# *Smoothing the way or stirring the pot:*

# *Evidence concerning the impact of foreign aid shocks on political violence in recipient countries*

*Abstract*

The conventional wisdom that violence in poor countries is rooted in the lack of prosperity is repeated to the point of monotony. This paper focuses on the impact of foreign aid as a choice of weapon to combat violence. The general aim is to resolve part of the confusion over how shocks in foreign aid disbursement affects the number of violent attacks in aid recipient countries. According to the existing theoretical framework, external economic shocks – such as foreign aid shocks – make an aid dependent country more prone to violence by shifting the domestic balance of power in the recipient countries. The literature, however, either focuses on the effect of external shocks other than shocks in foreign aid or appear to have the basic assumption that aid allocation is steady over time. This paper aims to challenge these assumptions by examining how aid shocks affect the occurrence (number) of violent attacks in aid dependent recipient countries. Using panel data and two-stage-least-square estimation with Gross National Income (GNI) of the donors as instrumental variables, the paper tests the effect of aid shocks on violence in 104 countries between 2004 and 2015. The main findings suggest that aid shocks as operationalised as deviation from a moving average smoother in absolute value, increase the number of violent attacks. The findings that shocks in aid flow unintentionally foster violence in poor countries have crucial policy implications, as unlike other sources of revenue and unlike increases and decreases in those sources foreign aid is subject to policy decisions.

*Keywords*

Foreign aid, political violence, development, OECD DAC official development assistance