AE-FUNAI JOURNAL OF ACCOUNTING,
BUSINESS AND FINANCE(FJABAF)
ISSN:2635-392X
www.fujabf.org

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EFFECT OF FOREIGN AID ON ECONOMIC DEVELOPMENT IN NIGERIA

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ABSTRACT

Majority of the developing countries depend on one form of assistance or the other from the developed nations to improve their general economic welfare even though it has been argued that the donor countries benefit more from this grant /loan than the recipient countries. This study therefore, examine whether foreign aid in terms of Net Bilateral disbursement of official Development Assistance (BIODA) from eight selected Donor countries have a significant effect on Economic Development (HDI) in Nigeria for the period of 2003 to 2015. The data for the study was analyzed using linear regression. The result of this study shows that foreign Aid has a significant effect on economic development in Nigeria. But however, the result on the effect of Net Bilateral Disbursement of official Development Assistance from Finland to Nigeria shows that aids from this country has no effect on HDI. Thus, it is recommended that since its impact outweighs the level of insignificance foreign aid should be enhanced in Nigeria and policies should be put in place to ensure that the benefits of these aid actually translate to general economic development.

Key Words: Foreign aid, official development assistance, human development

INTRODUCTION

Foreign aids are mostly said to be grants and loans that a donor country advance to another nation (recipient country) with the motive of accelerating economic welfare. These grants are taken by official sector. Economic theories show that capital formation has been the basic problem of developing countries with Africa being one of them and as such aid is important as it play a vital role in capital formation which is essential for economic growth and development.

The whole thing about foreign aid emanated from the destruction in the1940s which was as a result of the second world war and the aftermath of this war were fall of the international economic systems characterized by shortage of capital required for infrastructure reconstruction (Cowen, 2003; Bashir, 2013). Ravinder (2013) opined that as foreign aid remain a major source of income for many low-income countries in Africa, it is important to consider its implications for these countries efforts to foster economic growth. But unfortunately, in today's developing countries especially in Africa most of the rulers and the ruled alike see development as the result only of foreign aid and donor hand-outs, rather than peoples own efforts (Boone 1996; Tavares 2003). However, given its dismal development records, Africa falls short of being able to provide its people with adequate resources, to have even the basic capabilities to feed its population and prepare suitable ground for development, the need for foreign aid in these countries seems indisputable. Particularly, today, with soaring fuel and food prices, aid to Africa has even become more essential and timely (Ravinder, 2008).

For countries like Nigeria foreign aid activities date back to the assistance of USAID since 1960, when Nigeria got her independence as the 26th African country. As a result, the U.S. Government awarded grants to four major U.S. state universities (Michigan State, Wisconsin State, Kansas State, and Colorado State) to build colleges of agriculture in four Nigerian Universities: the University of Ibadan, University of Nigeria-Nsukka, Ahmadu Bello University-Zaria, and the University of Ife (USAID, 2004).

For quite some time now there has been a cascade by many developing nations for an increase in official development assistance (ODA) because of the need for these countries to alleviate the standard of living of their citizens. On the other hand, the developed nations, international organizations in conjunction with some philanthropists made a massive infusion of development aid to developing countries including Nigeria. According to Conchesta (2008), a country like Nigeria is known for 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 economic problems these country is often faced with. Mostly, humanitarian aid has gone a long way to saving lives, provision of free health care services to the sick and deprived, medicines for those vulnerable to diseases in emergencies.

More so, foreign aid are considered a necessity for the development of Africa as well as Nigeria since it is seen as a means of increasing capital for economic growth and investment, reducing poverty and raising the standard of living of persons, contributing to the transfer of skills, technologies and production methods, increasing product diversity and generates employment (OECD-DAC, 1999; Bakare, 2011).

Despite the importance of foreign aid to the development of developing economy's most of the research done in this field and related field have come up with varied findings and contradicting opinions. The result of the study carried out by Olofin (2013), Andrews (2009), Girma (2005) , UNDP (2000) and Cassen (1986) all have similar assertion that even though aid has been given to most of the African countries there is no clear distinction between what the level of development was before the aid and after the aid. Though the second scholar did his study in 2005 on 25 sub-Saharan African countries for the period twenty seven years (27) his study proved that aid is ineffective meaning that it has no significant effect on the economic growth of sub-Saharan African countries. United national development Programme [UNDP] (2000) stated that growth may impact on national GDP but it does not imply development growth. Other studies agreed that if the impact of aid is looked at from a micro perceptive aid will be significant for the development and growth of an economy. But if it is done at a macro level the result will be very clumsy and will not impact on growth (De Renzio David, Andrew & Zaza, 2005; Cassen.,1986).

However, The finding of McGillivray (2009), Tarp (2009) ,Clemes and Gani (2003) showed that aid is important in bridging savings gap, accumulating physical and human capital stock and developing infrastructure in the host countries.

Similarly, their study agreed that aid affect human development but this is peculiar to the lower-middle countries. The Gross Domestic Capital is mostly associated with economic growth and ignores several issues of development such as standard of living, levels of education and health. Fasanya & Onakoya (2012) also fund that foreign aid has positive impact on economic growth in Nigeria. Ugwuanyi, Ezeaku, and, Imo (2007) agreed that official aid has an impact on Poverty using the ARDL and bound test approach. Nathan (2009) focused on the correlation between Aids and (under) development in African countries using GDP per capita, poverty and bad policies as proxies for economic development but this study did not use bad policies proxy for economic development.

In other to contribute to the argument and existing research in this discipline this study examines the effect of foreign aid on economic development in Nigeria from 2003 to 2015. The population of the study consists of Net Bilateral disbursement of Official Development Assistance from eight (8) foreign countries to Nigeria.

LITERATURE REVIEW

Conceptual Framework

The concept of foreign assistance is a voluntary action which is dependent on the recipient country from a donating country, governments, private organizations, individuals, which are providing support to the recipients' economic growth. An important objective of most ODA to developing countries is the promotion of economic development and welfare, usually measured by its impact on economic growth (Todaro, 2009). This aid can involve providing financial grants or loans, technical advice, training, equipment and commodities such as food, health, infrastructure and transport (Wells, 2000). Foreign aid does not only refer to the transfer of capital from one country to another but rather all governmental transfers from one country to another. Similarly, the term foreign aid is generally used in the sense of flow of resources from the rich countries to the poor underdeveloped countries at some point, 'all real resource transfer' from developed to underdeveloped or developing countries were included as foreign aid and this raised conceptual problems because it includes certain resource transfer which do not essentially qualify as foreign aid (Ajayi & Oke, 2013).

According to Tadess (2011), the generally accepted and used definition of foreign aid is one that encompasses all official grants and concessional loans, in currency or in kind, that are broadly aimed at transferring resources from developed to less developed nations on development and income redistribution grounds. United Nations (2009) has defined economic aid as an outright grants and long term loans for non-military purposes by Governments and various international organizations. Mosley, Jane and John (1991) also stated that foreign aid is a transmission of real resource from one country to another that normally won't take place as a result of the operation of market forces or in absence of specific official action put in place to promote such transfer from the donor country. Therefore foreign aid includes direct government transfers as well as those promoted by special official action such as government guarantees. The Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development OECD, 1998). Masud and Yontcheva (2005) defined aid as Official Development Assistance (ODA) which qualifies on three criteria: first, it is to be undertaken by official agencies. Secondly, it is to have the main objectives of promoting economic development and welfare and thirdly, it has to have a grant element of twenty five percent or more.

Berthélemy and Jean-Claude (2006) opined that aid might bilateral or multilateral, but these two types of aids are not the same because the bilateral aid is a two-way stream meaning that it is sent from one government to the other. Bilateral aid is when the capital flows from a developed nation to a developing country. Strategic political considerations and humanitarian ones often direct Bilateral Aid. These are to assist in long-term projects to promote democracy, economic growth, stability, and development. Whereas, Multilateral aid is given by a coalition of countries and/or organizations to a specific country. Multilateral Aid is assistance provided by many governments who pool funds to international organizations like the World Bank, United Nations and International Monetary Fund that are then used to reduce poverty in developing nations. Though this sector constitutes a minority of the US's foreign aid, the nation's contributions make up (Anwar, 2000). More so, Barret (1998) argued that foreign aid could be in the form Food aid which have to do with programme on food aid and humanitarian food aid. Such Programme is presumed to be a kind of relieve on the foreign exchange constraint to the import of the necessary intermediate inputs or by providing fiscal resources through counterpart funds generated by the local sale of programme food aid. These resources can be used by the recipient country to invest in agricultural research and extension and Improvement of rural infrastructure in particular. However, programme food aid may have Dutch disease effects on domestic food producers and thus hurting the food sector's competitiveness in the world markets.

In addition to that Riddell (2007) acknowledged that another form of aid that developing nations usually benefit from is technical aid. Technical Assistance (TA) includes the provision of skills, knowledge know-how and advice. For many decades, technical assistance has also been provided in form of teaching staff mainly in primary and secondary education in developing countries. Furthermore, more specialized trainers have continually performed skills training functions to meet their needs and to achieve their immediate objectives. For example, the London-based Overseas Development Institute (ODI) has been running its fellowship scheme for graduate economists and placing them in key ministries in developing countries. Project Aid on the other hand has been a decline of ODA in form of project aid from the mid-1990s, ODA to specific projects still exist. Project aid is dominated by funds channeled to interventions in sectors such as health, education, rural development including agriculture, transport and power, housing, and water supply and sanitation. However, small amounts of project aid are channeled to industrial, mining, trade and cultural projects (Riddell, 2007). Many ODA funded development projects aim at achieving specific outputs by providing resources, skills and systems which the recipient country needs (Alesina & Dollar,2000).

Kabete (2008:12) defined Humanitarian Aid or Emergency Aid according to its purpose, that is, "to save lives, alleviate suffering and enable those suffering to maintain (or retain) their human dignity during and in the aftermath of natural disasters and man-made crisis". Humanitarian aid has been successful in most cases in achieving its tangible outcomes such as saving lives, providing food to the hungry; healthcare and medicines to those vulnerable to acute disease in emergencies; and water, sanitation and shelter to those whose homes have been destroyed. However, the sustained internal conflicts in war prone areas reduce resources to meet development objectives as more resources are directed to meet humanitarian needs. This research is aligned with all these concepts of aid explained in this section.

Concepts of Economic Development

The earliest concept of development was interpreted in terms of growth of output over time and later in terms of per capita output. The terms growth and development were used interchangeably (Ahmad, Ayres, Robert, Fields, Gary; Ribe, Helena, Squire, Lyn, Suridberg, Mark, Walle, Michael, 1990). During 1950 and 1960s many developing countries realized their economic growth targets but standard of living of the people did not change. In fact existence of mass poverty, illiteracy and ill health continued to plague the Developing countries. This implied that there was something wrong with this definition of economic development. Most of the economists clamored for dethronement of GNP and defined development in terms of removal of poverty, illiteracy, disease and changes in the composition of input and output, increase in per capita output of material goods. Increase in output of goods and services and in income does not imply an improvement in the standard of living of the people because GDP is a narrow indicator of economic development that does not include non-economic indicators such as leisure time, access to health, education, environment, freedom or social justice (Abdul, 2017).

According to easterly (2005), Economic development is a process where low income national economies are transformed into modern industrial economies. It involves qualitative and quantitative improvements in a country's economy. Political and social transformations are also included in the concept of economic development in addition to economic changes. “Economic development is generally defined to include improvements in material welfare especially for persons with the lowest incomes, the eradication of mass poverty with its correlates of illiteracy, disease and early death, changes in the composition of inputs and output that generally include shifts in the underlying structure of production away from agricultural towards industrial activities, the organization of the economy in such a way that productive employment is general among working age population rather than the situation of a privileged minority, and the correspondingly greater participation of broad based groups in making decision about the direction, economic and otherwise, in which they should move their welfare. United Nations Human Development Report (1994) stated that the purpose of development is to create an environment in which all people can expand their capabilities, and opportunities can be enlarged for both present and future generations.

Economic development being a multivariate concept having many dimensions, there is no single measure of development that completely captures the process. Clearly these indicators or measures of development should be valid and amenable to measurement and comparison. Per capita income has been one of the earliest and also a popular measure of economic development. Some economists have emphasized on certain social indicators as a measure of development such as levels of literacy, health and employment, while others have emphasized on reduction in poverty as an important indicator of development. It has now become a common practice to measure development in terms of composite indices such as HDI (Human Development Index). In this study the economic development indicators are real per capita GDP and the human development index [HDI] (human capital, poverty, mortality rate and population growth rate).

Empirical Review

Research has been on going on the nexus between foreign aid and economic development and the study of Amidt, Jones and Tarp (2007) agreed that the growth in private and foreign investment has lead to a valuable governance and economic control problems. Burnside and Dollar (1997) found that there exist a link between foreign assistance and economic development only when there are strict regulation at an appropriate time and in a well established policy environment. Meaning that where there is the existence of good economic policies foreign aid will impact on economic development (Collier & Dollar, 2000).

Whitaker (2006) findings showed that the fact that massive amounts of foreign aid has been forwarded by developed nations and international institutions yet there has been perceived lack of result from this raises the question as to the actual effectiveness of foreign aid to less developed country. The study was able to determine that foreign aid had a positive effect but factors like conflict and geography lessens the impact and can even make it negative. It was suggested by the Arellano, Buliř, Lane and Lipschitz (2009) that increasing foreign aid flows by $10 billion would lift about 25 million people out of poverty per year, provided that such countries have sound economic management. Djankov (2008) opined that foreign assistance has a significant negative effect on the changes in political institutions more specifically democracy.

Furthermore, the OECD (1985) reviewed 25 years of ODA and it found that despite setbacks in Sub-Saharan Africa and some countries of Latin America, many developing countries had achieved remarkable economic and social growth over the past quarter century. It also found that aid, accompanied by growing exports to OECD countries, had significantly contributed to these gains. Conchesta (2008) used a single equation model to examine the impact of foreign aid on economic growth in Tanzania over the period 1990 to 2004. In his analysis; while foreign aid was disaggregated in terms of government development expenditures and recurrent expenditures other combined variables include net national savings, export growth and total debt service. The study reveals that foreign aid and total debt service have a negative impact on GDP growth for the case of Tanzania.

According to Riddell (2007), Aid tying which is associated to project aid causes the exploitation of the developing countries because they are usually indebted to purchase items from the donor country. Foreign aid is also likely to lead to the appreciation of the real exchange rate of the developing countries and this result into rising domestic inflation. This is known to be the Dutch disease whereby an inflow of foreign exchange in form of export earnings, private capital inflows or foreign aid puts an upward pressure on the real exchange rate of the recipient developing country. Foreign aid may lead to the appreciation of the exchange rate of the recipient country thereby reducing the competitiveness of the export sector.

Fasanya & Onakoya (2012) analyzed the impact of foreign aid on economic growth in Nigeria during the period of 1970-2010. The empirical analysis rests on the neo-classical modeling analytical framework and combined several procedures in modern econometric analysis/estimation techniques. Their findings show that aid flows has significant impact on economic growth in Nigeria: domestic investment increased in response to aid flows and population growth has no significant effect on aid flows. Subhayu, Sajal and Javed (2013) examined the effects of ODA grants, concessional ODA loans, and private offshore bank loans on growth rates of 131 developing nations over 1996-2010 in a unified way. Their results show a non-linearity in all three relationships, suggesting that at low (high) levels grants are better (worse) than loans (concessional or private). Burnside and Dollar (2000) in their investigation of the relationship between foreign aid, economic policy and growth of per capital GDP found that aid has a positive impact on growth in developing countries with good fiscal, monetary and trade policies but with little effect in the presence of poor policies.

There are other studies that indicate no important association among aid and growth. Easterly (2005) found different results when they added more data and also extended the year range from 1993 to 1997. Although they do not actually argue that aid is ineffective, they fund that with the introduction of the new data, the positive relationship between aid and growth withers away. Okon (2012) tried to look at a long-term perspective on development aid and human development in Nigeria. The study employs two-stage least squares estimation to analyzing data from 1960 to 2010. The result shows that there is a negative relationship between development aid and human development, implying that aid tends to worsen human development in Nigeria.

Chenery and Strout (1966) adopting empirical data from less developed countries show that foreign aid has a significant positive effect on the recipient country economic growth. Other researchers however have disrupted this, findings that indeed foreign aid has often had a negative impact on economic growth of developing countries as it negatively affects economic growth by replacing the local savings (Griffin, 1970; Leff, 1969). The main argument is that foreign aid in its negative impact offsets the advantages of transferring resources and that it undermines or weakens governance by increasing the return to corruption or increase in lending for the developing countries. Bakare (2011), examined the extent of the impact of foreign aid on economic growth in Nigeria by employing standard statistical method, Vector Autoregressive Model (VAR) to determine the sources of shock to growth in Nigeria and treated foreign aid as an endogenous variable. The study found a negative relationship between foreign aid and output growth, which imply that foreign aid tend to worsen output growth in Nigeria rather than improving it.

Mahmoud (2014) examined the Impact of Foreign Aid in Economic Development of developing countries: a case of Philippines Using FDI, GDP and ODA as proxies. His study found a positive impact among the variables studied.

However, this study is different from those reviewed because it adopts bilateral aid as proxy for foreign aid while Human development index are proxy for economic development. The study is from 2003 to 2015.

Theories on Foreign Aids and Economic Development

The theories used in explaining this study are the public interest theory, new growth theory, Public Choice Theory and The Two Gap Model. This theory are explained below.

New Growth Theory

Endogenous growth or the new growth theory emerged in the 1990s to explain the poor performance of many less developed countries, which have implemented policies as prescribed in neoclassical theories. Unlike the Solow model that considers technological change as an exogenous factor, the new growth model notes that technological change has not been equal nor has it been exogenously transmitted in most developing countries (World Bank 2000). New growth theorists Howitt (1992), Lucas (1988), Aghion and Romer (1986) linked the technological change to the production of knowledge. The new growth theory emphasizes that economic growth results from increasing returns to the use of knowledge rather than labour and capital. The theory argues that the higher rate of returns as expected in the Solow model is greatly eroded by lower levels of complementary investments in human capital (education), infrastructure, or research and development (R&D). Meanwhile, knowledge is different from other economic goods because of its possibility to grow boundlessly. Knowledge or innovation can be reused at zero additional cost. Investments in knowledge creation therefore can bring about sustained growth. Moreover, the knowledge could create the spillover benefits to other firms once they obtained the knowledge (Jhingan, 2008).

Public Choice Theory

This is a contrasting theory of foreign aid; the theory contends that foreign aid is ineffective and possibly damaging to recipient countries (Bauer, 2000; Easterly, 2002). The recent examination in the literature has shown that foreign assistance has no effect on development or any of the other indicators of poverty thus supporting the public choice theory proposition (Djankov, 2008; Williamson, 2008; Brumm, 2003; Svensson, 2000; Boone, 1996). Anwar (2000) stated thataccording to Public Choice Theory, all political decision making processes reflect the interaction of different utility maximizing actors: politicians, voters, bureaucrats and interest groups. In order to examine donors' decisions on development aid, we need to consider their utility maximizing behavior within the different donor countries (bilateral aid) and within international organizations (multilateral aid) (Dreher, 2004). In their quest to maintain power by reelection to the office they have to appease the electorate (Landau, 1990). This support can be gained in different ways and by different means. One way of gaining this support is through giving of aid to poor and developing countries. Giving aid to poor and developing countries is normally justified by politicians on the basis of wanting to appease poverty and hunger in developing countries. This can be called the “moral appeal” of foreign aid (Michaelowa, 2003).

The Two Gap Model

The second gap is the trade gap or foreign exchange gap and it supports the Harrod-Domar model of investment increasing growth. This occurs when there is a gap between import requirements for a given level of production and foreign exchange earnings. This gap states that foreign aid fills the gap of required import spending and actual export earnings. It is also assumed that both imports and exports are linearly dependent on income and there is a target rate of income. Even though the saving investment gap would be small, a larger trade gap would undermine productive investment due to limited imports of capital goods needed for investment. It is argued that either the trade gap or the foreign exchange gap is binding in developing countries and foreign aid helps to fill either of the gaps. These gaps will only be filled if incentives to invest are approving. Foreign aid would not increase investment if there is little or no incentives for investment and if the productivity of such investments is questionable since the flows would go to consumption rather than investment (White, 1992). Conchesta (2008) stated that apart from the two gap model explained, there are factors limiting growth in aid dependent countries and they include low levels of technology, education, poor infrastructure, increased growth in population, interests paid on debts and political instability evident in some developing countries. This model has been criticized on the grounds that the problem of developing countries is not necessarily the insufficiency of domestic savings or foreign exchange gap but the inadequacy of policies as regarding trade and foreign exchange.

Public interest theory

The public interest theory is a concept in welfare economics that provides theoretical justifications for regulation (Den Hertog, 2000; Aranson, 1990). The Public Interest Theory of regulation explains, in general terms, that regulation seeks the protection and benefit of the public at large. All these authors have seen the theory as a normative analysis presented as positive theory. This is the regulation of economic markets where in the absence of government, the market would be monopolized. Antitrust laws control markets that are competitive except for the collusive practices of the suppliers. Economic regulation takes over in markets where technology is said to generate a natural monopoly. Hence, the public interest theory remains as the most significant theory towards foreign aid and has been in existence for the last 50 years. The public interest theory argues that foreign aid is necessary to fill a financing or investment gap, and this will in turn lift countries out of the so-called poverty trap (Sachs, 2005). According to Anwar (2000), points out that it is the donor countries politicians who are assumed to make decisions to provide aid to less developed countries in order to assist them serve their motives. The public choice theory argues that the major political motive of these politicians is to become reelected and, therefore, stay in power.

METHODOLOGY

The study adopts a descriptive research design; the data employed for this research were gotten from Index Mundi website and World Bank online data base on bilateral aids to Nigeria. The populations of this study consist of all the bilateral aid received by Nigeria from ODA. The data for were analyzed using linear regression with the aid of STATA 13 data analysis package. Descriptive statistics was conducted before running the regression.

Model specification

$HDI = \alpha + \beta_1 BIODAAUST + \varepsilon$ - - i

$HDI = \alpha + \beta_1 BIODABEL + \varepsilon$ i i -

$HDI = \alpha + \beta_1 BIODACAN + \varepsilon$ - - i i i

$HDI = \alpha + \beta_1 BIODAEUR + \varepsilon$ - - i v

$HDI = \alpha + \beta_1 BIODAFIN + \varepsilon$ - - v

$HDI = \alpha + \beta_1 BIODAIRE + \varepsilon$ - - v i

$HDI = \alpha + \beta_1 BIODASWZ + \varepsilon$ - - v i i

$HDI = \alpha + \beta_1 BIODAUSA + \varepsilon$ - - v i i i

Where

HDI = Economic Development Indicator

BIODAAUST= Net bilateral aid of net disbursement of official development assistance from Australia to Nigeria.

BIODACAN = Net bilateral aid of net disbursement of official development assistance from Canada to Nigeria.

BIODABEL

BIODAEUR = Net bilateral aid of net disbursement of official development assistance from European Union Institution to Nigeria.

BIODAFIN = Net bilateral aid of net disbursement of official development assistance from Finland to Nigeria.

BIODAIRE = Net bilateral aid of net disbursement of official development assistance from Ireland to Nigeria.

BIODASWZ = Net bilateral aid of net disbursement of official development assistance from Switzerland to Nigeria.

BIODAUSA = Net bilateral aid of net disbursement of official development assistance from Switzerland to Nigeria.

DISCUSSION OF RESULTS

The that employed for this study are time series data on the net bilateral aid from members of development assistance committee (DAC) that is, net disbursement of Official Development Assistance(ODA) from Australia, Belgium, Canada, Europe Union Institutions, Finland, Ireland, Switzerland , Austria in Nigeria and human development index from 2003 to 2015.

Descriptive Statistics

Table 1a: Summary Statistics of data

Stats	biodaust	biodabel	biodacan	biodaeur
Mean	1493846	2.67E+07	2.26E+07	9.37E+07
p50	740000	340000	2.07E+07	9.16E+07
Sd	1634195	6.45E+07	8814535	3.78E+07
Min	40000	20000	1.24E+07	1.85E+07
Max	5000000	1.97E+08	3.95E+07	1.50E+08
N	13	13	13	13

Table 1a shows the descriptive statistics of the data. It shows that foreign aid from Australia has an average value of about $1,493,486 with a median value of $740,000 and a standard deviation of $1,643,195. The maximum aid from Australia was $5,000,000 and the minimum value was $40,000. Foreign aid from Belgium has an average value of about $26,700,000, median value of $340,000 and a standard deviation of $64,500,000. The minimum aid from Belgium amount to $20,000 and the maximum value is $197,000,000. Likewise foreign aid from Canada indicates an average value of $22,600,000 with a median of $20,700,000 and a standard deviation of $8,814,535. The minimum value is $12,400,000.Maximum value of foreign aid from Canada is

$39,500,000. Similarly, foreign aid from European Union institutions show an average value of $93,700,000, median of $91,600,000, a standard deviation of $37,800,000, minimum value of 18,500,000 and maximum value of 150,000,000.

Table 1b: Summary Statistics of data

Stats	biodafin	biodaire	biodaswz	bioadaaus	hdi
Mean	701538.5	3093077	9316923	3.73E+08	0.49
p50	820000	1890000	1910000	4.05E+08	0.49
Sd	402820.2	4487311	1.85E+07	1.97E+08	0.03
Min	200000	650000	40000	9.87E+07	0.44
Max	1320000	1.79E+07	5.11E+07	7.87E+08	0.53
N	13	13	13	13	13

Source: Authors computation with STATA 13

Table 1b above shows the descriptive statistics of data. The summary statistics on foreign aid from Finland indicate an average value of $701,538.05, a median value of 820,000 and a standard deviation of $402,820.02. The minimum value is $200,000 and a maximum value of $1,320,000. Foreign aid from Ireland has an average value of $3,093,077, median of $1,890,000 and a standard deviation of $4,487,311.The minimum value amounts to $650,000 while the maximum value is $17,900,000. Aids from Switzerland have an average value of $ 9,316,923, a median of 1,910,000 and a standard deviation of $18,500,000. The minimum value is $ 40,000 whereas, the maximum is $51,100,000. Foreign aid from Austria shows an average value of $373,000,000, median $405,000,000 and a standard deviation of $197,000,000. The minimum is $98,700,000 and maximum is $787,000,000E. The summary statistics for the dependent variable HDI shows and average of 0.49, a median of 0.49, a standard deviation of 0.03, minimum value of 0.44 and a maximum of 0.53

Correlation Matrix

Table 2: correlation value for the variables

	_	biodabel	biodacan	biodaeur	biodafin	biodaire	biodaswz	bioada~a
biodaaust	1							
biodabel	-0.2578	1						
biodacan	0.4753	-0.2739	1					
biodaeur	-0.0361	0.5921	0.3959	1				
biodafin	0.6248	-0.0411	0.3269	0.1937	1			
biodaire	-0.2688	-0.089	-0.2747	-0.1675	-0.2141	1		
biodaswz	-0.2346	0.9791	-0.1927	0.6353	0.0592	-0.1333	1	
bioadausa	0.3627	0.2777	0.2975	0.5115	-0.0716	-0.4057	0.2135	1

The correlation matrix shows both positive and negative correlation among the variables. The correlation that were negative are that of Australia and Belgium (-0.2578), Australia and European Union Institution (-0.0361), Australia and Ireland (-0.2688), Australia and Switzerland (-0.2346), Belgium and Canada (-0.2739), Belgium and Finland (-0.0411), Belgium and Ireland (-0.089), Canada and Ireland (-0.2747),Canada and Switzerland(-0.1927), European Union Institutions and Ireland (-0.1675),Finland and Ireland(-0.2141), Finland and Austria (-0.0716), Ireland and Switzerland (-0.1333), Ireland and Austria(-0.4057).

Those that had positive correlations are Australia and Canada (0.4753), Australia and Finland (0.6248), Australia and Austria (0.3627), Belgium and European Union Institution (0.5921), Belgium and Switzerland (0.9791), Canada and European Union Institution (0.3959), Canada and Finland (0.3269), Canada and Austria (0.2975), European Union Institutions and Finland (0.1937), European Union Institutions and Switzerland (0.6353), European Union Institutions and Austria (0.5115), Switzerland and Austria (0.2135).

Regression results

Before running the regression the data were logged. The log values of data can be found on Appendix B. Table 3 shows the extracted regression results.

Table 3 Regression Results

Variables	Coefficient	Probabilities	f-stat	R^2
BIODAUST	0.0307	0.01	20.27*	64%
BIODABEL	-0.0102	0.62	4.3***	28%
BIODACAN	0.0984	0.012	9.04**	45%
BIODAEUR	0.0519	0.069	4.06***	27%
BIODAFIN	0.0299	0.202	1.84	14%
BIODIRE	-0.08912	0.029	6.31**	37%
BIODASWZ	-0.01527	0.085	3.57***	25%
BIODAUSA	0.06371	0.002	16.36*	60%

*Significant at 1%, ** Significant at 5%, *** Significant at 10%

Source: STATA 13 data analysis package

The result on the effect of Net Disbursement of Official Development Assistance (ODA) from Australia (BIODAUST) on economic development indicator (HDI) shows a coefficient of 0.0307 meaning that ODA has a positive effect on HDI from 2003 to 2015 with the probability of 0.01 which means the effect is significant. *The Prob (F – statistic) shows that the model is in good fit as the value is significant at 1% level of significance with* R^2 value of 64%. This result is consistent with the findings of Mahmoud, (2014), Burnside and Dollar (2000), Chenery and Strout (1966) who have found that foreign aid has a significant impact on economic development.

The result on the effect of Net Disbursement of Official Development Assistance (ODA) from Belgium (BIODABEL) on economic development in Nigeria (HDI) shows a coefficient of -0.0102. This means that ODA has a negative effect on HDI, meaning that foreign aids from Belgium has negative effect on economic development of Nigeria. However the probability shows that the result is insignificant given the P value of 0.62. *The Prob (F – statistic) shows that the model is in good fit as the value is significant at 10% level of significance with the* R^2 *of* 28% . This finding is consistent with that of Okon (2012) and Bakare (2011) who found that foreign aid has a negative effect on economic growth in Nigeria.

The analysis of the relationship between BIODACAN and HDI show that foreign aids from Canada have positive and significant effects on economic development of Nigeria. It is significant at 5% level of significant because the p-value is 0.012. The Prob (F statistic) *show that the model is in good fit*. The R-square (R^2) is 45% which implied that the model account for about 45% of the dependent variable and the remaining 55% is accounted by other factors. This result agrees with the study of Mahmood (2014), Burnside and Dollar (2000), Chenery and Strout (1966).

Similarly, the test results shows that foreign aids from Europe was found to have a positive effect on economic development as represented by the dependent variable HDI. The probability value of 0.069 entails that this relationship is significant. Likewise the prob (F statistics) show a 10% level of significance which means the model is in good fit. This study therefore has found that net disbursement of Official Development assistance has a significant effect on human development Index in Nigeria. This result aligns with the public Interest theory of foreign aid and the study of Mahmoud (2014); Chenery and Strout (1966).

Furthermore, the result on the effect of foreign aids from finland on economic development of Nigeria shows that it has a positive effect on economic development of Nigeria with the coefficient of 0.0299, but the P value of 0.202 show that the result is not significant at all the levels of significance because the Prob (F statistics) is more than 1%, 5% 10% and even 15%. This findings is in line with the public choice theory where Easterly (2001) and Bauer (2000) assumed that foreign aid has no significant effect on any of the indicators of economic development indicator since this is considered by them as just another way by which politician achieve their political ambition. Therefore we can say that the net disbursement of official development assistance from Finland to Nigeria has no significant effect on economic development indicators Nigeria.

In addition, foreign aids from Ireland shows a negative effect on HDI, the proxy for economic development and this is significant at 5% given the P value of 0.029. The probability (F statistics) show that the model is in good fit as the probability is less than 5% level of significance. The result is consistent with the apriori expectation of the study. From this result the study has asserted that net disbursement of Official Development Assistance from Ireland has a significant impact on economic development in Nigeria.

The result of the test of the effect of foreign aids from Switzerland on Nigeria's economic development shows that a negative effects on economic development with a coefficient value of -0.01527. This is significant at 10% level of significance.

Finally, the test on the effect of foreign aids from USA on economic development as proxied by HDI showed that foreign aids has a positive and significant effect on economic development of Nigeria. The Prob (F statistics) is significant at 1% level of significance connoting the fitness of the model while the R- squared (R^2) value is 60%, implying that 60% of the relationship is explained by the dependent variable. The findings of this result align with the apriori expectations.

CONCLUSION AND RECOMMENDATION

This study was carried out to look at the effect of foreign aid on economic development in Nigeria for the period of eleven year from 2003 to 2015 using Net Disbursement official Development

Assistance from eight foreign countries to Nigeria and the study concludes that foreign aid has a significant effect on Economic development in Nigeria.

The study therefore recommends that foreign aid should be encouraged for economic prosperity. The study also suggests that further study should look at how each of this aids affect the development of some regions in Nigeria.

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