FOREIGN AID AND ECONOMIC GROWTH IN UGANDA (1982- 2008)

BY

WERE ANNETTE MUNABI

2008/HD06/12283U

A DISSERTATION SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF ARTS IN ECONOMICS DEGREE OF MAKERERE UNIVERSITY

APRIL 2012

Abstract

This study investigates the effectiveness of aid by assessing the relationship between foreign aid, economic policy and economic growth in Uganda over the period 1982 to 2008. The study uses annual time series data for per capita Gross Domestic Product (GDP) growth rate as the dependent variable and initial per capita national income, foreign aid, policy and institutional index and foreign aid interacted with the policies. The study adopts the Burnside and Dollar (2010) specification which follows the two gap financing model as a standard growth regression model. Simple regression was used to estimate the variables, the Johansen test for co integration of the variables and the error correction model to capture both the short and long term relationship between the variables. While the foreign aid coefficient was found to have a significantly negative relationship with economic growth when in isolation, when the aid and policy index were interacted. Aid was found to have had a positive impact on economic growth of Uganda although the economic policy environment was poor with high inflation rates, a closed economy and persistent budget deficits.