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Foreign Aid and Economic Development: Tanzania's Experience with ODA

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Abstract: The paper deals with official development assistance (ODA) to Tanzania and its impact on economic growth and poverty reduction. Although there has been much debate about the relationship between foreign aid and economic development, in Tanzania's case, econometric analysis shows a significant dependence of GDP growth on ODA flows. On the other hand, ODA has not had much impact on poverty reduction, despite the efforts made by donors and the Tanzanian government to achieve the Millennium Development Goals. Overall, ODA has been beneficial to the country's economic growth, but only because other factors — implementation of sound macroeconomic policies, increase in foreign direct investment (FDI) , stable political and economic environment — were also present.

In order to underline the importance of ODA, this paper also presents the impact of FDI, trade, and remittances on Tanzania's economic development, and concludes that, by comparison, ODA has been the most influential factor in the country's recent growth. It is argued that due to the ongoing financial crisis and the reduction in aid flows, the Tanzanian government needs to look at other sources of financing — public-private partnership, external borrowing, increased domestic revenue — in order to improve investment rate and eventually graduate from aid.

Keywords: [Official development assistance \(ODA\)](#); [Tanzania](#); [foreign direct investment](#);

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