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Aid and Growth Evidence from Firm-Level Data

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Abstract

This paper explores the impact of foreign aid on firm growth for a panel of 4,355 firms in 29 developing countries, 11 of which are in Africa. Using the World Bank Enterprise Surveys data and controlling for firm fixed effects, we find a positive impact of foreign aid on firms' sales growth. This result is robust to several checks, notably to the instrumentation of aid and to estimations on various sub-samples and on an extended cross-section sample of 93 countries. We then provide evidence that the positive effect of aid is especially strong for firms operating in sectors that are intensive in infrastructure and external finance, suggesting that aid may improve firm performance through the alleviation of infrastructure and financing constraints in developing countries.

Keywords: Foreign aid. Firm growth. Infrastructure constraint. Financing constraint.

JEL codes: F35, O16, O50

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