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The Impact of Foreign Aid on Socio–Economic Development in Nigeria

[1]Sennuga Mabayoje Albert, [2]Adedayo Temitayo Gbeminiyi and *[3]Sennuga Samson Olayemi

[1]Economics Department, School of Arts and Social Sciences, Tai Solarin College of Education, Omu-Ijebu, PMB 2128, Ijebu-Ode, Ogun State, Nigeria.

[2]Establishments Department, Tai Solarin College of Education, Omu-Ijebu, PMB 2128, Ijebu-Ode, Ogun State, Nigeria.

[3]School of Agriculture, Food and Environment, Royal Agricultural University, Stroud Road, Cirencester, Gloucester, GL7 6JS, United Kingdom.

*Corresponding Author's Contact Detail: E-mail Address: dr.yemisennuga@yahoo.co.uk

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The purpose of foreign aid is to stimulate socio-economic growth in aid-recipient countries; yet, literature review reveals mixed results: inconclusive or often controversial findings. Using linear regression with the application of Ordinary Least Squares (OLS) technique and time series annual data from 1988 to 2018, this study aims to examine the relationship between foreign aid and economic growth in Nigeria. The study adopted gross domestic product growth rate as dependent variable while poverty rate, unemployment rate and foreign aids constituted the explanatory variable to determine their impacts on socio-economic development in Nigeria. The result indicated that while foreign aids is positively related to the dependent variable (GDP growth rate), poverty and unemployment rates were found to be inversely related to the GDP growth rate, which might be attributed to institutional failure, corruption and inefficient allocation of scare resources which no doubt manifest in terms of high rate of unemployment, insecurity and abject poverty in Nigeria. Consequently, Nigerian government should, therefore, put in place appropriate policy measures that would monitor the maximum and effective utilization of foreign aid.

Key Words: Development, Foreign Aid, Gross Domestic Product, Socio-economic Unemployment.

INTRODUCTION

The term "foreign aid" implies a number of varied activities, ranging from humanitarian support in the wake of natural disasters to military assistance and arms donations. It is a voluntary transfer of resources from one country to another (Uzonwanne and Uju, 2015). It may serve one or more functions such as being a signal of diplomatic approval or strengthening a military ally or rewarding a government for behaviour desired by the donor or extending the donors cultural influence or providing infrastructure

needed by the donor for resources extraction from the recipient country or gaining other kinds of commercial access (Uzonwanne and Uju, 2015). Hence, the role of foreign aid in the growth process of developing countries has been a topic of intense debate given its implication on employment generation and poverty reduction in developing countries.

It has been established by OECD-DAC (1999) that foreign aid is important to the development of Sub-Sahara Africa, as it is a means of increasing the capital available for investment and the economic growth needed to reduce poverty and raise living standards in the continent. It also contributes to sustainable economic development, as it results in the transfer of new technologies, skills and production methods. It provides resources for industrialization, enhance efficiency of resource use, increase product diversity and generate employment.

However, despite aid to developing countries, they still face massive poverty, slow GDP growth, high mortality rates, and low levels of education. In the year 1999, 1.2 billion people lived on less than $1 a day, and another 2.8 billion people lived on less than $2 a day (World Bank, 2003). The majority of the people in the least developed countries cannot read or write with over 854million adult in the world being illiterate and 543 million of them are women (Human Development Report, 2000). These statistics reflect the extent of low human development in developing countries which implies miserable and sub-standard living for the country's poor.

The role of foreign aid in the growth process of developing countries cannot be over-emphasized and has been a topic of intense debate given its implication for poverty reduction in developing countries. Previous empirical studies on foreign aid and economic growth generate mixed result with larger proportion of these empirical studies concluding that economic growth would be stimulated by Foreign Direct Investment (Oyatoye et al., 2011; Saibu et al., 2011 and Umoh et al., 2011). Also, studies which include Fasanya and Onakoya (2012); Nkoro and Furo (2012) find a positive relationship between aid and growth while Bakare (2011), establishes a negative relationship. Papanek (1973), Dowling and Hiemenz (1982); Gupta and Islam (1983); Hansen and Tarp (2008); Burnside and Dollar (2000), Gomance et al., (2005). Dalgaard et al., (2004) and Karras (2006), find evidence for positive impact of foreign aid on growth. Burnside and Dollar (2000); Brautigam and Knack (2004) find evidence for negative impact of foreign aid on growth. In between, however, some argued on the role of economic policy in determining the effectiveness of foreign aid in aid recipient countries. Pederson (1996), argues that it is not possible to conclude that the foreign aid has a positive impact on growth. Morrissey (2001), claimed that aid works well conditionally on other variables in the growth regression. Mosley (1980), Mosley et al., (1987); Boone (1996); Jensen and Paldam (2003), found evidence to suggest that aid has no impact on growth. Many other authors find no evidence that aid affect growth in developing countries. By and large, the relation between aid and economic growth remains inconclusive and is worthy-being studied further.

There is no doubt that Nigerian economy is characterized by low level of income, high level of unemployment, very low industrial capacity utilization, and high poverty level just to mention a few of the various socio-economic problems bedevilling the nation. In addressing these problems, foreign aid has been suggested as a veritable option for augmenting the meager domestic resources. While some countries that have benefited from foreign assistance at one time or the other have grown such that they have become aid donors (South Korea, North Korea, China etc.), majority of countries in Africa like Nigeria have remained backward. Nigeria has continued to benefit from all sort of foreign assistance and in fact still collect at least as much as the amount collected in the early 1980s, yet socio- economic development has remained dismal. While there could be so many factors both qualitative and quantitative explaining these unfavourable trends, the incessant socio-political crisis, policy inconsistence, macroeconomic instability and bad governance evident in Nigeria are indeed indicators of poor policy framework, should give one a pause (Salisu, 2007).

Problem Statement

Over the last half century, foreign aid has emerged as a dominant strategy for alleviating poverty in the third world. Not coincidentally, during this period, major international institutions, such as the United Nation, World Bank and International Monetary Fund gained prominence in global economic affairs (Hjertholm and White 2003). Despite the window of opportunity opened to the lesser developed countries (LDCs) of the world to develop using foreign aids, the

reverse is the case as they continue to suffer from economic hardship, raising question of whether foreign aid is a worthwhile and effective approach to boosting growth and development in recipient economies. In Nigeria, there have been huge and significant in-flows of foreign aid into the economy, which have brought about gross dependency on foreign aid. Although the inflow of foreign aid is considered as an augmentation to any recipient, but it is believed that its consequence most time exceed its benefits. The situation is such that the economy of Nigeria does not maximize its productive capacities and thus, operates at a level below maximum potential. What is mindboggling is that foreign aid sent to aid Nigerians has not really reduced most of the problems that have been confronting the country for ages. The dependence of Nigeria for foreign aid in-flow has in a long way diluted the quest of the economy to develop its capacity as its government does not make efforts to develop its internal utilization of its human and non-human resource. As a consequence, to this, the unemployment rate has remained an unresolved macroeconomic problem in Nigeria.

Despite the benefits inherent in aids given by developed countries and multinational institutions to help alleviate poverty, induce economic growth, and raise living standards in aid recipient countries aid literature have been inconclusive as to its effects on economies of developing countries like Nigeria. In the aid literature, various theoretical and empirical studies have been conducted on LDCs to determine the actual effects of foreign aid on economic growth. For example, pro-aid researchers (Burnside and Dollar, 2004; Camelia and Sanjay, 2009; Dalgaardet al., 2004; Hansen and Tarp, 2001; Sachs et al., 2004;) found a positive impact of foreign aid on economic growth. However, Lensik and White (2001); Easterly (2003); Malik (2008); Hamid (2013), while challenging this finding, proved on the grounds that aid is ineffective, contributing to the anti- aid literature. Despite having an enormous literature on this subject, a consensus has not been reached on the impact of aid on growth, and yet the results are still inconclusive (Ekanayake and Chatma, 2010; Macmillan, 2011; Tadesse, 2011) and this suggest that aid and growth rate are neither positively, nor negatively related. These paradoxical results obtained in various studies conducted on aid recipient countries and anecdotal views of prominent development economists demand that this subject need further study. From the foregoing, it becomes expedient to investigate the impact of foreign aid on socio- economic development of Nigeria at this time.

Research Hypotheses

The following research hypotheses were formulated

H_{O1}: There is no significant relationship between foreign aid and Nigeria economic growth.

H_{O2}: There is no significant relationship between foreign aids and poverty reduction in Nigeria.

H_{O3}: There is no significant relationship between foreign aids and employment generation in Nigeria.

Concept of Foreign Aids

Easterly (2006) defines foreign aid as a voluntary transfer of resources from one country to another with the objective of benefiting the recipient country. Aid has been defined to Ajayi (2000) as a form of assistance by a government or financial institutions to other needy countries, which could be in cash or kind. It should be noted that aid tends to have several functions, such as being a signal of diplomatic approval, tool for strengthening a military ally or to reward a government for behaviour desired by the donor. It can also be for provision of infrastructure needed by the donor for resources extraction from the recipient country or may be as a way of gaining other kinds of commercial access.

Riddell (2007) also defined foreign aid as comprising all kinds of resources ranging from physical merchandise, skills and technical know-how, financial grants including gifts and loan which are given to recipients by donors at concessional rates. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) also defines aid as Official Development Assistance (ODA) which qualifies on three criteria. It is to be undertaken by official agencies; it is to have the main objectives of promoting economic development and welfare and it has to have a grant element of twenty five percent or more. Aid according to Ajayi (2000) is a form of assistance by a government or financial institution to other needy countries, which could be in cash or kind. Foreign Aid, according to Todaro and Smith (2010) is the international transfer of public funds in the form of loans or grants either directly from one government to another (bilateral assistance) or indirectly through the vehicle of a multilateral assistant agency such as World bank. Economists have defined foreign aid,

therefore, as any capital flow to a developing country that meet two criteria; its objectives should be non-commercial from the point of view of the donor and it should be characterized by non- concessional terms; that is, the interest rate and repayment period for borrowed capital should be softer (less stringent) than commercial terms.

Freeing aid in its broadest sense has been defined as consisting of all resources- physical goods, skills and technical know-how, financial grants (gifts), or loans (at concessional rates) and support in international negotiations transferred by donors to recipients. Lancaster (1999) also defines foreign aid as a transfer of concessional resources, usually from a foreign government or international institution, to a governmental or non- governmental organization in a recipient country. It may be provided for a variety of reasons, including diplomatic, commercial, cultural and development. In all cases, it is noted that the definition of aid (whether foreign or development) is largely donor-driven and based on the intentions of those giving the aid rather than those using it, the recipients. This uncontested, donor-driven approach has remained the norm and also manifests in the fact that it has always been the donor who decide how much aid to give and the form in which it is to be given (Riddell, 2007).

Foreign Aids and Economic Growth

The relationship between foreign aid and economic growth has drawn great attention for years, but the empirical results are mixed. There is now a large literature on the relationship between aid and growth. A study conducted by Bakare (2011) finds a negative relationship between foreign aid and output growth in Nigeria which implies that foreign aid tends to worsen output growth in the country rather than improving it. In corroboration, Fasanya and Onakoya (2012), find a significant positive impact of foreign aid on economic growth in Nigeria as Nkoro and Furo (2012) also show that there is a significantly positive effect of foreign aid on real GDP in the country. Hudson and Moskey (2004), Islam (2003); Dalgaard and Hansen (2004) studied aid, focusing on its rate of return. They found that aid may have a diminishing return that is the impact of aid on growth becomes negative after a certain threshold is reached. The threshold level of aid as a ratio of GDP varied from 25 percent to 45 percent. Similarly, studying a panel of 56 countries and four-year time periods from 1970-1973 until 1990-1993; Burnside and Dollar (2000) found that good fiscal, monetary and trade policies are the prerequisites for aid to have positive effect on economic growth. Their finding has a substantial increase in amount of aid (Easterly, 2006). Soludo in Okonjo-Iweala et al., (2013) argue that once an initial stock of debt grows to a certain threshold, servicing them become a burden and countries find themselves on the wrong side of the Debt Laffer Curve, with debt crowding out investment and growth. Conversely, Bakare (2011) asserts that a country's indebtedness does not necessarily slow growth, rather it is the nation's inability to optimally utilize these loans to foster economic growth and development and ensure effective servicing of such debt that hampers the benefits derivable from borrowed capital resources. Udeh (2013) notes that this has brought about the adoption of several initiatives capable of alleviating the debt burden which continue to hinder the growth prospects of most Highly Indebted Poor Countries (HIPCs) economies. These initiatives range from debt rescheduling to outright cancellation.

Despite the huge amount of debts which the country has continued to incur over the years, with the aim of achieving economic growth and development, high unemployment, poverty and low standard of living is still prevalent in the country, as observed by Aiyedogbon and Ohwojasa (2012); (Nwagwu, 2014). The inability of Nigeria to effectively meet her debt obligations has adverse effect on the economy, as interests' arrears accumulate over the years, thereby creating a much greater debt burden on the nation resulting in a greater percent of her revenue being spent on debt service arrears. Audu (2004) observed that the debt service burden has continued to hamper Nigeria rapid economic development and worsened the social problems, this is because debt servicing crowds out investment and growth.

Empirical Studies on Foreign Aid and Economic Growth

There are a range of empirical studies analyzing impact of aid on economic growth, yielding paradoxical results on controversial conclusions. Much of these studies apply earlier statistical techniques such as OLS, linear regression and basic inferential statistics developed many decades ago with their own specifications and functions which may not be accurate to determine long run relationships. However, a more accurate techniques to capture

long run dynamics introduced by Johansen (1988) known as the co-integration test, is applied by various economists such as Mallik (2008); Tadesse (2011); Hamid (2013) and Mitra (2013). This technique has a good reputation in forecasting impacts between endogenous macroeconomic variables.

Socio- Economic Impact of Foreign Aids on Nigerian Economy

Foreign aid is important to the development of sub-Sahara Africa countries, as it is a means of increasing the capital available for investment and the economic growth needed to reduce poverty and raise living standards in the continent. It can also contribute to suitable economic development as it can result in the transfer of new technologies, skills and production methods. It can provide resources for industrialization, enhance efficiency of resource use, increase product diversity and generate employment. The ability of developing countries to attract foreign aid, maximize the associated benefits and minimize the risks depends on the conditionality of the foreign aid and the country itself (Bakare, 2011).

Nigeria is similarly plagued with a leadership problem and this challenge is the reason development assistance seems not to be working in Nigeria. Drawing from the success of the Marshall Plan, which is an indication that aid can help in poverty alleviation, but the challenge of the mismanagement of aids received is the factor that is slowing down the process. The various leaders that have engaged in money laundering theft, frauds and all kinds of fiscal malpractices are the reason for the dismal result on poverty alleviation attempt. As Killick (1999 cited in Ijaiya and Ijaiya (2004) put it that aid that comes in a form of technical co-operation would affect the quality of a nation's labour force through the provision of training and imported skills which are essential for economic growth and poverty reduction, if an enabling environment is allowed to exist.

Consequently, Moyo (2009) challenged the theoretical strand surrounding the effectiveness of aid and opines that the billions of dollars in aid sent from wealthy countries to developing African nations has not helped to reduce poverty and increase growth. In fact, poverty levels continue to escalate and growth rates have steadily declined and million continue to suffer. Similarly, overreliance on aid has trapped developing nations in a vicious circle of aid dependency, corruption, market distortion and further poverty, leaving them with nothing but the need for aid.

METHODOLOGY

The Ordinary Least Square (OLS) Regression model is used to obtain the parameter of the variables. Coefficient of determination (R^2), T and F tests were used to ascertain the validity of the estimated coefficients. Coefficient of determination gives the extent to which the independent variables explained the variation in the dependent variable. For the T- test and F-tests, the calculated values will be compared with the tabulated values to estimate the statistical significance of explanatory variables. They determined the acceptability or otherwise of the hypothesis formulated and the standardize beta coefficient used to estimate the relative effectiveness of the explanatory variables.

Model Specification

The primary aim of this study is to examine the impact of foreign aids on Nigeria soci-economic development. In evaluating this, variable such as gross domestic product growth rate, poverty rate, unemployment rate and foreign aids to Nigeria were used. While the gross domestic product growth rate served as dependent variable, poverty rate, unemployment rate and foreign aids to Nigeria served as explanatory variables. To establish the relationship among the variables, a growth model was adopted which is in line with that applied by Adeoye (2006) and Durance in Habeeb (1994) where they proposed a relationship between economic growth and inflation. Thus, the methodological approach for this research work followed the specification of a model which specifies Gross Domestic Product as a function of poverty rate, unemployment rate and foreign aids to Nigeria. Thus, the model can be specified as stated thus:

$Y_t = f(X_1, X_2, X_3, X_4, \ldots X_n)$……………………….(1)

$GDP_t = f(PR_1 + UR_2 + FA_3 + U_n)$…………………….…(2)

In a linear form, the model can be specified as:

$GDP = b_0 + b_1PR_1 + b_2UR_2 + {}_{b3}FA_3 + U_n)$…………..…(3)

Where,

GDP = Real Gross Domestic Growth Rate

PR= Poverty rate

UR = Unemployment Rate

FA= Foreign Aids to Nigeria

U_n= Error term (stochastic variable)

Table 1. Effect of Poverty and Unemployment on GDP

Dependent Variable: Gross Domestic Product
Method`: Least Square
Date: 20/10/19 Time: 10:10
Sample (Adjusted): 1988-2018
Included Observation: 30

Explanatory Variables	Coefficients	Standard Error	T-Statistic
Constant	-29.91625	41.54208	-0.720143
LOG (PR)	0.123020	0.097964	1.255769
LOG (UR)	4.508248	10.84019	0.415883

R- Squared =0.841231 Adjusted R- Squared =0.674479
F-Statistics = 1.056239 S.E. of Regression = 1.132379
Dustbin Wastson stat = 1.322747 Prob (F -Statistic) = 0.057519
Akaike info Criterion = 3.194685 Mean Dependent Var. = 12.53195
$GDP_1 = -29.91625 + 0.123020PR + 4.5082481UR$

The Logarithm format: The logarithm format becomes necessary due to the fact that it measures the general growth rate to de-emphasize the rising trend of each of the variables to be used in the model. The researcher carried out the regression logging the variable and the model is thus stated:

$LnGDP = b_0 + Inb_1PR_1 + Inb_2UR_2 + Inb_3FA_3 + U_n)$……(4)

Other equations are stated thus:

$LnGDP_1 = b_0 + b_1PR_1 + b_2UR_2 + U_n$……………………(5)

$LnGDP_1 = b_0 + b_1PR_1 + b_3FA_3 + U_n$……………………(6)

$LnGDP_1 = b_0 + b_1UR_1 + b_3FA_3 + U_n$……………………(7)

While equation 4 combined all the variables together, equation 5, 6 and 7 are meant to ascertain how each of the variables in turns will affect gross domestic product and how their non- inclusion in the equation will affect the performance of the analysis.

Data Types and Sources

The estimation of the model in this study is done using time series data over the periods 1988 -2018. All the data used were sourced from various issues of the reports / publications of Central Bank of Nigeria, National Bureau of Statistics (CBNNBS) and other scholarly reports on the study. The data shall be analyzed using multiple regression analysis.

RESULT

In order to estimate the impact of foreign aids on socio-economic development in Nigeria, the gross domestic product growth rate was regressed on the explanatory variables (poverty rate, unemployment rate and foreign aids) over the periods 1988 to 2018. The result is thus presented in Table 1.

In this model, poverty and unemployment rates served as explanatory variables while the Gross Domestic Product (GDP) growth rate is the dependent variable. The result of the model as indicated in Table 1 showed that all the explanatory variables are positively related to the dependent variable (GDP). The coefficient of multiple determination shows that the model is of high good fit with approximately 84% of GDP being explained by the variables included in the model, while the remaining 16% are factors influencing economic growth but were not captured in the model. Similarly, the low Durbin-Waston value of 1.322747 suggests that there is presence of serial correlation. The F-statistics indicate the join significance of the explanatory and the high degree to which variation in the GDP are explained by variations in the explanatory variables.

In this model, poverty rate and foreign aids served as explanatory variables while the GDP growth rate is the dependent variable. The result of the model as indicated in Table 2 showed that poverty rate and foreign aids are positively related to the dependent variable (GDP). The coefficient of multiple

Table 2. Effect of Poverty and Foreign Aid on GDP

Dependent Variable: Gross Domestic Product
Method: Least Square
Date: 20/10/19 Time: 10:12
Sample (Adjusted): 1988-2018
Included Observation: 30

Explanatory Variables	Coefficients	Standard Error	T-Statistic
Constant	-27.43110	42.05804	-0.65220
LOG (PR)	3.816399	10.98550	0.347403
LOG (UR)	0.132854	0.105979	1.253579

R- Squared =0.813916 Adjusted R- Squared = 0.704256
F-Statistics = 1.053432 S.E. of Regression =1.132505
Dustbin Wastson stat = 1.335190 Prob (F -Statistic) = 0.034970
Akaike info Criterion = 3.194309 Mean Dependent Var. = -12.53195
GDP_1 = -27.43110+ 3.816399PR+ ``0.132854FA

Table 3. Effect of Unemployment and Foreign Aid on GDP

Dependent Variable: Gross Domestic Product
Method: Least Square
Date: 20/10/19 Time: 10:16
Sample (Adjusted): 1988-2018
Included Observation: 30

Explanatory Variables	Coefficients	Standard Error	T-Statistic
Constant	-20.33120	22.15814	-0.552124
LOG (PR)	2.716395	8.67552	0.447213
LOG (UR)	0.432861	0.245954	1.223552

R- Squared = 0.913812 Adjusted R- Squared = 0.844236
F-Statistics = 1.053432 S.E. of Regression =1.122515
Dustbin Wastson stat = 1.235191 Prob (F -Statistic) = 0.024570
Akaike info Criterion = 2.174604 Mean Dependent Var. = 11.52163
GDP = -20.33120+ 2.716395UR + 0.432861FA

determination shows that the model is of high good fit with approximately 81% of the GDP being explained by the variables included in the model, while the remaining 19% are factors influencing economic growth but were not captured in the model. Similarly, the low Durbin-Waston value of 1.335190 suggests that there is presence of serial correlation. The F-statistics indicate the joint significance of the explanatory variables and the high degree to which variations in the GDP are explained by variation in the explanatory variables.

In this model, unemployment rate and foreign aids served as explanatory variables while the GDP growth rate is the dependent variable. The result of the model as indicated in Table 3 showed that unemployment rate and foreign aids are positively related to GDP. The coefficient of multiple determination shows that the model is of high good fit with approximately 91% of GDP being explained by the variables included in the model, while the remaining 9% are factors influencing GDP but were not captured in the model. Similarly, the low Durbin Wastson value of 1.235191 suggests that there is presence of serial correlation. The F-statistics indicate the joint significance of the explanatory variables and the high degree to which variations in the GDP are explained by variations in the included explanatory variables.

Table 4. Effect of Poverty, Unemployment Foreign Aids on GDP

Dependent Variable: Gross Domestic Product
Method: Least Square
Date: 20/10/19 Time: 10:21
Sample (Adjusted): 1988-2018
Included Observation: 30

Explanatory Variables	Coefficients	Standard Error	T-StatistiC	Prob.
Constant	-28.68089	0.548670	0.123857	0.5227
LOG (PR)	-0.067957	0.593497	0.102072	0.0126
LOG (UR)	-0.060579	11.57763	0.359824	0.2196
LOG (FA)	4.165906	44.15668	-0.649525	0.1224

R- Squared =0.874554 Adjusted R- Squared = 0.740279
F-Statistics = 0.677336 S.E. of Regression =1.157555
Dustbin Wastson stat = 0.009717 Prob (F -Statistic) = 0.057519
Akaike info Criterion = 3.271135 Mean Dependent Var. = 12.53195
GDP = -28.68089-0.067957PR-0.060579UR + 4.165906FA

In this model, all the variables are combined together to ascertain the influence of poverty rate, unemployment rate and foreign aids on GDP growth rate. While poverty rate, unemployment rate and foreign aids served as explanatory variables, GDP growth rate is the dependent variable. The result of the model as indicated in Table 4 showed that both poverty and unemployment rates are inversely related to GDP growth rate while foreign aids is positively related to GDP Growth rate. The positive sign of foreign aids implies that the variables have positive effect on the GDP growth rate. The negative sign of the poverty and unemployment rate coefficients indicate that falls with increase in GDP. Based on the regression result above, one can clearly see that the coefficients of poverty and unemployment rates are negative, giving a value of -0.067957 and -0.60579 respectively. This result entails that over the years, foreign aid has contributed negatively to poverty reduction and unemployment generation in Nigeria. Hence, for every 1% increase of foreign aid inflow into Nigeria, poverty and unemployment rates reduces by -0.067957 and -0.60579 respectively.

This result conforms to economic a priori expectation because foreign aid inflow has gone a long way to crumble the poverty and unemployment in Nigeria based on the over reliance on such inflows and this deteriorates creativity needed for internal national- economic transformation. The coefficient of multiple determination shows that the model is of high good fit with approximately 87% of GDP being explained to the variables included in the model, while the remaining 13% are factors influencing national security but were not captured in the model. Similarly, the low Durbin Watson value of 0.009717 suggests that there is presence of serial correlation. In addition, foreign aids conformed with the a priori expectations with positive sign. Besides, only capital accumulation was found to be statistically significant at 5% per cent significant level while others were not when considered individually. The F-statistics also indicate the joint significance of the explanatory variables and the high degree to which variation in the GDP are explained by variations in the explanatory variables.

Policy Implication

The findings of the study showed that a positive relationship exists amongst foreign aids and GDP growth rate expenditure is in conformity with the a priori expectation. This indicates that foreign aid is beneficial and this corroborate with the findings of Ajayi and Oke (2012); Fasanya and Onakoya (2012) that foreign aid has positive impact on economic growth in Nigeria. However, a proportionate change in Foreign aid leads to a less than proportionate change in the economic development of the Nigeria. Thus, foreign aid has not been effectively used and managed as it ought to. For a developing country like Nigeria, a proportionate change in foreign aid is

supposed to yield a more than proportionate change in economic development, if the funds are efficiently utilized. One major reason that has been attributed for this is the presence of weak institutions in Nigeria as posited by Farah (2009).

The negative sign of the coefficient of poverty rate and unemployment rate may be attributed to institutional failure, corruption and inefficient allocation of scarce resources which no doubt manifests in terms of high poverty rate, insecurity and unemployment that characterized the Nigerian economy. Above all, results have important implications for policy. First, the huge estimates of foreign aid suggest a huge potential for economic growth in Nigeria if well utilized. Efforts must be made towards the implementation and effective utilization of foreign aid. An appropriate policy measures that would monitor the maximum utilization of foreign aid is required to avoid instances of leakage and diversion of such funds at the detriment of the masses.

Better economic reforms that will encourage the inflow of foreign aid should be made. The reform should thus be based on the need to encourage growth, and reverse the negative distributional effects of foreign poverty reduction and unemployment in Nigeria.

CONCLUSION

Based on the empirical analyses and results obtained in the research study, foreign aid has been found to have a positive relationship with GDP growth rate and as such the null hypothesis is rejected while poverty and unemployment rates have inverse relationship with GDP growth rate. Based on the empirical analyses and results obtained in this study, foreign aid has been found to have a positive relationship with GDP growth rate and as such the null hypothesis is rejected while poverty and unemployment rates have inverse relationship with GDP growth rate which implies that foreign aid has not been effectively used and managed as it ought to due to diversion, misappropriation and embezzlement of funds. If foreign aid inflows are not properly monitored and effectively utilized, unemployment will be on the increase and poverty level will rise. But rather, government and indigenous investors in Nigeria should focus on economic diversification that will possibly send exploitative donors' invasion to oblivion or reduce to the barest minimum over-reliance on foreign aids for national development.

RECOMMENDATIONS

To assist policy direction in order to reduce poverty and unemployment using foreign aids in Nigeria, the following recommendations are made based on the findings of the study:

i. The government of Nigeria should ensure that policies are made to build and strengthen institutions so that aids given by donor agencies to stem down poverty and unemployment are not diverted or siphoned for personal aggrandizement.
ii. Foreign aids, when attracted, should be channelled to revenue generation projects that will increase the level of economic capital base and employment that assure steady economic growth and poverty reduction.
iii. The government should block sources of economic leakages and illegal money transfers to foreign countries through its ministries and agencies that weaken our economy and thus makes the country vulnerable to foreign aid.

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