

ABSTRACT

The developing countries receive aid from developed countries to help their economies to increase capital accumulation. Aid generally comes in the form of concessional loans and grants. Recent decades have seen a rise in flow of grants to developing countries. Loans impose a debt burden on these capital starved economies and hence hamper developmental expenditure. On the other hand grants are a source of wasteful expenditure and mismanagement. This paper analyses the differential impact of aid loans and aid grants on different categories of expenditures and tax revenue in a fiscal response framework. The study is done on a panel data of 36 developing countries for a period of 13 years (1997-2011) which includes Emerging Market Economies (EMEs) as well as Sub Saharan countries. A separate analysis for Emerging Market Economies is also done since these countries are expected to show a better utilisation of money coming in the form of aid. Both groups of countries show similar results however the results are more pronounced for EMEs.