

FOREIGN AID AND ECONOMIC GROWTH IN TANZANIA

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ABSTRACT

Official development assistance (ODA) more usually known as foreign aid contains capitals transfers from the public sector in the method of external grants and credits at concessional monetary terms to developing countries like Tanzania. Moreover, many studies have conducted in the empirical literature on the effectiveness of foreign aid have tried to evaluate if foreign aid influences its primary purposes well-defined as the stimulus of economic expansion and well-being of developing countries [Moreira \(2005\)](#). Most of the developing countries in the world observed as being poor not only because they do not have enough resources, but also the majority of their internal revenue are being channeled to meet consumption wants of their citizen with the little left for savings. These little savings cause small investments rate resulting into low growth rate in the county, this resulting in brings about poverty. The poverty at beginning through low savings, low investments and low growth makes the developing country like Tanzania left with no choice other than to seek for external resources such as obtaining foreign aid and foreign borrowing to bridge the saving-investments gap with the aiming to accomplish economic growth and poverty lessening in Tanzania. In current years, more calls have made for more foreign aids to developing countries as to reduce poverty as well as to shelter deficit in the annual budget. More developed countries, international organization and other emerging partners (sponsors) have all been improved appeals for a massive infusion of growth of foreign aid to DCs involving Tanzania as well. Foreign aid is viewed as promotion tool when injecting to developing countries, in turn, foreign aid will material benefit the people of recipient country [Okon \(2012\)](#). Low-level of income considers Tanzania like any other of developing country, low level of

industrial capacity utilization as well less of small-scale. To solve these economic problems, Tanzania required foreign aid as a reliable and proper option for improving the saving-investment gap. The question if ODA augments economic development in aid-recipient countries yet continues greatly debated. No arrangement established between scholars and policy makers (Veiderpass and Andersson, 2007). In the aid-growth literature, many of empirical studies on the effect of foreign aid on economic growth resulted in mixed outcomes (Hokmeng and Moolio, 2015). Tanzania has benefitted from ODA after independence from various donors and others developing partners. Very recently, Tanzania has received more foreign aid from the developed countries such as China, India, and Morocco and other European countries. As known that majority of Africa countries continue to receive more ODA from donors and other developing partners, in recent years, Tanzania becomes the largest country received foreign aid in East Africa region. Regardless of receiving the significant amount of funding, many developing countries have remained stagnant and become more aid-dependent. This grim reality cause's debate on the effectiveness of aid, foreign aid can be into grant or Assistance and loan assistance (Javid and Qayyum , 2011). Foreign aid inflows which are in the form of ODA plays a significant part as a supplement to private financing for economic expansion in the Tanzania's economic. In addition to that, the Foreign aid is very critical in improving the business atmosphere for the private sector and accelerating economic development and expansion. Harold (1939), Domar (1946) claimed out that the rate of economic growth in an economy relies on the level of savings and the capital output ratio. The significant of foreign aid is very vital because Least Developing Countries (LDCs) constrained with the savings and money. Hence, foreign aid provides the LDCs with capital investments. Foreign aid is gradually a promoter for transformation, and it is enabling to formulate circumstances in which LDCs can increase their revenues. The previous half-decade years have seen substantial achievements, as well as disasters, in development assistance. Better policies in developing countries, collectively with improved allocation of foreign aid since the end of the Cold War, entail that the help is more successful today at reducing poverty than ever before. The currently empirical studies show the effect of aid on development drawn approximately related ends, in the long run, has positive and statically significant effect (Minoiu and Reddy, 2010; Juselius et al., Clemens et al., 2012). In their studies concluded foreign aid has a negative influence due to political instability and decline in government quality implications in the country. Similarly, others prominent researchers (e.g.,

Booth, 2011) deliberate the hypothesis that foreign aid grows weaker due the quality of political institution to be pertinent, so may undermine motivations to undertake collective action problems that constitute economic development barriers. Nonetheless, other researchers (Djankov et al, 2008) both found that adverse effect of foreign aid on economic expansion directly measured of the responsiveness of corruption control as well as political consensus. Abiola (2008) claimed that Foreign aid is a very significant tool for supporting education, public infrastructure growth, health, agriculture and rural growth, food security, etc. Foreign aid is very vital due to its implications for poverty lessening in developing countries; their role in the development practice of developing countries, but has been active debate on-going among the economists, and they generate mixed results. The influence of foreign aid to their GDP is to such an extent that the countries would be in the difficult situation or even failure whether the foreign the aid to discontinue (Chung-yee at al., 2012), Bakare (2011) also advocated that ODA is a means of accumulating the capital obtainable for the investment and economic development required to diminish poverty and raise the standard of living in SSA. Moreover, he contended that ODA could also give resources for industrialization, improve the efficiency of resources use, increase product diversity and generate more employment. The capability of developing country like Tanzania to appeal foreign aid can maximize the related merits and lessen the risks which are a function of the conditionality of the ODA. The study investigated by McGillivray et. Al., (2006) advocated that there are main four different views on the usefulness of the ODA have been recommended such as foreign aid has decreasing returns, foreign aid subjected to the external and climatic circumstances, foreign aid is affected by political conditions, and FA rely on institutional quality. In the case of Tanzania, according to the budget statement (2014), in year 2013/14 was received foreign aid of TZS 734 billion which is 63 percent of the annual estimate. As the GBS TZS 368.6 grant for Basket Funds which is equivalent to 74 percent of annual estimates, in addition to that amounting to TZS 1,200 billion for the development project which is equal to 55 percent of annual estimates amounting to TZS 1,200 billion for development project which is equivalent to 55 percent of annual estimates. During the financial year, 2014 Tanzania has received the grant for Government Budget of amounting shilling 2,941.6 billion, out of this amount shilling 922.2 billion proved in the form of General Budget Support; TZS 1,745.3 billion through grants and special consideration loans for development project and shillings 274.1 billion for basket fund. Likewise, Gross Domestic Product shows a significant slight increase from 6.4

percent in the year 2011, in 2012 the growth rate was 6.9 percent and grew by 7.0 per cent in the year 2013, these more likely show a good indicator appreciably compared economic development in the Sub-Saharan country. According to the International Money Fund (IMF) (2014), Tanzania was ranked in 8th commercial growing rather than another country in Sub-Saharan and takes the first position in East Africa. Foreign aid associated with ODA and frequently directed to the poorest countries ([World Bank, 1998](#)). Despite developing countries receiving massive amounts of monetary support from donors and other Developing partners, Tanzania Isles (Tanzania) is among of poor Sub-Sahara countries that have remained stagnant and became too much dependence on foreign aid. Foreign aid's deviations delay and cutting are the very chronic problem in Tanzania as well as in another part of Sub-Sahara African countries ([OCED 2005](#)). This study will examine how the declining of foreign aid in Tanzania affect Tanzania's Economic development due to Donors and other Developing partners cutting their financial funding to Tanzania. The research will also find out to what extent the decline in donors' support affects Tanzania plans. The research further will investigate the reasons why do donors and other developing partners cut their foreign aid to Tanzania. This reaction of Donors and other Developing partners cutting their funding affects a flow of funds and thus and stalling plan's implementation. This study s some possible policies to be applied by Tanzania government in reducing too much dependence on Foreign aid. The research will also come out with strategies or recommendations to explain the problem of too much dependence on donors and other developing partners. The strategy to be achieved if the Tanzania government make changes to its reforms and policies, improve revenue collection through mobilization of internal revenue that can mostly allocate the development plans, reduction of recurrent government expenditure in seminars, attending workshops which take place inside and outside the country, medical expenses and education expenses abroad by utilizing local facilities. Moreover, family planning can seriously control which is remarkably increasing from population growth, maintaining accountability and good governance policies, controlling-corrupt practice. Hence commercial projects will not be successful if the country has poor governance. It requires the obtainability of enough revenue to finance most government projects. Therefore, the ends result of this study will enable Tanzania to use its identifiable capitals to implement its plans without dependency from donors and another developing partners' support. The donors provide various funding in the several sectors such as education, health, population capacity building and skills, children's

education, Food Security and Nutrition baseline study, support election process and malaria campaign, Tanzania rural roads, Education support to primary education in Tanzania, HIV/AIDS programs and AIDS control, Management of data system, promoting press freedom, review of education sector, policies and plans, Disaster risk management, Capacity building for trade development and integration in Tanzania, developing national framework for economic development, support to development for Tanzania strategy for financial inclusion, Support to Tanzania budget (GBS), Tanzania energy sector program, political development and political tolerance programs, poverty monitoring master plan, management supervision of natural resources, establishment of agro-processing centers, urban and rural water supply development projects, local government support, Tanzania sanitation and drainage program, sustainable management of land and environment, Capacity building for sustainable running water management and cost recovery in Tanzania, Support to Policing of Gender Based Violence in Tanzania, improving gender-sensitive data collection and analysis in Tanzania and etc. The Foreign aid display a dynamic role in the economic growth of a recipient country (Tanzania) both regarding social and economic development perspective. Most Sub-Sahara African countries depend too much on Foreign aid from Donors and other Developing Partners to support their annual budget to cover deficit arising from a low level of domestic savings. This paper examines the Tanzania's experience with the ODA and explores the effect of foreign aid on economic growth.

Keywords: Foreign aid, Economic growth, Vector error correction model, Tanzania

REVIEW OF LITERATURE

The section provides a review of the theoretical and empirical review of literature that previous academicians and researchers use to explain the effect of foreign aid on economic growth. There are several conceptions of foreign aid. Overseas assistance supplied and provided different types, for examples Capital transfers, loans, technical assistance, and training, normally as grants in the form of human resources, or training advisors. The term of development finance combines official assistance with other official flows. The proper development comprises of grants plus concessional loan that have at least a 25 percent grant component is the element of official development fund ([World Bank, 1998](#)). A loan in this context defined as sufficiently concessional to be included in ODA whether it has a grant element at least 25 percent calculated at 10 percent discount rate". ODA consists of the costs to the donors of the project and program aid, technical cooperation, forgiveness of debts not already reported as ODA, food and emergency aid, and associated administrative expenses. Normally, foreign assistance provided in the form of project aid, technical assistance and program aid (balance of payment support and budget support) and NGO (non-Governmental Organization) provides aid in support of poverty alleviation activities and emergency relief in aid recipient countries. In this case, we refer to the development assistance committee (DAC) definition of Financial assistance (FA) in this study. Foreign aid is a significant basis of revenues to developing countries, particularly in Africa, where it averages GDP launches by far the significant source of foreign capital [Pallage and Robe \(2001\)](#) In that circumstances, foreign aid has a perspective to play an important driver in motivating economic development in developing countries. Foreign aids are resources in foreign exchange over the ability to finance from accumulated reserves without the need of immediate repayment and a cost lower than the prevailing rate of commercial banks loan. Also, foreign aids also can be available on credit terms the economy's ability to swallow it relying on using the fund in such a way as to increase the net income by more than the value of credit itself and the cost of debt servicing. The most significant external factors affecting the effectiveness of the foreign aids are improper procedure involved, insufficient volume of this assistance, uncertainty as to the period over which be granted, tied loans and offering credit to specific projects. According to DAC of the Organization for Economic Cooperation and Development (OECD), Foreign aids can be well-

defined as financial flow, technical assistance, and commodities that are aimed to promote economic development and welfare as their main objectives and provided as either grants or subsidies loans (OECD, 2006). The Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) views foreign aid as ODA; consisting of grants or loans that one government or multilateral organization gives to a developing country to stimulate economic development and social welfare. According to the statistical reporting directives (2000) issued by OECD and presently used by DAC states that “Foreign aids is commitment in finance of written obligation by a government of official agency supported by the appropriation or availability of funds to offer resource of specific amounts under specific financial terms and conditions for the stated purposes for the benefit of recipient country. Randhawa (2012) explained that foreign aid inflows to developing countries are the main source of income and help to augment economic development and to hasten their economic development up to the point where national have the satisfactory rate of can be attaining on a self-sustainable basis. According to Moreira (2005), the essence of foreign aid to the economic development of LDCs could be negative, positive or even non-existent, in statistical terms. According to World Development Indicators (2015), Tanzania is one of the recipient countries which received a significant volume of aid in Sub-Sahara African. The net amount received amount received by the country totalized from 2002, 2003, 2004 and 2014 were 1,269.8 million, 1,725.4 million, 1,772.4 million and 2,647.9 million USD respectively.

MERITS OF FOREIGN AID

Foreign aid (official development assistance) is a very fundamental instrument for developing the country to support the development project financially. Tanzania has been received and enjoyed accelerating her economy. The previous economic theory in the 1950s and 1960s stated that many Less Developing Countries (LDCs) suffered by basic capital formation. In this case, we saw that those theories regarded FA as a development assistance for stimulating capital formation to LDCs as well as playing a significant role in stimulating the economic development. It enables the recipient countries to offset their shortage in private and public savings to finance their development expenditure project or large investments such as infrastructure, etc. LDCs had few resources in the form of foreign exchanges to finance the acquisition of imported machinery and other capital goods. Hence, the obtainability of FA was very significant to fill the savings-investments gap and the trade gap, this, in turn, accelerating investments and the growth.

Tanzania is not the independent country; it has scarcity resources that can support to meet her development growth. Hence, the presence of funds supplied by donor's countries and other DPG has been to offset saving and exchange gap in the country. FA also helps the government to meet its development and recurrent expenditure through FA in the form GBS (General Budget Support). Thus, FA can be used to fund in the several activities such education, health, and infrastructure. As a result, this can contribute to the large extent the economic progress and growth. Hence, foreign aid also can decrease the conflict on the ground that increasing foreign aid can reduce government budget constraints (Collier & Hoeffler, 2002). The import support through program aid can also play a dynamic role in stimulating economic growth of the recipient country like Tanzania. This enhancing to raise the production capacity both for private and public undertakings. It resulted in higher production and increased supply of goods. Moreover, Foreign aid is very significant for emergency relief mostly in war, prone areas and areas affected by natural disasters such as cyclones, calamities, earthquake, etc. In most cases, foreign humanitarian aid has been accomplished saving lives, providing food to hungry, healthcare, and medicine to those who have been affected or vulnerable to serious diseases. Debt relief lessens foreign exchange limit; this enables to help to decrease the debt overhang. The additional resources from debt cancellation assist in increasing imports and investments as well. When a recipient country is receiving foreign aid regarding technical assistance, recipient country like Tanzania can obtain technical knowledge and expertise which stimulate the development project at large positively. Therefore, the technical knowledge and expertise are expected to influence the development process through enhancing the quality of the labor force (human capital) and filling the skills gap. Foreign also is much of importance in the form of General budget support. It assists the government of Tanzania in meeting her annual budget estimation regarding both development and recurrent expenditures but mostly in the development expenditures (economic development projects). Foreign also can finance the industrial development projects through creating more job vacancies. The donors and other DPs are more sensitive to allocate the funds in the development expenditures for the betterment of the nation's economic growth. For example, these funds or aid can be financing through education developments programs/projects, infrastructures, health. It will contribute to the economic growth in Tanzania. Foreign aid also can provide clean water and sanitation facilities which leading to decreases risk of contracting infections and diseases. Other merits of foreign aid are assisting to build positive working nexus

with other governments or donors' countries, helping to promote and, maintain peace and stability. Donors' countries also merited though providing foreign aid by assigning conditions on aid given to recipient' countries. Foreign aid can assist agricultures sectors by providing funds to farmers and increase food production which leading to better quality of life and higher amount of food, also leading to improve stand of living

DEMERITS OF FOREIGN AID

Most of developing countries become too much dependence on foreign aid. Hence this makes LDCs depend on donor countries; hence, they become heavily indebted. In the case where corruption is so rampant in the recipient country, the foreign aid does reach their rightful recipients but goes to the hands of corrupt political officials. In some cases, donors and other DPs may place economic and political pressure on the recipient country. It is leading the donor to stop or reduce foreign aid the recipient country where there is no true democracy. Foreign aid also has also not benefited the recipient country on the ground that this assistance is not essentially directing to the less fortunate. It is mostly benefited to foreign - owned firms. Most of the foreign-owned firms bring with their senior's management employees and not employ the people of the recipient country, who in turn become jobless or useless even though they have some capacity to work. Moreover, foreign aid is not aiming to stimulate faster growth in the developing countries. However, it holds back by substituting for domestic savings and investments. Since the FA is primarily basing on the growth of modern's sector, hence it increases or resulting in creating the gap in the standard of livings between the rich and the poor in the developing countries. Foreign aid may also subsequent in growing inflation if the foreign aid given is mostly unproductive ones or outdated technology.it also leading a recipient country lack of decision-making. It makes recipient country lack of opportunity to develop critical administrative expertise

TYPES OF FOREIGN AID

Today most of the Africa countries become more relying on foreign aid than before. Foreign aid can be considering into three types such as ODA, bilateral aid, multilateral aid and Tied aid.

OFFICIAL DEVELOPMENT ASSISTANCE /FOREIGN AID

ODA is the most common type of aid in Africa and Tanzania. These can be moved from one country to another directly or indirectly through donor's country, World Bank, Developing

partners and other United's nations as well as Africa development bank. ODA is observing as a more important economically foreign tool other than other types. Most of the ODA provided to Africa including Tanzania are funded by the eight big nations (G8) which account for two-third of the global economy. However, ODA was projected to generate economic growth and promoting democracy to the recipient country, but unfortunately, ODA has been more destructive to Africa countries' economies and political system rather useful.

BILATERAL AID

Bilateral aid is an aid provided by a government directly to the government of another country. It occurs when the capital flows from a developed country as a donor to a developing country as a recipient. It is mostly focusing according to strategic political deliberation as well as the humanitarian basis. These are aimed to help in long-term projects to promote democracy, economic growth, stability, and development growth.

MULTILATERAL AID

MA is an aid provided by many governments (DONORS) who supply funds to international organizations such as WB), United Nations (UN) and International Monetary Fund (IMF) that in turn used to lessen poverty in developing countries (Recipients). These organizations are governing by the contributing countries such as the United States of America that permanently have an upper influence on WB and IMF.

TIED AID

It is an aid that must be spent in the donor's country which providing the aid or from a group of nominated countries. a developed countries or donor will provide a bilateral grant or loan to a developing country or recipient country, but the mandate of that money be spending on goods or services produced in the nominated countries.

FORMS OF FOREIGN AID

Foreign aid can be categorized in the following forms:

- a) Project aid
- b) Programmed Assistance
- c) Technical Assistance (TA)
- d) Emergency Assistance or Humanitarian Assistance

e) Food Aid

PROJECT AID

Project aid is one of the forms of Foreign aid where resources can be used to fund the proposed and approved projects such as school or hospital. Project aid can be funding into various areas such as education, health, military, water supply and sanitation, electricity supply, agriculture, housing development, transport (both urban and rural areas), trade, mining industries, sports training centers, technology know-how expertise, etc. [Riddell \(2007\)](#) argued that insignificant totals of project aid are directing to trade, Industrial, mining, and cultural projects. Normally, most of the ODA-funded assignments can be used to fund major development projects of recipient countries that aimed to attain specific productions by providing resources, skills, and systems which the recipient country desires.

PROGRAMMED ASSISTANCE

The PA is defining by OECD as financial contributions not correlated to specific activities (as cited by [Riddell, 2007](#)). The PA can be categorizing into two categories such as the Balance of payment (BOP) support and the General Budget support (GBS). Under the GBS, the PA are provided to promote aggregate revenue and increase overall expenditure. PA funds are used to channeled funds to ministries of finance are known as the GBS while those directed to specific sectors are known as Sector Budget Support(SBS). Under the GBS, donors offer funds to finance for the execution of growth and poverty reduction policies paying into account to the capacity of recipient governments to use funds efficiently. Budget support is a specific way of providing global development aid. It can also call a foreign aid tool or aid modality. With BS, money is provided directly to a recipient country government normally from a donor government or international organizations provider. BS differs from other forms of foreign aid modalities. For example, BOP which presently mostly the domain of the IMF. With BOP supports the funds go to a central bank (Bank of Tanzania-BOT) for foreign exchange purposes while BS Bilateral go to Ministry of Finance and into the budget for public expenditure. Project aid is where foreign aid funds are utilized by a donor to implement the Bilateral project, with donors holding control of the development program's financing and management. Presently, twelve donors offer general budget support to Tanzania. The donors provide the overseas assistance to the United Republic of Tanzania are the Canada, AfDB, UK, Denmark, the European Union, Finland, Germany, Ireland,

Japan, Norway, Sweden, the United Kingdom and the World Bank. Recently, Switzerland and Holland pulled out from GBS; the United Kingdom (DfID) has decreased its GBS and is shifting funds to sector support instead. Finland has shown that it will decrease the proportion of GBS in its official development assistance (ODA) from half to a quarter in coming years.

TECHNICAL ASSISTANCE

Technical Assistance (TA) comprises the provision of skills, knowledge know-how and advice. For many decades, technical aid has also been provided in the form of teaching staff mainly in primary and secondary education in developing countries. Furthermore, more specialized trainers have continually achieved skills training functions to meet their needs and to attain their immediate objectives. For instance, London-based Overseas Development Institute (ODI) has been consecutively its fellowship system for graduate economists and assigning them in vital ministries in developing countries ([Riddell, 2007](#)). However, there have been some problems related to it such as high cost of providing the TA particularly the consultancy costs.

HUMANITARIAN AID / EMERGENCY AID

The meaning of humanitarian aid is well-defined according to its determination that is to “save lives, lessen misery and enable those miseries to keep their human self-respect during and the aftershock natural disasters and man-made crisis.” Humanitarian aid has been so successful in most case in attaining its tangible results such as saving lives, providing food to the hungry, healthcare and medicine to those helpless to severe disease in emergencies and water sanitation, and shelter to those whose homes have demolished. However, the continuous internal fights in war-prone area's decrease funds to meet development aims as more funds are focused on meeting humanitarian needs.

FOOD AID

Food aid includes food program aid and humanitarian food aid. Program food aid may release the foreign exchange constraint to the needed intermediate inputs or by providing fiscal resources through counterpart funds produced by the local sale of program food aid ([Barret, 1998](#)). These resources can be utilized by the recipient country to finance in agricultural research and extension and improvement of rural infrastructure. However, program food aid has Dutch

disease impact on local food producers and thus hurting the food sector's competitiveness in the world markets.

THE OVERVIEW OF FOREIGN AID IN TANZANIA

Before Tanzania relies on foreign aid after getting her independence, in 1961, The government was expecting that foreign and local private investment was to bring about the planned –growth and development. When foreign investment failed to emerge, it was predicting that foreign aid would be mobilized and used to funding the needed capacity for self-reliance according to Arusha Declaration (AD) of 1967. However, the goal of AD to enable Tanzania as self-reliant not achieved, this was contributed due to the execution of AD was not supplementing by clear economic policies to direct the economy in the intended road. Then the government decided to launch the basic industry strategy in 1974 with more highlighting on attainment of structural change and self-reliance. It was aimed to use foreign aid to enhancement the shortage private capital. The foreign aid can be observed as a close gap to offset investment-saving gap as well as the foreign exchange gap. Figure 1.1 indicates the Tanzania's annual GDP growth rate over the



period 1992 to 2014. The GDP growth rate started to rise in 1992 to 1996 before declined in 1997. The growth continues to increase in 1998 to 2001 before to fluctuate in 2001 to 2002. Furthermore, the average growth tends to rise 2003 before big falling in 2006. The trends continue to improve in 2007 before the decline in 2008 and 2009 respectively. Tanzania's average growth started to improve in 2010 before another collapse in 2012. This trend remains to increase 2013 before a slight drop in 2014.

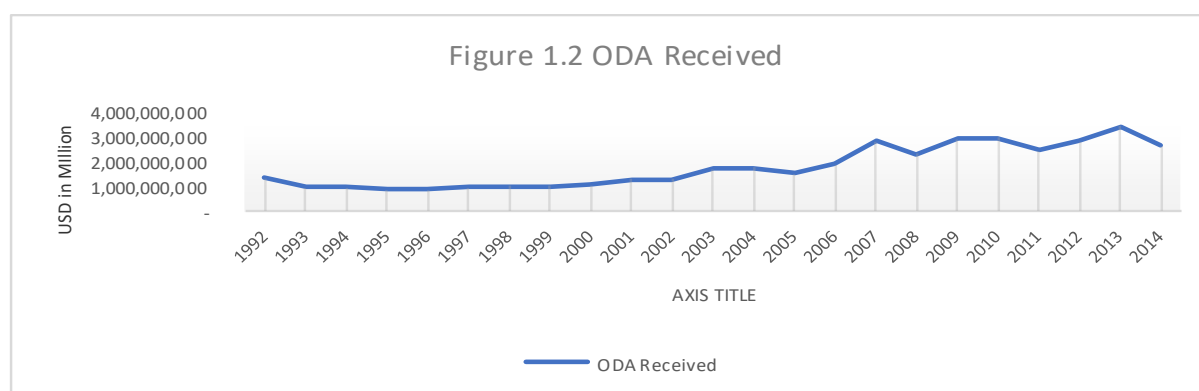


Figure 1.1 Tanzania's annual GDP growth 1992-2014

Figure 1.2 displays the amount of ODA that Tanzania received from 1992 to 2014. The amount of ODA has been the decline in 1993 before gradually rising again in 1997. Some continue to increase in 2001 before slump again in 2005 due to Tanzania's national election held in 2005. The ODA start to rise in 2006 up to 2007 before a decline in 2008. This trend continues to fluctuate between 2009 to 2014 because Donors and other DPGs decided to decrease or stop to provide ODA to Tanzania on political matters. Table 1.1 and figure 1.2 present the Top Ten donors of Gross for Tanzania for 2014-respectively. The International Development Association has been the largest donor followed by the United States and the United Kingdom respectively during 2014. About 40 DPs distribute overseas assistance to the United Republic of Tanzania about ODA. The \$14.4 billion of ODA disbursed to Tanzania between 2005 and 2010, the International Development Association (IDA) is the major supporter, providing an average of 20%, followed by the United Kingdom providing 10%, the United States of America 9%, Japan 8%, and the European Union 7%. The World Bank Group (WBG) is a dynamic player in the multi-donor General Budget Support (GBS) framework, which offers funds to support the poverty reduction policy to the United Republic of Tanzania through NB. The donors used the device called "the donor's joint monitoring mechanism" as the Performance Assessment Framework serves as an important tool to facilitate implementation.

Donors	USD Million (amount)
International Development Association	612.0
United States	481.6

United Kingdom	279.6
Africa Development Fund	200.3
Global Fund	170.5
EU institutions	118.9
Japan	104.4
Canada	84.3
Sweden	81.7
Korea	75.6

Table 1: Source: OECD – DAC

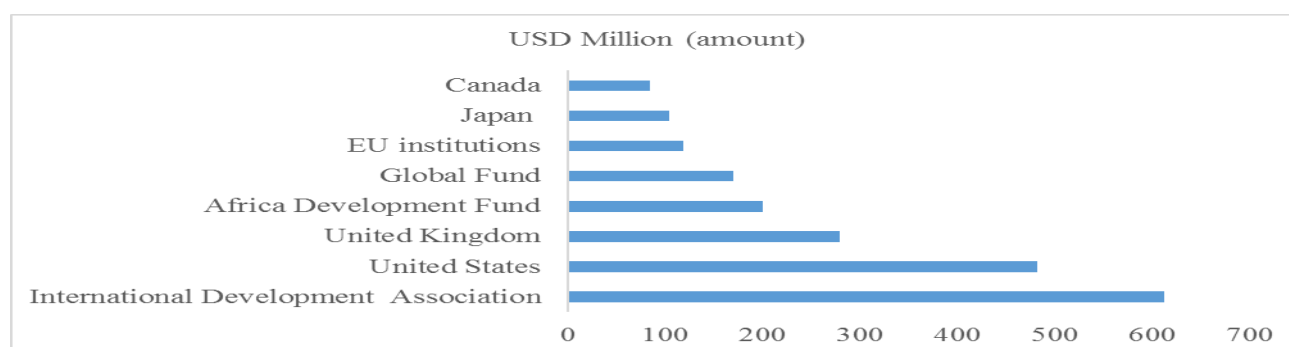


Figure 1.3 Top ten donors of Gross for Tanzania for 2014-2015 average USD million

Table 2.2 and figure2.4 represents Bilateral ODA by segment for Tanzania 2014-2015 average. The health and population has been contributed by the largest shares of bilateral ODA in Tanzania compared to other sectors during the year 2014.

VOLUME OF ODA ASSISTANCE TO TANZANIA

Tanzania is among of the major recipient of bilateral foreign aid in SSA during the 1970s up to 2014. In per capita terms, Tanzania's FA has been comparatively modest, amounting to US\$17 in 1985 and rising to US\$ 31 in 1992. Both bilateral and multi-lateral foreign aid in Tanzania has been increasing in large proportions for the four decades. It has been contributed to Tanzania's development policies during the time of social democrats and being Tanzania considered as the strategic recipient regarding foreign aid policy.

WHY GOVERNMENT NEED FOREIGN AID

The main key role of ODA in motivating economic development is to domestic enhancement sources of finance such as savings, thus aggregate the amount of investment and capital stock. [Morrissey \(2001\)](#) argues that there is an number of instruments which foreign aid can enhance to economic development such as foreign aid rises investments in both physical and human capital; foreign aid may rise the capacity to import capital goods or technology as well as ODA cannot have indirect influence that reducing investment or saving rates; and ODA is related to technology transfer that raises the productivity of capital and stimulates endogenous technical change. Capital act as life support in any country for economic activities as governs the financial strength as to attain development objectives, a lack of domestic capital is main common features enhances in developing countries which led the insufficient investment in developmental programs. The Capitals are producing in the form of internal sources and external sources; internal sources include domestic capital as a combination of government saving, household savings, private savings and tax revenue and the main form of external assets inflows are official flows (ODA) and FDI. Due to lack of domestic capital, the developing nations needs foreign aid from developed countries to finance development activities in their countries. The foreign aid plays the important role to funds quicker economic development, increased employment, national income and eventually supports to decrease poverty level as well as make the standard of living to be stable in the recipient countries ([Sahoo, 2016](#)).

EFFECTIVE OF FOREIGN AID AND MACROECONOMIC POLICY

Though foreign aid in developing countries has remained stagnant for many beneficiaries, this unattractive reality has provoked a vigorous, ongoing debate on effectiveness foreign aid, the justification for foreign aid growth relationship based on the two gaps model. The first gap is between the saving and investment and the second gap is on imports and foreign exchange earnings, the developing countries does not overcome deficiency of these gaps as they done in resources, hence, foreign aid used to stimulate the growth of developing countries by decreasing the saving-investment and export-import gaps as well as increase of economic growth in which country has sustainability good policy environment. Therefore, the stable of the macroeconomic strategy of the recipient countries is mostly sensitive stress to make foreign aid more operational for economic growth. Foreign aid also plays the dynamic role in financing developing countries by funding developing economies rather foreign aid contributes quicker economic development,

increase employment, income and eventually assists to reduce the poverty level in the recipient countries.

FORMS OF FOREIGN AID IN TANZANIA

Foreign aid in Tanzania has been classifying as follows:

Project aid

Programmed Assistance (PA)

Technical Assistance (TA)

Emergency Assistance or Humanitarian Assistance

Programmed aid has further classified into two forms such as financial program aid and Food Programme Aid. Financial program aid can also further have classified into GBS and BOP. BS can also be further classified as GBS and (sector budget support) BS while BOP further categorized into import support and debt relief. Budget support takes the form of GBS when non-earmarked monetary involvement is provided directly to the recipient government's budget or SBS when allocated to the specific sector. Budget support also allows the government responsible for undertaking development outputs. It normally related to mechanisms to develop coordination and negotiation on overall systems and policies between recipients' government and donors. Moreover, BS provides recipient government's greater discretion in earmarking resources towards their strategy priorities. It is regularly balancing with methods to conditionality that relates policy dialogue and strategies. In Tanzania, GBS is mostly supported by eleven bilateral development partners such as Germany, Norway, Switzerland, Sweden, Ireland, Netherlands', Canada, Finland, UK, Denmark and Japan; together with the WB (the World Bank), the African Development Bank (AfDB) and the EC (European Commission). The group is leading by the 'troika' (the chairperson, the incoming chair, and the outgoing chair) which interchanges every year given its significant fiscal deficit. Tanzania, like many other developing countries as well as SSA countries, relies on donors' money for their various development projects. Tanzania obtains foreign from its DPS through budget support, general basket funds, and project funds.

THE FOREIGN AID AND ECONOMIC GROWTH

The successfulness of foreign aid in the developing countries is the fascinating debate that has been discussed by many previous scholars since six decades ago. The first study and very famous

model established by Harrold and Domar in the 1930s and 1940s. It was known as the Harrold-Domar model which highlighted the requirement of foreign aid to fill in the saving gaps of the developing countries aimed to increase investments. They supported that foreign aid can rise physical capital accumulation about economic growth. Harrold Domar model commented that foreign aid is filling the saving gap in developing countries. [Chenery and Strout \(1966\)](#) proposed "two gaps" apart from saving gap. It was introducing because many developing countries do not have required foreign reserves to import capital goods for investments. They reported that there is foreign exchange gap that impedes the developing countries to import capital goods. They also advocated that when foreign aid provided to developing countries, these funds utilized for capital goods importation. Another model was also introduced by the [Chenery and Strout \(1966\)](#). The model claimed that there is the scarcity of technological advancement and managerial expertise that can be used well to increase production. It can be known as the human capital gap. Moreover, the theory of "three gap model" was also introduced by [Bacha and Taylor \(1990\)](#). It called as 'fiscal deficit gap'. They introduced this model on the ground that most of the developing countries have been affected by the nonexistence of the revenue raising ability for investments; hence, foreign aid is required to fill the gap. This model indicates the nonexistence of efficient source of revenue to fund the economic activities. Therefore, foreign aid is a vital tool to fill the above gap started for investments.

THE RELATIONSHIP BETWEEN FOREIGN AID AND ECONOMIC GROWTH

Foreign aid is another component of GDP of a country. Foreign aid has aimed to help developing countries to stimulate the economic activities of the recipient countries. The Foreign aid has been used to fund various segments of the economy of developing country like Tanzania such as education, health, infrastructure, etc. Most of this foreign aid (ODA) are provided by donor countries to recipient countries on the specific grounds of their interest such as trade relation or investment interest, political or former colonies interest. For example, OPEC members prefer to provide foreign aid to their members of their federation ([Ram, 2004](#)). France provides aid to assist their former colonies like Comoro, Cameroon, Central African Republic, etc. hence, most of the providers of ODA are based on the above grounds to supply foreign aids based on to their aspirations. Tanzania has been viewed as one of the SSA's top recipient of foreign aid with ODA ([Groarty et al., 2009](#)). It as has been observed that Tanzania's budget mostly depends on foreign

aid to support her economic development project. Foreign aid is pre-determined to assist the various economic activities to accelerate economic growth of recipient countries. Many previous studies have been showing mixed results of foreign aid on economic development. However, the prime objectives of foreign aid are aimed to produce the positive relationship between foreign aid economic growth, for example, [Burside and Dollar \(2000\)](#) advocated that foreign aid will generate economic growth of recipient countries with good government policies. Tanzania needs foreign aid for long-term growth for financing her economic development activities. The foreign aid can also be used to finance on well-organized investments that will produce the long-term development in the future.

THE RELATIONSHIP BETWEEN EXPORTS AND ECONOMIC GROWTH

Economic development is one of the strategic goals of every community in the world. The export observed as one of the essential providers to the economic development. Export viewed as a major macroeconomic tool component that enables a developing country like Tanzania to rise specialization and to increase the productivity –raising benefits of comparative advantage. Export also can provide the larger economies of scale because it expands market size. Export also can provide greater capacity utilization as well as induce more rapid technological change resulting in the expansion of the community and the country in general. Therefore, the export gives the opportunities to less developing countries to accelerate their economic development through via the application of current technology in an appropriate policy framework. [Jung and Marshall \(1985\)](#) analyzed the sample of their study of time series data of 37 countries covering the period of 1950-1981. The result indicates that export stimulates economic growth in only four countries. [Chow \(1987\)](#) also examined the effect of export on economic growth in developing countries taking a sample of 8 NICS and data for from the 1960s and 1970s. The result reveals that there is bidirectional causality in Brazil, Korea, Taiwan, Israel, Hong Kong, and Singapore except for Mexico and Argentina where there was unidirectional causality running from export to economic growth and no causality respectively. Therefore, we predict a positive and significant the relationship between Export of goods and services on economic growth based on previous findings in the sense that export may impact the Tanzanian economic growth.

THE RELATIONSHIP BETWEEN FDI AND ECONOMIC GROWTH

Foreign direct investment also plays a key role in promoting the economic development of developing country like Tanzania. Since Tanzania got her independence in 1961, Tanzania has been enjoying attaining the largest FDI inflows from the foreign investors in the various sectors of the economy of the country. FDI inflows are one of the components of the Tanzania's GDP which accelerates the economic growth. These investments inflows injected in the various areas such as mining, health, education, infrastructures, communication, etc. FDI inflows have regarded as the replacement of shortage of domestic investments. Hence, this fills the shortage of capital. FDI inflows have emerged after Tanzania government made some reforms on investments policies and created good business investment environment for foreign investors to inject their capital in Tanzania. It becomes like a good inducement for foreign investors to come and invest to boost the economic development as well the country's attractiveness. The developed countries or wealthy foreign investors can assist Tanzania by financing in the commercial projects which they expect high returns. These funds channeled into various economic sectors of the economy based on the requirements of a sector. [Athukorala and Chand \(2000\)](#) advocated that FDI stimulates the economic growth in recipient countries through its impact on trade. [Dauda \(2007\)](#) also advocated that FDI can promote the economic growth through trade relies on if the country is implementing an Export Promotion Strategy (EPS) or Import Substituting Strategy of Industrialization (ISI). Therefore, these scholar's contenders that once a country implements an export promotion strategy, then FDI would stimulate the economic growth. Moreover, FDI inflows are crucial to Tanzania since it can help to develop the sectors of the economy such as infrastructural conditions in the country. The attractiveness and injection of the FDI inflows in the country can also help to improve the standard of living of the people of Tanzania. FDI inflows have also been used to finance the health sector to many developing Africa countries, and the rest of the world. FDI inflows have been funding major health project in developing countries in LDCs. It indicates FDI's inflows to play a fundamental role in the overall economy and social development of Tanzania. The FDI's in Tanzania received regarding technology. The funds that come in the country through FDI's inflows can be allocated to purchase or import technology from other countries. It is how FDI's play its role in promoting economic growth by buying capital goods which in turn accelerates the economic growth. FDI inflows have great importance

on economic growth because it regarded as a vehicle that transfers of technology as well as assisting in filling the domestic revenue –generation gap in Tanzania economy.

THE RELATIONSHIP BETWEEN EXTERNAL DEBT AND ECONOMIC GROWTH

External debt is a debt owed to external creditors. In order to support its economic growth, a country like Tanzania must borrow from other developed countries, and other Developing Partner Group (DPG) and this fund acquired from international development association (IDA), world Bank (WB), AfDB, IMF and other international financial organization as well as from other bilateral creditors such as Turkey, Morocco, China, India, USA, Japan, UK, Germany. Tanzania takes external debt as an external source of investment to fill its investments gap thus assisting the efforts to obtain economic growth to improve social welfare. Tanzania relies on external credit to facilitate its policy to undertake various economic development projects in the Bilateral economic sectors such as education, health, infrastructures, as well as to support deficit in the budget deficit or BOP deficit. Tanzania is among the developing East Africa countries which have decided to take vigorous procedures to adjust its economy to remedy the persistent severe economic crisis that threatens the country in the late 1970s. The Government of Tanzania decided to sign an agreement with the WB and the IMF in 1986 to implement Structural Adjustments Programs (SAPs). This reform aimed to accelerate the economic growth to raise the income per capital was categorized into three periods such as liberalization (1986-1995), derailed reforms (1992-1995), and successful reforms (1996-2004). [Benedict et al. \(2003\)](#) advocated that external debt has the positive effect on the investments and economic growth of the country up to a threshold level. Several earlier studies indicate the mixed views on the relationship between external debt and economic growth. Some studies indicate significant positive association while other show negative and insignificant relationship between external debt and economic growth on different economic development. The external debt is very vital factors of economic performance of a country. Tanzania as developing country take the external debt for several commitments but more fill the saving-investment gap as stated by [Chenery \(1996\)](#). External debt can also be utilized to fill the gap of budget or balance of payment deficit due to low investments. [Soludo \(2003\)](#) also emphasize that external debt is very significant for promoting economic growth by supporting the BOP deficits. On [Faraji and Makame \(2013\)](#) reported that external debt has the positive effect on economic growth in Tanzania. It indicates that when Tanzania takes more

external debt, it may lead to promoting the economic growth. Therefore, I predict a positive impact of the foreign debts on economic growth.

EMPIRICAL LITERATURE REVIEW

[Mitra \(2013\)](#) analyzed the effect of the foreign aid on economic growth of Cambodia covering the period of 1971-2009 using cointegration test by estimating a structural VECM found that there is the existence of the long-run relationship between foreign aid and economic growth. In He also advocated that foreign aid promotes economic growth if they properly utilized toward the growth of productivity in domestic industries at large. [Mallik \(2008\)](#) examined the effectiveness of foreign aids on economic growth of the six poorest and highly aid-dependent African countries such as Central African Republic, Togo, Mali, Niger, Malawi and Sierra Leone using a cointegration analysis. The result shows a negative impact of foreign aid on growth in those six countries. He also argued that that foreign has not stimulated the economic growth, in turn, this resulted in the poor standard of living of those poorest countries. [Riddell \(2014\)](#) argued that paradoxically aids impact may have been affected by a narrow focus on making short-term aid work better and that focus of attention needs to expand. He further argues that donor countries need to help build the capacity of developing countries and playing a better role in understanding if aid works. [Fatima \(2014\)](#) studied the impact of foreign aid on the economic growth of Pakistan. She found that most foreign aid is allocated to specific sections in the recipient country and could be used in other sections and result in more development. The paper further argues that corruption should be removed from the roots of the economy for aid to have an impact. [Hossain \(2014\)](#) investigated the effects of foreign aid on the economic growth of Bangladesh. The study covers the period from 1980-2012 and employs eight estimation models. Their research finds that foreign aid has a positive effect on the economic growth; and statistically significant in two models. The paper further found that for the case of Bangladesh, the contribution of aid to GDP is falling over time and foreign aid affected negatively returns because of capacity constraints in Bangladesh institutions in utilizing those aids. [Rady \(2012\)](#) examined the impact of foreign aid in developing nations focused on Arab countries. The findings show the relationship that exists between Analyzed and growth. Foreign aid has a better chance of achieving development if there is no corruption, presence of good governance, sound economic policy, and institutions. The findings also indicate that aid's impact may be larger the more donors coordinate among

themselves. [Fasanya and Onakoya \(2012\)](#) reported the impact of foreign aid on economic growth in Nigeria during the period 1970-2010. They use neo-classical modeling and analytical framework. Their findings show that aid flow has the significant impact on economic growth in Nigeria. Domestic investment increased as a response to foreign aid, and that population didn't have the significant influence on foreign aid. They argue that foreign aid flow provides free resources to increase domestic investment. They also recommend those donor governments should consider political situations in recipient countries and work with international bodies to ensure stability. [Arshad et.al \(2014\)](#) examined the relative effectiveness of foreign debt and foreign aid on economic growth in Pakistan. They used time series data from 1970 to 2010. Their results show that there is a negative long-run relationship between GDP and foreign debt. They also find a positive long-run relationship between GDP and foreign aid as well unidirectional causality between foreign debt and GDP, and that foreign aid does not cause GDP. They argued that foreign debts are relatively more effective for economic growth than foreign aid. [Njoupouognigni \(2010\)](#) investigated the foreign aid, foreign direct investments and economic growth in sub-Saharan Africa countries that the economic and social program has been ineffective in that region. [Nyoni \(1998\)](#) examined the relationship between foreign aid inflows and the real exchange rate of Tanzania for the period of 1967-1993 using cointegration technique and an error-correction model. The result showed the positive long-run effect of the foreign aid on the equilibrium exchange rate. He argued that foreign aid promotes openness of the economy and devaluation of the local currency affected real depreciation. [Burnside and Dollar \(2000\)](#) examined the aid policies and growth. They found that foreign aid had been tangible in stimulating economic growth in countries with good policies. [Burke et al. \(2006\)](#) analyzed the effectiveness of foreign aid in promoting in three South East Asian countries-Thailand, Indonesia, and the Philippines covering the period of 1970-2000 using a simultaneous –equation model in which growth and savings jointly determined. Their result shows that foreign aid had an ineffective effect on the economic growth. In addition to that, they argued that developing countries should improve their growth prospects by setting up export-oriented economies and promoting FDI inflows as well as creating the conditions to allow market-based international flows to flourish in order to experience similar economic development as donors did. [Ouattara \(2006\)](#) examined the relationship between foreign aid flows and public sector fiscal aggregates using a panel data of foreign aid recipient countries covering the period of 1980-2000.the result

shows that public investments are the positive relationship with foreign aid flow in developing countries. The findings also reveal that foreign aid is significant and have the positive relationship with development expenditure but has a significant and negative correlation with non-developmental expenditure. Moreover, foreign aid flows are not used to funding consumption expenditure. [Tavares \(2003\)](#) examined the effect of foreign aid on corruption using geographical and cultural distance to the donor countries as important variables to evaluate causality. Their findings show that foreign aid has declined corruption. [Ram \(2004\)](#) explored the effect of recipient country's policies and the effect of foreign aid on economic growth in developing countries. The findings indicate that policy has no role in the influence of foreign aid even in those circumstances where the normally constrained models do indicate such an influence. Moreover, no suggestion of recipient country's policies having any role in consequence of foreign aid on economic growth even in the normally constrained stipulations. Therefore, it is concluded that there is slight empirical proof to backing the widely-disseminated opinion readdressing foreign aid towards countries with good policies tips to more economic growth and larger poverty reduction in developing countries. Foreign aids were not effective at spurring macroeconomic growth in most of the less developing countries. However, [Burnside and Dollar \(1997\)](#) claimed that aid works well in the good policy environment, which has important policy implications for donor's community, multilateral aid agencies and policymakers in recipient countries. They also provided the background study which concludes that the foreign aids are effectiveness on the uncertain macro policy environment of recipient countries. However, this is more essential to the beneficiary countries with good policies but has the low impact on the poor macroeconomic environment. The donors will provide foreign aids to countries with good policy already set up and implemented in recipient countries. How do foreign aids affect the economic growth of developing countries? This is a question which has drawn the attention of many scholars over time. [Papanek \(1973\)](#) examined the impact of aid, foreign private investment, savings, and growth in less developing countries(LDC) with a cross-country analysis of thirty-four countries covering the period of 1950 and fifty-one countries for the period covering 1960 respectively. The findings showed a positive relation between aid and growth and rate of growth is dependent on macroeconomic conditions, political stability and lack of corruption in the RCs. [\(Singh, 1985\)](#) Investigated the impact of state intervention, foreign economic aid, saving and growth of LDCS-recent evidence. The findings showed that those foreign aids have positive and

strong effects on growth when state intervention is not included. [Torsvic \(2005\)](#) examined the impact of foreign aid on economic growth; the findings showed that the negative influence of mutual foreign aid policy decreased if the donors face Samaritan's dilemma. [\(Collier and Dollar, 2001\)](#) argued that foreign aids should be allocated to recipient countries with high rate of poverty but have pursuing good strong policies. [Amassoma \(2014\)](#) examined the linkage between foreign aid and economic growth of Nigeria using time series data covering from 1981-2012. The study employed cointegration approach and OLS to analyze the impact of linkage between foreign aid and economic growth. The finding shows that foreign aid has the negative and insignificant relationship with economic growth. He concluded that Nigeria government should improve the quality of governance; ensuring that the foreign aid flows invested into development projects that in turn will promote the economic growth and lessen the poverty in the country as well as to implement economic, political and institutional transformations to address the problem of persistent corruption in Nigeria. In the developing countries with sound policies and high-quality public institutions, have grown faster than those without them, 2.7 %per capita GDP and 0.5% per capita GDP respectively. One percent of GDP in assistance usually converts to a sustained increase in growth of 0.5% per capita. Some countries with sound policies received the only small amount of aid yet still achieved 2.2% per capita growth. The good management, high-aid groups, grew much faster, at 3.7% per capita GDP (World Bank, 1998). The second strand of the report showed that the foreign aids are effective because of its effectiveness is contingent rely on certain countries features ([Mc Gilliorg, 2003](#)). Previous studies showed that the foreign aids are contingent upon vulnerability to external shocks [Guillaramount and Chauvet \(2001\)](#), political stability ([Chauvet & Guillaramount, 2002](#)), post-conflict period ([collier & Hoeffle, 2002](#)), the level of democracy ([version,1999](#)), [Islam \(2003\)](#) whether the RC is located in the tropic [Dalgaard et al. \(2004\)](#). [Chauvet & Guillaramount, 2001](#)), advocated that the countries that are vulnerable to external shock, foreign aids help to the sustainability of growth and policy reforms. Foreign aids can control import shock on economic growth and also allows reforms to continue. [Levy \(1984\)](#) examined the saving gap and the productivity of foreign aid to developing the economy of Egypt. Levy advocated that the negative effect of foreign aid on economic growth can contribute to government interventions, business cycle, and insecurity in foreign aid flows in aid recipient nations. [Carden \(2010\)](#) examined the theory and indication regarding the relationship between foreign aid and economic growth found that the foreign aid is questionable to generate higher

economic growth to the poorest countries. He also advocated that donor's countries should strive for improving the entrepreneurial environment in developing countries as well as to lessen bribery from donor's countries to increase the foreign aid position. Moreover, poorest countries should back-up the creations of institutions that incentive productive activity and discipline predation. (Tavares, 2003) Analyzed the effect of foreign aid on corruption using cultural and geographical distance to the donor countries as important variables to evaluate causality. The result shows that foreign aid led to the reduction in corrupt. They concluded that their result was statistically and economic significant and robust to different controls. Hatemi and Irandoust (2005) analyzed the impact of foreign aid and economic growth for a panel of developing countries like Botswana, Ethiopia, India, Kenya, Sri Lanka, and Tanzania. Their finding indicates that foreign aid has a positive and significant on economic growth for each of the country included in the sample. They also advocated that inflows of foreign capital, by increasing domestic savings, have a favorable impact on real income. An examination of five decades of empirical study on the macroeconomics effect of foreign aid looking mostly on the relationship between foreign aid and economic growth. They examined if the foreign aid does work or it does not work. Their finding revealed main move in the literature that matched with the issue of the World Bank's Assessing Aid: What works, what does not and why. They also argued that foreign aid can works to the magnitude that in its absence, could cause economic growth to decline. Moreover, they concluded that the foreign aid could work and the efficiency of the foreign can rely on the policy regime of recipient countries. Ndaruhutse and Brannelly (2006) investigated the role of donors in creating aid volatility and how to reduce it. The result indicated that foreign aids remain unpredictable and volatile both within the year and between years thereby undermining expenditure process. Thus, this has negative on spending and economic growth further supports. They advocated that different measures should be taken to improve the predictability of aid from the donor side to enable donors to disburse on time within a year, across years and over the long-term. Donors also should pledge funds early enough in the year to agree with the budget cycle and support countries operational cash budgeting system. Moreover, they suggested that donors should provide capacity building fund alongside budget backing to warrant that state capacity supported over the long-term. Odedokun (2003) analyzed the donor-specific factors that cause donors to delay aid disbursement using the OLS technique covering the annual panel data offer the period of 1970-2000 for the 22 members of OECD's DAC were

employed. Political process and pressures often lead to premature, as opposed to delayed disbursements of donor's funds commitment. The result revealed that some amount of promised foreign expended indicates a growing tendency which is positively affected by the magnitude to which foreign aid is procurement-tied and by the extent of the donor government's spending about the donor. Political reasons had caused to the allocation of excessive funds even before conditionality met. Moreover, some of the foreign aid pledges being expended is negatively affected by reasons such as the specific timing of foreign aid to lower-income recipients, high development in donor economy as well as high level of checks and balances, the predominance of donations in total foreign aid abundant donor kindness and separation between the decision-making and judicial. The foreign aids may be provided to recipient country if donors and other developing partners may have vested interest in the funds which may not be in the best of the recipient country branches of government in the donor country. Moreover, the foreign aid is not statistically significant in any of the four situations. But, the foreign aid is positive for Africa regions showing that foreign aid has a positive relationship with economic growth in Africa countries. It contributed on the ground that the Africa is the largest recipient of foreign aid than any other region in the world. Lastly, when the model assessed for different income levels, the finding showed that foreign aid variable has the positive sign in three out of four cases. It implies that foreign aid seems to have a positive impact on economic growth in developing countries. But, the foreign aid is negative for low-middle income countries showing that foreign aid has a negative relationship with economic growth in these countries. They concluded that the result of this study was consistent with the earlier studies on the impact of foreign aid on economic growth

CONCEPTUAL FRAMEWORK

The conceptual framework illustrates important characteristics of the study on the impact of foreign aid on economic growth in Tanzania. The conceptual framework can define as a written output that demonstrates essential characteristics of a topic and also defined the conceptual framework as a scheme of variables which the researcher operationalizes so as to attain the set goals or objectives. The conceptual framework based on the logical reasons behind of the choice of the variable that influences the economic growth.



Given the research questions and discussion in the literature on foreign aid, foreign direct investment inflows, external long-term debt, and export of goods and service, this study has developed its conceptual framework from the rent seeking, queue model and transaction cost model. From rent-seeking model and queue model, it shows that there is the unidirectional relationship between foreign aid and economic growth. Foreign aid is the independent variable while economic growth is the dependent variable and the rests are control variables. Rent seeking model shows that foreign aid may cause allocation of resources, thus influence economic growth. However, queue model contradicted to the rent-seeking model which stated that foreign aid would bring positive impact to economic growth. Foreign aid can influence development. Industrial development projects supported by foreign aid create more jobs, improve infrastructure and overall development of the local community. It also helps rebuild lives by providing livelihoods and housing right after a disaster so that victims can start over. In addition to that, external aid support directed towards agriculture helps farmers and increase food production, which in turn affect the gross domestic product growth of the country. Lastly, foreign aid fills the gap of the budget deficit as well as the BOPs (Balance of Payments) deficit.

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