FOREIGN AID AND ECONOMIC GROWTH IN UGANDA (2000 to 2010)

BY

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A RESEARCH REPORT SUBMITTED TO THE COLLEGE OF ECONOMICS AND MANAGEMENT SCIENCE IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF BACHELOR'S DEGREE OF ART IN ECONOMICS OF KAMPALA INTERNATIONAL UNIVERSITY

MAY 2016

DECLARATION

I, MOHAMED BASHIR MOHAMED, Reg No BEC/4136/133/DF hereby declare that this proposal is my original work as a result of my own efforts and has never been submitted before to any other university or institution of higher learning for award of a Degree.

Signature ----------------------

Date: 11- May - 2016

APPROVAL

This is to certify that this research study has been done under my supervision and guidance submitted to the college of Economics and Management, Kampala International University, in partial fulfillment of the requirements for the award of a Bachelor's degree in Economics with my approval as university supervisor.

Signature: -------------------------

DR. NAFIU LUKMAN

Date: 11/05/2016 **-----------------------**

DEDICATION

This work is dedicated to my beloved mother Mrs. Aamina Abas,my sister Mrs. Warsan Bashir, my older sister Foos bashir, and the rest of my siblings Mohamoud Bashir, Hassan Bashir, and our last born Hussien Bashir. My friends Abdiaziz abdiraham, Abdirizak Osman, Abdisamed mohamed , Aabi Aadan, Shafi Yasir,Abdikhani Omar, Amuku Issack, Odach Sam and Mussa Mohamed Muusa who extended financial and moral support in the completion of this study.

ACKNOWLEDGEMENT

I acknowledge my beloved family especially my parents Mrs. Aamina Abaas for her support, love and care which has enable me to pursue this course. Special regards and thanks go to my beloved sister; Ms. Warsan Bashir for her tireless work for my success may God rewards you abundantly, and the rest of my brothers and sisters my god bless all of you and help you succeed in live.

I sincerely thank my supervisor Dr. Nafiu Lukman for the correction and guidance which has enabled me to produce this report. I would also like to extend my gratitude to all the lecturers of department of Economics and Applied Statistics.

I would like to express my gratitude to all my course mates and all the staff of Kampala International University for their cooperation and support which has enabled me to complete writing my dissertation successfully.

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ABBREVIATION AND ACRONYMS

BoU	Bank of Uganda
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monitory fund
MoFPED	Ministry of Finance Planning and Economic Development
OECD	Organization for Economic and Development cooperation
ODC	Official Developmental Committee
WB	World Bank
USD	United States Dollar

Abstract

The title of this study is Foreign Aid and Economic Growth in Uganda (2000 to 2010). Its objectives were; to establish the trend of Foreign Aid in Uganda (2000-2010), to establish the trend of GDP growth of Uganda (2000-2010), to investigate the relationship between Foreign Aid and GDP growth in Uganda (2000-2010), the hypothesis of the study was there is no relationship between Foreign Aids and GDP growth in Uganda.

Analysis such as Correlation, regression analysis mechanisms was used, the sample size was a time series data from (2000 to 2010) indicating that the number of sample was eleven and the secondary data collected were entered in the record sheet and edited before analysis.

The trend of Foreign Aid has shown a general increase mean while and GDP growth has also shown a general increase for the period under studied (2000-2010). Using the correlation, regression approach, there was a strong positive correlation between Foreign Aid and GDP growth ($r = 0.904$), also there was a relationship between Foreign Aid and GDP growth at 0.05 level of significance.

In conclusion therefore, Foreign Aid and GDP growth has shown a general increase for the period under study, there was a strong positive correlation between Foreign Aid and GDP growth and their relationship was found to be significant at 0.05 level of significance.

I would recommend the government to accept Foreign Aid which favors the country's economic growth. I would also recommend the government to direct Foreign Aid to infrastructural development such as roads, hospitals, schools among others since these plays a vital role in economic growth.

CHAPTER ONE

THE PROBLEM AND ITS SCOPE

1.0. Background of the Study

The international aid movement began after World War Two (WWII), when the United States gave European countries large sums of money to rebuild. After the developed world was rebuilt to pre-war levels, the focus of international aid shifted away from US-allied countries and toward developing nations. By the time the Cold War had ended, the purpose of most international aid was the alleviation of poverty and an attempt to grow the developing world. But by the 1990's, people began to question the effectiveness of aid. The prevailing view by the end of the 20th century was that aid did not affect growth in developing countries, as shown by Peter Boone in his influential 1995 and 1996 studies (Burnside & Dollar).

Foreign aid consists of all resources- physical goods, skills and technical know-how, financial grants (gifts), or loans (at concessional rates) transferred by donors to recipients" (Riddell, 2007). Also the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) defines aid as Official Development Assistance (ODA). According to the DAC, aid qualifies as ODA on three criteria: it has to be undertaken by official agencies; it has to have the promotion of economic development and welfare as its main objectives and it has to have a grant element of twenty five percent or more.

According to (Mankiw, 2005), Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. It is important to note that we can look at economic growth in terms of increase in social, economical infrastructure, increase in the level of output.

Economists distinguish between short-run economic changes in production and long-run economic growth. Short-run variation in economic growth is termed the business cycle. The business cycle is made up of booms and drops in production that occurs over a period of months or years. Generally, economists attribute the ups and downs in the business cycle to fluctuations in aggregate demand. In contrast, the topic of economic growth is concerned with the long-run trend in production due to structural causes such as technological growth and factor accumulation. The business cycle moves up and down, creating fluctuations around the long-run trend in economic growth.

In this study we used, The Two Gap Model (Chenery and Strout, 1966), which states that there are two gaps which justifies the need for foreign aid. In this model the first gap is between the amount of investment necessary to attain a certain rate of growth and the available domestic savings (the saving gap). The second gap is the (trade gap or foreign exchange gap). This occurs when there is a gap between import requirements for a given level of production and foreign exchange earnings. It is argued that at any moment in time one gap is binding in aid recipient countries thus foreign aid is required to fill that gaps, and hence lead to economic growth.

Uganda has received significant amounts of aid since the 1990s, as the county embarked on reconstruction and restructuring under the auspices of the Brentwood institutions. Although aid as a percentage of GNI has not increased much between 1990 and 2006, per capita aid has on the other hand increased significantly.

The main aim of Foreign Aid is to foster economic growth and ultimately might lead to development. This study will investigate the impact of foreign aid on economic growth in developing countries particularly Uganda, it is important to note that aid flows could go to countries that are doing particularly bad economically, or to countries that are doing well economically, creating a spurious correlation between Foreign aid and Economic growth (Rajan & Subramanian, 2008).

1.1. Statement of the Problem

Foreign Aid in form of technical assistance provides technical knowledge and skills which influences positively the development process. The technical knowledge and skills are expected to influence the development process by improving the quality of the labour force (human capital) and filling the skills gap. Aid in form of budget support helps the government to meet its development and recurrent expenditure. Therefore Foreign Aid used for investments in education, health and infrastructure contributes to economic growth and development.

Uganda has been receiving foreign aid for many decades since its independence in (1962), but it still ranks high among the poorest countries of the world. It is expected that the country would be with a reasonable GDP growth rate as it is receiving resources for investments and for import support particularly of capital goods and technology necessary for investments. But contrary to these expectations, the country still ranks high among the poorest countries of the world, it is highly indebted, aid dependent and with balance of payments problems.

Uganda has been experiencing low and varying domestic savings pattern which has made it unable to meet investment requirements by relying on domestic investment funds. Furthermore, its reliance on primary exports has made it unable to get considerable foreign currency from export earnings. The performance of Uganda in improving the level of investment and promotion of economic growth through domestic capital sources and private capital inflow alone is far from adequate. This makes the importance of foreign Aid indisputable to the performance of the economy of Uganda.

1.2. Research Objectives

General: To determine the relationship between foreign aid and economic growth in Uganda from 2000 to 2010

Specific: In this study our specific objectives are the following;

1. To show the trend of Foreign Aid in Uganda (2000 to 2010)
2. To establish the trend of GDP growth in Uganda (2000 to 2010)
3. To investigate the relationship between Foreign Aid and Economic Growth in Uganda (2000 to 2010)

1.3. Research Questions

1. What is the trend of Foreign Aid in Uganda in the period between (2000 and 2010)?
2. What is the trend of GDP growth in Uganda in the periods (2000 to 2010)
3. What is the relationship between foreign aid and GDP growth in Uganda?

1.4. Null Hypothesis

There is no significant relationship between foreign aid and economic growth

1.5. Scope

1.5.1. Geographical Scope

This study was taken place in Uganda which is located on the equator in East Africa. Its boundaries are defined by the South Sudan in the north, Kenya in the east, Congo in the West, Tanzania in the South- East and Rwanda in the South-West.

1.5.2. Content Scope

This study is intended to study or examine foreign aid and economic growth, cause and effect, and the relationship between the independent variables (Foreign aid) and dependent variable (economic growth).

1.5.3. Theoretical Scope

In this study we used, The Two Gap Model (Chenery and Strout, 1966), the first gap is between the amount of investment necessary to attain a certain rate of growth and the available domestic savings (the saving gap). The second gap is the (trade gap or foreign exchange gap), and they believed that foreign aid will be the answer to these two gaps and hence will lead to economic growth and we will be using this model throughout the study.

1.5.4. Time Scope

In this study we focused on the role of foreign aid on economic growth of Uganda for the last ten years i.e. from (2000 to 2010).

1.6. Significance of the Study

Policy makers will use the results in economic and financial decision-making, in the future planning when they are to acquire capital inflow or in other words foreign aid from other countries.

The future researchers will also utilize the findings of this study to embark on a related study. Minister of planning can also benefit out of this research, when they are planning for the different sectors of the economy in relation to foreign aid allocation.

1.7. Operational Definitions of Key Terms

For the purpose of this study, the following terms are defined as they are used in this dissertation:

1.7.1 Foreign Aid refers to the official development assistance, or aid that is aimed at increasing economic development, and has a grant component of at least 25% of the total aid package. In international relations, aid (also known as international aid, overseas aid, or foreign aid) is from the perspective of governments a voluntary transfer of resources from one country to another. Humanitarianism and altruism are at least partly an objective for the giving of aid.

1.7.2 Economic Growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, i.e. inflation-adjusted terms. Economic growth has traditionally been attributed to the accumulation of human and physical capital, and increased productivity arising from technological innovation. Economic growth was also the result of developing new products and services, which have been described as demand creating.

1.7.3 Productivity is an average measure of the efficiency of production. Productivity is a ratio of production output to what is required to produce it (inputs of capital, labor, land, energy, materials, etc.). The measure of productivity is defined as a total output per one unit of a total input, in this study we will look at the role of foreign aid in enhancement of the productivity in Hargeisa Somaliland.

CHAPTER TWO

REVIEW OF RELATED LITERATURE

2.0 Concepts, Opinions, Ideas from Authors/ Experts

2.1 Foreign Aid and Economic Growth

The Development Assistance Committee (DAC) of the OECD defines foreign aid as, financial flows, technical assistance, and commodities that are (1) designed to promote economic development and welfare as their main objective (thus excluding aid for military or other non-development purposes); and (2) are provided as either grants or subsidized loans referred to as concessional financing (Radelet, 2006).

Burnside and Dollar stated that aid had a positive impact on growth for developing countries with good fiscal, monetary and trade policies in place, but had little impact for those countries with poor policies. This therefore, partially at least, provided an explanation of why aid had been found to have little positive impact on growth in previous empirical work. It also provided specific criteria for targeting aid.

Foreign Aid will reduce poverty through growth when aid itself is used to invest in the livelihoods of the poor thereby raising the poverty-elasticity of growth. Aid that finances pro-poor public spending on services and infrastructure improves the productivity of the poor as well as their human development indicators more broadly (Addison et al, 2005).

There are various factors which determine economic growth of a country. They include the quality of labour force, resources (natural and financial), capital, technology and the institutional setting of economic activities. Early economic growth theories in the 1950s and 1960s stressed that the basic problem for many developing countries was precisely capital formation in achieving economic growth. Thus these theories were in the view that development assistance was important for these countries to fill the finance gap and technology gap. More popularly, these gaps were known as saving gap and the trade gap.

However, there are different views on the role of Foreign Aid in filling the savings gap and the trade gap and thus contributing to growth in developing countries. According to Chenery and Strout, all capital inflows constitute net additions to a less developing country's productive resources thus increasing its growth rate.

Early economic growth theories in the 1950s and 1960s stressed that the basic problem for many developing countries was precisely capital formation. These theories were in the view that development assistance was important for these countries as capital formation played a great role in economic growth. The reason behind such argument is that these countries have insufficient private and public savings to finance large investments such as economic infrastructure. Furthermore, developing countries had few resources in form of foreign exchange to finance imports of machinery and other capital goods. Therefore Foreign Aid was essential to fill the savings investment gap and the trade gap by increasing investments and thus growth.

Moreover, Foreign Aid in form of technical assistance provides technical knowledge and skills which influences positively the development process. The technical knowledge and skills are expected to influence the development process by improving the quality of the labour force (human capital) and filling the skills gap, it also important to note that Foreign Aid in form of budget support helps the government to meet its development and recurrent expenditure, although the donor intended expenditures are the development expenditures. Therefore Foreign Aid used for investments in education, health and infrastructure contributes to economic growth (Kabete, 2011).

Furthermore, Foreign Aid (FA) is very crucial for emergence relief particularly in war prone areas and areas affected by natural disasters such as cyclones. In most cases humanitarian aid has achieved saving lives, providing food to the hungry and healthcare and medicines to those vulnerable to acute diseases in emergencies. Debt relief relaxes foreign exchange constraint and helps to reduce the debt overhang. The additional resources from debt cancellation help to increase imports and investments (Kabete, 2011).

The standard model used to justify aid was the 'Two Gap Model' of (Chenery and Strout, 1966). In this model the first gap is between the amount of investment necessary to attain a certain rate of growth and the available domestic savings (the saving gap). The second gap is the trade gap or foreign exchange gap. This occurs when there is a gap between import requirements for a given level of production and foreign exchange earnings. Even though the saving investment gap would be small, a larger trade gap would undermine productive investment due to limited imports of capital goods needed for investment. It is argued that at any moment in time one gap is binding in aid recipient countries thus foreign aid is required to fill that gap. The 'two gap model' supports the hypothesis of investment-limited growth based on the Harrod-Domar model which assumes a specific amount of investment to increase growth.

The three gap model, is another significant theory that helps us to understand the role of Foreign Aid, the model refers to the saving- investment gap, trade gap and the fiscal gap. The fiscal gap refers to a gap between government revenues and expenditures although the fiscal gap is a subset of the saving gap. Due to this fiscal gap, government efforts to stimulate private investment may be restrained when government resources for investment and imports are insufficient, among other things, as a result of debt service. There is enough evidence showing that government expenditures in Sub-Saharan African countries have been curtailed by foreign debt service despite HIPIC initiatives (Kabete, 2011).

Most foreign aid is designed to meet one or more of four broad economic and development objectives: (1) to stimulate economic growth through building infrastructure, supporting productive sectors such as agriculture, or bringing new ideas and technologies, (2) to strengthen education, health, environmental, or political systems, (3) to support subsistence consumption of food and other commodities, especially during relief operations or humanitarian crises, or (4) to help stabilize an economy following economic shocks.

2.2 Theoretical Review

2.2.1 The Two Gap Model

The Gap Model popularized by Chenery and Strout (1966) ages ago is still in use in projecting the macroeconomic impact of foreign aid. This model has two components hence it is also commonly referred to as the Two-Gap Model. The first component is the relationship between investment and growth, wherein the level of growth is assumed to be dependent on the level of investment. The second component is the relationship between savings, which is assumed as a critical factor for investment expansion, and growth. With this model, analysts are able to determine the necessary level of investment to achieve a desired level of economic growth.

Gaps occur if the investment is below the desired level and these gaps can be ascribed as either a savings gap or as a foreign exchange (or trade) gap. If a country is unable to fill this gap through imports, exports or production, foreign aid inflows or foreign capital inflows are needed so that it can grow more rapidly than its internal resources would otherwise allow. Hence an inflow of foreign aid should move a country's economy upwards.

This model is not without criticism, most of which are questioning the assumptions of the model. (Harms and Lutz, 2004) point out that the gap model assumes that investment is the only factor in increasing output, whereas there are other determinants of growth (i.e. education, research and development). They also point out that not all aid is invested by the recipient country. Aid, as is any type of money flow, is fungible. It can be used for any purpose. A recipient country will naturally use part of the aid money for its consumption (government expenditures other than capital outlay) and part for investment. Despite these criticisms, (Devarajan, et al., 2002) defend the two gap model saying that "it is a transparent and flexible framework for examining, for a large number of countries, the aid requirements of achieving the poverty goal". Most of the World Bank's research studies on foreign aid and growth rely on the two gap model.

2.3 Review of related studies

2.3.1 Foreign Aid and Economic Growth

Government investments in developing countries especially in Sub- Saharan Africa (SSA) are largely financed by FA, inter alia, due to narrow domestic revenue base (from exports and tax revenues). Despite huge FA inflow in SSA, various studies have found that aid effectiveness have been low in these countries compared to other regions. The studies by Cassen (1986), Gupta and Islam (1983) and Mosley (1987), as cited in Hadjimichael et al. (1995: 49) found that the relationship between FA and economic performance/growth to be much weaker in this region than in other developing regions.

In addition, Mosley (1987) found no statistically significant correlation between Foreign Aid on one hand and savings and growth on the other as discussed in section 2.4.2. He pointed out that fungibility of Foreign Aid has shifted some of the domestic expenditures to less productive purposes. To improve the situation, he suggested the channeling of Foreign Aid to countries which have a proven track record of using it effectively and increasing policy conditionality in the use of aid funds.

There was a long and inconclusive literature on aid and economic growth in the 1960s, 1970s and 1980s, which was hampered by the limited data availability and considerable debate about the specification and the mechanisms by which aid would affect growth. For example, if greater aid was given in response to slower growth, then interpreting how aid flows affect growth could be difficult.

Hansen and Tarp (2000) offer an extensive review of this earlier literature. The literature got new life with a paper by Boone (1996), which found that aid financed consumption rather than investment. (Financing consumption of a few poor people is not so bad, but the proponents of aid hoped for the kind of society-wide transformation that would come from aid financing investment and growth.) This paper was notable for introducing political determinants of aid as instruments to address problems of reverse causality.

In contrast, other studies have found that there is a positive and significant relationship between FA and savings/ investment and economic growth. Burnside and Dollar (2000) concluded that FA has a positive impact on economic growth if a good policy environment is in place in aid recipient countries. The Burnside and Dollar (2000) paper gained prominence because it addressed the skepticism implied by Boone and by the lack of consensus from the earlier literature.

Since the Burnside and Dollar (2000) paper, many papers have reacted to their results, including Hansen and Tarp (2001), Dalgaard and Hansen (2001), Guillamont and Chauvet (2001), Collier and Dehn (2001), Lensink and White (2001) and Collier and Dollar (2002). These papers conduct variations on the Burnside and Dollar specification (some of which had already figured in the earlier literature), introducing variables such as aid squared, terms of trade shocks, variability of agricultural output and exports and even such complicated terms as an interactive term combining aid with terms of trade shocks. Some of these papers confirm the message of Burnside and Dollar that aid only works in a good policy environment, while others find that when particular variables are added, the coefficient on the interaction between aid and policy becomes near-zero and/or statistically insignificant.

Easterly, (Levine and Roodman, 2003) use the exact same specification as (Burnside and Dollar, 2000), but simply added more data that had become available since their study was performed, as well as hunting for more data in their original sample period of 1970-1993. (We were able to find more data even over their sample period by going to the original sources-for example, on institutional quality-rather than secondary sources.) Using a sample covering 1970-1997, we carried out their same regression with four-year averages with the same control variables including terms for aid/GDP, their policy index (a weighted average of budget deficits/GDP, inflation and an index of openness to trade) and the interaction between aid/GDP and the policy index. We found that the coefficient on the crucial interaction term between aid and policy was insignificant in the expanded sample including new data, indicating no support for the conclusion that "aid works in a good policy environment."

The role of foreign aid in the growth process of developing countries has been a topic of intense debate. Foreign aid is an important topic given its implications for poverty reduction in developing countries. Previous empirical studies on foreign aid and economic growth generate mixed results. For example, Papanek (1973), Dowling and Hiemenz (1982), Gupta and Islam (1983), Hansen and Tarp (2000), Burnside and Dollar (2000), Gomanee, et al. (2003), Dalgaard et al. (2004), and Karras (2006), find evidence for positive impact of foreign aid on growth; Burnside and Dollar (2000) and Brautigam and Knack (2004) find evidence for negative impact of foreign aid and growth, while Mosley (1980).

Mosley, et al. (1987), Boone (1996), and Jensen and Paldam (2003) find evidence to suggest that Foreign Aid has no impact on growth. It should be noted that, although Burnside and Dollar (2000) concluded that foreign aid has positive effects, this conclusion applies only to economies in which it is combined with good fiscal, monetary, and trade policies.

A recent study by Doucouliagos and Paldam (2009), using the meta-analysis covering 68 papers containing a total of 543 direct estimates, it is found that the effect of aid on growth estimates scatter considerably and add up to a small positive, but insignificant, effect on growth. The zero correlation result has yet to be overcome.

Given the importance of foreign aid to the economies of developing countries, it is important to understand its contribution to economic growth of developing countries. Therefore, this study analyzes the effects of foreign aid on the economic growth of developing countries at large and particularly Somaliland.

CHAPTER THREE

METHODOLOGY

3.1. Research Design

This study employed the Quantitative research design. This is because of the nature of the research problem, objective and the type of research questions. Thus it is an appropriate research design type to collect, analysis interpret and present all the necessary Data for the mentioned problem statement.

3.2. Study Population

This was made up of records of Foreign aid and economic growth. The records will be found in annual and monthly reports of between 2000-2010, that are found in Uganda Ministry of Planning and Development and International organizations such as World Bank, IMF, and United Nations Organization.

3.3. Sample Size

The records covered a sample size of ten years (from 2000-2010). These years will be chosen because they have the latest information on Foreign aid and Economic growth or in other words it is up to date.

3.4. Sampling Technique

The study used purposive sampling technique by considering ten years since they are current years.

3.5. Data collection methodology and Instruments

Different methods are being used to collect the secondary data, to enhance reliability and validity of the study. These shall include libraries, archives, government records, and all sorts of secondary data, The reason being that it would collect sufficient information or data and help us answer the research questions.

3.6. Validity and Reliability of the Instruments

Content validity was ensured by subjecting the researcher devised methods of data collection on foreign aid and economic growth by the judgments from the experts who shall estimate the validity on the basis of their experience such as United Nations Officials, Non- Governmental organization, different government departments concerning the allocation distribution and handling of foreign aid, Such as Ministry of Finance, Ministry of Planning and Development, Uganda Economic Policy and Research Centre. The researcher pre-tested the instruments of data collection and adjust them before actual data collection exercise commence in order to ensure reliability of the study.

3.7. Data analysis

The data collected was edited with tne view of checking for completeness and accuracy. The Statistical Package for Social Scientists (SPSS) will be used in the analysis of the data that we collect. The Pearson formula will be employed to compute the relationship between Foreign Aid and Economic growth in Uganda. The analyzed data in terms of frequencies and percentages will be presented in tables and graphs for easy interpretation and drawing of precise conclusions and recommendations.

The following formulae and computational equations were used:

The correlation is given by $r = \frac{n\Sigma xy - \Sigma x \Sigma y}{\sqrt{n(\Sigma_x 2 - (\Sigma x)^2\}\{n\Sigma y^2 - (\Sigma y)^2\}}}$

The t_c computed is:- $t_c = \frac{r\sqrt{n-2}}{1-r^2}$

Reject H_o if $t_c \geq t_\propto$ at 0.05 level of significance

The simple linear regression model

GDP Growth = $\propto$+b(Foreign Aids)+ei

Y = $\propto_o + \beta_o X_o$ +ei

Where Y = Economic growth (GDP Growth)

α_o the GDP Growth when there is no Foreign Aids.

β_o: The rate of change of GDP Growth to Foreign Aids.

ei is called the error terms indicating other variable that determine economic growth apart from Foreign Aids

3.8. Ethical Considerations

Bearing in mind the ethical issues, I acknowledged any source that I consulted with, and the researcher respected the copy right laws since most of the data that we used was secondary data hence need to observe the copy right laws by acknowledging other authors work.

CHAPTER FOUR

PRESENTATION, INTERPRETATION AND ANALYSIS OF RESULTS

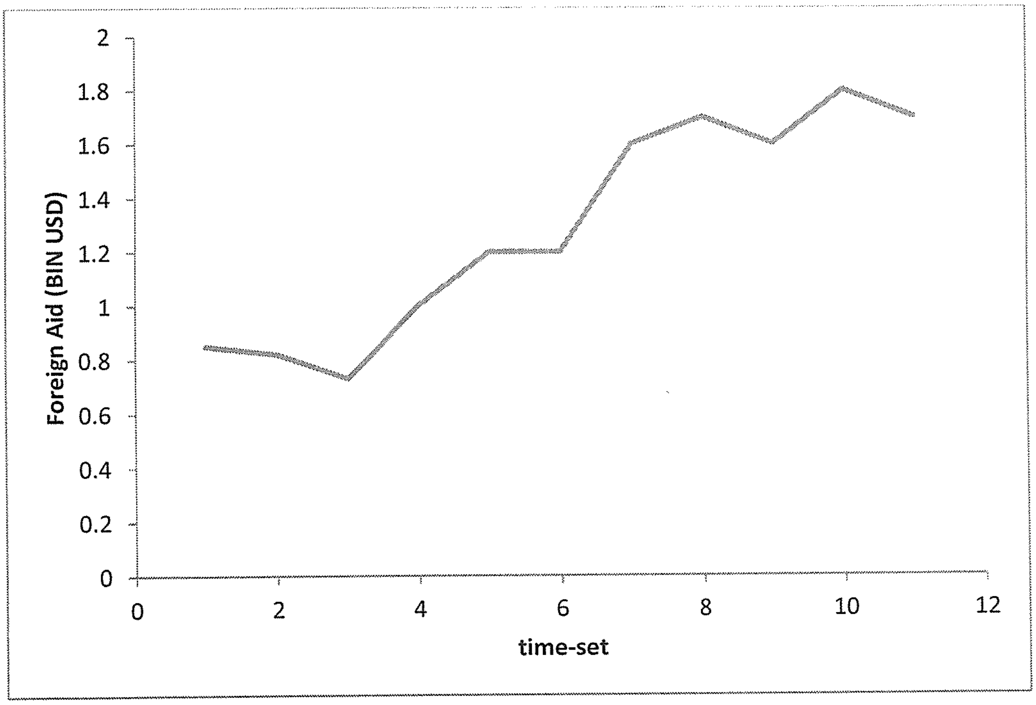
4.0 INTRODUCTION

Data was presented using figure, graphs based on the research objectives and the corresponding research questions, testing the hypothesis and for implication of the findings. (i) To establish the trend of Foreign Aid in Uganda (2000 to 2010),(ii) to show the trend of GDP growth in Uganda (2000 to 2010), (iii)To investigate the relationship between Foreign Aid and GDP growth in Uganda (2000 to 2010).

4.1 The Trend of Foreign Aid of Uganda (2000 to 2010)

Objective one was to show the trend of Foreign Aid in Uganda (2000-2010).Under this; the researcher used the line graph as can be seen below.

Figure 1: The Trend of Foreign Aid of Uganda (2000 to 2010)



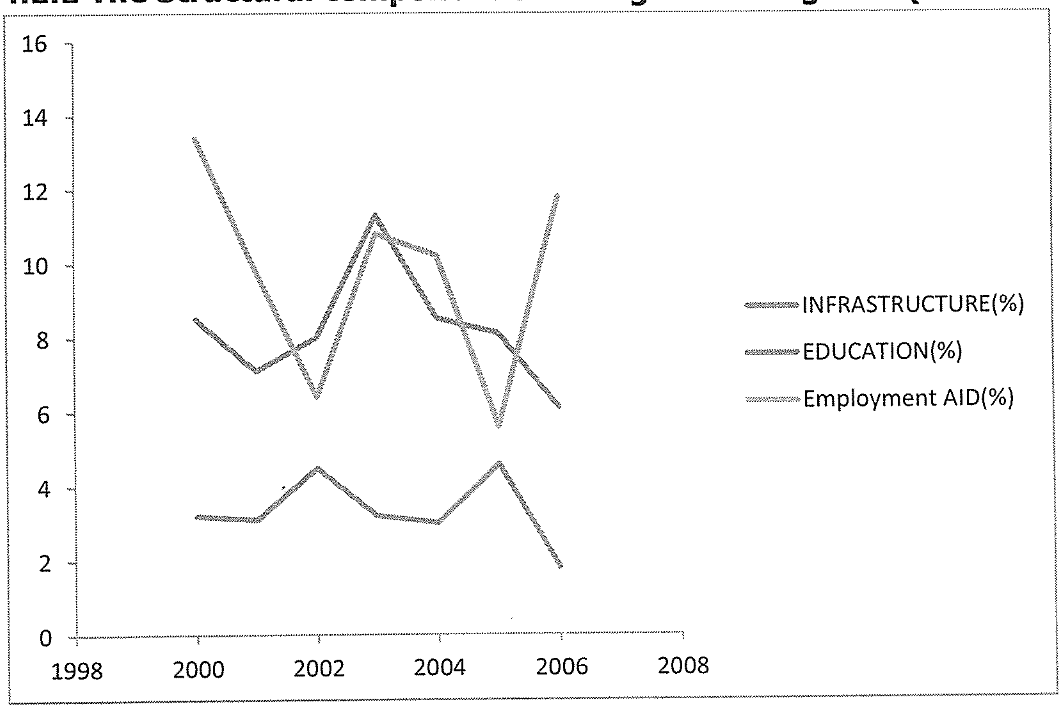
Source: Researcher (2013)

There is a general increase Foreign Aid of Uganda for the period under study. We can use the World Bank Index to verify this claim and it is important to note that in 2000 the foreign Aid received by Uganda was 853,280,000 current US Dollar and in 2001 it was $ 822,190,000, 2002 it was 725,390,000, 2003 it was $ 997,650,000, in 2004 it was $ 1,216,020,000, in 2005 it was $ 1,192,160,000, 2006 it was $ 1,586,430,000 as we can see there was a general increase in the level of foreign aid received by Uganda.

This implies the factors that has promoted Foreign Aid such as grant, debt settled, Favorable government policies among others. The regression model is Foreign Aid =(0.605+0.114)Time. This implies that Foreign Aid when time is Zero is (0.6047) i.e. Autonomous it does not depend on time and a unit change in time per year lead a change in Foreign Aid by 0.114 billion USD.

Figure 2: Component of Foreign Aid in Uganda

4.1.1 The Structural component of Foreign Aid of Uganda (2000 to 2010)



Source: researcher (2013)

In 2000 the Aids for Projects or in other word Employment aid was high almost 14% as we can see on the (figure II) followed by Foreign Aid received by Uganda for Infrastructure which was in 2000 8.5% then lastly education was the lowest or in other words the portion of foreign aid for education was less than 4% which is quite low. Aid given to Uganda in term of Developmental or project Aid or in other words employment generation Aid is so high yet when you look at it still the level of unemployment is high. Factors that might have led to unemployment are Corruption, poor education system among others.

In 2001 the Foreign Aid for Developmental or employment generation was 8% as we can see it on the figure and it is important to note that it was falling never the less the Aid that was allocated to Infrastructure in 2001 was fallen from 8.5% to 5% and in that same year the Aid For Education was constant and less than 4% which is not significant.

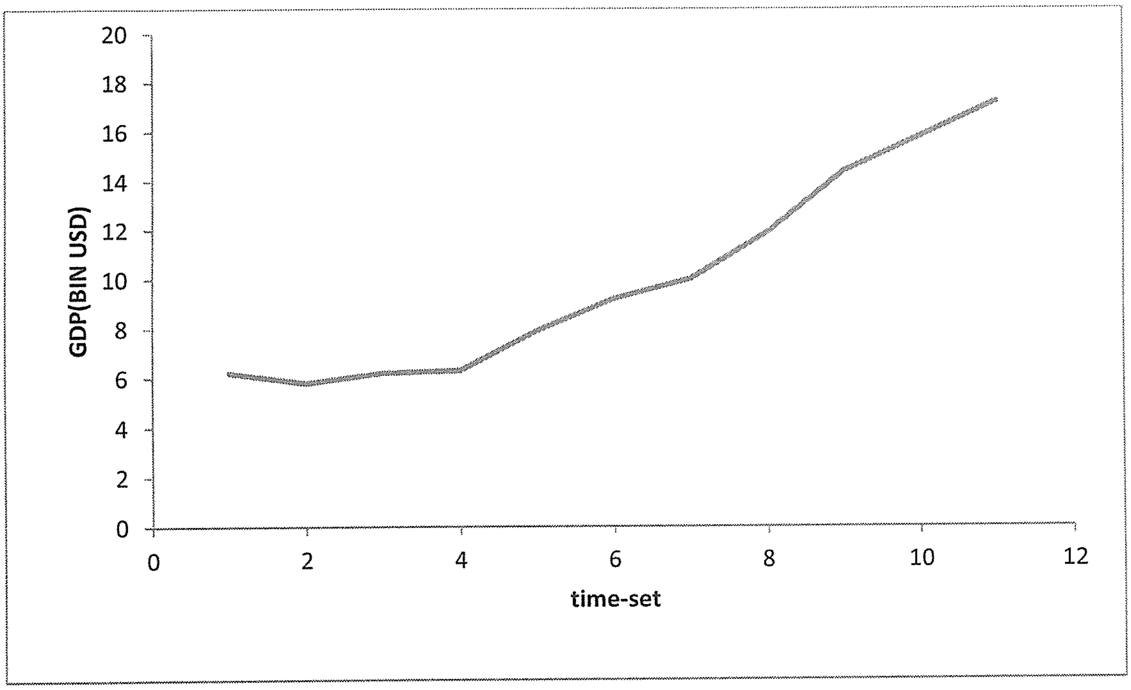
In 2002 the Foreign Aid for Developmental was 6% and quite low compare to 2001 which was 8%, in this same year the Aid that was allocated to infrastructure was 8% which is higher than the year before which was 5% and lastly but not least the Foreign Aid that was allocated to Education in that same year was 5% which is higher than the year before which was below 4%.

In 2003 the foreign Aid for Developmental or Employment was 10.4% which we can say was very high compare to the year before which was 6% it is important to note that the Aid that is allocated to employment generation projects fluctuates significantly, in this same year the Aid that was allocated to infrastructure was 11% which is quite higher than the year before it can be contributed to the increase in the foreign aid received by Uganda in 2003 which was quite high almost one billion US Dollar, lastly the Aid that is allocated to Education in 2003 was 3% which is still low, it is important to note that 2004, 2005, 2006, 2007,2008,2009 and 2010 we just see the figure it is self explanatory.

4.2 The Trend of GDP growth in Uganda (2000 to 2010)

To show the trend of GDP growth in Uganda, Here the researcher used line graph as can seen below to show the trend of GDP growth.

Figure 3: The trend of GDP growth in Uganda (2000 to 2010)



Source: researcher (2013)

There is a general increase in GDP growth of Uganda for the period under study i.e. In 2000 the GDP of Uganda was 6,193,246,632, in 2001 the GDP was 5,840,503,703, in 2002 the GDP was 6,178,563,467, in 2003 the GDP was 6,336,696,289, in 2004 the GDP was 7,940,362,663, In 2005 it was 9,237,336,678, In 2006 it was 9,977,209,199, In 2007 it was 11,916,019,463, In 2008 the GDP was 14,440,830,267, In 2009 the GDP was 15,803,499,657, In 2010 it was GDP 17,197,398,887.

This implies the factor that has promoted growth such as Imports Exports among others. The regression model is GDP growth =2.83+1.21Time.

This implies that GDP when time is Zero is 2.83 billion USD and a unit change in time per year lead a GDP growth by 1.21 billion USD.

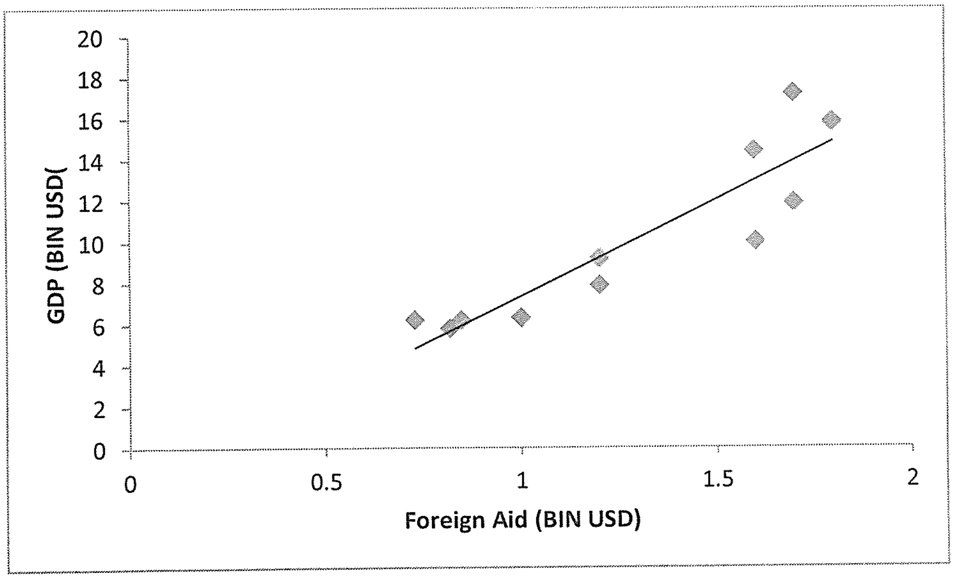
4.3 The Relationship between Foreign Aid and GDP growth in Uganda

The third objectives was to investigate the relationship between Foreign Aid and GDP growth in Uganda (2000 to 2010), the researcher used scatter plot graph, correlation analysis, and regression analysis as can be seen below.

4.3.1 A scatter plot of Foreign Aids against GDP growth in Uganda

To show the relationship between Foreign Aid and Gross Domestic Product in Uganda (2000 to 2010), the researcher used scatter plot as can be seen below.

Figure 4: A scatter plot showing the relationship Foreign Aid between Gross Domestic Products (GDP) in Uganda



Source: researcher (2013)

Most of points are distributed normally and are closed to the fitted line this is an indication there is a strong relationship .There are other variables which such as exports, low inflation, low imports among other. The fitted regression model is

GDP growth=2.022+9.376(Foreign Aid).this implies that GDP growth when the Foreign Aids is zero reduces by 2.022 billion USD and a unit change in Foreign Aids lead to change in GDP growth by 9.376 billion USD.

4.3.1 Correlations analysis of Foreign Aid and GDP growth in Uganda

The researcher used Pearson's correlation coefficient to establish the strength of relationship between Foreign Aid and GDP growth in Uganda.

Table 1: Correlation of Foreign Aid and GDP growth in Uganda (0.05)

Variable correlate	**R-Value**	**Sign-value**	**Interpretation**	**Decision**
Foreign Aid versus GDP growth	0.904	0.000	There is a relationship	Reject the null hypothesis

Source: researcher (2013)

There is a strong positive correlation between Foreign Aid and GDP growth as can be seen from the above table (r=0.904) the strength of relationship between Foreign Aid and GDP growth is determined by the coefficient of determination (r^2=0.817). This implies that the variation in GDP growth is explained by Foreign Aid by **82 percent** mean while other percentages is explained by other variables, this reveal that the relationship between these two variables is too strong. Since (sig=0.000 <sig=0.05), we reject the null hypothesis and conclude the there is relationship between Foreign Aid and GDP growth in Uganda (2000 to 2010).

4.3.2 Regression analysis of Foreign Aid and GDP growth in Uganda.

To establish this relationship the researcher used bivariate linear regression analysis as can be seen in the following table.

Table 2: Regression of Foreign Aid and GDP growth in Uganda (0.05)

ıble ɜsented	Adj. R^2	F-Value	Sign-value	Interpretation	Decision
ign Aid and growth	*0.81 86*	40.62	0.000	There is a relationship	Reject accept the null hypothesis
ficient	**Beta**	**t**	**Sign-value**	**Interpretation**	**Decision**
tants	- 2.022	-1.02	0.334	There is no relationship	Accept the null hypothesis
ign Aid	9.376	6.37	0.000	There is a relationship	Reject the null hypothesis

Source: researcher (2013)

The researcher fitted the regression model using the information from table 2 above and this is represented by; **GDP=α+β(Foreign Aid)+ei**

Fitting the model becomes

Y=-2.022+9.376(Foreign Aid)+ei

This implies that GDP growth without Foreign Aid result into 2.022 billion USD and a unit change in Foreign Aid lead to an increase of GDP growth into 9.376 billion USD.

$t_{\alpha/2}$=0.025 t(0.025,10)=2.228 The slope t_1=6.37 decision rule if $/t/ \leq t_{\alpha}$, accept H_0, α =0.05 level of significance, since t_1=6.37 is greater than t_{α} =2.228 .We reject H_0 which states that Foreign Aid is not part of the model and conclude that there is a relationship between Foreign Aid and GDP growth and other factors remain constant. Adj r^2 =0.818 implying that Adj r2 affects GDP and Foreign Aid by 82 percent.

CHAPTER FIVE

SUMMARY, DISCUSSION, RECOMMENDATION AND CONCLUSION

5.1. Summary of Findings

The main objective of this study was to investigate the relationship between Foreign Aid and GDP growth in Uganda. For the relationship between Foreign Aid and GDP growth, the probability of the t-distribution was used based on a simple linear regression model at 0.05 level of significance. The dependent variable and the independent variables were found be normally distributed. This implies there is a significant relationship between Foreign Aids and Economic Growth in Uganda (2000-2010).

5.2 Discussion

5.2.1 The Trend of Foreign Aids in Uganda.

The Foreign Aids has shown a general increase over the period under studied as can be seen from **figure 1** from the **Appendix 1** there has been increase in value of foreign aids from 2000 to 2004 the it remain constant between 2004 to 2005, from 2006 to 2010 there has been an increase and decrease. The increase in the value of foreign aids is attributed to high dependency of Uganda on developed country, this because Uganda being a developing country like any other country in Africa cannot produce its good and services to sustained it economy. Then fluctuation in foreign aids is as result of the donor countries donating either little or cutting the aid to Uganda as result of the policies which Uganda might have not fulfilled.

5.2.2 The Trend of GDP growth in Uganda.

There has been a general increase in GDP growth in Uganda over the period under study that is (2000-2010) as can be seen from **figure3**, an increase in the GDP growth is due to Aid given with favorable condition, and this can be used for investment, setting up infrastructure among others which are good for country's economic growth.

Other factors which have been omitted but play a key role in economic growth are Exports, Imports, high level of Technology among others.

5.2.3 The relationship between Foreign Aids and GDP growth in Uganda

The relationship between Foreign Aids and GDP growth has been significant according to the fitted line as regression analysis and correlation were performed and found a strong positive correlation between Foreign Aids and GDP growth (r=0.904) as can be seen from **Table 1** .The relationship was statistically significant (**Table 2**), this is an indication that a economic growth cannot be realize without foreign aid especially in Uganda which is a developing country.

5.3 Conclusion

The first objective of this study was to established the trend of Foreign Aid in Uganda (2000-20110) and found there was a general increase. Much as there fluctuation as can been seen from **figure1**, page 22, it was so small. This might be due to favorable Aid given to Uganda.

The second objectives of the study was to establish the trend of GDP growth in Uganda, (2000 to 2010) and it is important to note that there has been a steady growth over the period under studied (2000-2010) as can be seen from **figure2** it is also important to note that other factors which have led to economic growth but have been omitted are imports, exports, high level of technology among others.

The third and last objective was to investigate the relationship between Foreign Aid and GDP growth in Uganda using correlation, regression analysis with the test of hypothesis. There is a strong positive correlation (r = 0.904) between Foreign aid and GDP growth as can be observed from **table 1**, and for the relationship it has rejected the null hypothesis which states that foreign aid is not part of model and conclude that there is a relationship as can be seen from table 2 in page 28.

5.4 Recommendation

Basing on this finding, I would recommend the government to embark on foreign Aid which slows down the country economic growth. I would also recommend the government to embark on industrialization, and modern techniques of agricultural production since this area can employ a larger Foreign Aids resulting into high productivity hence economic growth.

5.5 Suggestions for Further Research

The results presented in this report are not very conclusive and should be treated as being preliminary. Further analysis of the survey data (Foreign Aid and GDP growth) needs to be done to validate these findings and provide greater confidence in explaining the changes in Foreign Aid and GDP growth.

1. A study should be carried to establish how the Labor force participation can contribute to economic growth.

2. Balance of Payment and economic growth.

3. The relationship between imports and economic growth.

4. The relationship between household investment and economic growth

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Appendix iii

TIME FRAMES

Activity	February	March	April	May
1. Conceptual Phase				
Chapter 1				
2. Design & Planning Phase				
Chapter 2-3				
3. Dissertation Proposal				
4. Empirical Phase				
Data Collection				
5. Analytic Phase				
Chapter 4-5				
6. Final Book Bound				

APPENDIX iv: BUDGET

Item	**Quantity**	**Unit Price**	**Total (UGX)**
Ream of Paper (A4)	1	15,000	15,000
Pens	5	500	2,500
Internet Surfing	80 hrs	1000	80,000
Communication	10 cards	5,000	50,000
Typing and printing	Lump sum	100,000	100,000
Transport	10Km	5000	50,000
Final Copy binding	3 copies	10,000	30,000
Miscellaneous	Lump sum	50,000	50,000
Grand Total			**377,500**