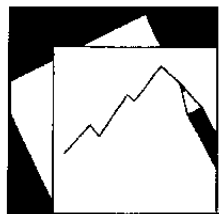


# Working Paper

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## Budget Support Versus Project Aid

*Tito Cordella and Giovanni Dell'Ariccia*

**IMF Working Paper**

Research Department

**Budget Support Versus Project Aid**

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**Abstract**

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

Should donors who are interested in the effectiveness of developmental programs rely on conditional budget support or on project aid? To answer this question, we present a model in which only a subset of the developmental expenditures can be subject to conditionality. We show that budget support is preferable to project aid when donors and recipients' preferences are aligned, and when assistance is small relative to recipients' resources. Then, we test our model estimating a modified growth model for a panel of developing countries, and find evidence in support of our predictions.

JEL Classification Numbers: D82, F35, I30, O23, O40.

Keywords: aid policy, conditionality, asymmetric information, empirical growth models.

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