

Assessing the Cost-Efficiency of Foreign Aid: A Stochastic Frontier Analysis

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Abstract: Foreign aid remains a key element of global development initiatives, yet persistent concerns over cost-effectiveness fuel calls for greater accountability. This study uses stochastic frontier analysis to measure the efficiency with which United States agencies convert financial outlays into development outcomes. Using a translog cost function with a truncated-normal inefficiency term - estimated via panel data for 87 recipient countries - substantial differences in performance are revealed, from close to zero to near the efficiency frontier. Results offer insightful perspectives on the institutional factors that enable the more effective deployment of limited resources while maintaining the impact of foreign aid.

Keywords: Foreign Aid, Cost Efficiency, Stochastic Frontier Analysis

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