The Impact of Foreign Aid on the Economic Growth of Nigeria

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Abstract:
The importance of aid to stimulate growth has been an issue in the research literature and largely unsettled. This paper examines the impact of aid on economic growth and builds on existing literature relative to the effect of aid proxies such as foreign aid, foreign direct investment and also domestic investment for a period of 57 years i.e. 1960 to 2016. It conducts an error correction method of analysis and observe that foreign aid was statistically significant to economic growth. This study affirms that the more the aid the country gets, the more she is able to impact growth of the populace. The research does not have evidence to support the postulation as regards the absorptive capacity because the coefficient was negative though significant while that of aid was positive and equally significant. The paper also observes that Domestic Investment and Foreign Direct Investment were also positive and significant to economic growth of Nigeria. This implies that the more the investments from within and outside Nigeria, the more the GDP increases, the increase in GDP also leads to an increase in the growth rate of GDP (GRGDP).

Keywords: Foreign aid, Economic growth, Nigeria

1. Background of the Study
Funds are necessary lubricants that facilitate the growth and development of every economy. Countries acquire funds from various possible sources ranging from outright borrowing to obtaining aids at either concessional or non-concessional financial terms. Nigeria, as a developing country, in spite of her natural resources and endowment, has been a major beneficiary of foreign aid and grants. Foreign aid, which is in form of official development assistance (ODA), plays a significant role as a complement to domestic financing for various developmental purposes in the Nigerian economy (Abiola & Olofin, 2008). It also comprises of all kinds of resources ranging from physical merchandise, skills and technical know-how, financial grants including gifts, and loans which are given to recipients by donors at concessional rates (Riddell, 2007).

Foreign aid is categorized into loans and grants. Loans are required to be repaid with interest, however, on concessional terms; this may be referred to as ‘soft loan’. On the other hand, grants do not have any obligation of interest payment or anything else. Regardless of the form the aid may take, foreign aid, which is synonymous to Official Development Assistance (coined by Development Assistance Committee of the Organization for Economic Cooperation and Development), is viewed to be linked to the concept of financial intermediation; as the funds are channeled from financially buoyant economies to developing ones. Foreign aid can take a variety of physical forms which includes capital goods, agricultural commodities, technical assistance, or even human resources. Nigeria is a major recipient of foreign aid, which could be obtained either bilaterally (that is from one nation to another) or multilaterally (involving more than two nations and International Financial Institutions such as World bank, International Monetary Fund, African Development Bank, and other Regional development banks). Since Nigeria gained her independence in 1960 till date, she has been receiving foreign assistance from United States, United Kingdom, China, Japan, European Union, World Bank, among others, and has been giving aids to African and Caribbean Nations.

Several studies have shown a positive relationship between foreign aid and economic growth (Fayissa and El-Kaissy, 1999); some are of the view that there is a significant negative relationship between foreign aid and economic growth (Brautigam and Knack, 2004), while the others like Ekanayake and Chatrna (2010), have found that foreign aid has a mixed impact on economic growth of most developing countries. The study by Burnside & Dollar (2000) postulate that foreign aid can have a positive or negative impact on economic growth of a country depending on macro-economic policies. If aid was much of a blessing, why then is Nigerian economy still characterized by low level of income, high level of poverty, high level of unemployment, and low industrial capacity? This study therefore seeks to investigate the impact of foreign aid on economic growth of Nigeria. It will use time series method of estimation for 57 years i.e. 1960 to 2016 to estimate the relationship.
1.1. Statement of the Problem

The primary objective of foreign aid inflow is to serve as an instrument for supporting essential sectors of the economy such as education, health, infrastructural development, agriculture, food security and rural development that will result in reduction in the level of poverty, decreased unemployment and foster improved standards of living, thereby facilitating economic growth. Despite the notable donor intervention arrangements for the Nigerian economy, it is characterized by unfavorable terms of trade, high rate of inflation, balance of payment deficit, rising debt service burden, and unstable exchange rate.

The role of foreign aid on economic growth has been a topic of intense debate over the years. Chenery and Strout (1966) were of the view that the capacity of foreign aid to enhance economic growth depends on the absorption capacity of aid recipients, which depends on the ability to utilize aid funds wisely and productively. Burnside and Dollar (2000) specifically argued that aid is more beneficial to countries that adopt appropriate and stable policies. So, foreign aid is a waste to counties without appropriate and stable domestic policies. The study of Brautigam and Knack (2004) showed the existence of a negative relationship between foreign aid and growth. Various empirical studies have been carried out on the impact of foreign aid on economic growth, and mixed results have been generated, leading to a lack of congruence. The need to address this literature gap and enhance the frontiers of knowledge necessitated this research work on Nigeria.

1.2. Research Questions

The following research questions will be addressed in the course of this study.

- What is the impact of foreign aid on the economic growth of Nigeria?
- What is the effect of investment on Economic growth of Nigeria?
- What is the effect of foreign direct investment on economic growth of Nigeria?

1.3. Objective of the Study

The broad objective of this study is to investigate the effect of foreign aid on Nigeria economic growth; while the specific objectives are as follows:

- To examine the effect of foreign aid on the economic growth of Nigeria.
- To find out whether economic growth is affected by Investment.
- To determine the effect of Foreign Direct Investment on economic growth of Nigeria.

1.4. Research Hypotheses

Based on research questions above, the following research hypotheses are formulated and tested:

1.4.1. Hypothesis One

- H₀: That foreign aid does not have significant effect on economic growth in Nigeria
- H₁: That foreign aid has significant effect on economic growth in Nigeria

1.4.2. Hypothesis Two

- H₀: Domestic investment does not have significant effects on Nigerian economic growth.
- H₁: Domestic investment has significant effect on Nigerian economic growth.

1.4.3. Hypothesis Three

- H₀: That foreign direct investment does not have a positive significant effect on economic growth of Nigeria.
- H₁: That foreign direct investment has a positive significant effect on economic growth of Nigeria.

1.5. Significance of the Study

As the Nigerian government sources for foreign aids from economically developed countries and international organizations with the intention to develop the economy, it is important to evaluate the relationship between foreign aid and economic growth. It is believed that this study would be useful to the government because they are saddled with the responsibility of managing and maintaining the country’s account and formulation of policies relating to the inflow and outflow of resources to and from the country. This study would also be of importance to researchers who intend to embark on similar studies as it will serve as a guide to their studies. Finally, this study would be beneficial to students and the general public at large.

2. Literature Review

2.1. Conceptual Framework

Foreign aid can be defined as assistance received from another country that is different from the beneficiary. It can also imply a number of different activities, ranging from humanitarian support in the wake of natural disasters to military assistance and arms donations. Foreign aid is the voluntary transfer of resources from one country to another. It is the flow of capital to developing countries and the provision of economic assistance from one country to another, intended either to provide humanitarian relief in emergencies, to promote economic development or to finance military expenditures (Black, 1997; Agarwal et al, 2010).
Official Development Assistance (ODA) is a term coined by the Development Assistance Committee (DAC) of the Organization for Economic Co-operation and Development (OECD) to measure aid. The DAC first used the term in 1969. It is now widely used as an indicator of international aid flow.

Foreign aid is given or received on the basis of these conditions according to DAC:

- It must be undertaken by an official sector which could be federal, state, local governments or their agencies.
- The main objective must be to promote economic development and welfare.
- It must be at concessional financial terms (that is, if it is a loan, it should have a grant element of at least 25 per cent).

Economic growth is an increase in the capacity of an economy to produce goods and services. It denotes a positive trend in total output of a country over long period of time and entails sustained increases in output or real gross domestic product of a country. Economic growth is an increase in what an economy can produce if it is using all its scarce resources. This increase in an economy’s productive potential can be shown by an outward shift in the economy’s production possibility frontier (PPF). Developing countries are characterized by scarce economic resources which are usually capital-related. The much needed capital required to boost economic growth and welfare are largely inadequate domestically, which consequently warrants the need for external capital. In view of this, the only external capital readily available to support developmental undertakings has to come from foreign aid (Girma, 2015).

2.2. Theoretical Framework

Early economic growth theories in the 1950s and 1960s stressed that the basic problem for many developing countries was capital formation in achieving economic growth. Thus, it was opined that development assistance was important for these countries to fill the finance gap and technology gap. These were known as saving gap and trade gap hence this study will review some of the associated theories.

2.2.1. Harrod-Domar Model

The Harrod-Domar model, points out that output depends on the investment rate and the productivity of that investment. In an open economy, investment is financed by savings which is a sum of domestic and foreign savings. This model explains economic growth in terms of a savings ratio and capital-output coefficient. The model (as cited in Easterly et al. 2003) assumes a situation where the addition of aid and savings impacts investment positively to generate growth without effect of the deflator which is the incremental capital output ratio (ICOR).

A high ICOR is often taken as a measure of poor quality of investment. The Harrod-Domar model provides a simple framework used for quantitative planning techniques and also helped in estimating the capital investments and aid needs for a given target rate of growth. However, the stable linear relationship between investment and growth over the short to medium term is doubtful. This is because the endogenous growth models stresses the multitude of inputs besides physical capital such as technology, human capital, intermediate new goods, organizational capital, social capital and institutional design. Despite this argument, savings, especially domestic savings play a major role in providing resources for investment and thus boosting growth. Thus, for developing countries to minimize their dependence on foreign aid, they need to increase their savings propensities which will increase funds required for investments.

2.2.2. The Two Gap Model

This economic theory on foreign aid asserts that foreign aid accelerates economic growth by supplementing domestic capital formation. The basic argument of the two-gap model is that most developing countries face either a shortage of domestic savings to match investment opportunities or a shortage of foreign exchange to finance needed imports of capital and intermediate goods. The savings-gap and foreign exchange-gap are two separate and independent constraints to the attainment of a target rate of growth in the less developed countries (LDCs). It is argued that at any moment in time one gap is feasible in aid recipient countries thus foreign aid is required to fill that gap. The ‘two gap model’ supports the hypothesis of investment-limited growth based on the Harrod-Domar model which assumes a specific amount of investment to increase growth.

However, the assumption that foreign aid fills these gaps will hold true only if investment is constrained by liquidity but the incentives to invest are favourable. If the cause of low investment is as a result of poor incentives to invest, then aid will not increase investments as it will finance consumption rather than investment. Furthermore, the effectiveness of foreign aid in filling these gaps will depend on the productivity of the investments made (White, 1992). Some of the constraints on development arising from the two-gap approach as argued by Todaro and Smith (2003) are that financial assistance needs to be supplemented by technical assistance in the form of high-level worker transfers to ensure that aid funds are used most efficiently to generate economic growth in the recipient countries. Therefore, foreign aid inflows are required to fill the prevailing gap, so that countries can grow rapidly than their internal resources would otherwise allow.

2.2.3. Three Gap Model

The ‘three gap’ literature gave further insight into both the working of the financial system in underdeveloped countries and the role of the public sector budget constraint in determining macro-equilibrium and the growth rate of the economy. It refers to the saving- investment gap, trade gap and the fiscal gap. There is enough evidence showing that government expenditures in Sub-Saharan African countries have been curtailed by foreign debt service. Thus, the closing of this fiscal gap may be facilitated by external resources directed to the government budget. In contrast, if aid is in form of a loan and not a grant, it may have adverse implications for the savings, foreign exchange and fiscal gaps in the long-run.
and for the macroeconomic performance in general. For example, debt payment creates a further demand on foreign currency and government revenue in general. This is supported by the view that ‘a loan aid inflow may fill the trade gap today, but necessitates a faster rate of export growth in the future for the country to become independent of foreign inflows’. Also debt service can result in the reduction of import capacity of the government thus reducing government investment, particularly in infrastructure, education and health facilities, a factor which is likely to affect negatively private investments. Even though the explanatory power of the three-gap model has proved to be strong, it has often been criticized as being based on ‘ad-hoc premises’.

2.3. Empirical Evidence

Government investments and expenditure in developing countries especially in Africa are largely financed by aid. Despite huge foreign aid received by these countries, there has been no substantial impact on growth. Various studies have shown mixed results.

Chenery and Strout (1966), utilizing data from 50 countries over the period 1960-1970, show that the effects of foreign aid on the development performance of countries under study are different among certain groups of countries. In five countries, foreign assistance accelerated economic growth while in six countries, it retarded growth. Papanek (1973) used a cross-country regression analysis of 34 countries to examine foreign aid, foreign investment, other flows and domestic savings as independent variables. It was discovered that aid has a significantly larger effect on economic growth than the other variables. He postulated that ‘aid unlike domestic savings, can fill the foreign exchange gap as well as the savings gap’. Unlike foreign private investment and other foreign inflows, aid is supposed to be specially designed to accelerate growth.

The study by Fayissa and El-Kaissy (1999) of 77 countries over a period of 1971-1990, observed that foreign aid has a positive effect on economic growth in developing countries. Using modern economic growth theories, they point out that foreign aid; domestic savings, human capital and export are positively correlated with economic growth in the studied countries.

Burnside and Dollar (2000) looked at the above from a different point of view. They examined the interactions among choice of macroeconomic policies and economic growth. The study revealed that aid is more beneficial to countries that implement appropriate and stable policies. However, the study also showed that foreign aid inspires the adoption of good macroeconomic policies, thereby stipulating that foreign aid has no significant positive effect on the economic growth of countries without apt and stable policies.

Easterly et al., (2003) conducted a new test on the previous work of Burnside and Dollar (1997). With a larger sample size, they observed that the result was not as robust as before and therefore claimed that the question of aid effectiveness is still inconclusive. Burnside and Dollar (2004) re-examined the relationship between aid and growth using new data set concentrating on the 1990s. Their results support the view that the impact of aid depends on the quality of state institutions and policies. The interaction of aid and institutional quality has a robust positive relationship with growth; that is strongest in instrumental variable regressions.

Robert & Nicholas (2006) reconsidered the role of economic policy in determining the effect of foreign aid on economic growth in developing countries. They updated and reformed the dataset initially used by Burnside and Dollar (2000) in order to consider the critique raised by Easterly et al. (2003). Their findings recommend that the relationship among foreign aid, government policy, and economic growth is weak and depends importantly on the subset of countries included in the analysis. Good policy fosters the effectiveness of foreign aid in driving growth when we use the original set of countries included in Burnside and Dollar, but this relationship vanishes for an expanded set of countries. Because the relationship between aid, policy, and growth is likely to be nonlinear, they presented an alternative model emphasizing growth thresholds. Their results from this alternative analysis affirmed the conclusions of Easterly et al.

Gomaneel, et al (2005) addressed directly the mechanisms through which aid influences economic growth. They utilized a sample of 25 African countries over the period 1970 to 1997; the scholars also concluded that foreign aid has a significant positive effect on economic growth. This paper concludes that on average, each one percentage point increase in the aid contributes one-quarter of one percentage point to the growth rate. As a result, Africa’s poor growth record needs to be attributed to factors other than aid ineffectiveness. Amakom et al (2010) considered the role of improved economic governance in determining the effectiveness of foreign aid for generating economic growth in Nigeria. They employed the coefficient of determination; the paper tested the degree of effectiveness of foreign aid to the variables and found mixed results. While foreign aid was effective for some variables like exchange rate and interest, it was less effective for enhancing economic growth and reducing poverty in Nigeria because of its volume.

Bakare (2011) studied the impact of foreign aid in Sub-Saharan Africa using Nigeria as a case study. He used Vector Autoregressive Model (VAR) to determine the sources of shock to growth in Nigeria and treated foreign aid as an endogenous variable. The study showed a negative relationship between foreign aid and growth, which implies that foreign aid tends to decelerate growth in Nigeria rather than accelerate it. Also Fasanya & Onakoya (2012) analysed the impact of foreign aid on economic growth in Nigeria during the period of 1970-2010. The empirical analysis rests on the neo-classical modelling 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. Aid flows also provides free resources to increase domestic investment, thus confirming the aid-policy-growth hypothesis. Having reviewed various studies on the relationship between foreign aid and economic growth, the arguments are inconclusive. Similarly the nature and extent of the effect of foreign aid in Nigeria economic growth has not been conclusively agreed. This study is an addition to the literature using a longer period of data for Nigeria.
3. Analytical Method and Model Specification

This study uses historical data and conducts necessary precursory tests while error correction method is used to estimate the relationship from 1960 to 2016. The model used is presented below;

\[
GRGDP_t = \beta_0 + \beta_1(GPOP)_t + \beta_2(INV\overset{GDP}{\text{GDP}})_t + \beta_3(AID\overset{GDP}{GDP})^2_t + \beta_4(INF\overset{GDP}{GDP})_t + \beta_5(INF)_t + U_t
\]

Where;
- GRGDP is the growth rate of GDP in year \( t \),
- GPOP is the growth rate of population in year \( t \),
- INV is the domestic investment in year \( t \),
- FDI is the foreign direct investment in year \( t \)
- AID is the foreign aid (official development assistance) in year \( t \),
- The square term of AID-GDP ratio is the absorptive capacity in the year \( t \).
- INF is the inflation rate in year \( t \),
- \( U_t \) is the stochastic error term in year \( t \),
- \( B_0 \) is the Intercept
- \( B_1 \) to \( B_6 \) are slopes or coefficients that constitute the study parameters or estimates,

**Apriori expectation** is \( GRGDP; INV; FDI; AID; AID^2; INF > 0 \)

3.1. Descriptive Analysis

The result of the descriptive analysis is presented below;

\[
\begin{array}{cccccccc}
\text{Variables} & \text{AIDGDP} & \text{AIDGDP^2} & \text{FDIGDP} & \text{GPOP} & \text{GRGDP} & \text{INFL} & \text{INVGDP} \\
\text{Mean} & 15.03927 & 10.54844 & 51.73733 & 2.516081 & -323.216 & 15.94158 & 0.027353 \\
\text{Median} & 3.262002 & 0.129576 & 13.09701 & 2.57829 & 15.25863 & 11.54 & 0.009131 \\
\text{Maximum} & 136.289 & 185.747 & 427.5066 & 3.09116 & 1056.17 & 72.84 & 0.265186 \\
\text{Minimum} & -4.20685 & 0 & -21.8088 & 0 & -21385.8 & -3.73 & -0.01346 \\
\text{Std. Dev.} & 29.04242 & 33.56323 & 94.34556 & 0.408837 & 2854.159 & 15.79019 & 0.046822 \\
\text{Obs} & 57 & 57 & 57 & 57 & 57 & 57 & 57 \\
\end{array}
\]

Table 1: Showing Result of Descriptive Analysis

The mean of the variables ranges from 0.027353 for INV/GDP to -323.216 for GRGDP. This is similar to the minimum values which ranges between 0 for both AIDGDP^2 & GPOP and -21385.8 FOR GRGDP. In essence, the figures exhibit wide variation from each other. This observation applies to all other results in the table. This is followed by the Unit root test and the result is presented below:

3.2. Unit Root Test

\[
\begin{array}{cccccccc}
\text{Variables} & \text{ADF Statistic} & \text{Probability Values} & 5\%\text{MacKinnon Critical Values} & \text{Order of Integration} & \text{Phillips-Perron test statistic} & \text{Probability Values} \\
\text{AIDGDP} & -5.086926 & 0.0001 & -2.914517 & I(0) & -5.006564 & 0.0001 \\
\text{AIDGDP^2} & -3.490861 & 0.0118 & -2.914517 & I(0) & -3.322910 & 0.0184 \\
\text{FDIGDP} & -4.458990 & 0.0007 & -2.914517 & I(0) & -4.511675 & 0.0006 \\
\text{GPOP} & -6.833065 & 0.0000 & -2.926622 & I(0) & -8.355127 & 0.0000 \\
\text{INFL} & -4.815636 & 0.0002 & -2.914517 & I(0) & -4.650289 & 0.0004 \\
\text{INVGDP} & -4.465937 & 0.0007 & -2.914517 & I(0) & -4.491266 & 0.0006 \\
\text{GRGDP} & -7.483601 & 0.0000 & -2.914517 & I(0) & -7.483602 & 0.0000 \\
\end{array}
\]

Table 2: Augmented Dickey-Fuller (ADF) and Phillips-Perron (PP) Stationarity Tests Results

3.2.1. Researchers Compilation from E-views 9.0

From the Augmented Dickey-Fuller and Phillips-Perron test in table 4.2, it shows that all the variables are stationary at levels i.e. I(0). Nonetheless, we still conducted the Co-integration test and the result is presented below

3.3. Co-integration Test

This study employs Johansen and Jesulius (1990) maximum likelihood framework to determine the existence of long run relationship or equilibrium among the variables.
Hypothized No. of CE(s) | Max-Eigen Value | 0.05 Critical Value | Trace 0.05 Critical Value
--- | --- | --- | ---
None * | 0.954780 | 170.2914 | 42.77219 | 288.1256 | 111.7805
At most 1 * | 0.523570 | 40.77891 | 36.63019 | 117.8342 | 83.93712
At most 2 * | 0.416899 | 29.66581 | 30.43961 | 77.05532 | 60.06141
At most 3 * | 0.335563 | 22.48488 | 24.15921 | 47.38950 | 40.17493
At most 4 * | 0.220857 | 13.72587 | 17.79730 | 24.90463 | 24.27596
At most 5 | 0.171502 | 10.34776 | 11.22480 | 11.17876 | 12.32090
At most 6 | 0.014996 | 0.831001 | 42.77219 | 0.831001 | 4.129906

Table 3: Johansen-Jeuslius Maximum Likelihood Co-integration Test Results

The co-integration test for economic growth (GRGDP) model shows that the null hypotheses of no co-integration between the variables are rejected since the Max-Eigen Statistics and Trace Statistics values are higher than 0.05 critical values. This implies that there is co-integration between GRGDP and AIDGDP, AIDGDP2, FDIGDP, GPOP, INFL and INVGDP.

3.4. Empirical Results: Regression Analysis

The result of the regression is presented below;

Dependent Variable: D(GRGDP)
Method: Least Squares
Date: 11/28/18 Time: 13:46
Sample (adjusted): 1964 2016
Included observations: 52 after adjustments

| Variable     | Coefficient | Std. Error | t-Statistic | Prob.   |
|--------------|-------------|------------|-------------|---------|
| C           | -19.12653   | 236.0052   | -0.081043   | 0.9358  |
| D(AIDGDP,2) | 22.48868    | 6.240111   | 3.603892    | 0.0008  |
| D(AIDGDP2(1)) | -87.62887  | 8.402293   | -10.42916   | 0.0000  |
| D(INVGDP(1)) | 27.384.93  | 5817.994   | 4.706937    | 0.0000  |
| D(GRGDP,4) | 0.092200    | 0.013089   | 7.044152    | 0.0000  |
| D(FDICDGP(-1)) | 7.981728   | 3.887127   | 2.355587    | 0.0230  |
| D(INFL(-1)) | -6.799319   | 19.29328   | -0.352419   | 0.7626  |
| ECM(-1)     | -0.669581   | 0.100967   | -6.631649   | 0.0000  |

R-squared 0.862797 | Mean dependent var 7.112148
Adjusted R-squared 0.840969 | S.D. dependent var 4267.161
S.E. of regression 17.30648 | Akaiki info criterion 18.75277
Sum squared resid 120.9487 | Schwarz criterion 18.15746
Log likelihood -456.2889 | Hannan-Quinn criter. 17.97235
F-statistic 39.52747 | Durbin-Watson stat 2.052950
Prob(F-statistic) 0.000000

Table 4: Parsimonious Error Correction Result

3.5. Interpretation of Results

This study conducted an over-parameterized model with the inclusion of population growth rate. This variable was not statistically significant hence removed from the model. This is in compliance with the principle of parsimony, which states that a model should be as simple as possible and contain variables with the greatest explanatory power, instigated the running of a parsimonious error correction model.

From the regression result above, it suggests that the overall coefficient of determination ($R^2$) shows that about86per cent of changes in economic growth (GRGD) are explained by the variation of the independent variables in the equation. The F value of 39.52747(0.000000) shows that the model is statistically significant. This suggests that the independent variables are able to predict the changes in the growth rate of gross domestic product (GRGD). The Durbin Watson (D.W) statistics of 2.052950 is not substantially above the traditional benchmark of 2.0 in the model, the study can conclude that there is no sign of auto-correlation or serial correlation in the model specification; hence the assumption of non-autocorrelation is not violated.

The coefficients of the variables which signify the impact of foreign aid on economic growth shows from the model that the past values of foreign aid (AIDGDP), domestic investment (INVGDP), economic growth (GRGD) and foreign direct investment (FDIGDP), follow the apriori expectations. However, absorptive capacity of foreign aid in Nigeria (AIDGDP2) and inflation (INFL) violates the expected relationship with economic growth (GRGD). This suggests that most of the independent variables follow the theoretical relationship as regards their signs and magnitude of their coefficients. This
result supports the findings of Ekanayake and Chatrna (2010); Fasanya & Onakoya (2012) but opposes the findings of Bakare (2011).

In addition to the above, the coefficients of individual variables were examined to determine the nature of the relationship that exists between economic growth (GRGDP) and the components of the foreign aids in Nigeria. The coefficient of the lag value of GRGDP was observed to be positive and statistically significant while the value of foreign aid (AIDGDP) was also observed to be positive and found to be statistically significant. The coefficient of foreign aid absorptive capacity (AIDGDP2) was found to be negative and statistically significant. This study does not support the findings of the previous disequilibrium, which is the primary independent variable, was observed to have a positive and statistically significant coefficient.

The value of error correction follows the expected signs and suggests that following the previous disequilibrium, it takes an average of 66 per cent to correct the past disequilibrium annually to return to equilibrium. That is, 66 % of the previous disequilibrium is corrected annually to return to the short run equilibrium.

4. Conclusion

Based on the aforementioned findings, foreign aid was found to be statistically significant to economic growth. The effect of this is that an increase in the value of the foreign aid Nigeria receives has an influence on the growth of the economy. Same applies to the decrease in the value of foreign aid received. Aid is given to countries (especially third world countries) to help them grow their economies. This study affirms that the more aid the country gets, the more she is able to impact growth of the populace. The coefficient of the variable is huge which assumes that foreign aid has huge impact on the growth of the economy. Nigeria should continuously advance efforts to ensure positive use of the funds received for a sustained impact on the growth of the economy. We do not have evidence to support the postulation as regards the absorptive capacity because the coefficient was negative and significant while that of aid was positive and equally significant.

Likewise, the study observes that Domestic Investment and Foreign Direct Investment were also positive and significant to economic growth of Nigeria. This implies that the more the investments within and outside Nigeria, the more the GDP increases, the increase in GDP also leads to an increase in the growth rate of GDP (GRGDP). Nigeria should then resort to investing in her economy and the economies of others (abroad). However, she is advised to invest mostly in developed economies and productive ventures. However, the coefficient of aid is much larger than that of foreign direct investment. This suggests that aid stimulates more growth within the economy. Domestic Investment has the largest coefficient than foreign aid and foreign direct investment. This suggests that government should focus seriously on domestic investment as it will stimulate more growth than the other two variables. A lot of opportunities abound in the country and daily begs for investment in such areas. The policies of the government should be investment friendly to encourage local investment and associated problems speedily resolved. They should ensure stable policies that will encourage both bilateral and multilateral financial support.

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