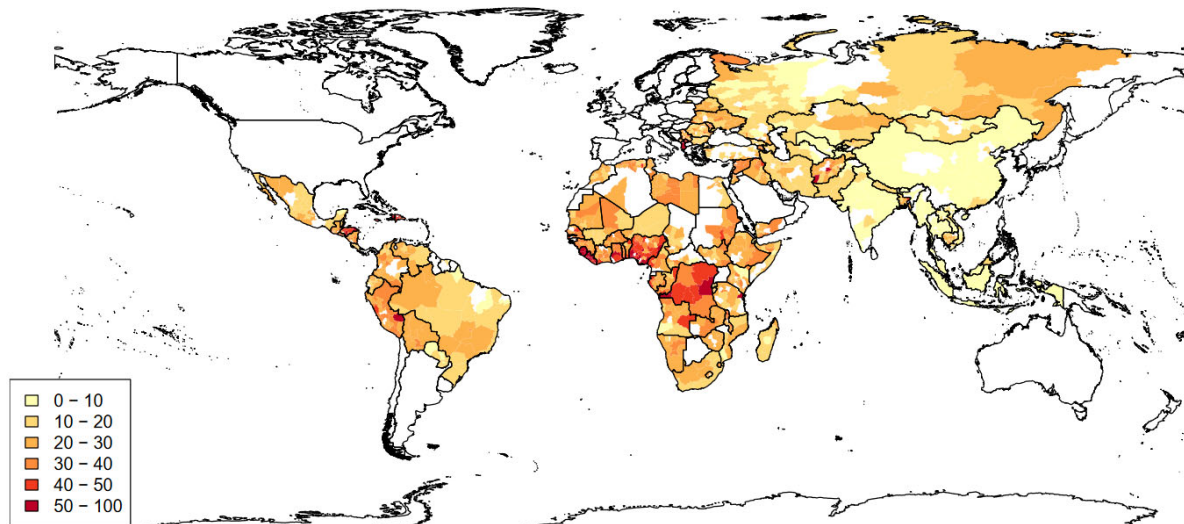
sustainable development. Its aid thus tackles important root causes but is, at the same time, not targeted toward migration-prone regions or designed to be particularly effective against irregular migration. Thus, we interpret these as lower-bound estimates.

2 GLOBAL PATTERNS IN MIGRATION PREFERENCES AND AID DISBURSEMENTS

We measure international migration preferences using the Gallup World Poll survey question: “Ideally, if you had the opportunity, would you like to move permanently to another country, or would you prefer to continue living in this country?” Across the low- and middle-income countries covered in our sample, on average, 23.2 percent of the respondents indicate that they would prefer to live permanently in another country if they could. Migration preferences are generally high in Latin America and Africa and particularly low in South and East Asia (Figure 1).

The World Bank allocates substantial amounts of foreign aid across various regions worldwide, and there is significant variation both between countries and within different provinces of the same country. However, World Bank aid flows, and high migration aspiration rates are not strongly correlated (Figure 2).

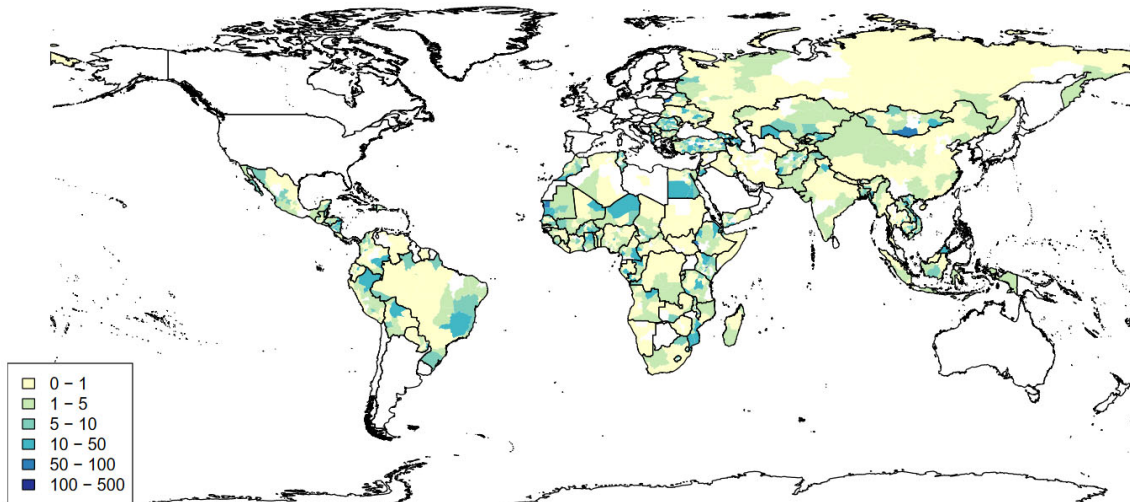
Figure 1:
Large differences in the willingness to emigrate permanently: province-level data for 2008–2019 in percent of the respondents



Note: This figure shows the average share of interviewed individuals that indicate a preference to migrate by province (ADM1 region) between 2008 and 2019 based on Gallup World Poll data. White areas indicate countries are outside of aid recipient sample or that no Gallup survey exists in province.

Source: Fuchs et al. (2023).

Figure 2:
Variation in regional foreign aid: Total World Bank disbursements of loans and grants in US dollars per capita in 2008–2019



Note: This figure shows total World Bank aid disbursements in US Dollar per person living in the respective province (ADM1 region) over the period 2008 and 2019. White areas indicate countries are outside of aid recipient sample.

Source: Fuchs et al. (2023).

3 ESTIMATING THE CAUSAL EFFECT OF AID ON MIGRATION

When analyzing the effect of aid on migration, it is helpful to separate the effects on potential migrants' aspirations to migrate and their capabilities to do so. Whether someone *wants to* emigrate or not if given the opportunity is primarily driven by their (prospective) living conditions in their origin country. Whether persons *can* emigrate if they want to depends on their capabilities.⁶ These comprise personal circumstances, including the family situation, finances, and various factors influencing migration costs, such as migration policies and access to migration infrastructure. We furthermore expect aid effects on aspirations and capabilities to differ between the short and longer run. In the short run, migration aspirations might fall, but higher incomes may enhance the capability to emigrate in the longer run because covering the costs of (irregular) migration becomes more feasible. We therefore use two independent and complementary identification strategies to measure the causal effects of aid on migration and understand underlying mechanisms over different time periods.⁷

⁶ The root causes strategy aims to reduce migration aspirations. Policies such as increasing border protection instead reduce people's capabilities to migrate, which causes more involuntary immobility or increases the risks of irregular migration, both of which reduce welfare. Aid by contrast does not aim to reduce capabilities.

⁷ For details regarding the empirical approaches, see Sections 4.1 and 5.1 in the accompanying research paper. Here we give only a short overview and intuition.

3.1 DO ALREADY THE AID ANNOUNCEMENTS AFFECT PEOPLE'S PREFERENCES TO MIGRATE?

First, we analyze short-term announcement effects using an *event study approach*. We compare how migration preferences change when people hear about a newly approved aid project. Survey interviews by Gallup and project approvals at the World Bank's headquarters in Washington DC are scheduled independently. This allows for a quasi-random experiment: By comparing respondents' answers in interviews conducted in the days right before the announcement of an aid project and directly after we can estimate how the announcement affects preferences and perceptions of life. We control for other factors that may change systematically around the time of the announcement to ensure that aid projects are indeed the cause of any effect we pick up.

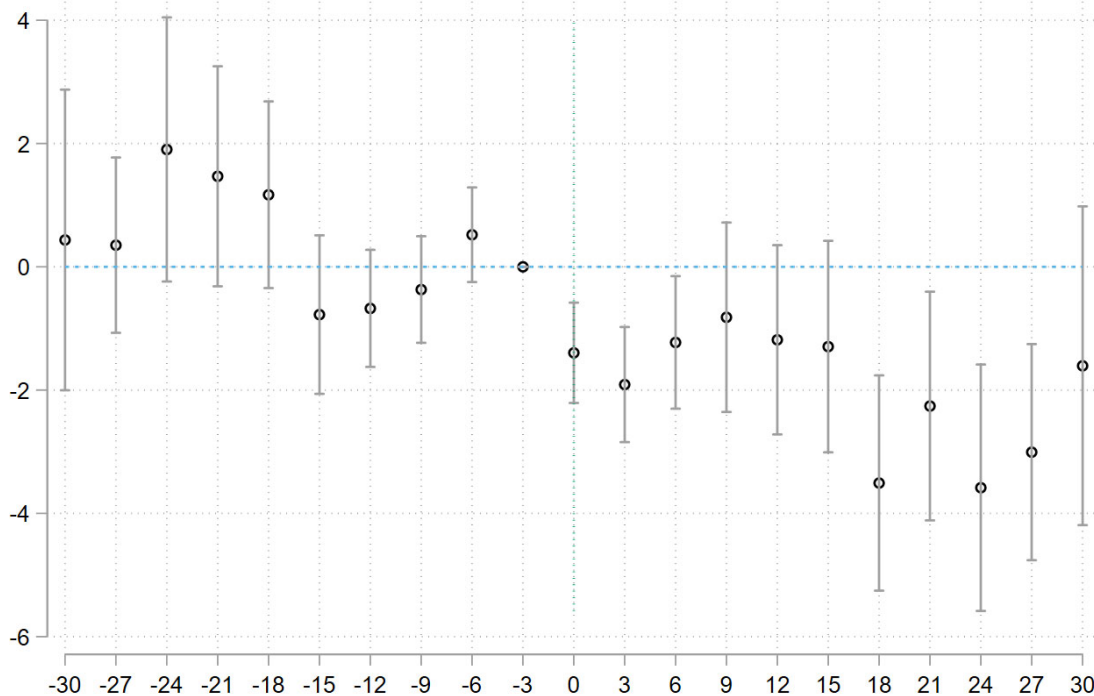
This approach depends crucially on respondents learning quickly about new aid projects. We expect that spreading the good news is in the interest of local politicians or other stakeholders who will, therefore, often make an announcement once the project is granted. To test this, we successfully traced project mentions and discussions of the World Bank in local news outlets. That indicates people can indeed hear about aid projects in their vicinity very quickly.

The short-run effect on the willingness to migrate is substantial: Respondents are 1.9 percentage points less likely to express migration preferences in the three days after project approval than in the three days before (Figure 3). That is a substantial effect, given that 23.2 percent would prefer to migrate on average. On average, announcing an aid project thus reduces migration preferences by 8 percent. To illustrate this effect, let us take an average subnational region with a population of 3.3 million. In that province, announcing an aid project would reduce the number of people with migration aspirations by about 62,700 in the short run. This effect remains negative for the entire month after the project announcement.

Aid project announcements will not immediately impact aid recipient regions' incomes, jobs, and well-being. For that, projects need to start being implemented. However, the project announcement can impact respondents' perceived opportunities and the living conditions they expect if they stay. Consistent with this reasoning, future outlooks improve significantly after the project announcement. In a nutshell, aid projects can give people hope in the short term.

We find that the announcement effect is larger for people under 30, i.e., those more likely to migrate, typically less established economically, and who can benefit from improved living conditions for longer due to their longer expected lifespan. In line with the expectation that people need to hear about aid projects to be affected by them, the effects are stronger among respondents with internet access. There is no significant gender difference.

Figure 3:
World Bank project announcements reduce migration preferences in the days after the approval



Note: This figure plots the coefficients and 90 percent confidence intervals for a regression that estimates the changes in migration preferences in a 3-day periods (x-axis) included between 30 days before and after the approval date. The outcome variable (y-axis) is the percent of the respondents in a province who prefer to emigrate based on the question “Ideally, if you had the opportunity, would you like to move permanently to another country, or would you prefer to continue living in this country?”

Source: Fuchs et al. (2023).

3.2 DOES THE IMPLEMENTATION OF AID PROJECTS STIFLE MIGRATION?

To study aid’s longer-term effects on migration preferences and flows, we exploit data on aid disbursements. We use an *instrumental variable approach* following Kraay (2012, 2014) and Andersen et al. (2022). This strategy exploits plausibly exogenous variation in the timing of disbursements to avoid estimation bias. Our headline estimate of the disbursement effect is that the average annual province disbursement of about 10 million US Dollars yields an average decrease in migration preferences in that province by 0.3 percentage points over the following 12 months. In the average province with 3.3 million inhabitants, this implies that 9,900 fewer people would prefer to emigrate in the following year.

Foreign aid can thus reduce migration preferences. But do these effects also translate into changes in actual migration flows? Due to data availability, we can study actual migration flows only at the country level, not at the province level. The illustration closest to the above examples is therefore the average country-level World Bank aid disbursement of about 130 million US Dollars per year. Our primary estimate is that this decreases asylum seeker flows

from an average origin country by 7.8 percent a year after the aid disbursement.⁸ An asylum seeker flow of 10,000 individuals from a country would thus decrease by 780 persons on average. In the global sample, this dampening effect on asylum-seeker flows persists for two years and then vanishes.

In the longer run, however, if aid is effective in raising people's living standards, peoples' migration capabilities also increase. Policymakers might be worried that asylum seeker flows will then increase, but this is not the case on average across origin countries.⁹ Instead, starting between two and three years after project funds get disbursed, we find an increase in regular migration flows. An aid disbursement of 130 million US Dollars would increase regular migration flows from the recipient country to the average OECD country by 6.5 percent, on average. It is important to emphasize that these increasing migration flows are not of the irregular type that the proponents of the "root causes" strategy seek to reduce. Instead, these are increases in regular labor, student, and family migration. Thus, we find that foreign aid reduces asylum-seeker flows temporarily and then results in greater regular migration flows in the longer run. People become more mobile, but in a form that is welcomed and easy to regulate (e.g. labor migration with valid visa).

What mechanisms drive these results? We find that aid reduces extreme poverty and improves incomes, which can enhance the capabilities to migrate. Perceptions of public amenities such as health and school systems that are important drivers of emigration preferences (Dustmann and Okatenko 2014) remain unaffected. Instead, respondents' trust in national institutions improves, particularly during the first month after aid gets disbursed. This positive effect remains significant for up to two years after aid disbursements. In our view, this reflects that citizens who observe their government is able to attract foreign aid into their province gain a more positive view of national institutions, which is highly important for states, development, and many life choices of people as a vast literature in economics and political science documents.

Our paper highlights regional differences in the effectiveness of the root causes strategy. Aid disbursements impact migration preferences negatively globally, and the most pronounced effect can be found in low-income countries. Those effects translate to decreases in asylum seeker flows for Latin America, the Middle East, and North Africa, but not in Sub-Saharan Africa. Part of the reason for the null effect for Sub-Saharan Africa is that we find aid to be particularly ineffective in fragile countries. Insignificant effects in the poorest and most insecure places are no surprise for at least three reasons: First, in such places from which large shares of the population strongly prefer to emigrate if they had the choice, an aid project will not make a substantial difference (Heidland 2022). Second, it is particularly challenging to implement foreign aid projects successfully in such contexts. Third, especially in fragile contexts, there will

⁸ Due to the lack of subnational data on migration flows, we rely on bilateral (county-to-country) migration and asylum flow data for OECD destination countries. Note that province- and country-level estimates are not directly comparable because a country consists of several provinces. First time asylum seeker numbers are the best available proxy across the OECD since no standardized measures or estimates of irregular migration over time exist.

⁹ We do find some evidence for such an increase across Sub-Saharan Africa though.

always be people who flee. Thus, one should not expect aid projects to keep people from migrating from the most hostile circumstances.

4 DISCUSSION: SHOULD POLICYMAKERS USE FOREIGN AID TO REDUCE MIGRATION?

It is important first to remind the reader that any migration-related policy must not aim to simply avoid the responsibility to contribute to the global protection of people who flee conflict or persecution. That would imply free-riding on other states' contributions to this essential global public good. What we want to contribute to is a discussion of how migration, development, and international protection can work better, i.e., with fewer people who have to flee their homes, better access to protection for those in need of it, as well as less migration of people who risk their lives only to end up as refused asylum seekers or *sans papiers*.

The first key result in Fuchs et al. (2023) is that foreign aid *can* reduce migration aspirations and irregular migration flows. To investigate this, we have studied World Bank aid, which yields a conservative¹⁰ assessment, given that the aid in question is not targeting the root causes of irregular migration and only represents a fraction of aggregate aid flows. Aid projects designed more specifically for the root cause objective, such as those under the EU Trust Fund for Africa or the Biden administration's Root Causes Strategy, may therefore be more effective than the projects we can analyze in our study. But even if aid is, for example, twice as effective as measured in our study, it can still not completely stop migration.

When viewed globally, foreign aid significantly affects migration and can have a sizeable impact because of the sheer size of aggregate aid flows. The World Bank is just one of many donors – there are other states, multilateral, and non-governmental organizations. Total aid from Western donors alone amounted to more than US\$ 200 billion in 2022 globally, several times larger than World Bank aid alone. And although most of the effects of aid vanish over time according to our estimates, with multiple donors active in a province, there will be a relatively constant flow of new projects that can generate sustained reductions in migration aspirations and irregular migration flows while increasing regular flows. However, large flows do not imply that money is used efficiently.

The second main result of Fuchs et al. (2023) is that the price tag of using the root causes strategy is very high—especially if the yardstick is the narrow aim of reducing asylum seeker numbers. Foreign aid's lack of efficiency should caution policymakers against spending vast sums on it to reduce (irregular) migration. Especially in fragile contexts aid is not only a costly tool but ineffective in some key dimensions. Ultimately the use of aid to mitigate root causes of irregular migration is a political decision that should be based on cost-benefit assessments that are informed by empirical evidence such as the new paper we provide.

In any case, the likely effects of such aid must not be oversold. That is particularly important as voters punish politicians when their policies do not work. If the electorate gets disappointed

¹⁰ If anything, we thus underestimate the effectiveness of foreign aid.

in core policy areas, they may lose trust in the government or institutions such as the European Union. People with lower trust, in turn, prefer more limits and controls on migration (Jeannet et al. 2023), creating stronger demand to prioritize stopping irregular migration flows and allocating funds that might be better spent elsewhere.

What about the alternatives to the use of foreign aid? These, too, are not necessarily efficient. For example, constructing border walls is a costly way of reducing irregular migration because many people avoid them via alternative routes, which can involve taking extreme risks (Gathmann 2008; Allen et al. 2018). Europe faces the additional difficulty that sea borders are more difficult to enforce than land borders. Border controls are thus no panacea to irregular migration either, and, in addition, they restrict the access to asylum for people who need protection.

So, what else could be done? In our view, it is essential to signal to people whether they stand a chance of being granted asylum *before* they embark on a journey. That only works if asylum decisions are quick and fair. It also needs to be clear that those entering without visa to the EU or the US who are then not granted asylum will be returned quickly to their origin countries or previous transit countries. Only sending clear and credible signals can make irregular migration appear less attractive and thus help reserve the asylum track for people who flee persecution or conflict. For this to work, origin countries need to be on board. That can be achieved only if they get rewarded for greater cooperation on issues such as returns. In practice, donor governments already frequently use aid as a political tool to buy policy concessions from the source and transit countries of migrants (Dreher et al. 2019). These concessions include more effective border controls along transit routes and higher chances of returning failed asylum seekers. Such conditionality is different from addressing the root causes, because aid is leveraged to restrict capabilities to migrate, not to reduce migration aspirations as is the aim when mitigating root causes. A alternative, very attractive offer for origin countries can be opening more legal pathways also for medium- of low-skilled workers in areas where labor shortages exist in destination countries. This should include encouraging more education-related migration, including into vocational training, where countries such as Germany face acute shortages of trainees.

The increase in regular migration that the results in Fuchs et al. (2023) document is probably an unintended effect of the root causes strategy, but it should be welcomed—not least because regular migration can also be a highly effective development policy for origin countries (World Bank 2023). If regular migration is well managed, and especially if it is complemented by foreign aid that improves the origin countries' education outcomes, there are few reasons to worry about a brain drain. Instead of focusing on using aid to reduce irregular migration and being unsatisfied with its limited effects, donor governments should consider ways in which aid *and* migration can be combined effectively to improve the longer-term development of origin countries such that root causes of irregular movement vanish over time.

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IMPRESSUM

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