

ABSTRACT

The role of foreign aid in promoting economic growth and improving the social welfare of people has been the subject of much debate among development specialists, researchers, aid donors as well as recipients in general and Zanzibar in particular. This question appears continuously in the House of Representative (i.e. Parliament of Zanzibar) every year where the parliamentarians question the justification and viability of foreign aid in developing the economy of Zanzibar.

There are but only few empirical studies that investigate the impact of foreign aid to economic growth in Zanzibar. Since early 1990's when proper foreign aid records started to be kept. The purpose of this study is to research on the impact of foreign aid on economic growth in Zanzibar as there are various opinions from different researchers regarding the foreign aid and growth.

There are positive opinions that aid do significantly help the economic growth while others came up with negative views. There are others who are still in dilemma to relate the foreign aid and economic growth. The study used a simple linear regression model to assess empirically the relationship between foreign aid and growth in Zanzibar using the data covering the period of 1983 to 2012. Various econometric parameter including coefficient of determination, regression coefficients and t-test were used to analyse empirical data. Findings from the study revealed that there is positive impact of foreign aid on economic growth of Zanzibar. The fact that foreign aid grows faster than the real growth of the economy indicating that the aid contributes to economic growth.

Furthermore, the findings from the study suggest that the government should seriously allocate the foreign aid resources from development partners to the productive and development programmes that will improve a strong economic base in order to attain long-run sustainable economic growth.

The main source of data used in this study is secondary data for the purpose of gathering background information and of comparing the past experience with the current. The data obtained from MoF reports, BoT and OCGS publications, business textbooks, journals articles, previous researcher's report and related literature on foreign aid and economic