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Foreign Aid and Economics Development Nexus: The Case of Sierra Leone

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ABSTRACT

This study investigates the impact of foreign aid on economic growth in Sierra Leone using cointegration and error correction methodology by Johansen and Juselius (1990). Utilizing secondary data for the period 1970 to 2018, the empirical estimation revealed that foreign aid in Sierra Leone is positively and significantly related to economic growth both in the short run and long run, confirming the importance of the study. The policy implication of the study is that the Sierra Leone government should seek more foreign aid to accelerate economic growth and development.

Key words: Foreign Aid in Sierra Leone, Economic Development in Sierra Leone

INTRODUCTION

In Africa, more than $600 billion of foreign aid has been transferred since 1960s. Evidence also shows that the continent has shown slow economic development, regardless of increasing amount of aid. Like other developing countries, Africa's debts continue to increase, as a percentage of gross domestic products. The indebtedness of African countries constrained the achievement of the Millennium Development Goals (MDG). According to the Human Development Report of 2014 of the United Nations Development Program (UNDP), 70.8% of 48 the countries that did not achieve the MDGs are in Africa.

Aids are usually given to assist poorer nations to effects reconstruction, rehabilitation or some structural reforms that should improve economic development of standard of living of the citizenry (Abouraia, 2014). Foreign aid is a significant financial source for developing countries, including Sierra Leone. When domestic growth is constrained, foreign aid is expected to substitute in stimulating economic growth and provide sources of finance such as savings; thereby increasing the amount of investment and capital stock in the country (Njeru, 2003). Foreign aid could also influence investment in human and physical capital, the importation of capital goods or information technology transfer.

Furthermore, from the beginning of global recognition and development, countries have realised that for the betterment of their citizenry and nation-building, financial assistance from

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more developed and richer nations to smaller developing countries remain critical for national goals achievement and fulfillment. There have been several studies on the impact of foreign aid on the economic development of developing nations, but it is also important to consider the need for foreign aid assistance, and how aid has affected different economic jurisdiction. Historically, the advent of foreign aid could be traced back to the 1940s after the Second World War's massive destruction. Most African countries attract foreign aid after economic collapse, either nationally or internationally.

According to Moyo (2009), foreign aid has done more harm than good in the African Continent. This claim has been supported by many other scholars, Bonnie (1994), presented evidence that shows that aid has not helped in sustainable economic development, regardless of the large inflow into the continent since 1960. In contrast, Sachs et. at. (2004) contend that more than 6 million people will die a year from preventable and treatable causes, including undernourishment, and other terrible diseases, if aid to Africa is stopped. Addison et al. (2002), like Sachs (2004) presented that aid has reduced poverty in Sub-Sahara Africa and contributed to growth. High corruption rate and authoritarian governments are some of the seasons scholars are very critical about aid. The argument on the aids nexus to economic development has also been extended to good governance and corruption.

Meanwhile, researchers have argued that a significant portion of foreign aid flowing to African countries from developed nations have not been utilized efficiently to enhance economic development. Corruption, poor states institutional administration and bureaucracy accounted for some of the reasons for the misuse of foreign aid. Others opine that although aid has sometimes failed, they should still be encouraged because they have supported poverty reduction, health initiatives and growth in some countries. Over the last five decades, the World Economic Forum (2015) estimates that western donors gave about $4.14 trillion-the equivalent of more than seven times the 2014 GDP of Nigeria, in aid to developing countries.

These flows are topped up by support from non-governmental organisations and other private charities, and the so-called new donor countries. Yet, in many of the developing countries receiving the aid, poverty still looms large, and underdevelopment persists for which Sierra Leone is no exception.

Sierra Leone has as in many other African countries have been receiving foreign aid, since after independence. Hence, the country has remained highly aid-dependent with disbursed volumes of aid higher than even the average for the most aid-dependent sub region, SSA. For Sierra Leone's receipt of foreign aid ranged from 30% of GDP in 2001, end of the civil war, to 12% of GDP in 2018. As a result, the country still remains poor with high malnutrition rate, and infant mortality rate (Kargbo (2012).

Statement of the Problem

Private sector development has been struggling because of higher cost of capital. According to Duramany-Lakkoh (2020), there is a positive and statistically significant relationship between private sector credit and interest rate in Sierra Leone. Meaning, the private sector is willing to borrow regardless of the interest rate, showing the desperation in economy. When the private sector is constrained, citizens become desperate for foreign aid as an alternative. There is significant increase in foreign inflows, but the economic growth achieved by many West African

countries has not been satisfactory. The definite role of foreign aid to Africa for instance has been an argument among scholars. Sierra Leone has been among the major recipients of international aid, yet, despite these notable donor interventions the country's economy experienced less growth with poverty remaining inherent for many years. Yet, there are few researches capturing the attention of assessing the effectiveness of aid on such a country. This makes it necessary to study the subject in the case of Sierra Leone as an addition to empirical literature.

Objective of the Study

The objectives of this study are to:

- Assess the impact of foreign aid on the economic growth of Sierra Leone.
- Identify its significance in the development process in Sierra Leone.

Scope of the Research

This research focuses specifically on the impact of foreign aid on Sierra Leone economic growth in the period of 1970 to 2018. This 48-year period data is considered adequate to enable the study offer credible conclusions.

Justification for the Study

A number of studies have been done on the effectiveness of foreign aid for both cross-country & country specific cases. Previous country specific studies have considered regressions for aid on growth. That approach does not take into account interactions between aid and other growth determinant variables.

This study will therefore go further to estimate the impact of aid on growth through intermediate variables and focused on FDI, openness, population.

LITERATURE REVIEW

Theoretical Literature Review

The proposition that aid can promote economic development is based on theoretical foundation of the 2-gap model (McKinnon 1964), which posits that development in developing countries may be hampered by the existence of the savings gap and the foreign exchange gap. The savings gap arises from the fact that domestic savings, for various reasons, tend to be low in the typical developing country. Thus, savings will inevitably fall short of the 'required investment', therefore, the investment needed to grow at a target rate. The effect of foreign aid on economic growth can be transmitted via its impact on investment, private and government consumption, as well as capital accumulation.

Hanson and Trap (2000) suggested that growth and investment levels can be improved by the use of aid to fill the finance gap. Even where no finance gaps exist, aid can change the equilibrium level of investment by raising private investment through improved infrastructure. Economic scholars have given various reasons supporting the view that aid might have no impact on economic growth. These include waste mismanagement, corruption, likelihood of currency appreciation that will erode the profitability of the production of all tradable goods, reduction in both private and public savings, and bad government and economic practices (Radelet et al. 2004).

Scholars have particularly argued on two sides: the benefit of the foreign aid in promoting economic development, transfer technology and enhance standard of living, while the other school see foreign aid as more distractive and causes corruption and rent seeking behavior among politicians. While there is still no consensus among economic scholars, various studies are emerging on the relevance of foreign aid to economic development.

Burnside and Dollar (1997), two World Bank researchers have published several articles suggesting causal relationship between economic growth and foreign investment. Their study suggested that, with good fiscal policies like controlling inflation, budget deficit, economic growth will be enhanced by foreign aid. Durbarry, et. al. (1998) also claims that foreign aod can have a positive impact on economic growth with sound fiscal policy and other important socio-economic factors in place.

The study of Ali and Isse (2005) highlighted that even though foreign can have a positive outcome on economic growth, but the overall outcome can diminish as the aid increases, if other significant social and economic variables remains constant.

Notwithstanding the claims of Burnside and Dollar (1997), Durbarry, et. al. (1998), Ali and Isse (2005) and others, Boone (1994) on the other hand observed that countries that have benefited from foreign aid, especially in Africa have not shown any economic growth during the period. Like Ali and Isse (2005), Knack (2001) concluded that foreign aid can cause red jacket protocols and affect the administration and good governance, hence a recipe of state failure.

Not a lot of attention is paid to genocide, politicize, and revolution and their effects on growth in the literature. It is reasonable to believe, though, that resources, including foreign aid, are siphoned off by the dominant party and used for individual benefit rather than for economically efficient activities, as intended.

A study by Jaouadi & Hermassi (2013) specifically mentions the negative relationship between aid and governance in developing countries, noting that they are at a disadvantage for these reasons as well, and the outcome of this relationship would affect the economic growth of recipient Countries.

Economic Impact of Foreign Aid

According to Sogge and David (2002) argued that aid has caused poor management of public resources, social collapse and widen inequality between the rich and poor. Rwanda was cited as an example where the developed world disclaimed any responsibility after helping to position in the edge of one of the worst genocide in the world. Again, it depends on the leadership. Korea, Botswana and Honduras are few exceptions where foreign aid made significant impact in the reduction of poverty and improvement in social service delivery, while aid is believed to have played minor role in building effective public sector and in lifting millions of poverty in larger number of countries including; Cuba, Zambia, Democratic Republic of Congo, Haiti, Sierra Leone, Somalia, etc.

Good policy environments, according to Burnside and Dollar (2000), are those that are open to trade, have low inflation rates, good share of the budget surplus in relation to GDP and balanced government consumption in GDP. The study further presented that there are no clear impact

between aid and policy. For example, in Ghana, good policies were rewarded, while in the case of Zambia, aid increased between 1970 and 1993, while policies deteriorated throughout the period. The study of Burnside and Dollar also argued that aid significantly impacted economic growth in environment with good public policy regimes, as opposed to environment with weaker economic and social policies.

Nature of Aid in Least Developed Countries

Government project oriented lending has a closed end matching structure, which means that donors and recipients share the total cost of particular investment but with a limit on the total amount of aid available. In other words, in order to receive the fixed amount of loan aid, the recipient may be required to reallocate a certain amount of its own funds in addition to requirements of how the funds should be utilized. The theoretical purpose for providing closed-end matching aid is to stimulate recipients to increase spending in the sector that receives the aid. On the other hand, categorical aid, which is aid for special purposes but without the cost sharing requirements, would be expected to have a smaller effect on recipient spending, since there are no inputs of local funds (Cashel-Cordo, 1990).

Africa Development Bank, Asia Development Bank, European Bank for Reconstruction and Development, Inter-American Development group and World Bank group are the five institutions of Multilateral Development Institutions. The International Monetary Fund (IMF), is the other multilateral source of financing for LDC's. Unlike the MDB, IMF loans generally are not tied to specific investment projects.

Thus, an IMF loan doesn't require additional funds from the recipient central government. The set of conditions on IMF loan, however, is in the form of policy changes required for the recipients. IMF aid is also a form of closed end matching aid, since to receive fixed amount of loan aid, the recipient may be required reallocating on how the IMF fund should be used Cashel-Cordo (1990). Aid is provided through both grants and loans, which generally targeted toward specific sectors or purposes. The form of bilateral aid is categorical aid, in which aid is targeted but where there is little or no cost sharing arrangement with recipient countries. The flow of this foreign aid from high- to low-income countries can be classified into three types. The first includes income transfers of a relief nature' such as emergency and distress relief inducing drought-related food transfers, medical and refugee relief, and balance of payment crisis support. These transfers are generally temporary responses to unanticipated events of shocks to the economy. They can be perceived as an attempt by the donor community to help finance what is denoted in the permanent-income theory as transitory consumption.

In addition, they can be viewed as an attempt to maintain a 'subsistence' level of consumption by absorbing the shocks to income entirely by changes in savings (Friedman (1957). The second type of aid consists of income transfers for development purposes, such as project aid and technical assistance. The level and duration of these transfers are signaled by past and current commitments and may, therefore, be approximately anticipated by recipients. Contrary to the temporary nature of the relief transfers, development assistance is more systematic and permanent.

However, the fungibles of these funds are somewhat limited because they are tied to specific projects or programmes. It has also been argued that, foreign aid can also be used to assist

friendly government and commercial interests, rather than promoting economic growth (Kruger, 1986). In some of these cases diplomatic realities may preclude using the donors' resources for developmental purposes. Hence, the objective of such type of aid has often been military or political factor, which may or may not be consistent with using the resources.

Relationship between Foreign Aid and Economic Growth

Many scholars including Islam (2003) presented foreign aid as having demining returns when compared to the rate of returns on economic growth. The nexus between foreign aid and economic development remain to be controversial. The relationship between aid and economic growth has always been a controversial issue. Voivodas (1973) conducted one of the first studies of the relationship between foreign aid and economic development, from a sample of 22 underdeveloped countries, covers from 1956 to n1968 and found a negative relationship between the two variables. This study however, lacks sufficient data and lacks the required economics techniques.

Empirical Literature Review

On the important question of whether aid contributes to development or not, the debate is broadly divided into those who believe that aid is an important tool for developing nations to achieve take-off Sachs (2004), while other scholars believes that foreign aid has further improvised poor nations, instead of making them better. More recently, there are writers who are more interested in the political and 'world trade' undertones of foreign aid (Easterly, 2006; Chang, 2007; Moyo, 2009 and Stiglitz, 2002).

In a study conducted by Burnside and Dollar (2000) using data from developing countries, it was concluded that foreign aid has a positive effect on economic growth in low-income countries with good policies, while it has no measurable effect in countries with severely distorted policy regimes.

Gomanee, et al (2005) tested the hypothesis that aid contributes to increasing aggregate welfare, measured by infant mortality and Human Development Index (HDI) in recipient countries. Estimation was based on data for 104 countries over the period 1980 to 2000, and for sub-samples of low income and middle-income countries. The results shows robust evidence to support the argument that foreign aid to low income countries provides direct relationship to welfare or through economic growth.

Alvi and Senbeta (2011) examined the effects of foreign aid on poverty using dynamic panel estimation techniques. According to them, this technique enables the control for time-invariant, country-specific effects of aid and its endogeneity. The results show that poverty reduced significantly on foreign aid, after controlling the variable for average income. Foreign aid is thus associated with a reduction in poverty as measured by the poverty rate, poverty gap index and squared poverty gap index. Alvi and Senbeta (2011) concluded that the composition of aid matters, as multilateral aid and grants have more poverty reducing effect than that of bilateral aid and loans.

The study of Dreher, et al. (2006) examines foreign aid and its impact on specific human development variables, using panel data and a dynamic panel estimator on primary school

enrolment rate as the measure of education outcome. The study establishes statistically significant relations between foreign aid given to enhance primary school enrolments.

Mishra and Newhouse (2007) focused their research on the effectiveness of aid on health outcomes. Panel data was used to study the effect of aid on various health variables. The study concludes that total aid per capita and per capita health aid reduce infant mortality rates significantly but aid has no significant impact on life expectancy. Aggregate aid improves Human Development Index (HDI) and reduces infant mortality rates in less developed nations. Gomanee, et al(2005) are also of the opinion that aggregate aid improves human welfare and reduces infant mortality rate and effectiveness of aid on health and human welfare is higher at lowest levels of income.

On the other, Humley and Mosley (1996) argued that when the donor receipt relationship is modeled as a non-cooperative game, moral hazard problems can lead to aid having little impact on the problems it is intended to alleviate. Aid may simply relax the budget constraint of the recipient government without having much impact on the amount of that budget that ultimately is used to purchase capital. Furthermore, the donor government can also be part of this game for reasons other than benevolence.

Mallik (2008) examined the effectiveness of foreign aid on economic growth in the six poorest and highly aid dependent African countries by using the Johansen's co-integration tests. The empirical results showed that aid as a percentage of GDP and the long run impact of aid on growth was found negative for most of the sample countries. Ali and Ahmad (2013) conducted a research that accesses the inequality of foreign aid on income equality in Pakistan, the study covers the period from 1972 to 2007. The results shows that income inequality expands as foreign aid increase in the long run, suggesting that foreign aid given to Pakistan during the period has proven unproductive in terms of how it translates to economic development. Ugwuegbe, Okafor and Akarogbe (2016) investigated the effect of external borrowing and foreign financial aid (foreign grant) in the form of official development assistance (ODA) on the growth.

The inconsistence results from various researchers, using different estimation methods in different economic jurisdictions has inconclusively deepened the debate on foreign aid and economic development. Notwithstanding the enormous number of literature on academic articles, scholars are very much divided on the impact of aid.

In summary, the literature in general is suggesting that the impact of foreign aid depends on the governance structure of the jurisdiction and what the aid is used for. Other factors, such as the quality of a developing country's government and the policies it pursues, appear to be as equally important in promoting growth and development, than the quantity type of foreign aid received.

METHODOLOGY

Model Specification

The model used to estimate the impact of foreign aid on economic growth in Sierra Leone is adopted from the approach of Okoli and Agu (2015) expressed as:

GDP = f (FA, EXCR, IMPT, EXPT)

Where:
GDP= Gross Domestic Product
FA= Foreign Aid Flows
EXCR= Exchange Rate
IMPT = Import
EXPT= Export

However, for the sake of data availability and suitability of this study, we consider modifying the above model by replacing import and export variables with openness (OPN). OPN is introduced to measure trade as a percentage of GDP and is obtained by summing import and export, and expressing the result as percentage of GDP. In addition, we include the population growth (PPG) variable to represent labour force in Sierra Leone, and official development assistance (ODA). Therefore, the modified model is specified as follows:
GDPG = f (FDI, OPEN, PPG, ODA)

Where:
GDPG = Gross Domestic Product growth rate
FDI = Foreign Direct Investment as a percentage of GDP
OPEN = Openness as proportion of GDP
PPG = Population growth
ODA = Oversea Development assistance.

In equation format, the model is expressed as:
$$GDPG = \beta_0 + \beta_1 FDI + \beta_2 OPN + \beta_3 PPG + \beta_4 ODA + U$$

Where:
GDPG = Gross Domestic Product growth
FDI= Foreign Aid flow
OPN = Openness of the economy
PPG = Population growth
ODA = Overseas development assistance
U= the stochastic error term.

The a priori expectation are b1>0, b2>0, b3>0, and b4>0

Where, β0 is a Constant and β1- β4 are coefficients to be estimated.

E-views 9 software is used to estimate the model.

Data and Sources
This research relies on secondary data sourced from existing World Development Indicators (WDI) database on the World Bank. It uses annual time series data covering the period 1970 to2018.

Evaluation Procedure
Having established the appropriate model, we pursue the following estimation procedure:

Stationarity Test

The first step prior to estimating a model is to test the characteristics of the variables of the model. This is done by conducting a stationarity or unit root test on each variable, by employing the Augmented Dicker-Fuller (ADF) statistic.

The ADF test is designed to ascertain the order of integration of the variables in the model (Dickey and Fuller, 1979). The stationarity test is performed first at levels and then at first and second differences to establish the presence of unit roots and the order of integration in all the variables.

Cointegration Test

The next step is to estimate a vector auto regression equation from which a cointegration test is conducted. The cointegration test establishes the existence of long-run relationship between the variables. This step is carried out because all series are non–stationary at level, hence the check of whether there is long-run equilibrium of the series, as noted by Johansen and Juselius (1990).

Vector Error Correction Model (VECM)

Next, I do a vector error correction model to determine whether the dynamism governing the behaviour of the economy in the short-run is different from the long-run. The cointegration term is known as the error correction term since the deviation from long-run equilibrium is corrected gradually through a series of partial short-run adjustments (Gujarati and Sangeetha, 2007).

ESTIMATION, ANALYSIS AND DISCUSSION OF RESULTS

Unit Root Test

The unit root (or stationarity) test is conducted to enable us know the order of integration of the variables under study. Results of the stationarity (unit root) using the Augmented Dickey Fuller approach, are shown in table (1) as follows:

Table 1: Unit Root Test Results

Variable	Level T-Statistic	First Difference T-Statistic	Order of Integration
GDPGR	6.2734		I(0)
FDI	4.2734		I(0)
ODPC	1.8080	5.8189	I(1)
OPEM	2.7640		I(0)
PPG	3.2748		I(0)

Source: Reviews output conducted by the researcher

Note *, and ** indicate that the variable is stationary at the 1 %, and 5% level of significance respectively and I (0) = order of integration. From the result above all the variables, with the exception of official development assistant (ODPC), are integrated of order zero (I (0)). That is, they are stationary in levels, while ODPC is stationary at first difference.

We can see from table (1) that all the variables except openness to the economy are stationary at levels with 1level of significance.

Cointegration Test

Having established the stationarity condition of the variables, our next step is to ascertain whether there is a long run relationship of the dependent variable (in this case GDP) and the independent or exogenous variables such as FDI Openness, overseas development assistance and population growth. This is achieved by employing the co-integration test by Johansen and Juselius (1990). The result is shown in tables 2 and 3 below:

Table 2: Johansen Co-integration Test Trace Results

Hypothesized No. of CE(s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.775020	113.5340	69.81889	0.0000
At most 1	0.404478	44.91391	47.85613	0.0921
At most 2	0.235375	21.07130	29.79707	0.3532
At most 3	0.151887	8.726271	15.49471	0.3913
At most 4	0.024652	1.148190	3.841466	0.2839

Source: Reviews Output Conducted by the Researcher

Table 3: Maximum Eigenvalue Results

Hypothesized No. of CE(s)	Eigenvalue	Max-Eigen Statistic	0.05 Critical Value	Prob.**
None *	0.775020	68.62014	33.87687	0.0000
At most 1	0.404478	23.84261	27.58434	0.1403
At most 2	0.235375	12.34503	21.13162	0.5140
At most 3	0.151887	7.578081	14.26460	0.4232
At most 4	0.024652	1.148190	3.841466	0.2839

Source: Reviews Output Conducted by the Researcher

We can see from the above tables that both the Trace and Max-eigen statistics indicate cointegration at 1 per cent level of significance, with one cointegrating equation. This implies that there is a long run relationship among the variables.

Vector Error Correction Model

Having established long-run relationship, we proceed to estimating the long run and short run equations as shown in tables 4 and 5 respectively.

Long Run Estimates

The result of the normalized long run co integration equation is presented in the table below:

Table 4: Long Run Estimate Results

Variable	Coefficient	Std. error	t ratio
ODPC(-1)	0.043185	(0.01373)	[3.14516]
OPEM(-1)	0.264504	(0.03998)	[6.61627]
PPG(-1)	-1.432624	(0.51111)	[-2.80299]
FDI(-1)	-1.147525	(0.09259)	[-12.3932]
C	-11.87795		

Source: Eviews Output Conducted By The Researcher

The long run equation as shown in the table indicate that overseas development assistance (ODPC) and openness (OPEM) are positively and significantly related to GDP in the long run, while population growth (PPG) and foreign direct investment FDI) are negatively and significantly related to GDP in the long run. This means that ODPC and OPEM conform with the a priori expectation, while PPG and FDI have the opposite sign.

Short Run Dynamics

According to Engle and Granger (1987), when variables are cointegrated, their dynamic relationship can be specified by an error correction representation.

The result of the normalized short run co integration equation is presented in the table below:

Table 5. Results of the Error-Correction Model (VECM)

Variable	Coefficient	Std. error	t ratio
CointEq1	-0.859620	(0.27110)	[-3.17086]
D(GDPGR(-1))	0.077088	(0.20845)	[0.36982]
D(GDPGR(-2))	-0.023288	(0.14213)	[-0.16385]
D(ODPC(-1))	-0.124732	(0.06696)	[-1.86289]
D(ODPC(-2))	0.150347	(0.06873)	[2.18741]
D(OPEM(-1))	0.149464	(0.10455)	[1.42955]
D(OPEM(-2))	0.208005	(0.10207)	[2.03793]
D(PPG(-1))	3.533027	(5.88995)	[0.59984]
D(PPG(-2))	-0.333647	(5.64445)	[-0.05911]
D(FDI(-1))	-0.960874	(0.26945)	[-3.56611]
D(FDI(-2))	-0.322984	(0.21575)	[-1.49706]
R Squared	0.7246		
Adjusted R squared	0.6355		
F statistic	8.1331		

Source: Eviews output Conducted by the Researcher

The tables indicates that in the short run ODPC and OPEM lag 2 are significant and positively related to GDP, while FDI lag 2 is negative and significantly related to GDP. However, population growth both lag1 and 2 are not significant to GDP.

The error correction term indicates the speed of adjustment to long-run equilibrium in the dynamic model. In other words, its magnitude shows how quickly variables converge to equilibrium when they are disturbed. It is expected to be statistically significant with a negative sign. The negative sign implies that any shock that occurs in the short-run will be corrected in the long-run. The larger the error correction term in absolute value, the faster the convergence to equilibrium.

The coefficient of error correction term is -0.8596 indicating that 86% of a deviation from the long runs in the previous is corrected in the current year. Whereas ODPC and OPEM exhibited a positive and statistically significance relationship with economic growth, FDI showed a negative and statistically significant relationship with growth in the short. However, population growth is not significant to economic growth.

The coefficient of determination (R2) indicates 63 percent of the ODPC, OPEM, FDI and PPG jointly account for the variation in GDP. F-statistic (8.13) is higher than the critical f-value (2.34) suggesting significance and model adequacy.

In short, the analysis reveals that foreign aid, represented by ODPC, contributes positively and significantly to economic growth both in the short run and long run.

CONCLUSION AND RECOMMENDATION

Summary

This study considered the impact of foreign aid on the economic growth in Sierra Leone covering the period 1970 to 2018. The reason for this study is based on the fact that foreign aid is an important source of finance in most countries in Sub-Sahara Africa (SSA), Sierra Leone not an exception. Foreign aid is expected to stimulate economic growth by supplementing domestic sources of finance such as savings; thereby increasing the amount of investment and capital stock in the country (Arnold, 1985; Khan and Rahim, 1993; Mbakwu, 1993). Despite its importance, foreign aid has been observed in Sierra Leone as rather than impacting positively on infrastructure and economic development, it only resulted in waste and unproductive public consumption because of perceived corruption, policy implementation and weak institutions (Ugwuegbe et. al. (2016). Easterly(2006), Chang (2007) Moyo (2009) and Stiglitz (2002) further maintained that rather than assisting poor African nations to develop, foreign aid further impoverishes them.

Conclusion

Because of these assertions the study was conducted using secondary data and employing vector error correction method of analysis. The study revealed that foreign aid in Sierra Lone is positively and significantly related to economic growth both in the short run and long run. R2 was 63 percent and F-statistic was significant. The study also clearly show that FDI is negatively and significantly related to economic growth while population growth is not in any way related to economic growth.

Recommendation

The simple recommendation is that, government should ensure that aids received are properly channeled into productive uses such as investment. Government should create collaborative institutions to check the disbursement and use of aid and hence prevent the likely diversion of aid to personal purposes. In addition, studies have shown aid to be more effective in sound economic policy environments. Against this background, governments and multilateral institutions should continue to push economic reforms and trade liberalization on recipient governments. Not only will this improve the effectiveness of foreign aid, but it will also result in less aid being required from seeking foreign aid assistance; so long as the national savings remains poor.

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