

## FOREIGN AID AND ECONOMIC DEVELOPMENT IN LESS DEVELOPED COUNTRIES (LDC): NIGERIA AT GLANCE

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### **Abstract**

*Foreign aid has continued to be an important source of external financing to most less developed countries particularly those in sub-Saharan Africa. It has been observed by some researchers that foreign aid has not in any way improved the economic condition of the less developed countries, others are of the opinion that without foreign aid, the level of development attained by the less developed countries would not have been attained. Other researchers take a middle position as they believe that foreign aid can both bring about development and otherwise to the less developed countries depending on the viability of the economic policies of the country. This study, therefore, makes use of a historical method of analysis to examine whether foreign aid has a positive or negative effect on Nigeria's economic development from 1999 to 2021. Dependency theory is used to show why the Less Developed Countries (Nigeria included) are underdeveloped to the extent that they have to rely upon aid from Industrialized Nations. The finding of the research shows that foreign aid has not contributed much in the development of Nigeria, and therefore, it is recommended among others that the political leaders should formulate viable economic policies that will make it possible for the foreign aid to be of benefit.*

**Keywords:** *Economic Development, Less Developed Countries, Developed Countries, Foreign Aid, and Dependency*

### **Introduction**

One of the principles of Briton Wood system in 1944 was the establishment of aid. It is considered by the system that there should be a free capital market that makes it possible for free inflow of foreign aid from the advanced nations or international financial institutions. It is in line with this that a Marshal Aid Assistance of about \$17.5 billion was given to Europe for reconstructing their ruined economies as a result of the World War II. From then on, foreign aid continues as a veritable economic situation of the international economic system (Ukpong, 2017). Foreign aid, according to Todaro and Smith as cited in Ukpong (2017), is the transfer of public funds which can take the form of grants or loans from one government to another or from a multilateral assistant agency to the government of the less developed countries.

Official Development Assistance (ODA) as it is also called has to do with the transfer of resources to less developed countries in the form of loans and grants from the public sector at concessional financial conditions. Various studies have been conducted in order to evaluate the effectiveness of the aid in improving the economic condition of

developing countries, particularly Africa where Nigeria is situated (Moreira, 2005). As it continues to be one of the main source of financing the development of the less developed countries (Wamboye, Sergi, & Adekola, 2013), many of them rely on one form of foreign aid or the other from the advanced nations for the promotion and development of their general economic welfare despite the fact that it is argued that the more benefiting party is the countries that grant the aid (Abdul, Adamu, & Ogwuche, 2017).

As some foreign aids take the nature of sharing technical expertise, some are made up of out-and-out grants of money, and loans at concessional charge. Channeled via Global Intergovernmental Institutions such as International Bank for Reconstructions and Development, and International Monetary Fund is another rising section which is now known as multilateral aid. The main purpose of this aid is to reduce the level of poverty, promote economic development, protect environments, reduce the amount of money spent on military, improve economic management, ensure and promote democratic governance as well as human rights, etc (NOUN, 2015). This means that it is any monetary, material or human assistance received by a recipient country from a donor country; thus, it can be in the form of money or compassion such as medical practitioners, lawyers, rescuers and engineers. Or in the form of materials which include medications, food, building materials, weaponry and the likes. Almost every developed nation has an aid agency through which it gives help to poor countries of the world. One such agency that gives billions of dollars to poor countries across the globe as aid is the United States Aid for International Development (USAID). These poor countries, mainly in Africa, Latin America and Asia receive aid from the developed Western Europe and Northern America, and international organizations such as the United Nations, World Bank, IMF, European Union, etcetera, to tackle one developmental need or the other (NOUN, 2015).

The major causes of poverty in African countries are war and crisis. These have made

them so poor to the extent that many of them rely upon the aid given to them by the rich countries for survival. A very clear example is the case of Somalia which is in most cases referred to as a “failed state”. Furthermore, the majority of the African countries, if not all, receive one form of foreign aid or the other. Nonetheless, almost all these foreign aids have certain conditions that may be very difficult for them to fulfill (NOUN, 2015). Sometimes, some economic reforms, particularly liberal economic policy, are tied to the aid given to the poor countries. Such kinds of reforms encourage imperialism in African countries like Nigeria as they are often designed to promote economic prosperity and influence of the countries given the aid at the cost of the counties that receive it.

Considering the just adopted Sustainable Development Goals (SDGs) by the international communities with the main goal of realizing seventeen objectives by 2030, foreign aid has become very vital particularly in less developed countries like Nigeria. It is widely agreed, as noted, that the internal capital required for the promotion of economic development in less developed countries is inadequate. Therefore, there exists in some less developed countries, especially African countries, inadequate domestic savings and foreign exchange are the major militating factor in the accomplishment of the overall global development objective of the United Nations as it is in the Sustainable Development Goals. This is particularly the target of constructing durable infrastructure, encouraging all-encompassing and sustainable industrialization and promoting innovation and eradicating all forms of poverty in the globe by 2030 (Duru, Okafor, Eze, & Ebenyi, 2020). Being incapable of financing development programmes by many developing countries to realize the 17 primary targets of the Sustainable Development Goals, it remains inevitable for the developing countries to rely upon foreign aid as a major source of finance.

Despite the fact that Nigeria is at the receiving end of different kinds of economic, humanitarian and social aid, many Nigerians live in conditions of deprivation, poverty, insecurity and unemployment (Duru, Okafor,

Eze, & Ebenyi, 2020). Developing countries like Nigeria are faced with the problem of high payment of interest rate and servicing cost of external debts, budgetary constraints, and a high degree of indebtedness as well as poor economic performance (Bakare, 2011 in Duru, Okafor, Eze & Ebenyi, 2020). For instance, an investigation conducted by the International Center for Investigative Reporting (ICIR) on the profile of Nigeria's external debt from June 2015 showed that present administration of President Muhammad Buhari inherited a foreign debt of \$10.3 billion in June 2015 from his predecessor President Goodluck Jonathan's administration. By June 2016, the debt rose to \$11.3 billion which is equivalent to a 9.2% rise in the country's national debt. Also by June 2017 the debt increased to \$15.0 billion equivalent to a total of 33.6% rise when compared to the 2016 figures. As of December 1<sup>st</sup>, 2020, Nigeria's external debt (both public and private owed to nonresidents repayable in internationally accepted currencies, goods or services) rose to \$40.96 billion (Index Mundi, 2021).

The usefulness of foreign aid is debatable whether it is effective or otherwise in the development economics. Some economists are of the opinion that external aid has no positive impact on economic growth, let alone economic development (e.g., Boone, 1996 in Okon, 2012). Others such as Burnside and Dollar (2000) as cited in Okon (2012) hold a strong belief that foreign aid contributes significantly in improving economic development of less developed countries like Nigeria. This is true particularly if the recipient country executes proper policies. Also other scholars such as Ram (2003), Sender (1999) and Cassen (1994) argued that foreign aid has both positive and negative impact on the economic growth and economic development of the third world countries (Okon, 2012). It is based on this that the paper aims at closing the existence gap by evaluating the impact of foreign aid on economic development in Nigeria from 1999 when Nigeria returned to a democratic rule to 2021

### **Conceptual Analysis**

It is very clear that in Nigeria all the three tiers of government – federal, state and local government – have the mandate of receiving foreign aid. One most important thing to note about the nature of foreign aid in the country is the fact that the aid is not paid into the Federation Account – the donors decide on the areas where they want to get involved without much consideration of the needs of the recipient nation (Okpanachi, 2011). This has therefore affect the maximization of the expected benefit derivable from the aid. According to Okpanachi, (2011), three main approaches to foreign aid – conditional or unconditional, open or close and matching or non-matching have been identified. According to him, conditional aid is that type of aid where the donor limits the areas where the recipient government can use the aid. This means that it is given based on the condition that it must be used according to the wish and desire of the donor, not the receiver. On the other hand, the unconditional aid does not have any condition or restrictions on how it is to be used by the recipient. This kind of aid can even allow the receiving government to reduce the rate of taxes it collects most especially if there is no plan of increasing spending by the aid. However, the problem with this is that whatever affects tax may in the end have an effect on the citizens' welfare.

A matching aid is an ad valorem subsidy in which the giver of the aid is in agreement to compensate the receiving government for spending undertaken at some prearranged rate. Nevertheless, the initiative of the spending is with the recipient; while non-matching aid has to do with the transfer of large amounts of money to the recipient. As in the case of a closed-ended aid where there is no maximum limit to the amount to be transferred by donor, open-ended aid has no limit at all with regard to the fund to be transferred (Okpanachi, 2011). Non-matching can be said to be less effective than matching aid considering the behavior of the recipient country. Thus, it is possible for the aid to weaken the domestic production particularly when the receivers regard the aid as an increase in their external revenue. Therefore, inspiring them not to

increase their labour supply but go for more leisure. According to Okpanachi (2011), whenever the domestic production grows weaker, it will be likely for the non-oil Gross Domestic Product (GDP) to fail which may result in the fall of food supply.

The literature is full of the social, economic, political, moral and strategic reasons of the donors for giving aid to the less developed countries. According to Moore and Robinson (1995) as cited in Okpanachi (2011) in a research conducted at Institute of Development Studies at Sussex, UK investigated the use of giving aid to the less developed countries which is to promote good governance in the countries. The two approaches identified by the study are punitive and positive through which the countries granting the aid determine the recipients of the aid. The major reasons for receiving aid by the recipients are also numerous as they range from the need to increase resource base, unite political power as well as promoting local manpower and resource base. During the 1940s, most of the United States of America's aid was given to war-ravaged European nations for the purpose of rebuilding their devastated economy and infrastructure. During the 1950s and 1960s, Asian countries, predominantly South Vietnam, Taiwan and South Korea were at the receiving end of the most U.S. bilateral aid – they received almost half of the total amount granted by the U.S. as aid. U.S. precedence was shifted to the Middle East in the 1970s. During this period, Egypt and Israel received a large share of U.S. bilateral aid in the form of security and economic assistance. The giving of foreign aid by other donors also tends to follow their own distinct economic and political interests (Okpanachi, 2011). A very good example is in the case of Japan, it gives the majority of its aid Asian countries. France and Britain devote most of their aid to their former colonies. Although this pattern seems to be less true, to some of the smaller donors such as Scandinavia, they give their aid to those countries they believe are in need of it.

The concept development was primitively interpreted to mean growth or output over time and later on to mean per capita

income. According to Abdul, Adamu and Ogwuche (2017), the concepts of growth and development were used interchangeably. In the 1950s and 1960s numerous less developed countries achieved economic growth but failed to attain the level of development as the standard of living of the people did not improve. They were still stricken hard by mass poverty, high rate of illiteracy and ill health. This made it clear that it was wrong equating economic growth with economic development. A great number of economists cried out for removal of Gross National Product (GNP) and thus defined development to mean getting rid of poverty, disease, illiteracy, and modifications in the structure of input and output, as well as improvement in per capita output of material goods. Therefore, the increase in income and that of the output of goods and services does not mean there is economic development but economic growth. Thus, it does not necessarily translate into an improvement in the standard of living of the people. This is because Gross Domestic Product (GDP) is a narrow gauge of economic development which does not include other non-economic indicators like access to healthcare facilities, pastime, and access to qualitative education, freedom or social justice to mention a few (Abdul, Adamu, & Ogwuche, 2017).

According to Easterly (2005) as cited in Abdul, Adamu, and Ogwuche (2017), economic development can be said to be a process in which low income nations are altered into modern industrialized nations. This process involves both qualitative and quantitative advancement in a nation's economy. Besides economic transformations of a nation, socio-political transformation is also considered to be included in the concept of economic development. According to Okereke and Ekpe (2002: 12-13), economic development implies “the qualitative and quantitative change, not only in the standard of living of the members of the society but also the transformation of the society in all its ramification.” Economic development is widely understood to consist of the improvements in material welfare particularly for the lowest income persons, the doing away with mass poverty and its correlates

of early death, disease and illiteracy, shifting in the structure of production from agricultural to industrial economy, the arrangement of the economy that will make possible for the citizens at the working age be employed instead of the condition where only the privileged ones are with the opportunity of being employed, and equally ensuring participation of the larger member of the society in the decision-making about the political, economic and social aspects of the nation (Abdul, Adamu, & Ogwuche, 2017).

The United Nations Human Development Report (1994) reported that the major objective of development is giving birth to a condition or situation whereby the majority of the citizens can develop their capabilities as well as enlarge their opportunities for both the present and future generations. Thus, being a multi-dimensional concept, economic development has no specific and universally accepted measure that captures the whole process. However, per capita income remains one of the most basic and famous measures of economic development (Abdul, Adamu, & Ogwuche, 2017). As some economic scholars emphasize social indicators such as health, literacy level, rate of employment etc. as measures of development, others give emphasis on poverty alleviation as major indicator of development. Nonetheless, it is now a common practice to use the Human Development Index (HDI) in measuring development.

### **Theoretical Perspective**

Many theories have been developed to explain why the advanced countries, particularly of the Western Europe and Northern America, give aid to less developed countries. This research, therefore, makes use of dependency theory in giving a clear explanation on the nature of the relationship between and among countries in the globe as well as the factors that make dependency of one part of the world on the other possible. According to Ukpong (2017), countries of the world are divided based on their economic affluence – those that are Countries that are buoyant in terms of economy and politically stable are called developed countries,

and on the other hand, those that are economically backward are called third world countries or frequently labeled as less developed countries. As the developed countries such as Western Europe, Britain and the United Kingdom lie in the center, the less developed countries such as Africa, Latin America and some Asian countries are in the periphery (NOUN, 2015). Thus, dependency theory seeks to identify and clearly explain the factors that are responsible for the existence of this difference between developed and less developed countries of the world in terms of economic prosperity. The proponents of the theory are of the opinion that there is an unbalanced centre-periphery relationship where the less developed countries are made dependent on the developed countries for the pursuance of their development. This dependency gives birth to the underdevelopment of the periphery/less developed countries and development in the centre/advanced countries. This is because, the centre which is dominated by very powerful capitalist countries are always devising means of exploiting the less developed countries, particularly African countries, for their own benefits.

Dependency theory is based on the assumption that it is the transfer of economic resources from the periphery of the underdeveloped countries to the center of the advanced countries that help in enriching the latter at the expense of the former. According to Ukpong (2017), the theoretical premises of dependency theory are that:

- i. The contribution of less developed countries in the global economy is the provision of natural resources and cheap labour. And also serving as a destination for obsolete technology and a market for the advanced nations. Without these services rendered by the less developed countries, the advanced countries could not achieve the level of development they have achieved.
- ii. The advanced nations calculatingly bring about underdevelopment in the less developed nations through various

means. Thus, the development of the centre is the direct cause of the underdevelopment and dependency of the periphery on the centre. The means employed include media control, politics, economics, sports, education, culture, banking and finance as well as all other spheres of human development.

- iii. Advanced nations systematically oppose any attempt by less developed countries in trying to resist their influences by means of economic sanctions and the use of military force.

According to Ukpong (2017), dependency theory makes it clear that the poverty of the countries in the periphery is the result of them not being fully incorporated into the global capitalist system as is always claimed by the capitalists. Immanuel Wallerstein expresses his grievances over the process of the underdevelopment of third world countries. According to him, it was during the period of mercantilism and slave trade, and subsequently colonialism the Western Europe enriched itself with the human and material resources from other continents of the world, most especially from Africa and Latin America. The resources taken by the western capitalist nations from Africa, Asia and Latin America contributed immensely in making them developed on one hand, while on the other hand making the third world countries from where the resources were taken poor and dependent. This makes them reliant, mostly, upon the aid they receive from the Western countries (developed nations) (Emeh, 2013). Therefore, the development of the Centre is as a result of the exploitation and the consequent underdevelopment of the periphery.

The Dependency School of Thought recommends that the only possible way-out for the less developed countries to attain development is by “delinking” their economies from the global capitalist economic system which is their source of exploitation and underdevelopment and come up with a new way of developing their economy. According to this school, this new path should be based on socialist principles rather than build on the

principles of exploitation of one country by another which capitalism advances (National Open University of Nigeria, 2015). However, this theory is criticized by assuming that all less developed countries have the same level of exploitation and underdevelopment which is all known that there are differences in real world situations. Thus, the critics of the theory are of the view that its proponents should re-examine their centre - periphery categorization of the world and tools of analysis, and come up with a more representative diagram that would have room for the differences especially in economic relations among nations of the world. Also the theory is criticized for not considering the role played by corruption, bad governance and political instability in the third world nations (NOUN, 2015).

### **Foreign Aid and Development in Nigeria**

Although foreign aid to developing countries like Nigeria can be said to be a vital source of funds in improving economic growth, yet many studies conducted on the area fail to arrive at a consensus as to the effectiveness of the aid to the development of the recipient countries. While some studies conclude that foreign aid unfavorably affects mobilization of the domestic resources, others arrive at a conclusion that foreign aid has a positive impact on the economic growth of the recipient countries. The question now is to what extent does foreign aid affect the economic growth of developing countries?

While it is believed by some researchers that good economic policy is a precondition for the effectiveness of aid, others hold a strong belief that aid is effective to the less developed countries even if there is no good policy in place. Generally, foreign aid is found to have positive effect on the economy of the recipient countries through a number of mechanisms which include; one, aid increases the rate of investment; two, it raises the technological capacity of the receiver; three, it is favorable to savings and investments; and four, aid enlarges the capital productivity and enhances endogenous technical change (Murshed & Khanaum, 2013).

According to Murshed and Khanaum (2013), foreign aid is a success as it supports the reduction of poverty level as well as promoting economic growth in many developing countries. They believed that even if aid flows have not encouraged growth under all conditions, they have had a positive impact on average. One of the most significant studies on this is conducted by Burnside and Dollar that emphasized on policy impact on foreign aid effectiveness. To study aid-policy-growth relationships, they made use of an interaction term between foreign aid and indices of economic policy. Comprising monetary, fiscal and foreign exchange variables in the recipient countries, the results of the analysis propose that foreign aid increases growth only in countries that have strong economic policies. The authors believe that in good policy environment the combine effects between aid and policy are successful (Murshed & Khanaum, 2013)

Official Development Assistance (ODA) or foreign aid has been an imperative factor of economic growth throughout history. According to Niyonkuru, (2016) cited in Yiew and Lau (2018), ODA grants aid to countries consisting of social and economic infrastructures, services' aid and production sector's aid. In this case, social infrastructure comprises education, water supply and sanitation – all with the purpose of improving human development and in the end contributing to long-term sustainable economic growth. While economic infrastructure aid helps in improving energy, transport and communications systems in the recipient countries. Production sector's aid is meant for improvement in agricultural production, forestry and fishing, industry, mining and construction, trade and tourism. It may also attract Foreign Direct Investment (FDI) flows which further contribute positively to economic growth of the recipient countries. As Morrissey (2001:41) in Yiew and Lau (2018) suggests, there can be several positive channels through which ODA impacts economic growth such as:

aid increases investment in physical and human capital, aid increases the capacity to import capital goods or technology, aid does not have indirect effects that

reduces investments or savings rates, and aid is associated with technology transfers that increase the productivity of capital and promotes endogenous technical change.

By contrast, many researchers conclude that foreign aid has a negative impact on development. As argued by Knack, the high rate of aid decreases institutional quality, increases rent-seeking and corruption; thus, affects development of the recipient countries in a negative way (Murshed & Khanaum, 2013). Because of the nature of the help which is unpredictable, most of the time governments of the recipient countries are unable to mobilize the quantity of the aid on time and fail to persuade donors that the remnants of the aid funds will be spent efficiently. Thus, granting of aid may be further delayed; hindering the government's spending ability. Conditions attached to the aid granted is another problem related to foreign aid that constraints the economic development of the recipient countries. Moss, who was a former consultant for the World Bank, said that tied aid is highly inefficient since it confines the market and thus costs the donor more money for the same benefit (Murshed & Khanaum, 2013).

It is very difficult, if not impossible to have any of such foreign aid that is without any string attached to it. Sometimes, it is attached to a particular reform or liberal policy or project of the donor nation. This kind of reform or project is in most cases designed to promote economic well-being and influence of the donor nation at the expense of the recipient country (NOUN, 2015). The fact is sometimes, foreign aid is used in promoting imperialism in Africa. A very good example is the use of foreign aid to promote European cultures and languages such as French and English to the detriment of the indigenous languages and cultures of the developing countries which most of the time gives birth to cultural vacuum in the countries. Unfortunately for the less developed countries is the fact that development is instilled in culture and the best way of killing a culture is to destroy its language. All these mechanisms are meant to serve a single purpose which is deepening imperialism or neo-colonialism by teaching

Western values and culture to the third world so as to ensure their dominance upon the developing countries (National Open University of Nigeria, 2015).

At times foreign aid is not given based on the urgent primary needs of the recipient country; rather based on what the donor countries deemed suitable. For instance, Egypt receives military aid worth about 1.3 billion dollars every year from the United States. Had it been the aid was given to improve economic sectors and social infrastructures such as constant electricity, good network of roads, functional hospitals, well equipped schools and so on, as many of its citizenry do not have access to such social amenities, the country would have been developed. Let's also presume that the foreign aid given to Egypt for military acquisition of weaponry and training is given for job creation and provision and improvement of social amenities. For sure, if that is done, millions of people in Egypt will be lifted out of poverty (NOUN, 2015). Moreover, in most cases, foreign aid is tied to liberal policies such as privatization and deregulation under which the less developed countries are compelled to open up their economies with promises of rapid economic benefits. Regrettably, such policies usually end up compounding the problems of the Third world rather than solving them. The truth is the more they opened up their economies, the poorer they have become, whereas the richer the advanced capitalist nations have become (National Open University of Nigeria, 2015).

By tradition, the relationship between the donor and recipient countries is asymmetrical in nature consisting of a strong and a weak party where both economic and political arrangements domination and exploitation gave little space for the recipient countries to choose. During the negotiation, particularly if the aid is a tied one, the givers of the aid bargain with a high capacity. In most cases, foreign aid makes the recipient nations dependent upon the donor nations instead of being economically independents, for instance, the aid of food given to Somalia create shortage of food in the country, thus, become becomes terrifyingly dependent upon imported food

(Mathew, 2009 on the *Daily Gambia Echo* cited in Murshed & Khanaum, 2013). In view of the fact that most foreign aid is given from one government to another government, it is the ruler's determination on how to distribute the resources collected as aid – whether in productive or unproductive sectors. There are some authors who argue that the effectiveness of the aid is dependent upon the way in which it is spent. Whenever aid adds to any productive consumption, such as enhancing education, building rural and urban infrastructures, protecting private property, and reducing the risks of trade, it results in a net benefit to economic performance, and countries that receive more aid should expect an increase in their well-being. But many rulers are, in most cases, uninterested in investing the aid resources in the above named sectors due to the fear of being failed to return the loan money and become the victim of the loan trap. Ultimately the aid cannot bring the suitable economic growth of the country (Murshed & Khanaum, 2013).

As argued by Peter Bauer, foreign aid has severe, distorting costs in the political life of recipient countries. Thus, it is generally transferred to the governments of those countries that tend to increase the government's power, resources, and patronage in relation to the rest of the society and, consequently, the stakes in any struggle for control of that power. The tendency for people to spend comparatively most of their time focusing on the result of administrative and political decisions diverts attention, resources and energy from economic activities that are more productive. That may heighten tension and instabilities that can lead to the outbreak of civil armed conflict (A CBO Study, 1997). In many cases, foreign aid has sustained governments in their chase of economically counterproductive political and economic policies. Such policies include the persecution of particular sections of the society, limitations on private trade and the inflow of private capital and ventures, confiscation of properties, price policies which discourage agricultural production, and the expropriation of foreign capital and enterprises. To make the situation worse, when the tracking down of such



policies gets worse, the economic prosperity of an aid recipient, the country may be eligible for yet more aid because its situation is deteriorating (A CBO Study, 1997).

In point of fact, foreign aid has by and large benefited the ruling elite and top management of the Non-Governmental Organizations (NGOs) which makes the ultimate goal of foreign aid unachievable. A study reveals that rather than creating wealth, prosperity and economic development, most of the African countries have over the past few decades realized a net decrease in their standards of living. On the contrary, the ruling elites became richer. According to Mathew (2009 on the *Daily Gambia Echo* in Murshed & Khanaum, 2013):

... over the period that foreign aid was being pumped into Africa, the per capita GDP declined by an average of 0.59 percent annually between 1975 and 2000. Foreign aid has been found to do more harm to Africa leading to a situation where Africans have failed to set their own pace and direction of development free of external interference.

The relationship between aid and development differs across the regions. Sub-Saharan Africa is the region with the largest amount of aid provided by donors yet; the economic performance remains fairly poor. This may be due to lack of the appropriately designed programs, timely and sufficient disbursement, corruption of the high officials and strict penalty upon deviation or violation etc. Foreign aid contributed to relaxing government budget constraints and thus increasing government consumption (Murshed & Khanaum, 2013).

### **Foreign Aid and Economic Development in Less Developed Countries**

A CBO Study (1997) reports that the average sum of aid transferred from the developed countries to the less developed countries all over the world is very meager when compared to the size of their economies – 2 to 3 percent of their Gross National Product (GNP). When considered individually, however, the figure can exceed 60 percent in a

year, although more assistance is not always more effective. The more foreign aid a less developed country receives the more likely for its absorptive capacity to be overpowered and in that way weaken the aid's overall effectiveness. The fact is even small amounts are very vital in achieving results when it is used appropriately (A CBO Study, 1997). Basically, the aid given to less developed countries only increases what is found in place. If the recipient country has good government and strong economic policies, foreign aid will make the government better and its economic policy more viable. But if the country has corrupt government officials and weak economic policy, the tendency for that country to be weaker economically, as a result of the aid, is high. However, it is not possible that those countries that pursue counterproductive economic policies do not in any way derive some benefits from the foreign aid they receive. This is because; programs such as child immunization do benefit and are likely to continue benefiting the less developed countries irrespective of the strength or otherwise of their economic policies. Nonetheless, it is an undeniable fact that countries that pursue productive economic policies benefit more from foreign aid than those that pursue counterproductive policies (A CBO Study, 1997).

It is also of great influence to the recipient countries' socio-economic development, the way and manner in which the donor countries grant the aid. Sometimes, aid is given to reduce the effect of natural disasters such as over flooding, but sometimes it is given in order to protect and promote strategic and political interest of the donor nations, or is given to increase the rate of export of the donor nations. Whenever foreign aid is given for the purpose of achieving multiple objectives, it may be of less effect to the growth and development of the recipient countries. For example, aid may increase poor economic choices when it is given to an ally to further strategic objectives, just as the United States of America's assistance given to Honduras in the 1980s. In addition to that, other economic policies at times weaken the developmental aims of a donor's foreign

assistance program. A very clear example is quotas set by the U.S. on the importation of textile from Bangladesh immediately after giving aid to the government of the latter to purposely increase textile export of the former (A CBO Study, 1997).

Foreign aid can be understood to mean the flow of resources – both capital and technical assistance – from developed countries to the less developed ones. Broadly, it can be taken to mean financial and/or technical assistance from one country or international institution to another country that is considered less developed in order to help improve socioeconomic development or sometime to tackle the occurrence of some disasters in the recipient country. Foreign aid also has to do with the provision of financial assistance or granting of loans, provision of equipment such as health facilities, food, clothing and infrastructure, providing technical advice, training, and equipment. Thus, according to Bhagwati (1972) in Agunbiade and Mohammed (2018), for any kind of assistance to worthily be considered, that assistance must meet two criteria one, the objectives of the assistance must not be commercial from the donor's point of view; and two, the assistance ought to be characterized by concessional conditions which are less severe than commercial loans).

Cassen and Associates (1994) cited in Agunbiade and Mohammed (2018) further noted that the essential idea of foreign aid is a movement or transfer of resources or wealth in a more open-minded manner or condition than loans granted by the world's capital markets. Their definition of aid does not include concessional flows of resources such as those of private agencies and the like. Arnold (1985) also in Agunbiade and Mohammed (2018) came up with a historical evaluation of foreign aid that traced its origin to the time when British capital was used in developing the United States of America back in the 19<sup>th</sup> century. Recently, the American Marshall Plan contributed a lot in bringing about the economic and monetary revival of war-torn Europe. Modern forms of aid can be said to have its origin from the Colombo Plan of 1950/51, which was initiated by the Commonwealth for the purpose of helping the

newly independent South-East Asian nations to develop. After the beginning of the cold war coupled with the attainment of political independence of most African, Asia and Latin American countries in the 1960s made foreign aid a weapon in the hand of developed countries. As the 1970s marked the age of disappointment when questions on whether foreign aid achieved its main objectives were asked, the mid-1970s witnessed the rise of Mid-East Arab in terms of economic power due to the fallout of the Yom Kippur War. The 1980s marked the reassessment of the phenomenon of foreign aid due to the economic recession that hit the globe. While the fall down of the Iron Curtain in the early 1990s marked a slow but sure refocusing of the thought underlying the giving of aid by donor agencies (Agunbiade & Mohammed, 2018).

### **Foreign Aid and Nigerian Economic Development**

Nigeria's economic issues began from its acquisition of loans embarked by many of its past political leaders. This made the economy of the country vulnerable to advanced countries. An important fact that is worth mentioning was the staggering amount of money (\$38 billion debt crises) that accrued interests of loans acquired by the Nigeria military leaders (Obijiaku, 2015). As stated by Rose Umorem in Obijiaku (2015), the numerous loans obtained between 1975 and 1979, though most of them were untied, were sought for purposely for investments such as steel plants, paper mill, power and refineries installation. The loan of \$750 million from a consortium of German and Australia, which was one of the loans obtained by the past political leaders, was intentionally sought for the Delta Steel project near Warri.

The first phase of Nigeria's external debt distress can be said to be the borrowing of made between 1978 and 1979 when the country was preparing for transition to democratic dispensation. The money that was borrowed during that period was mostly used inappropriately as most of it ended up in the pockets of the few powerful elite. And where the money is invested, it was mostly in wasteful

and unproductive projects. This is consistent with the assertion that aid and rent dependent countries have a high tendency to mismanage the economy (Acosta & de Renzio, 2008; Peter, 2020; Peter & Ocheni, 2015). Colman and Nixen (1986) in Obijiaku, (2015) made it clear that the application of majority of the loans granted to the less developed countries including Nigeria were ruled by lack of forethought and overstated hopefulness. Also the loan crises of 1978/1979 notwithstanding, the Shehu Shagari civilian government happened to be Nigeria's economic weakness. Negotiation between the government and the International Monetary Fund (IMF) was opened for more loans which were cut short by Muhammadu Buhari's regime. The administration of Muhammadu Buhari took over the negotiation with the International Monetary Fund (IMF). The IMF loan opened an opportunity to the citizenry in the name of Structural Adjustment Programme (SAP) where the standard of living of the citizens fell down as a result of the hardships attending the loan procurement. This was preceded by the Economic Stabilization Act of 1982 which imposed "more stringent exchange control measures and import restrictions supported by appropriate monetary and fiscal measures which was one of the conditions given by the IMF (Obijiaku, 2015).

According to Obijiaku (2015), SAP, to a large extent, sowed the seed for the resultant political and economic crises of the country in five major ways – these are: one, it was completely outwardly directed which results decreasing the number of factory line policy executors; two, it was also totally externally planned and the result was useful only as it satisfied the needs of the Britton Wood Institutions (IMF and World Bank); three, it was completely closed to healthy discourse, that is the formula had to be stuck to; four, it thrived on the personality cult-dictatorship; and finally, It thrived in secrecy, falsehood and treachery. This is because SAP was presented to Nigerians as domestic by both the Nigerian military leaders and the IMP – based on the claim the debt granted by IMP and World Bank reduce whenever they really ballooned as well

as the claim that the price of oil would not be touched (however, it kept increasing).

Nigeria's economic development is in all respect tied to the foreign participation to the degree that even the petroleum that is the major resource in the country is sold to the advanced nations at their condition and that same product is refined and sent back to us at exorbitant price (their own terms). The rate at which the advanced nations involved in the economies of the less developed countries like Nigeria is very high. Thus, it is described as state capitalism by political economists, which is a situation where capitalist state is met not only as a guarantor of the capitalist order but also an inventor in capitalist monopoly concern (Obijiaku, 2015). Nigeria's idea of implementation of privatization and commercialization policies as guided by the market forces under Babangida's administration was largely due to the general global political economy of the 1980s. According to Professor Akin Abogunje cited in Obijiaku (2015), the Structural Adjustment Programme (SAP) philosophy was used as a strategy of cutting monetary and external disparity with limited fiscal policy, the ultimate aim was to realize noninflationary growth and to stimulate domestic production of tradable goods. The programme was mainly implemented to achieve a continuous external debt service profile and improve domestic saving and investment and in the inflow of external resources.

It is worrisome the way and manner the privatization programme of the Federal Government of Nigeria has been being executed. Twenty, or thereabout, petitions were received from workers and shareholders who had been at the receiving end of the exercise during the 6<sup>th</sup> Senate (Obijiaku, 2015). It was a bitter trust that many Nigerians lost their sources of income (job) all over the country. Take an example of Nigerian Telecommunication (Nitel) where over 8,000 workers became redundant. The major problem affecting the productive industries is the electricity failure and its huge effect on the standard of living. This brought about the question of the huge amount of money wasted on the project during Olusegun Obasanjo's

administration. This led to the setting up of a committee by the House of Representative to investigate the amount spent on power. And the report of the committee was that \$13.27 billion was squandered by the Obasanjo led government during the period without anything to show. Therefore, foreign aid is only of benefit in a country that has good and responsible leadership, not in a country that is highly corrupt like Nigeria (Obijiaku, 2015).

**Foreign Aid Received by Nigeria (US \$)**

Net Official Development Assistance (ODA) or foreign aid, as it is often called, has to do with the disbursements of loans made on concessional terms and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC nations to improve economic development and welfare in countries and territories in the DAC list of ODA recipients. It consists of loans with a grant element of at least 25 percent (calculated at a rate of discount of 10 percent). Net official aid refers to aid flows (net of repayments) from official donors to countries and territories in part II of the DAC list of recipients: more advanced countries of Central and Eastern Europe, the countries of the former Soviet Union, and certain advanced developing countries and territories. Official aid is provided under terms and conditions similar to those for ODA. Part II of the DAC List was abolished in 2005. The collection of data on official aid and other resource flows to Part II countries ended with 2004 data. Data are in current U.S. dollars (Index Mundi, 2021).

**Table 1: Foreign Aid Received by Nigeria from 1999 to 2020**

Year	Net Value Received
1999	\$151,990,000
2000	\$173,800,000
2001	\$167,820,000
2002	\$299,550,000
2003	\$309,850,000
2004	\$578,770,000
2005	\$6,401,790,000
2006	\$11,431,960,000

2007	\$1,958,600,000
2008	\$1,293,720,000
2009	\$1,639,230,000
2010	\$2,052,360,000
2011	\$1,809,860,000
2012	\$1,916,170,000
2013	\$2,515,720,000
2014	\$2,515,720,000
2015	\$2,431,540,000
2016	\$2,498,190,000
2017	\$3,358,790,000
2018	\$22,016,000,000
2019	\$655,642,000
2020	\$5,639,000

Source: Index Mundi (2012) and Adamu (2020)

The foregoing table clearly reveals that Nigeria has over these years received billions of dollars from the European Development Fund (EDF), the United Nations Development Systems (UNDS), China through the Bilateral Agreement between the People’s Republic of China and the Nigerian Government signed in 1972, and Japan activities in Nigeria through the Japan International Cooperation Agency (JICA). Other donors include Korean International Cooperation Agency (KOICA), Department for International Development (DFID), the United States Agency for International Development (USAID), and the German International Cooperation (GIZ). This foreign aid according to the Minister of State for Budget and National Planning, Mr. Clement Agba the foreign aid is in the form of funds for executing projects. However, according to him, the implication of the aid is that the donors do not give the funds for management, instead they work with the sectoral stakeholder and directly fund the projects after identifying the needs by Ministries, Departments and Agencies (MDAs) as well as states in accordance with the Paris Declaration on Aid Effectiveness (Adamu, 2020).

**Conclusion and Recommendations**

The paper has noted the significance of aid given to the less developed countries in order for them to improve their economic

development. It nonetheless, takes into consideration the fact that the improper usage of foreign loans has serious effects on the economic condition of the beneficiary countries. Therefore, it is more proper to see foreign aid as a business affair in its aim and content rather than being considered as merely a demonstration of generosity between countries. Foreign aid is also a means of yielding interest by the donor nations; meaning what is given as aid to the less developed countries is not a gift for it is accompanied or tied to various ideological underpinnings meant to increase the power of the donor nations at the expense of the recipients. As the study was carried out to take a look at the consequence of foreign aid on economic development in Nigeria from 1999 to 2017 using historical methods of analysis, it concludes that foreign aid has no significant contribution to the economic development of the country.

The study, therefore, recommends that, one, the recipient countries such as Nigeria have to viable economic policies for the aid to be of benefit to them; two, the aid received by the less developed countries should be adequately managed and invested in fruitful project meant for it; three, privatization and commercialization programme embarked upon by the federal government of Nigeria should be overhauled. Thus, the National Council on Privatization members should be subject to a screening by the Senate in order to ensure their suitability; finally, it is recommended that further studies should be conducted to investigate how this foreign aid affects the development of Nigeria at regional level.

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