Does Foreign Aid Reduce Migration?

Micro-Evidence from World Bank Projects

Andreas Fuchs [1,2]   Andre Groeger [3,5]   Tobias Heidland [2,4]   Lukas Wellner [1,6]

[1] University of Göttingen
[2] Kiel Institute for the World Economy
[3] Universitat Autònoma de Barcelona
[4] Kiel University
[5] Barcelona School of Economics
[6] Heidelberg University

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*"... help addressing the **root causes** of destabilization, forced displacement and irregular migration by promoting economic and employment opportunities [...]."*

But:
Lack of rigorous evidence $\Rightarrow$ 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 $>$ cost migrates

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More realistic model

Carling, 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 → migration aspirations
- Whether they indeed migrate is a matter of their capabilities
- **This paper**: interested in root causes → 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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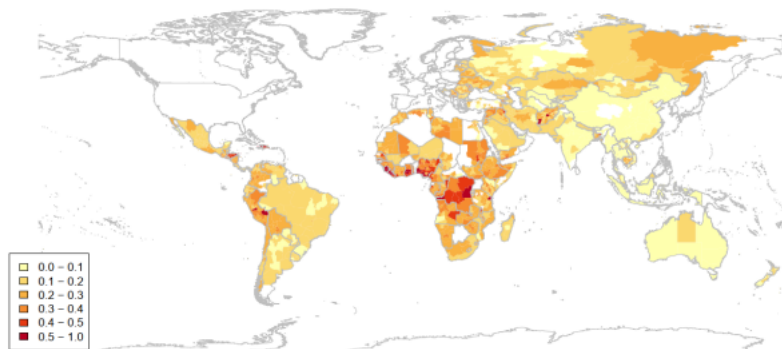 - Targeting amenities may be effective Lanati & Thiele 2020

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

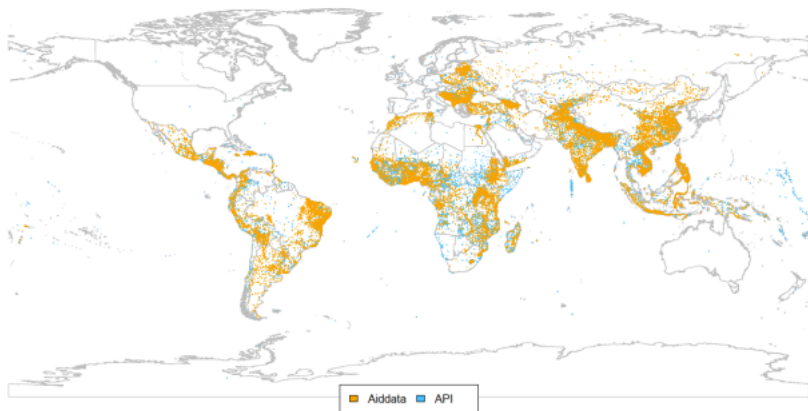- Understand the role of expectations for migration intentions

Data

Measuring Migration

Figure 1: Average Migration Aspirations 2006–2020 ▶

Legend:
- 0.0 – 0.1
- 0.1 – 0.2
- 0.2 – 0.3
- 0.3 – 0.4
- 0.4 – 0.5
- 0.5 – 1.0

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?"

Measuring Aid

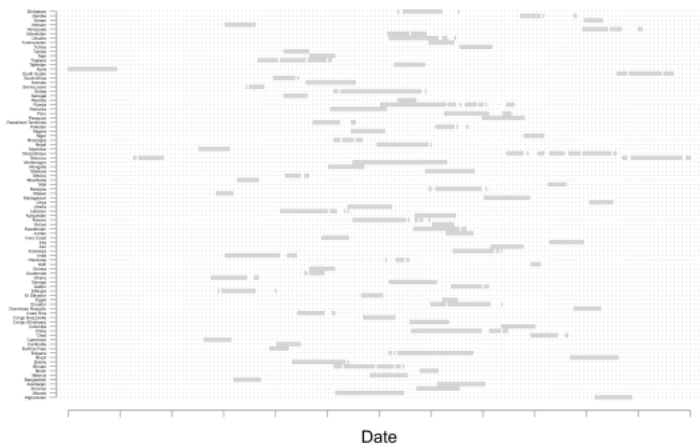**Figure 2:** World Bank Project Locations (1995 - 2021)

We measure aid over space and time combining geolocations with announcement dates and precise disbursement schedules.

Identification strategy

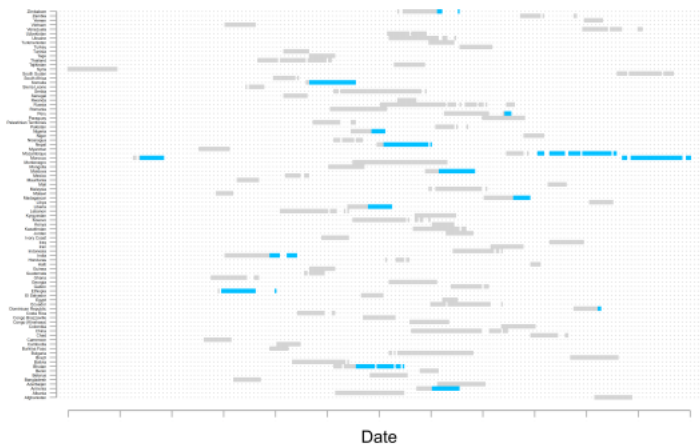# Twofold identification strategy

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

Announcement Effects

Figure 3: Gallup World Poll interview timing, *2015*

Date

Figure 4: Gallup World Poll interview timing and World Bank project announcements, *2015*

Date

Announcement Effects

Figure 5: Migration aspirations and World Bank project announcements

○ Mean aspiration   – – Fitted Pre   ⋯ Fitted Post   ⋯ Observations
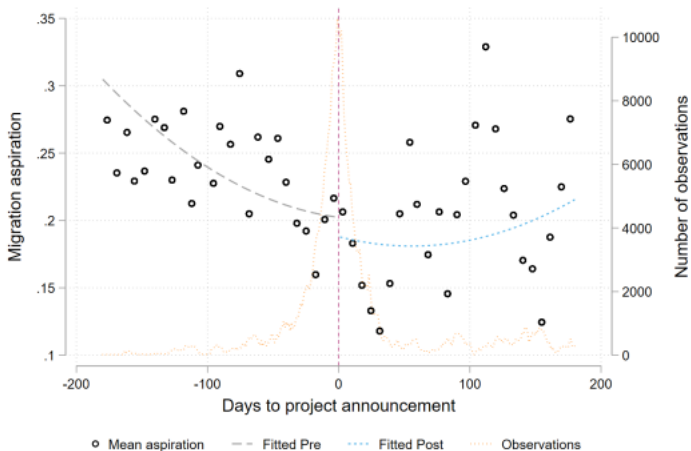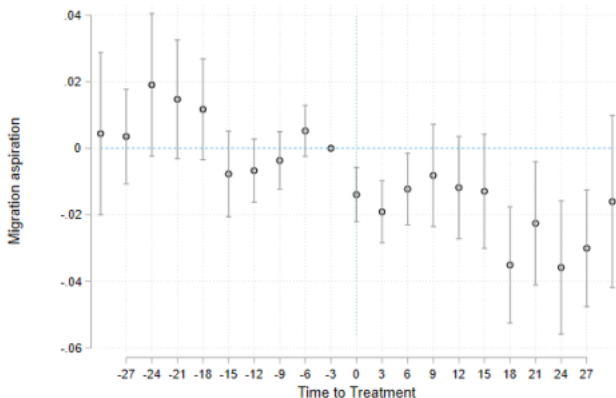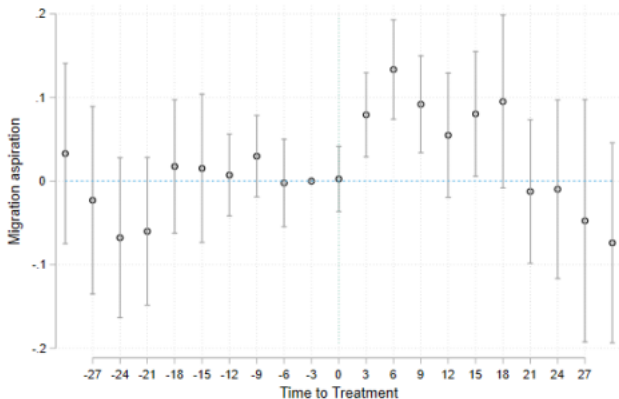
Figure 6: Migration aspirations and World Bank project announcements

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.

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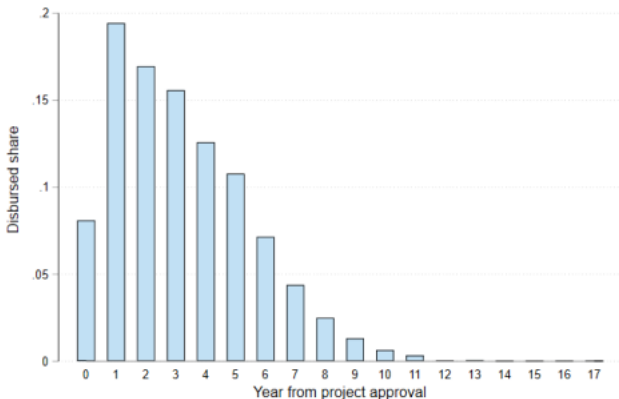
II. Disbursement Effects

- 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

Average WB Project Disbursement

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.

Disbursement Effects

Table 1: Migration intentions and World Bank project disbursements

	(1) Migration aspirations 2006–2020	(2) Future better 2006–2020	(3) Relative future 2006–2020	(4) Life in the future 2006–2020
Panel A: OLS				
Disbursements	-1.84e-05	9.23e-05	0.000330	0.000291
	(3.86e-05)	(8.01e-05)	(0.000341)	(0.000478)
Observations	953,904	854,832	854,832	854,832
Panel B: Second stage				
Disbursements	-0.000258***	0.000269*	0.00103**	0.00139**
	(6.41e-05)	(0.000149)	(0.000431)	(0.000692)
Observations	953,904	854,832	854,832	854,832
F-stat	40.06	39.56	39.56	39.57
Panel C: First stage				
Synthetic disbursements	0.00993***	0.00993***	0.00993***	0.00994***
	(0.00157)	(0.00157)	(0.00157)	(0.00157)
Observations	953,904	953,904	953,904	936,948
Individual controls	✓	✓	✓	✓
Country*year FE	✓	✓	✓	✓
Province FE	✓	✓	✓	✓

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

Summary

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!

lukas.wellner@uni-goettingen.de 🐦 *elwellner*