

Does foreign aid contribute to or impeded economic growth?

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Abstract. This study empirically investigates the role and the impact of foreign aid (ODA) on economic growth (GDP) using 95 developing countries as the sample. Here we also include foreign direct investment (FDI) and population (POP) as the control variables. The panel data results indicate that a U-shape relationship exists between foreign aid and economic growth (Wamboye, 2012; Gyimah-Brempong and Racine, 2014). Initially, foreign aid negatively impacts the countries' growth and over a period of time, it positively contributes to economic growth. Further, the results strongly support the view that both FDI and POP are more important determinants of GDP, implying that GDP is less likely to depend on ODA. Strengthening the legal framework would be essential for these countries while their overdependency on the influx of ODA might lead to negative impacts on the growth as a whole. Importantly, effective management of foreign aid would ensure the Sustainable Development Goals (SDG) are achieved.

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1. INTRODUCTION

Official development assistance (ODA) or foreign aid has been an important economic growth factor throughout the history. According to (Niyonkuru, 2016), ODA provides assistance to countries' development. These aids may include social infrastructure and economic infrastructure, services' aid and production sector's aid. Social infrastructure in this case includes education, water supply and sanitation, all with the aim to improve human development and eventually contribute to long-term sustainable economic growth (Addison and Tarp, 2015). Besides, economic infrastructure aid does improve energy, transport and