31 October 2019

Dear Professor Reed,

Thank you for the additional comments on my paper "A Replication of 'The long-run impact of foreign aid in 36 African countries: Insights from multivariate time series analysis' (Oxford Bulletin of Economics and Statistics, 2014)". They were useful in further improving the quality of the paper, and making it comply with the guidelines for replication studies. I hope that I have sufficiently addressed the concerns raised by you and the reviewers to allow the revised version to be considered for publication in Economics E-journal.

The changes in the manuscript intend to facilitate the comparison of the replications and robustness checks regarding the main conclusions of the original paper (addition of Table 5 and changes to Table 4), and to acknowledge the shortcoming that lies in the fact that both the original paper and hence my replication focus solely on statistical significance rather than magnitudes.

I further corrected the title, which wrongly referred to the Oxford Bulletin of *Statistics and Economics* instead of *Economics and Statistics*, as noted by Reviewer #1.

I respond to each comment in greater detail below. I hope I have addressed all concerns. Nevertheless, I remain available for further clarification in case desired.

Yours sincerely,

Lionel Roger

Comment: After discussing the importance of JMT and why it is a paper worthy of replication, you should attempt to exactly reproduce some findings from JMT. A good candidate would be their Table 7. You should the show how results change/don't change when you use alternative datasets (PWT7, PWT8, and WDI). You should then assess the results from this robustness check to determine whether it affects JMT's overall conclusion.

I take JMT's overall conclusion to be given by the following statement (page 177 of their paper): "Applying our cointegrated VAR model to each of these countries, we found convincing support for the hypothesis that aid has had a positive long-run impact on investment and GDP in the vast majority of cases, and almost no support for the hypothesis that aid has had a negative effect on these variables." Accordingly, you should use the results from replicating Table 7 to see if you come to the same conclusion with the new data.

Response: I agree that the comparison between original results and replication deserves some more room and took the suggestion on board. Table 5 of the revised paper mirrors Table 7 from JMT, and adds the robustness checks; the results suggest an accurate replication, and it appears the conclusion of aid effectiveness persists throughout datasets. Note that there appears to be a minor counting error in JMT's paper, which is highlighted in the table notes; our figures are even closer together once this is corrected. Further, I omitted their column that considers 1st, 2nd and 3rd best choice of rank as this is of very marginal importance to their analysis, and in my opinion the 3rd best choice of rank is highly arbitrary and generally represents a poorly specified model (with four ranks to choose from, it is really the second worst).

Further, I believe that JMT's overall conclusion is well captured in the fact that "[i]n 27 of our 36 SSA countries aid has had a significantly positive effect on either, investment, GDP or both" (JMT, p. 177) as highlighted in the paper's Conclusions. I accordingly adjusted Table 4, adding a column that reports the original results in this respect to panel (iv), to facilitate comparison.

Comment: Comments 2-4 from Reviewer #2 make several valid points. First, statistical significance is a poor gauge of aid effectiveness. [...]

Second, [...] it is magnitudes that matter for benefit-cost analyses of aid effectiveness. The original study, and hence your replication, are unfortunately unable to address the issue of magnitudes. I don't know what one can do about this. At the very least I would like to see some acknowledgment of this in your revision.

Response: I completely agree with Reviewer #2; as you indicate, there is not much that can be done about this in a replication study apart from acknowledging the shortcoming. I added a paragraph in section 4.2 (Inference in JMT) to this end.

My general take is that the magnitude is of course of fundamental importance, but this doesn't make the binary answer the question whether aid is effective or not redundant. I added a reference to Arndt et al. (2016), who explicitly focus on magnitudes.

References

Arndt, C., Jones, S., & Tarp, F. (2016). What is the aggregate economic rate of return to foreign aid?. The World Bank Economic Review, 30(3), 446-474.