# Effect of Foreign Aids on the Nigeria Economic Development

**AKINTOYE, Olufemi Temidayo**

Department of Accounting,
Bingham University,
Karu, Nasarawa State.
Phone No: +2348177320558

**DANIEL, Kayode Emmanuel**

Department of Accounting,
Bingham University,
Karu, Nasarawa State.
E – Mail: emmyfordaniel@yahoo.com, Phone No: +234 8060514553

**Abstract**

*This paper looks at the Effect of Foreign Aids on the Nigeria Economy since the emergence of the Fourth Republic from 1999 till 2018.Secondary data was sourced from the World Bank. Ex-post facto research design was used and the Ordinary Least Square (OLS) was used to measure effect of Foreign Aid to Government Expenditure, while coefficient of correlation is used to measure the degree of relationship between them, and the result of the findings shows that there is insignificant relationship between Foreign Aid and the Nigeria Economy. Adopting the Aid-Growth Relationship Theory, the paper concluded that the amount of aid received in relation to its size in terms of GDP is too low, thereby having insignificant effect. It therefore recommended that efforts and policies on economic development should not be placed on foreign aid now but should aimed and channeled internally on effort to enhance national savings and investment.*

Keywords: Foreign Aids, Government Expenditure, Gross Domestic Product (GDP).

## 1. INTRODUCTION

According to the World Bank, a total of $43,468,000,000 (Forty three billion, four hundred and sixty eight million, US Dollars) has been given to Nigeria between 1999 and 2017 as Net Official Development Assistance (ODA) which consists of disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC) by multilateral institutions, and by non-DAC countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients which Nigeria is part off. Nigeria is the world's 20th largest economy as of 2015, worth more than $500 billion and $1 trillion in terms of nominal GDP and purchasing power parity respectively. It overtook South Africa to become Africa's largest economy in 2014. Nigeria is considered to be an emerging market by the World Bank. While Nigeria has made some progress in socio-economic terms in recent years, its human capital development remains weak due to under-investment and the country ranked 152 of 157 countries in the World Bank’s 2018 Human Capital Index. Furthermore, the country continues to face massive developmental challenges, which include the need to reduce the dependency on oil and diversify the economy, address insufficient infrastructure, and build strong and effective institutions, as well as governance issues and public financial management systems

Nigeria is Africa largest population with an estimated population of 198 million people (according to the National Population Commission), blessed with plentiful natural resources. Nigeria is the largest country of exporting petroleum in Africa. Between 1999 and 2017 alone, a total $763,349,246,464 was received by Nigeria from Oil Revenue. Despite this huge inflow, Nigeria’s lack of development of strategic infrastructure has limited its ability to improve the social welfare of the people and promoting business investment. Considering the fact that one of the key reasons of collecting aids is to promote economic development, what effect has the total foreign aid sum received made on the Nigeria economy especially since the emergence of the fourth republic which is from 1999 till date looking at Government Expenditure (G) of the components of Nigeria's Gross Domestic Product (GDP) which also include Private Consumption (C), Investment Expenditure (I), and Net Exports (X – M).

Given the importance of foreign aid to the economies of countries like Nigeria, it is important to understand its contribution to economy not just by looking at the overall GDP but its individual component. Therefore, this study analyzes the effects of foreign aid which is made up of Foreign Grants and Concessional Loan. The review of the various literature though varies but mostly shows that there is a positive butinsignificant relationship between Foreign Aid and the Nigeria Economy especially when the GDP is used as a proxy in measuring the Nigeria Economy Development or performance. However, the GDP consist of different component which include Private Consumption (C), Investment Expenditure (I), Government Expenditure (G) and Net Exports (Export (X) – Import (M)). As GDP is equal to C +I + G + (X-M). This paper measures the effect of Foreign Aid on the Nigeria Economy by analyzing just the effect on Government Expenditure in other determine the effects on a specific component of Nigeria GDP. The main objective of this study is to evaluate the effect of foreign aid on the economic development of Nigeria by looking at the effect on Government Expenditure in the Nigerian Economy.

## 2. LITERATURE REVIEW

### 2.1 Conceptual Framework

#### 2.1.1 Concept of Foreign Aid

According to Prateek, (2019), Foreign Aid is the voluntary transfer of resources from one country to another country. This transfer includes any flow of capital to developing countries. A developing country usually does not have a robust industrial base and is characterized by a low Human Development Index (HDI). Ajayi (2013) defines Foreign Aid as money that one country voluntarily transfers to another, which can take the form of a gift, a grant or a loan. Oxfam America (2008) defines Foreign Aid as "a broad category of grants to other countries for economic development, health, and emergency response to disasters. It also may be used for security and military assistance, counter narcotics and counter terrorism activities, and programs to fight corruption and increase public transparency".

Development Assistance Committee (DAC) defines foreign aid as Official Development Assistance (ODA) and technical aid. The term excludes military assistance. ODA flows must satisfy all three of' the following criteria; - their primary objective must be developmental, thus it excludes military aid and private investment, - they must be concessional, that is the terms and conditions of the financial package must be softer than those available on a commercial basis, and the the flows should come from governmental agencies and go to developing country governments. Official Development Finance comprises ODA plus international flows satisfying only the first and third criteria. Flows from voluntary agencies may also counted as aid, but do not satisfy the third criterion. Foreign aid can be in the form of a concessional loan and/or a grant.

#### 2.1.2 Global Foreign Aid Conceptualized

Olatujoye (2016) summarizes the overview of Global Foreign Aid by saying Hjertholm and White, espoused that several aid institutions developed from the organizations created to cater for the aftermath of war: Oxfam first catered for refugees from Greece, CARE was originally the Centre for American Relief in Europe (the Europe later became everywhere). The UN's development work began with the United Nations Relief and Rehabilitation Agency (UNRRA) founded during the war (1943), and the World Bank, whose full name is the International Bank for Reconstruction and Development, began with loans for reconstruction. The relative success of the Marshall Plan of 1948 was also a major premise upon which the necessity and importance of foreign aid was hinged. A final feature of the post-war international scene of importance was the first wave of independence, creating a constituency for aid In addition to the above, foreign aid also played out as one of the major dynamics of the cold war between the United States and the former Union of Soviet Socialist republics. Arising from the above, it can be concluded as Stevenson, noted that the modern concept of foreign aid or assistance from mainly rich industrialized countries to less economically developed countries, has its roots in the post Second World war reconstruction era. With regards to the need for foreign aid, rich countries of the world especially the members of Organization for Economic Cooperation and Development (OECD), as noted by Zimmerman recognized that, "more than half of the global citizens live on less than 2$ per day or less, purchasing power parity, many of them do not have access to clean drinking water, good healthcare or schools for their children. Therefore scholars opined that an attempt to assist poor countries to develop and end poverty has been the subsisting reason to initiate foreign aid policy.

### 2.1.3 United State (U.S) Foreign Assistance to Nigeria

According to the U.S government through its website www.foreignassistance.gov (2019), a total of 7,124,194,428.74 USD (Seven billion, one hundred and twenty four million, One hundred and ninety four thousand, four hundred and twenty eight Dollar, Seventy Four Scent) has been given to Nigeria in the last 10 years through the US Department of Security (DOS) and United States Aids (USAIDS) The primary goal of U.S. assistance in Nigeria is to support the country's development as a stable democracy while reducing extreme poverty. In the North East region, where the violent Boko Haram insurgency has devastated local populations, the U.S. government will continue to provide life-saving humanitarian assistance and transitional programs for stabilization. Targeted U.S. foreign assistance in Nigeria seeks to reduce extreme poverty and improve the quality of life for Nigeria's most vulnerable communities through improved governance at the federal, state, and local levels; reduced corruption; a strengthened private sector as a source of job creation; and improved quality of social service delivery. U.S. assistance will continue to address security issues by increasing the skills of security forces and advocating for institutional reform. Additionally, U.S. assistance will better position Nigeria to achieve its goal of regional leadership in West Africa via the Abuja-based Economic Community of West African States (ECOWAS) regional commission, while advancing U.S. policy objectives.

### 2.1.4 United Kingdom (UK) Foreign Assistance to Nigeria

According to the UK National Statistics (2018), The United Kingdom through The Department for International Development (DFID) £2,071,194,00 leads the UK's global efforts to end extreme poverty, deliver the Global Goals for Sustainable Development (SDGs) and tackle a wide range of global development challenges. The UK's focus and international leadership on economic development is a vital part of Global Britain - harnessing the potential of new trade relationships, creating jobs and channeling investment to the world's poorest countries. Throughout history, sustained, job-creating growth has played the greatest role in lifting huge numbers of people out of grinding poverty. This is what developing countries want and is what the international system needs to help deliver. Whilst there is an urgent need for traditional aid in many parts of the world, ultimately economic development is how we will achieve the Global Goals and help countries move beyond the need for aid. UK aid supports federal and state level governments to be more effective, transparent and accountable to their citizens, including through support to the 2019 elections process. The UK is supporting the Economic and Financial Services Commission to help improve its ability to investigate and prosecute corruption cases. UK aid will also help Nigeria increase its own revenues by improving its tax systems and making it easier for businesses to invest.

### 2.1.5 China and Foreign Assistance to Nigeria

According to Nyshka (2017) in recent decades, the world's second-largest economy has evolved from an aid recipient to a net aid donor. However, getting its official Foreign Aid position has not been easy. "Unlike OECD countries, China does not officially disclose its aid information on a regular basis. Data about Chinese foreign aid often comes from media reports and governmental documents. Research labs like AidData are scrutinizing streams of sources and have constructed a fairly solid picture of Chinese foreign aid". Chaorong (2018). According to AidData, "between 2000 and 2013, Nigeria received $ 2,000,000,000 (Two billion) as an aid for energy generation and supply, and $1,700,000,000 (One billion, seven hundred million) devoted to projects in the communication sectors. China is also very careful in selecting recipient countries for its aid. Most of the African countries that are endowed with generous aid are very rich in terms of natural resources. For example, countries like Angola Ethiopia, Nigeria and Sudan whose top recipients are also rich in natural resources. According to Johns Hopkins University's (2019) "Chinese loan, finance is varied. Some government loans qualify as "official development aid." But other Chinese loans are export credits, suppliers' credits, or commercial, not concessional in nature. Between 2000 and 2017, Nigeria has received a total of $4,831,000,000 (Four billion, eight hundred and thirty-one dollar) from China. China is not Africa's largest "donor". That honour still belongs to the United States".

### 2.1.6 Concept of Economic Development

Economic development is a broad concept encompassing economic growth and other developmental dimensions. It can be defined as "a multidimensional process involving major changes in social structure, popular attitudes, and national institutions, as well as the acceleration of economic growth, the reduction of inequality, and the eradication of poverty (Todaro and Smith2009). With respect to indicators for Economic Development, Jim (2019) posits that as a country develops, the nature of its internal structure, finances and population changes. While several gauges are available to measure these changes, the most common indicators of economic development are Gross Domestic Product (GDP) per capita, the poverty level, life expectancy, the proportion of workers in agriculture and changes in the physical quality of life.

#### i. GDP Measures Economic Output

The gross domestic product is the economic value of a country's output of goods and services and indicates the strength of its economy. A higher GDP per capita is a sign of a more sophisticated stage of economic development. For this research work, the GDP will be used as a proxy to Economic Development because it measures the strength of an Economy which this paper is inclined unto.
According to data from the Central Intelligence Agency, the nations with the highest GDP per capita are Liechtenstein, Qatar, Monaco, Macau and Luxembourg. The countries with the lowest GDP per capita are Malawi, Niger, Mozambique, Tokelau, the Democratic Republic of the Congo, Burundi and the Central African Republic.

#### ii. Poverty Level Per Capita GDP

As a country's GDP per capita grows, the poverty rate declines. People earn more money, become more prosperous and begin to accumulate wealth. Poverty rates for countries with low GDP per capita also have a higher proportion of people living in poverty. A new report by The World Poverty Clock shows Nigeria has overtaken India as the country with the most extreme poor people in the world with an estimated total of 86.9 million in poverty. India has a population seven times larger than Nigeria's. The struggle to lift more citizens out of extreme poverty is an indictment on successive Nigerian governments which have mismanaged the country's vast oil riches through incompetence and corruption.

#### iii. Higher Incomes and Life Expectancy

As a country develops, its people move out of poverty, and their life expectancy increases. They earn more money and can afford better medical care. According to the latest WHO data published in 2018, life expectancy in Nigeria is: Male 54.7, female 55.7 and total life expectancy are 55.2 which gives Nigeria a World Life Expectancy ranking of 178.
At the top of the list is Monaco, with a life expectancy of 89 years. Residents of Japan and Singapore can expect to live an average of 85 years. Liechtenstein, Norway, Sweden and Switzerland have life expectancies above 82 years. Poorer countries with lower GDPs and higher poverty rates, such as Chad, Zambia, Somalia, Central African Republic and Mozambique have life expectancies barely above 50 years.

**iv. Levels of Economic Development**

Countries that have most of their population employed in agriculture are considered less developed. Countries with more urban areas and cities are considered better developed. Consequently, one of the indicators of economic growth is the percentage of people employed in agriculture. For example, only 1.3 per cent of the population in the United Kingdom is employed in agriculture, while Zambia has 85 per cent of its people working on farms.

**v. The Human Development Index**

The Human Development Index (HDI) is a composite metric created by the United Nations Development Programme to measure the levels of economic development of a country in three areas: education, health and per capita income. As examples, countries with the highest HDI are Norway, Australia, Switzerland, Denmark and the Netherlands. The countries with the lowest HDI are Niger, Eritrea, Gambia, Ethiopia and Afghanistan. The United Nation report on HDI of 2018 puts Nigeria's HDI value for 2017 at 0.53, which put the country in the low human development category positioning it at 157 out of 189 countries and territories.

### 2.1.7 Nigeria Gross Domestic Product (GDP)

The Gross Domestic Product (GDP) measures of national income and output for a given country's economy. The Gross Domestic Product (GDP) is equal to the total expenditures for all final goods and services produced within the country in a stipulated period of time. The GDP consists of the different component which includes Private Consumption (C), Investment Expenditure (I), Government Expenditure (G) and Net Exports (Export (X) – Import (M)). As GDP is equal to C +I + G + (X-M).

**i. Private Consumption (C)**

Private consumption is defined as the value of the consumption goods and services acquired and consumed by households.

**ii. Investment Expenditure (I)**

These are expenditures that are driven by the private sector and they represent final goods and services, especially the purchase of productive capital goods.

**iii. Government Expenditure (G)**

This is the purchase of goods and services, which include public consumption and public investment, and transfer payments consisting of income transfers (pensions, social benefits) and capital transfer. The Gross Domestic Product (GDP) in Nigeria was worth 375.77 billion US dollars in 2017. The GDP value of Nigeria represents 0.61 per cent of the world economy. GDP in Nigeria averaged 97.52 USD Billion from 1960 until 2017, reaching an all-time high of 568.50 USD Billion in 2014 and a record low of 4.20 USD Billion in 1960. The Nigeria Gross Domestic Product of 2017 is made up of 300.23 billion USD for Private Consumption, 58.14 billion USD for Investment, 17.37 billion USD for Government Expenditure, and -16.81 billion USD for Net Exports. Summarily, the conceptual framework provides a good avenue for the understanding of various concepts relating to the topic, the overview and meaning of foreign aid, types and importance were discussed extensively. Economic development with an emphasis on the recent happening in the Nigeria economy was discussed. The paper also highlighted the tools used in measuring the performance of an economy, the component of GDP while also mentioning while the GDP is used as a proxy to Economic developed in this research work.

### 2.1.8 The Nigeria Fourth Republic

The Fourth Republic is the current republican government of Nigeria after a military rule that lasted for 15 years with an interim government for 1 year in between. Since 1999 it has governed the country according to the fourth republican constitution. According to Oke (2010) Governance in the Nigerian Fourth Republic is symptomatic of the following:

**i. Corruption**

Doubtlessly, Nigeria is one of the leading corrupt countries in the world. The Transparency International in her annual rating made Nigeria third, fourth and fifth most corrupt nation in the world in 2003, 2004 and 2005 respectively. Corruption has become part of governance in Nigeria. General Abacha was said to have stolen more than $3 billion between 1993 and 1998 (Falola, 1999:2008). Cumulatively, Nigerian leaders, according to the Economic and Financial Crimes Commission, (EFCC), had within the last 40 years stole a total sum of $500 billion (Amalu, 2006). Thus corruption has eaten deep into the fabric of the nation and has shaken it to its foundation.

**ii. Economic and Infrastructural Decay**

This could be explained in the culture of profligacy arising from the low level of accountability that characterized governmental administration resulting in unbridled corruption, borrowing from the international market, instability of monetary, fiscal and especially investment policy, general climate of political instability, global economic meltdown as well as the problem of limited participation by the public in the formulation of economic policies and the strategies for implementing such policies. These abysmal economic failures culminated in serious infrastructural decay to the extent that most institutions of government were not working to expectation. The country' road, rail, electricity, water, postal and telecommunication infrastructure were in a state of decay and total collapse.

## 2.2 Empirical Literature

There have been different debates and opinions about the effect of foreign aid on economic performance. One view states that there is a positive relationship between foreign aid and economic growth or development while the other side is based on the opinion of an inverse relationship between foreign aid and economic development. Yet another view states that there is no relationship whatsoever between foreign aid and economic development in Nigeria. Thus, there has actually been no straightforward answer to the question of aid effectiveness. Shitile and Sule (2019) Re-examines the efficacy of foreign aid and grants on poverty reduction inNigeria using time seriesdata covering the period of 1999 to 2017. The paper focussed on disaggregated data for the analysis of foreign aid and grants. Grounded on the Great Big Push theoretical framework, the study testedthe marginal effect of foreign aid and other grants on poverty incidence in Nigeriausing the Autoregressive Distributed Lag (ARDL) bounds testing approach. Theempirical findings show that Foreign aid have positive but insignificant impact onnational poverty incidence in the short-term horizon; however, in the long-term, theeffect of Foreign Aid on poverty incidence is negative. This finding suggests thatthe plausibility of poverty reduction policy based on external aid and grants iscontestable. This affirms the argument that externally nominated solutions in form offoreign aid and grants do not connect with locally defined problems in povertyreduction.

Ugwuegbe, Okafor, and Akarogbe, (2016), examine the effect of external borrowing and foreign financial aid (foreign grant) in the form of official development assistance (ODA) on the growth of the Nigerian economy over a period of 34 years from 1980 to 2013. Annual time series data were obtained from the Central Bank of Nigeria (CBN) statistical bulletin and Organisation for Economic Cooperation and Development (OECD). The study employed an Ordinary Least Square technique (OLS) multiple regression model in determining the causal-effect between the variables under study. The test for Unit Root was conducted using Augmented Dickey-Fuller (ADF), Johansen Co-integration test was used to determine the long-run relationship between the variables and Error Correction Method (ECM) was adopted to help us determine the speed of adjusting. The results show that while external debt has a positive and significant effect on economic growth, foreign aid in conformity with the a priori expectation is positively related to GDP as well but statistically insignificant. This implies that foreign aid is beneficial to Nigeria but has not been much felt. Hence the bulk of such funds (foreign aid) are been channeled to meeting recurrent or consumption expenditure needs of the country at the expense of productive investments.

Fatukasi and Kudaisi (2015), investigated the factor influencing the foreign aid from the U.S to Nigeria during the period 1980-2013 using the variables unemployment rate, poverty rate, population growth rate, demographic factors proxy by the number of people living with HIV as well as the growth rate of GDP per capita. The findings revealed that aid flow to the country is influenced by the poverty rate in the country, the number of people living with HIV/AID and population growth rate. The result, however, showed what foster increase in U.S aid to Nigeria over the past decades. Although a great deal of approximately 50% of the U.S aid to Nigeria is designated to address the problem of HIV/AIDS Based on the results, the aid flow to the country should be properly managed to achieve the objectives at which aid is being allocated to the country. If aid from the U.S is to have a positive impact on the economy then the distribution of assistance must take into consideration the rural-urban dichotomy in Nigeria with a view to integrating the rural economy with the larger macro-economy.

Mbah and Amassoma (2014), established that Nigeria has benefited immensely from foreign aid because she has been identified among the poorest nations in the world in spite of her abundant natural and human resources. Despite the increased flow of foreign aids into Nigeria and the enormous potential of foreign aid in accelerating economic growth through bridging of the savings and foreign exchange gaps, Nigeria economy is still characterized by a low level of income, high level of unemployment, very low industrial capacity utilization, and high poverty level. The study employed econometric techniques such as; Ordinary Least Square, Augmented Dickey-Fuller (ADF) test, Johansen Cointegration test using data spanning from 1981- 2012. The result shows a negative and non- significant relationship between foreign aid to Nigeria and GDP. The study, therefore, suggests the implementation of political, economic and institutional reforms that will address the problem of pervasive corruption in the country, improve the quality of governance, ensure that foreign aid flows are invested into developmental projects that will boost the nations GDP and reduce the level of poverty in the country. Stella and Ditimi (2014), looking at the linkage between Foreign Aid and Economic Growth in Nigeria, employing econometric techniques such as; Ordinary Least Square, Augmented Dickey-Fuller (ADF) test, Johansen Cointegration test using data spanning from 1981-2012 found a negative and non- significant relationship between foreign aid to Nigeria and GDP. The study, therefore, suggests the implementation of political, economic and institutional reforms that will address the problem of pervasive corruption in the country, improve the quality of governance, ensure that foreign aid flows are invested into developmental projects that will boost the nations GDP and reduce the level of poverty in the country. The result showed a statistically significant relationship between population growth rate and foreign aid to Nigeria.

## 2.3 Theoretical Framework

### 2.3.1 The Three Gap Model

Bacha's (1990) extended the two-gap model to include a third gap called the fiscal gap. The fiscalthe gap occurs when government expenditure exceeds revenue, causing a budget deficit. Bacha's model is an exercise in the maximization of investment (as a proxy for the output growth rate), in a fix-price, one period model subject to a number of equality and inequality constraints. The equality constraints are the balance between income and absorption, the balance-of-payments identity, the government budget constraint, and the equality between the flow supply and the flow demand of money. These give rise to the incorporation of the various macroeconomic gaps in the analysis. According to the three-gap model, the utilization and expansion of existing productive capacity is constrained not only by domestic and foreign savings, as was initially discussed by Chenery and Strout (1966) in the context of the two-gap model, but also by the impact of fiscal limitations on government spending and thus on its public investment choices. In the absence of well-developed financial markets, the available methods of financing public investment are mostly confined to foreign borrowing, budget surpluses and inflation.

Foreign resources can play a particularly significant role, especially if cutting current expenditures and inflation-based financing are not possible, either due to political circumstances or to external pressures on the fiscal authorties to curtail inflation.

### 2.3.2 Aid-Growth Relationship Theory

Theory suggests that foreign aid promotes economic growth by supplementing limited domestic savings as well as foreign exchange constraints of recipient developing countries. From the early literature the study conducted by Chenery H.B. and Strout (1966) which itself has its basis on the Harrod-Domar model of economic growth, has been important in this respect. The Harrod-Domar growth model supposedly died long ago. But still today, economists in the International Financial Institutions apply the Harrod-Domar model to calculate short-run investment requirements for a target growth rate. They then calculate a ―Financing Gap between the required investment and available resources and often fill the ―Financing Gap with foreign aid. The Financing Gap Model has two simple predictions: (1) aid will go into investment one for one, and (2) there will be a fixed linear relationship between growth and investment in the short run. The three elements of the Harrod-Domar model are income (growth), investment (savings) and incremental capital-output ratio (ICOR) related in the form: g = I/ICOR The incremental capital-output ratio (ICOR) represents ratio of additional investment to additional output; g is the growth rate of the economy; and ‗I' represents investment (which is equated to savings). Hence, with the ICOR remaining constant, the rate of economic growth will be directly determined by the rate of investment. With investment assumed to be equal to savings, this implies that a poor country, with low savings, will have low investment and therefore low growth. It is thus expected that supplementation of domestic savings by foreign aid will resort to an increase in investment, and hence economic growth.

### 2.3.3 Dependency Theory

Dependency theory states that the poverty of the countries in the periphery is not because they are not integrated or fully integrated into the world system as is often argued by free-market economists, but because of how they are integrated into the system. There are two schools of thought with different standpoints on the issue. One of these is the Bourgeois scholars and the second one is radical scholars of the neo-Marxian political economy. To the bourgeois scholars, the underdevelopment and the consequent dependence of most developing countries are as a result of the internal contradictions. To them, this problem can be explained by their lack of close integration, diffusion of capital, technology and institutions, bad leadership, corruption, mismanagement, etc. (Momoh and Hundevin. 1999). The standpoint views the under-development and dependency of the developing countries as internally inflicted rather than externally inspired. To this school of thought, a way out of the problem is for developing countries to seek foreign assistance such as aid, loan, investment, etc, and allow unhindered operations of the Multinational Corporations (MN) It is argued that development can come through the MNCs mechanism for transferring technology, capital and skills in management, design and marketing (Thomas, 1976; Ajayi, 2000). Although, the argument of bourgeois scholars on the causes of underdevelopment and dependency of the developing countries and the possible ways out appear to be strong as a result of the poor socio-political records of the developing countries. Nonetheless, their analyses are superficial and obscurantist in nature and meant to promote world capitalist interests.

## 3. METHODOLOGY

This paper use ex-post facto research design since this is a quasi-experimental research. The Population of the study is data from 1960 to 2017 on both Official Development Assistant (ODA) and the Component of Nigeria Gross Domestic Product which is made up of Private Consumption (C), Investment Expenditure (I), Government Expenditure (G) and Net Exports (Export (X) – Import (M)). The sampling was done systematically to capture a period of 19 years from 1999 to 2017 which captures the period on Nigeria Fourth Republic. Data is obtained from secondary sources, because the data is available from other sources and have been verified already and also been used in previous research, It is time-saving and cost-efficient. The data on the Net Official Development Aid is from the World Bank while data for the component of the GDP is from Nigeria's National Bureau of Statistics. The economic development rate is measured in this study as the growth of real GDP per capita in US Dollars, while foreign aid is measured by the Net Official Development Aid received also in US Dollars. Ordinary Least Square (OLS)is used to measure effect of Foreign Aid to Government Expenditure, while coefficient of correlation is used to measure the degree of relationship between them.The unit root tests is to check for the stationarity of the variables and a co-integration test to establish if the variables exhibit a long run relationship will be conducted. The estimation technique is OLS, used to test the validity and strength of the instrument. Since the research work is trying to establish relationship between two variables, which as highlighted under the various studies through the empirical review was largely used as seen in the works of Ugwuebe et al. 2016 Mbah & Amassoma 2014 and Kolawole 2013. The mathematical model of proportionality (Y = a + b X) provides a link between the Net Official Development Assistant and the GDP represented by Government Expenditure which is a proxy to Nigeria Economic development. The functional form is given as:

GE = f (ODA)

The model can thus be expressed linearly as GE = f (ODA)

Where ODA is Net Official Development Assistance and GE; The linear regression model, Y = a+ b.X

## 4. RESULT AND DISCUSSION

Using the Ordinary Least Square (OLS) Regression provides the results and shown in the tables below;

**Table 1: ODA and GE**

| Year | ODA (X) | GE (Y) |
|---|---|---|
| 1999 | 0.15 | 0.82 |
| 2000 | 0.17 | 1.47 |
| 2001 | 0.17 | 1.47 |
| 2002 | 0.30 | 1.28 |
| 2003 | 0.31 | 1.00 |
| 2004 | 0.58 | 6.53 |
| 2005 | 6.40 | 8.00 |
| 2006 | 11.43 | 12.10 |
| 2007 | 1.96 | 26.04 |
| 2008 | 1.29 | 31.78 |
| 2009 | 1.64 | 25.25 |
| 2010 | 2.05 | 32.15 |
| 2011 | 1.81 | 35.17 |
| 2012 | 1.92 | 37.80 |
| 2013 | 2.52 | 36.85 |
| 2014 | 2.48 | 36.75 |
| 2015 | 2.43 | 33.08 |
| 2016 | 2.50 | 21.79 |
| 2017 | 3.36 | 17.38 |

- Using the Ordinary Least Square (OLS) Regression provides the results and shown in the tables below.

**Table 2: Regression Analysis**

| | Coefficient | Standard Estimation | T-Stat | Standard Coefficient | P-Value |
|---|---|---|---|---|---|
| **Constant term (a)** | 18.077467 | 4.542276 | 3.979826 | 0.00000 | 0.000968640 |
| **Slope (b)** | 0.53458 | 1.312644 | 0.407253 | 0.0982951 | 0.688904 |

**Compiled by Researcher from STATA 16**

**Table 3: Goodness of Fit Summary**

| R square ($R^2$) | 0.00966192 |
|---|---|
| **Adjusted R square** | -0.0485933 |
| **Multiple correlation (R)** | 0.0982951 |
| **Two-tailed, T** | 3.979826 |

**Compiled by Researcher from STATA 16**

The coefficient of correlation (R) equals 0.0982951. It means that there is a very weak direct relationship between foreign aid and the Government Expenditure. R square (R2) equals 0.00966192. It means that the predictors (Xi) explain 1% of the variance of Y. Adjusted R square equals -0.0485933. Also, the overall regression: right-tailed, $F(1,17) = 0.165855$, p-value = 0.688904. Since p-value $\geq \alpha$ (0.05).

The linear regression model can now be represented by $Y = 18.077467 + 0.534578\ X$, which means that if X is increased by 1, it has a very little impact on Y.The results show that there is a positive relationship between the Foreign Aid (ODA) and the Nigeria Economic Development, but the relationship is very weak and insignificant.

## 5. CONCLUSION AND RECOMMENDATIONS

The findings of this paper have shown the Aid-Growth Relationship theory is not applicable in the context of foreign aid and the Nigeria economy as there is insignificant relation between the two. Rather, the Three Gap-Model of savings gap, foreign exchange gap and fiscal gap can be effectually related to the findings of this paper. The findings of this paper is also in support of the work of Shitile and Sule (2019), Nwosu (2018), Stella and Ditimi (2014), Okon (2012), Mbah and Amassoma (2014) which concluded that foreign aid have insignificant effect on the Nigeria Economy Development, and not in line with the works of Ugwuebe et al. (2016), For a country like Nigeria with huge natural and human resources, the fractional amount received as foreign aid cannot aid its growth significantly as shown in this study. However, according to the Bourgeois Scholar under the Dependency theory Nigeria lack and under development could be as a result lack of close integration with the developed world, diffusion of capital, and technology, bad leadership, corruption, mismanagement, etc. This paper therefore recommends that Nigeria should not rely on foreign aid in solving locally defined problems of its economy, as foreign aid do not have significant effect in its development. Instead, the focus should be on policies that will reduce or eliminate government budget deficit and importantly increase foreign exchange earnings. Also, efforts should be intensified in creating conducive environment for investment especially in the real sector of the Nigeria Economy which will lead to more jobs, thereby improving savings.

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