

ABSTRACT

This study has examined the impact of foreign aid on economic growth in Tanzania. It was interested in the analysis of this relationship because Tanzania considerably to receive vast volume of foreign aid but experience still shows unexplained economic stagnant and high levels of poverty. The period under study is covering from 1997 to 2014 and all data used have been collected from single secondary source of World Development Indicator (WDI) published by World Bank in 2015. The analysis of contribution of foreign aid to economic growth has merged other macroeconomic variables which are gross domestic saving, control corruption estimate and political stability and absence of violence/terrorism. The study employed Ordinary Least Squares (OLS) test and the coefficient of variation method to examine the impact of aid on economic growth. The study also used unit root for test stationary, Johansen for co-integration test and vector error Correction mechanism (VECM) test to examine the long run relationship between economic growth and foreign aid. Short run dynamic relationship between the economic development and foreign aid can be examined by using the Granger causality test. Further, we applied diagnostic test to check the reliability of the fitted model. The analysis results of this study found that, foreign aid have positive impact and statistically insignificant on economic growth in Tanzania, other combined macroeconomic variable results included in the model such as domestic saving shown a positive impact and significant on growth. Control corruption and political stability both have negative impact and insignificant. The analysis shown there is long run equilibrium relationship between the variable after running Johansen co-integration test.

