THE IMPACT OF FOREIGN AID ON DEVELOPMENT IN KENYA

XEA 402: RESEARCH PAPER

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ABSTRACT

Most of the earlier papers written on the subject disagree on whether its impact is negative or positive. However, they work empirically consistent in finding its correlation to be negative.

Theoretical literature assumed that foreign aid is additive to domestic saving and as such case an income in economic growth (GDP) (Chenery and Strout 1966).

The paper sought to establish the effect of foreign aid on economic growth in Kenya.

The empirical results exhibit an inverse relationship, a negative and significant relationship between foreign aid and economic growth is established.

Kenya Vision 2030 seeks to move Kenya to a middle income economy by 2030 with a constant GDP growth rate of 10% and as such ODA has been identified as one of the ways of ensuring that Savings to GDP growth rate ratio is increased. In order to ensure effectiveness of foreign aid and sustain growth its imperative that such areas like certainty, frequency, project and programme combination and the terms on which aid is granted, be improved upon to safeguard results from aid.

Issues of fungibility of aid also deserve a relook. The study did find out ODA and tds are significant factors that affect GDP growth in Kenya.