FOREIGN AID AND ITS EFFECTS ON NIGERIAN ECONOMIC GROWTH AND DEVELOPMENT

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Abstract

This study sets out to investigate "Foreign Aid and its Effect in Nigerian Economic Growth and Development". It will ascertain whether foreign aid has impacted positively or negatively to Nigeria economic growth and development. Documentary method will be used in data collection, content analysis and ex-post facto research design will also be adopted. The study anchors on dependency theory propounded by the dependents in the late 1960s and 1970s. Based on the analysis, the major findings foreign aid comes with conditionality that ends up effecting the economic growth negatively, also Nigeria lack good economic policy that would have helped in effective use of the aid. It also recommended that Nigeria should come up with adequate economic policy that can scrutinize the conditions of the aid and also make effective us of it to the economic growth and development.

Key Words: Foreign Aid, Economic Growth, Development, Dependents.

Introduction

Foreign aid has remained a germane issue in the sphere of international politics and its uniqueness is anchored on the interdependency nature of the world, that is, nation can operate in isolation because they need each other, no country is so self-sufficient that it cannot seek assistance of other nations and also no nation is too poor that it depends holistically on the assistance of other nations. Thus, aid is technically more of a symbiotic relationship in the lexicon of global politics. The term foreign aid according to Oyewole (2008) is the international transfer of public funds in the form of loans or grants either directly from one government to another, otherwise known as bilateral assistance or indirectly through a multilateral assistance institutions agency such as World Bank. It may also include bilateral grants, loans, technical assistance and multinational assistance or public development assistance.

Within the context of this study, foreign aid is simply referred to as the Official Development Assistance which is the flow of official fund which is concessional in character from the developed countries of the West, to the developing countries of the East such as Nigeria. This aid has its primary objectives as promoting the economic growth and development of the less developed nations with conditions.

The above statement implies that foreign aid is not always a free resources flow or transfer, rather, it often arrives with both economic and political conditions that hinders its effectiveness. Critics such as Milton Friedman (1958), Peter Bauer (1972) and William Easterly (2001) argued that aid has failed in its primary objectives: to spur economic growth and development in the developing nations due to attached conditionality and its enlarged government bureaucracies.

Nigeria, like any other developing countries, has been receiving foreign aid from many countries and international intermediary institutions for over five decades of her existence and this aid has been in the form of grants, loans and huge capital inflows, to help promote its economic growth and development but the strings often attached to these aids have landed Nigeria into perpetual indebtedness due to the nation's poor economic policy that failed to scrutinize attached conditions of the aid that received Ajakpuru Aja (2008) cautioned that Nigeria is at high risk if it opens its door wide to the penetration of profit driven investors and donors. He warned that to accept aid without adequate consideration about the institutional need for its internationalization, is careless about the development effectiveness of the aid.

Despite the above, Iyoha (2003) posited that "for Nigeria to benefit from foreign assistance in the form of aid, the donors must be convinced of the effectiveness of the aid". This is vital because much of the foreign aids goes directly to the Ministries, Departments or Agencies that uses the fund according to their individual strategic interest instead of channeling it to national productive economic sectors… As a result, foreign aid that was meant to boost Nigerian economic growth and development, has turned to be detrimental to it.

The aim of this paper is, to explore the significant of foreign aid on Nigerian economic growth development and to demonstrate whether it is beneficial or not.

Literature Perspective

In an attempt to explore the relevant literature in this research work, effort is geared towards effects of foreign aid in economic growth and development of Nigeria. Burnside and Dollar (2000) posited that there is a positive effect of aid on economic growth of countries with good policy environments… they pointed out several factors that interfere with the result in many developing countries such as Nigeria. Developing countries often grow slowly despite high marginal returns to investment because of a subsistence consumption constraint and imperfect international capital markets. Due to poor institutions and policies, the return of capital in these countries, has been poor, and the authors argue that the impact of aid will be much greater if the policies of the nations are less corrupt and effective.

While Easterly (2006) argued that they did not find aid as promoting growth and development with either extending the sample's timeframe or expanding the data by using newer, more accurate measures. Their concluding claims suggest that economists and policy makers should be skeptical of the conclusion that aid/promotes growth in countries with sound policies and find no effect of foreign aid on growth even in countries with good policies.

Inspite of this, Pearson et al (2007:40) stated that foreign aid programs are not well administered and has contributed to development crisis of Nigeria. Their argument so far is that liberal economic development recipe is not good for Nigeria. The mechanisms of aid have been used by western powers to dislocate and retard Nigeria's socio-economic development even as they parade themselves as pundits and patrons of Nigeria's development. It is the belief of many authors, mainly afro-centric scholars that foreign aid rather than solve the problem of Nigeria's development aggravates it.

Iyoha (2003) deposited that "for Nigeria to benefit from foreign assistance in the form of aid, the donors must be convinced of the effectiveness of aid. This is vital because much of the foreign aid goes directly to the Ministries, Departments or Agencies (MDAs) that uses the fund. Also, he noted that this is contrary to what happens in other sub-Saharan African countries such as Tanzania and Uganda where foreign aid is treated as part of the budget.

In the same development, Tresh (1981) observed that all the levels of government are allowed to receive foreign aid in Nigeria and one characteristics of this foreign aid in Nigeria is that, it is not paid into the federation account. In this case, donors determine the areas where they like to intervene without recognition of the national needs. In this process, maximization of benefits from foreign aid suffers.

Similarly, in the words of Waterloo cited in Offiong:

> There is a general distribution with aid. The substantial achievements, the useful capital project which have sprouted all around the developing countries such as Nigeria, the valuable surveys of most major problems, the vital research which has for example, produced the green revolution are over-shared in the public and often in the official mind by the glaring failure the unneeded prestige projects the waste incompetence and corruption. Critics in advanced countries overlook the fact that they themselves are partly responsible for those failures by giving their foreign aid in uncoordinated and partisan way, by not relating it fully to the developing countries' real needs (Offiong, 1980:10).

This under-development occasioned by foreign aid lies in the fact that comes with conditions that are counter-productive and imperialistic in relation to the actual goals or principle of economic growth and development in Nigeria.

Despite the above, Hiryonen (2005) asserted that foreign assistance to developing countries such as Nigeria is dangerous. This is because aid according to him is designed to serve the strategic and economic interest of donor countries. It is primarily designed to benefit powerful domestic interest groups and the aid system is simply based on the interest of the donors instead of the needs of the recipients, this makes development assistance ineffective. Aid also reaches developing countries that desperately need it and often, it is wasted on over prized gods and services from donor countries.

Theoretical Framework

This study anchors on dependency theory, propounded by the DEPENDENTAS such as Galtung J, Fernando Henrique Cardoso, Gunder Famk and Theotonio Dos Santos in the Late 1960s and early 1970s.

Galtung Johan (1971) opined that nexus of dependency theory is the analysis of Centre-periphery, where the world has been partitioned into the developed nations represented by the Centre states such as US in North America, Britain and France in Europe and underdeveloped nations represented by the periphery states such as Nigeria in Africa, Brazil in Latin America and India in Asian states. In A nutshell he presented his analysis as
follows:

- The periphery states logically depend on the Centre states for their economic growth and development.
- Dependency syndrome of countries on states along this partition depends heavily on economic and military strength of the individual states as far as bilateral and multilateral relationship are concerned in international relations.
- Resources flow from a "Periphery" of poor and underdeveloped states to a "Core" of wealthy states, enriching the latter at the expense of the former.
- It is a central contention of dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the world economic system.

Cardoso Fernando (1979) wrote extensively on dependency theory. He argued that it was an approach to studying the economic disparities between the Centre and periphery. He summarized his version of dependency theory as follows:

- There is a financial and technological penetration by the developed capitalist centers of the countries of the periphery and semi-periphery.
- This produces an unbalanced economic structure both within the periphery societies and between them and the centers.
- This leads to limitations on self-sustained growth in the periphery.

Theotonio Dos Santos (1977) emphasizes the historical dimension of the dependency relationships in his definition:

> *"...an historical relationship which shapes a certain structure of the world economy such that it favors some countries to the detriment of others and limits the development possibilities of the subordinate economics...a situation in which the economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected".*

According to Frank (1966), the concept of dependency remains an explanation for economic underdevelopment. The developed capitalist nations have been extracting wealth from Weaker countries; he called this process "the development of under-development". His assertion applies within the capitalist world-economy. To him, the development of the "core" remains the underdevelopment of the "periphery" just as the two sides of the same coin.

Basic Assumption of the Theory

The main tenet is that the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. This simply implies that the relationship between two or more economics assumes the form of dependence because some countries (the dominant ones) can expand and be self-sustaining while other countries (dependent ones such as Nigeria) can do this, only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development.

Also, another basic assumption of this theory is that developing economies such as Nigerian economy is still dependent on its donor countries, in order to acquire the required resources to curb Nigeria's development and this made Nigerian economy to be drawn into the institutional framework of the advance economy where they are exploited and subordinated by the core actors in the world economy. This exploitation occurs due to harsh conditionality and mechanism that comes with the foreign aid from donor countries to recipient nations like Nigeria.

Foreign Aid and Nigeria Economy Growth and Development

According to Pearson Commission on international Development, foreign aid is often defined in terms of official development assistance, as net disbursements of donor funds to recipient countries http.//www.tellucb1og. word.press.com/caegorylaid-organisation). The United States is a leading member of the Development Assistance committee of the Organization for Economic Corporation and Development (OECD). Over the years the United States have extended official development assistance to Nigeria, in order to assist her in her derive towards sustainable economic growth and development. Most often the assistance is intended to help the Nigerian government in implementing some people oriented development projects.

The official development assistance in sub-Saharan Africa state fluctuates,

that is, it is not steady. For instance, the official development assistance to sub-Saharan Africa, both bilateral and, multilateral, rose from about $2 billion in 2000 to $6.9 billion in 2014, but fell to $5.9 billion in 2007 (Randel, 2018). The flow of cash grants from the United States to Nigeria presents a picture of what it is in sub-Saharan Africa. For instance, in 2004 the total US cash grant to Nigeria stood at about $87.5 billion and the average between 2002 and 2004 stood at average of $88 billion. And in 2006, ODA from US to Nigeria was about $11 bilion (http://www.travel docs.com/ng/economyhtml, retrieved 20/3/2019.

While some scholars applaud the reliance of external aid for economic growth and development, many scholars are of the View that foreign aid causes more harm than good. For instance, Offiong (2001) observed that there may be some benefits derived from foreign aid, but some poor countries have become trapped in aid dependency. Adegbite (2018), on the other hand submit that foreign aid is necessary for the economic development in poor countries, including Nigeria. According to him, Nigeria is suffering from inadequate internal capital formation due to certain peculiar challenges like low productivity, low income and low saving, corruption dependence on oil, among others, therefore she needs technical, managerial and financial support from abroad to close the gap created by these. Mr. Isaac Aluko-Olokun (2002) remarked that Nigeria needs ODA and any other form of aid that may be available to developing countries.

These arguments for foreign aids notwithstanding, it is a fact that such foreign aids are often given under certain conditions that may not after all be in the best interest of the recipient country, and may after all be beneficial to the donor country. The result is that the recipient nation's economies may be subjected to continued exploitation by the donor nation and other advanced nations. One may therefore aver that foreign aids foster dependency as it makes the recipient nations to depend on the donor nations and their alley. For instance, the recipient nation may be required to buy goods and services from the donor nation (Offiong, 2001). According to Collins (1998), for every one dollar Africa received as aid in 1996, she paid out about nine dollars in debt services and while Africa earns about four percent of developing world's income, it owes about 11% of developing countries debts. According to Offiong (2001), business interests are of significant interest to donor countries in the award of aid. The trade dispute between and the United States in 1986 buttress this opinion well. The case is that in 1986 Nigeria decided to ban the importation of wheat and other basic food imports so as boost domestic agricultural productions. This did not go down well with agricultural groups in America because US food aid to Nigeria was tied to Nigeria importing wheat from the US which made Nigeria the 6th largest US wheat importer. Following the ban on the importation of wheat by the federal government of Nigeria, agricultural groups in America demanded US retaliation unless Nigeria reopened its market to the US wheat.

From the picture painted above, it can be concluded that foreign aid to Nigeria exposes our country to some pressure not only to protect core nations economic interest but also forces Nigeria to accept billion dollar loans from donors. (http://wwwtraveldocs.com/ng/economy). Due to this pressure, the Nigerian government tends to borrow more funds from multilateral and bilateral donor agencies to supplement aid from the US. A demonstration of this is that while aid to Nigeria was $10 million in 2000 and $27.5 million in 2004, Nigeria's external debt was about $28.3 in 2000 and $35.9 in 2004 (http://www.dmo.gov.ng/04/edebt.stock.docs/external% 2odert%20.outstanding%20(1983-1994). The increment seems to justify the argument that foreign aid increases Nigeria's external debt burden and hinders its economic growth and development because of the harsh conditionality of the aid.

Conclusion

All nations of the globe, especially developing nations such as Nigeria, is primarily concerned with issues of development and how best to develop its economies, but the developmental objectives of foreign aid programs have been distorted by the use of aid for donors' commercial and political advantage. This simply shows that foreign aid is not economic growth and development oriented. It is rather, a lucrative business for the donor and also dominant in character (White et al. 2003: 44).

Nigeria, therefore should put strong policy that will scrutinize conditions attached to these aid, in order to achieve its aim.

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