

In this paper, we examine the causal relationship between aid inflows and economic growth for Ghana during the period from 1970-2013, taking into account structural breaks. To better reflect causality, corruption and trade are included as control variables. To test for causality in the face of cointegration, a vector error correction model (VECM) is used in place of a vector autoregressive (VAR) model. This approach is complemented with Toda and Yamamoto's method to indicate the causal direction. Our estimation results suggest GDP growth has one cointegrating vector relationship with corruption, EU aid inflows and trade in both the short and long runs. There is a long-run unidirectional causal relationship from EU aid inflows to GDP growth and a short-run unidirectional causal relationship from trade to GDP growth. Corruption (which is a governance issue) was ineffective in inducing GDP growth. The error correction terms are the source of causation in the long run. The results indeed confirm the popular conjecture that corruption in Ghana is endemic and stifles development. Therefore, the decision by the government to launch a national anti-corruption campaign in 2011, though long overdue, was justifiable. We urge all stakeholders to work together to deepen good governance to promote sustainable growth and serve as inducement for continued aid inflows from multilateral donors to sustain efforts at achieving the national development thrust of poverty reduction and sustainable development in Ghana.

Ghana; Corruption; EU Aid Inflows; Economic Growth; Governance; Multivariate Cointegration