

## CORRUPTION, EU AID INFLOWS AND ECONOMIC GROWTH IN GHANA: COINTEGRATION AND CAUSALITY ANALYSIS

Joseph Forson  
National Institute of Development Administration, Thailand  
datoeagle@yahoo.com

### **Abstract:**

This paper uses the Johansen cointegration technique to examine the causal relationship between aid inflows and economic growth for Ghana during the period 1970-2013. To better reflect causality, corruption (governance) and trade are included as control variables. In order to test for causality in the face of cointegration among variables, a vector error correction model (VECM) is used in place of vector autoregressive (VAR) model. This is complemented with Toda and Yamamoto's test to point to causal direction. Appropriate stability test to account for structural breaks in the series is undertaken. Our estimation results suggest that GDP growth has one cointegrating vector relationship with governance, EU aid inflows and trade in both short and long runs. There is a long run unidirectional causal relationship between EU Aid inflows and GDP growth, but a short run unidirectional causality from trade to GDP. Governance was ineffective to power growth. The error correction terms are the source of causation in the long and short runs in both directions. The results indeed confirm popular conjecture that corruption in Ghana stifles development. Therefore government's decision to launch a national anti-corruption plan in 2011 though long overdue, but is justifiable. However, such an attempt will only be effective if and only if a conscious effort is made by all stakeholders to work in hand in deepening good governance (reducing corruption) as a trajectory for promoting economic growth and to serve as inducement for a continue aid inflows from multilateral donors to sustain efforts at achieving the millennium development goals in Ghana.

*Keywords: Ghana; corruption; EU aid inflows; economic growth; co-integration; T-Y Causality*