Does Foreign Aid Reduce Migration?

Micro-Evidence from World Bank Projects

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Motivation

Donors use aid strategically.
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**Summer 2015: European Migration “Crisis”**

**November 2015:** European Union sets up *Emergency Trust Fund for Africa* (EUTF), worth over €5 billion to:

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**But:**
Lack of rigorous evidence ⇒ Does aid reduce migration and, *if yes*, how?
In a nutshell

- Examine the impact of foreign aid on migration intentions
- Follow aspiration - capabilities approach, examine aspirations
- Unprecedented data combining:
  - 1m individuals (+140 countries) from the Gallup World Poll (GWP)
  - World Bank aid announcements + disbursements over space and time
- Finding: Aid reduces migration aspirations
  - Event study approach looking at aid announcements
  - IV approach tracing project level disbursements
- Mechanism: Individuals become more optimistic of future
# Model of migration decisions

## Neoclassical model

- Individual compares utility at origin and destination, subtracts costs for journey
- Everyone for whom benefit $>\text{cost}$ migrates
Model of migration decisions

**Neoclassical model**
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**More realistic model**

Carrow, 2002; de Haas 2010, 2021; also Detlefsen, Schneiderheinze & Heidland, 2022

- Individuals who are dissatisfied with their opportunities/living conditions at home start considering change, including migration De Haas, 2021 \( \rightarrow \) migration aspirations
- Whether they indeed migrate is a matter of their capabilities
- **This paper:** interested in root causes \( \rightarrow \) examines aspirations
Aspiration - Capabilities Approach

Aid and migration aspirations

- Broadly, foreign aid aims to improve local economic conditions
- Increased local opportunities likely to reduce migration aspirations
- In line with some findings from the literature
  - Aid for rural development reduces migration Gamso & Yuldashev 2018
  - “Late-impact aid” reduces migration Lanati & Thiele 2018
  - Targeting amenities may be effective Lanati & Thiele 2020
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Contribution

- Examine migration aspirations at the individual level
- Estimate the precise impact of aid over space and time
- Provide causal estimates from event study and instrumental variable approach
- Understand the role of expectations for migration intentions
Data
Measuring Migration

**Figure 1: Average Migration Aspirations 2006–2020**

Aspiration: “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?”
We measure aid over space and time combining geolocations with announcement dates and precise disbursement schedules.
Identification strategy
Twofold identification strategy

I. Announcement Effects

- Event study design
- World Bank project announcements
- Events coincide with survey windows
- Individuals *before & after* announcement
- Only event separates treatment & control
- Control for possibly confounding factors: individual-level controls, survey controls, high-dimensional fixed effects, and event windows
Figure 3: Gallup World Poll interview timing, 2015
Figure 4: Gallup World Poll interview timing and World Bank project announcements, 2015
Announcement Effects

Figure 5: Migration aspirations and World Bank project announcements

Number of observations

Days to project announcement

Migration aspiration

- Mean aspiration
- Fitted Pre
- Fitted Post
- Observations

30 days
Announcement Effects

Figure 6: Migration aspirations and World Bank project announcements

Notes: This figure plots coefficients and 90 percent confidence intervals for interactions between the dummy indicating whether the individual was interviewed after World Bank project announcement or not and 22 dummies for 3-day period included between 30 days (4 weeks) before and after the approval date.
Figure 7: Perception of future and World Bank project announcements

Notes: Outcome variable is the difference between life in the future and life today, both measured on a scale from 0 to 10.
Twofold identification strategy

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II. Disbursement Effects

- Instrumental variable approach
- Examine World Bank disbursements
- Exploit time lag commitment - disb.
- Aggregate aid 12 months before interview
- Variation on province-month level
- Create synthetic disbursement schedules based on projects in same sector and region to instrument actual project disbursements
Disbursement Effects

Following Kraay (2012, 2014) and Andersen et al. (JPE, 2022)

- Instrument exploits the time lag between aid commitments and disbursements
- Project disbursement plan set up at project commitment
- Actual disbursements may deviate substantially, at discretion of staff and subject to local economic developments and project progress
- **Instrument**: synthetic disbursement schedule for each project based on the initial commitment and the average disbursement schedule across all other projects implemented in the same sector and the same geographical region
**Figure 8: Disbursement rates of World Bank projects**

Notes: This figure displays the average fraction of spending on individual World Bank projects that is disbursed in year $t$ of the project, with $t = 0$ corresponding to the year of project approval.
Table 1: Migration intentions and World Bank project disbursements

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<td><strong>Panel A: OLS</strong></td>
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<td><strong>Panel C: First stage</strong></td>
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Notes: Life perceptions today are based on the question “please imagine a ladder with steps numbered from 0 at the bottom to 10 at the top. Suppose we say that the top of the ladder represents the best possible life for you and the bottom of the ladder represents the worst possible life for you. On which step of the ladder would you say you personally feel you stand at this time, assuming that the higher the step the better you feel about your life, and the lower the step the worse you feel about it? Which step comes closest to the way you feel?” and the respondent’s life in the future (…“On which step of the ladder would you say you will stand on in the future, say about 5 years from now?”)
### Disbursement Effects: Mechanisms

#### Welfare
- Poverty (1.9 US$) →
- Per capita income ↑
- Household size ↓

#### Labour
- Employment →
- Youth employment →
- Local job market →

#### Human Capital
- Quality of schools →
- Healthcare quality →
- Quality of water →

#### Amenities & Outlook
- Roads and pub trans →
- Enough money →
- Future perspective ↑
Conclusion
Main results

- World Bank aid reduces migration aspirations
- Mechanism: increased optimism of resident population
  - Announcements: Local population 1 pp. less likely to aspire migration
  - Disbursements: +100m USD in disbursements at the province level reduce aspirations by 4 pp average WB disbursement: 5m USD

Preliminary policy implications

- Reducing migration (aspirations) through aid seems to work!
- Lower bound? World Bank aid does not target migration
- Back-of-the-envelope calculation:
  +1m USD disbursement per province → 1,126 fewer migrants to OECD countries
Thank you for your attention!
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