SJIF Impact Factor (2024): 8.282 Journal DOI: 10.36713/epra0003 ISSN: 2250 – 2017
International Journal of Global Economic Light (JGEL)
Volume: 10 | Issue: 11 | November 2024

THE IMPACT OF FOREIGN AID ON ECONOMIC GROWTH AND POVERTY ALLEVIATION IN NIGERIA

Bankole John Falana
Department of Economics, Ekiti State University, Iworoko Road, P.M.B. 5363 Ado-Ekiti, Ekiti State

ABSTRACT
This study investigates the impact of foreign aid on economic growth and poverty alleviation in Nigeria, a country grappling with persistent economic challenges despite its wealth of natural resources. Using the Autoregressive Distributed Lag (ARDL) model, the research examines both short-term and long-term effects of foreign aid, incorporating variables such as savings, government expenditure, foreign direct investment, inflation, and population growth. Findings indicate that foreign aid initially stimulates economic growth in the short run but may lead to dependency and inefficiencies over time. Additionally, the study highlights that inflation exacerbates poverty by eroding real income, while corruption undermines the effectiveness of foreign aid. The results emphasize the need for strategic policy interventions, including anti-corruption measures, stable monetary policies, economic diversification, and investments in human capital. The study concludes with recommendations aimed at fostering sustainable development and reducing poverty through more effective and transparent economic planning in Nigeria.
KEYWORDS: *Foreing Aid, Economic Growth, Poverty, Sustainable Development*

1.INTRODUCTION

Over the years, poverty has become a major concern for developing and less developed nations (Ogbodo and Attamah, 2019). Nigeria for example is one of the countries in Africa characterised by a high poverty rate despite its wealth of natural resources (Georgina, 2019). In Nigeria, 63% of the population (133 million) are multidimensionally poor with poor access to health, education, food and a good standard of living (Nigeria Multidimensional Poverty Index, 2022). This high incidence of poverty in Nigeria has led to an increase in social vices which include electoral violence, crime, terrorism, and insurgency among others (Akinyetun, 2022). This among others has increased the different government administrations' desire to reduce this poverty problem in Nigeria.

Aside from the problem of high multidimensional poverty, Nigeria has also been experiencing slow economic growth over the years despite being blessed with an abundance of natural resources (Olayungbo, 2019). This poor economic growth has further exacerbated the problem of unemployment and poverty in Nigeria (Adelowokan et al., (2019). To address this problem, the Nigerian government may need to develop various policies and projects which involve capital expenditure. However, the trend especially in the debt profile of the country has indicated that that it may not be able to address its economic problems alone. According to Efuntade and Efutade (2022), Nigeria's debt service to revenue ratio was at 97% in 2021, which is higher than the 22.5% recommended by the World Bank. Hence, there is a need for foreign aid.

Foreign aid is the assistance from developed nations to developing and less developed countries which could be in the form of economic, military or humanitarian assistance including training or financial resources (Offiong et al., 2020). Hence, the main aim of foreign aid is to improve economic development while reducing the poverty rate in a country (Azam et al., 2016; Ogbodo and Attamah, 2019). This aid may improve economic growth by stimulating economic investment (Ugwuanyi, et al., 2017). Over the years, the flow of aid has increased in different forms. However, the current economic conditions of Nigeria have a country raised concerns as to the effectiveness of international aid in addressing the problem of poverty and poor economic development in Nigeria. Hence, this research intends to examine how foreign aid influences economic growth and poverty in Nigeria.

Furthermore, different research has been done to understand how foreign aid influences economic growth and poverty in Nigeria. However, these result offers mixed results. Most of the study did not consider the different components of international aid and how it may influence economic growth and poverty alleviation in Nigeria.

Some of these studies also did examine the combined effect of poverty and international aid likewise the combined effect of international aid and poverty on economic growth in Nigeria. This study intends to address these gaps identified in the literature by using relevant and up-to-date data to examine how international aid improves the Nigerian economy.

By examining how international aid contributes to economic development and poverty alleviation in Nigeria, this study will identify possible strategies to alleviate poverty and promote the growth of the Nigerian Economy. This paper is divided into five sections. Section one gives a brief introduction to the study and sets the aim of the study. Section two explains the literature review including theories and empirical evidence. Section three explains the methodology and the different estimation techniques to be used in the study. Section four explains the findings of the study. Finally, the section provides the conclusions and recommendations for the study.

2. LITERATURE REVIEW

2.1 Introduction

This presents a summary of the theoretical literature and empirical evidence relating to the topic in Nigeria.

2.2 Theoretical Review

Over the years, there have been different theories developed relating to economic growth and poverty alleviation. The Harrod-Domar Model is a theory of economic growth which identifies that economic growth is a function of savings and investment (Chuba, and Ebhotemhen, 2019; Drăgoi, 2019). This means for an economy to grow; it needs to improve in the accumulation of capital through investment and savings. Solow's growth model on the other hand identified that an economy develops in the long run with the use of physical capital accumulation and advancement of technology (Ra, 2020; Ding et al., 2021). Hence, how can a country like Nigeria with low capital accumulation, poor investment and a saving culture achieve this economic growth?

Although the classical models emphasize the importance of savings and capital accumulation, they did not account for external financial inflows like international aid. The two-gap model addresses this as it introduces financial aid as that bridges the savings and investment gap in developing and less developed countries. The use of international aid may reduce the savings and foreign exchange constraints on the economic growth of developing countries (Ogbodo and Attamah, 2019). However, dependency theory offers a counterpoint as it identifies the negative effect of foreign aid. This theory holds that the relationship may lead to the transfer of labour and natural resources to developed nations at a cheaper rate thus impoverishing the developing and less developed nations (Adamu et al., 2022).

2.3 Empirical Review

Ogbodo and Attamah, (2019) discovered that foreign aid had a positive relationship with economic poverty in the long run and a negative relationship with poverty in the short run. However, the result of poverty reduction in the short run was not significant. This suggests that the immediate effects of aid may not be felt due to institutional delays or inefficiencies in implementation. Using household consumption to measure poverty Georgina, (2019) discovered that international aid does not alleviate poverty in Nigeria. In a similar study Ugwuanyi et al., (2017) also used real household consumption as a proxy for poverty but discovered that foreign aid alleviates the poverty in Nigeria. The difference in findings may be associated with the difference in proxies and time frame consideration. Household consumption may better reflect daily realities but might not capture the broader economic shifts influenced by aid like real household consumption expenditure. Ajisafe, (2017) also discovered that international aid has a negative but insignificant relationship with the Nigerian poverty rate. The negative impact may be associated with contextual factors like poor governance or the mismanagement of aid funds, limiting its effectiveness.

On the relationship between foreign aid and Nigerian economic growth, Hassan, (2021) discovered that international aid has a positive and significant influence on economic growth in Nigeria but this study does not delve into which types of aid are most effective, limiting its generalizability. Offiong et al., (2020) adopted a different approach by assessing the different components of international aid and how it affects the Nigerian economic growth. Humanitarian, project and programme aid was found to have a positive and insignificant impact on economic growth in the long run while that had a negative and significant impact on economic growth in the short run. This implies that not all aid types contribute equally to growth, with some even exacerbating economic challenges in the short term.

Adakunle et al., (2019) also discovered that foreign aid has a positive impact on economic growth in the long and short run. However, the result was insignificant which could imply inefficient implementation or temporary gains rather than sustainable development. Aluko and Magaji (2021) found that foreign aid has a positive and significant impact on economic growth while poverty was found to have a negative and significant impact on economic growth. Using the regression analysis, Isiaka and Makinde (2020) discovered that foreign aid has a negative and insignificant impact on economic growth in Nigeria, potentially reflecting corruption or misallocation of resources, which prevents aid from reaching sectors that could meaningfully stimulate the economy.

The review of different literature indicates that the results are inconclusive with some studies discovering an insignificant relationship. Many studies report insignificant relationships, often due to methodological differences, varied proxies for measuring poverty (such as household consumption versus income), and a lack of comprehensive analysis. Few studies have also tried to establish the combined impact of poverty and foreign aid as well as economic growth and foreign aid on economic growth and poverty respectively. This indicates a gap in understanding how these variables interact in tandem rather than in isolation, a critical area for further investigation.

3. METHODOLOGY

3.1 Introduction

This presents the methods to be used in archiving the objectives of the study. It also presents the model specification and its link with empirical evidence and theory. the ARDL (Autoregressive Distributed Lag) approach is adopted for analysing the relationships between foreign aid, economic growth, and poverty as it suitable for examining the short- and long-term dynamics between these variables. The model adopted in this study follows the Harrod-Domar Model growth model and the two-gap model with few modifications while the Poverty model is adapted from the study of Ogbodo and Attamah, (2019) with few modifications.

3.2 Model Specification

3.2.1 Economic Growth Equation

$$GDPg_t = \alpha_1 + \alpha_2 LnFAid_t + \alpha_3 LnSav_t + \alpha_4 LnGOV_t + \alpha_5 LnFDI_t + \alpha_6 POPg_t + \alpha_7 LnMS_t + \alpha_8 Ln(FAid_t * COR_t) + e_t \quad \ldots\ldots(1)$$

3.2.2 Poverty Equation

$$LnPOV_t = \beta_1 + \beta_2 LnFAid_t + \beta_3 GDPg_t + \beta_4 POPg_t + \beta_5 LnINF_t + \beta_6 LnExr_t + \beta_7 LnCOR_t + \beta_8 Ln(FAid_t * COR_t) + e_t \quad \ldots\ldots(2)$$

Were
$GDPg_t$= Economic Growth Rate
$FAid_t$= Foreign Aid
Sav_t= Saving
POV_t= Poverty
FDI_t= Foreign Direct Investment
MS_t= Money Supply
INF_t= Inflation
$POPg_t$=Population Growth
GOV_t=Government Expenditure
Exr_t=Exchange Rate
COR_t=Corruption
The interaction term $Ln(FAid_t * COR_t)$ is included to capture how corruption mediates the impact of foreign aid on growth and poverty. These variables are selected based on their relevance to economic development and policy research.

3.3 Estimation Procedure

The study adopts an Auto-Regressive Distributed Lag (ARDL) bounds testing approach developed by Pesaran et al (2001) to model the effect of foreign aid on poverty and economic growth in Nigeria because the bounds test does not require pre-testing of the series to determine their order of integration since the test can be conducted regardless of whether they are purely I(1), purely I(0), or fractionally integrated. Second, endogeneity problems and inability to test hypotheses on the estimated coefficients in the long-run associated with the Engle-Granger (1987) method are avoided. Lastly, The ARDL has superior small sample properties compared to the Johansen

and Juselius (1990) cointegration test (Pesaran and Shin, 1999). An ARDL representation of equation (1) can be specified as follows:

$$\Delta GDPg_t = \alpha_0 + \sum_{i=1}^{q} \alpha_1 \Delta GDPg_{t-1} + \sum_{i=1}^{q} \alpha_2 \Delta LnFAid_{t-1} + \sum_{i=1}^{q} \alpha_3 \Delta LnSav_{t-1} + \sum_{i=1}^{q} \alpha_4 LnGOV_{t-1} + \sum_{i=1}^{q} \alpha_5 LnFDI_{t-1} + \sum_{i=1}^{q} \alpha_6 POPg_{t-1} + \sum_{i=1}^{q} \alpha_7 LnMS_{t-1} + \sum_{i=1}^{q} \alpha_8 Ln(FAid_t * COR_t)_{t-1} + \eta_1 GDPg_{t-1} + \eta_2 LnFAid_{t-1} + \eta_3 LnSav_{t-1} + \eta_4 LnGOV_t + \eta_5 LnFDI_{t-1} + \eta_6 POPg_{t-1} + \eta_7 LnMS_{t-1} + \eta_8 Ln(FAid_t * COR_t)_{t-1} + U_t \dots\dots\dots\dots\dots\dots\dots\dots\dots (3)$$

$$\Delta LnPOV_t = \alpha_0 + \sum_{i=1}^{q} \beta_1 \Delta LnPOV_{t-1} + \sum_{i=1}^{q} \beta_2 \Delta LnFAid_{t-1} + \sum_{i=1}^{q} \beta_3 \Delta GDPg_{t-1} + \sum_{i=1}^{q} \beta_4 POPg_{t-1} + \sum_{i=1}^{q} \beta_5 LnINF_{t-1} + \sum_{i=1}^{q} \beta_6 LnExr_{t-1} + \sum_{i=1}^{q} \beta_7 LnCOR_{t-1} + \sum_{i=1}^{q} \beta_8 Ln(FAid_t * COR_t)_{t-1} + \eta_1 LnPOV_{t-1} + \eta_2 LnFAid_{t-1} + \eta_3 GDPg_{t-1} + \eta_4 POPg_t + \eta_5 LnIF_{t-1} + \eta_6 LnExr_{t-1} + \eta_7 LnCOR_{t-1} + \eta_5 Ln(FAid_t * COR_t)_{t-1} + U_t \dots\dots\dots\dots\dots\dots\dots\dots\dots (4)$$

If the cointegration between variables is identified, then one can undertake further analysis of the long-run and short-run (error correction) relationship between the variables. The error correction representation of the series can be specified as follows

$$\Delta GDPg_t = \alpha_0 + \sum_{i=1}^{q} \alpha_1 \Delta GDPg_{t-1} + \sum_{i=1}^{q} \alpha_2 \Delta LnFAid_{t-1} + \sum_{i=1}^{q} \alpha_3 \Delta LnSav_{t-1} + \sum_{i=1}^{q} \alpha_4 LnGOV_{t-1} + \sum_{i=1}^{q} \alpha_5 LnFDI_{t-1} + \sum_{i=1}^{q} \alpha_6 POPg_{t-1} + \sum_{i=1}^{q} \alpha_7 LnMS_{t-1} + \sum_{i=1}^{q} \alpha_8 Ln(FAid_t * COR_t)_{t-1} + \eta_1 GDPg_{t-1} + \eta_2 LnFAid_{t-1} + \eta_3 LnSav_{t-1} + \eta_4 LnGOV_t + \eta_5 LnFDI_{t-1} + \eta_6 LnPOPg_{t-1} + \eta_7 MS_{t-1} + \eta_8 Ln(FAid_t * COR_t)_{t-1} + \theta ECM_t + U_t \dots\dots\dots\dots\dots (5)$$

$$\Delta LnPOV_t = \alpha_0 + \sum_{i=1}^{q} \beta_1 \Delta LnPOV_{t-1} + \sum_{i=1}^{q} \beta_2 \Delta LnFAid_{t-1} + \sum_{i=1}^{q} \beta_3 \Delta GDPg_{t-1} + \sum_{i=1}^{q} \beta_4 POPg_{t-1} + \sum_{i=1}^{q} \beta_5 LnINF_{t-1} + \sum_{i=1}^{q} \beta_6 LnExr_{t-1} + \sum_{i=1}^{q} \beta_7 LnCOR_{t-1} + \sum_{i=1}^{q} \beta_8 Ln(FAid_t * COR_t)_{t-1} + \pi_1 LnPOV_{t-1} + \pi_2 LnFAid_{t-1} + \pi_3 GDPg_{t-1} + \pi_4 POPg_t + \pi_5 LnIF_{t-1} + \pi_6 LnExr_{t-1} + \pi_7 LnCOR_{t-1} + \pi_5 Ln(FAid_t * COR_t)_{t-1} + \theta ECM_t + U_t \dots\dots\dots\dots\dots (6)$$

This study analized how foreign aid affects poverty and economic growth by using data from the years 1980-2023. The variables used in the model were adapted from different research and theories while the data for these variables will be obtained from different database which includes the Central Bank Statistical Bulletin (CBN), World Development Indicators (WDI) and Organization for Economic Cooperation and Development (OECD) Databases. The data obtained from this study will be analysed using regression analysis to estimate the impact and significance of the selected variables on economic growth and poverty.

4. DISCUSSION OF RESULTS AND FINDINGS

4.1 Unit root test

This section presents the detailed results of the analyses including, ARDL unit root test, ARDL Bound test short-run and long run regression result with other post estimate test results

SJIF Impact Factor (2024): 8.282 Journal DOI: 10.36713/epra0003 ISSN: 2250 – 2017
International Journal of Global Economic Light (JGEL)
Volume: 10 | Issue: 11 | November 2024

Table 1 Phillip-Perron Unit Root Test

Variables	Level	First difference	I(d)
	Prob.	Prob.	
GDPG	0.0011***	0.0000***	**I(0)**
LN_FAID_COR_	0.3638	0.0010***	**I(1)**
LNCOR	0.0067***	0.0000***	**I(0)**
LNEXR	0.1031	0.0000***	**I(1)**
LNFAID	0.7224	0.0000***	**I(1)**
LNFDI	0.4512	0.0000***	**I(1)**
LNGEX	0.3080	0.0000***	**I(1)**
LNINF	0.0171**	0.0000***	**I(0)**
LNMS	0.7107	0.0240**	**I(1)**
LNPOV	0.8824	0.0000***	**I(1)**
LNSAV	0.6624	0.0000***	**I(1)**
POPG	0.0217**	0.0000***	**I(0)**

Note * (**) (***) denotes null hypothesis at 10%, 5% and 1% respectively

The Phillips-Perron unit root test results indicate mixed levels of integration among the variables in the model. **GDPG**, **LNCOR**, **LNINF**, and **POPG** are stationary at their levels (I(0), as their probability values are significant at the 1% or 5% level. In contrast, variables such as **LN_FAID_COR_**, **LNEXR**, **LNFAID**, **LNFDI**, **LNGEX**, **LNMS**, **LNPOV**, and **LNSAV** are non-stationary at level but become stationary after first differencing (I(1). The mixed order of integration indicates that the ARDL model is suitable for the analysis.

4.2 Bound Test

In the first step of the ARDL analysis, the presence of long-run relationships. The results of the bound test procedure for integration analysis between economic growth and it determinates are presented in the table 2. The rule of thumb is that, if the computed F-statistics falls below the lower bound value I(0), the null hypothesis, that is (no-cointeration) is accepted. But if the computed F-statistics exceeds the upper bound value I(1), the null hypothesis is rejected thus, there is existence of long run relationship. If the computed result falls between the upper bound, then the test is inconclusive.

Table 2: ARDL Bound Test Result

Economic Growth				Poverty	
F-statistics	3.98			3.895	
K (dof)	7			6	
Significance	I(0)	I(1)		I(0)	I(1)
10%	2.03	3.13		2.03	3.13
5%	2.32	3.5		2.32	3.5
2.5%	2.6	3.84		2.6	3.84
1%	2.96	4.26		2.96	4.26

Based on the test result of the Bound test in table 2, the null hypothesis of no cointegration is rejected since the F-statistics value of are higher than the upper bound critical value at 5%. Thus, we conclude that long run relation exists among the variables. Hence, we proceed to the long-run and short-run estimates.

4.3 Economic Growth Equation

Table 3: Estimated Short-Run Coefficients using the ARDL Approach

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNFAID)	13.033020	3.766366	3.460370	0.0406**
D(LNFAID(-1))	-31.121073	9.838407	-3.163223	0.0507*
D(LNSAV)	-38.960486	9.129531	-4.267523	0.0236**
D(LNSAV(-1))	-13.129250	2.189223	-5.997220	0.0093***
D(LNGEX)	57.501872	15.852119	3.627393	0.0361**
D(LNGEX(-1))	-40.955153	16.181377	-2.531005	0.0853*

D(LNFDI)	8.529003	2.611298	3.266193	0.0469**
D(POPG)	-289.052430	80.635645	-3.584673	0.0372**
D(POPG(-1))	110.340243	17.397954	6.342139	0.0079***
D(LNMS)	-83.879681	19.666280	-4.265152	0.0236**
D(LN_FAID_COR_)	-15.973493	4.423652	-3.610929	0.0365**
D(LN_FAID_COR_(-1))	23.209828	7.547889	3.075009	0.0543*
CointEq(-1)	-3.213213	0.669173	-4.801766	0.0172**

Note * (**) (***) denotes null hypothesis at 10%, 5% and 1% respectively

In the short run, foreign aid was found to have a positive and significant impact on economic growth. This confirms the potential to stimulate immediate economic activities by providing financial resources for infrastructure, social programs, and investment. This confirms the potential of foreign aid to stimulate immediate economic activities, as outlined in the Two-Gap Model. However, the one period lag of foreign aid reveals a negative and insignificant effect on economic growth tin the short run. This suggests that while foreign aid initially boosts the economy, it might create dependency or inefficiencies over time, leading to diminishing returns. This observation aligns with Dependency Theory, which argues that continuous reliance on external aid can weaken domestic institutions, reduce incentives for local economic development, and create structural vulnerabilities, leading to diminishing returns on aid over time.

The negative impact of savings on economic growth in the short run may be associated with reduced consumption or investment, potentially slowing economic growth. This aligns with Keynesian Economic Theory, which emphasizes the importance of aggregate demand in driving economic growth. The negative effect of the one period lag of savings on economic growth could be attributed to a lack of effective investment channels or the preference for holding savings rather than investing in productive activities. his reflects the Harrod-Domar Model's emphasis on the need for efficient capital utilization, suggesting that savings must be channelled into productive investments to generate sustainable economic growth.

Government expenditure had a positive and significant impact on economic growth which indicates that that increased government spending in the short run has a stimulating effect on the economy, possibly through infrastructure development and public services that spur economic activities. However, the one period lag had a negative and insignificant impact on economic growth in the short run. This may be due to the misallocation of resources or the long-term impact of deficit financing. The positive impact of foreign direct investment on economic growth signifies the importance of attracting foreign investments to boost productivity, technology transfer, and job creation, which are vital for economic development. This finding aligns with Endogenous Growth Theory, which emphasizes the role of investment in human capital, innovation, and technology for economic development.

The negative impact of population growth suggests that rapid population growth poses a challenge to economic resources, possibly straining infrastructure, healthcare, and education. Mone supply was also discovered to have a negative impact on economic growth in the short run. This finding aligns with Monetarist Theory that an increase in money supply in the short term may lead to inflationary pressures, reducing economic stability and growth

This negative combined impact of foreign aid and corruption on economic growth highlights the detrimental effect of corruption on the effectiveness of foreign aid, as corrupt practices can divert resources from productive uses. This observation can be linked to the Institutional Theory of Development, which emphasizes that the quality of governance and institutions significantly affects the outcomes of economic policies. The negative and significant value of the error term in the model indicates a strong adjustment mechanism.

SJIF Impact Factor (2024): 8.282 Journal DOI: 10.36713/epra0003 ISSN: 2250 – 2017
International Journal of Global Economic Light (JGEL)
Volume: 10 | Issue: 11 | November 2024

Table 4: Estimated Long-Run Result Coefficients using the ARDL Approach

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNFAID	15.680463	0.820663	19.107075	0.0003***
LNSAV	-14.011739	1.907756	-7.344617	0.0052***
LNGEX	60.104521	5.427335	11.074409	0.0016***
LNFDI	7.101099	0.711233	9.984205	0.0021***
POPG	-4.578976	3.315032	-1.381277	0.2611
LNMS	-34.134992	2.808176	-12.155573	0.0012***
LN_FAID_COR_	-13.803039	0.782518	-17.639262	0.0004***
C	791.325431	83.684150	9.456097	0.0025***

Note * (**) (***) denotes null hypothesis at 10%, 5% and 1% respectively

In the long run, foreign aid continues to have a positive and highly significant impact on economic growth which reinforces the findings from the short-run analysis that sustained foreign aid can improve economic development. However, the effectiveness of these depends on proper governance and strategic allocation. Savings also maintained a negative relationship just like the short-run analysis. This indicated that if savings are not channelled into productive investments, they can hinder economic expansion over the long term.

Government expenditure and Foreign direct investment (FDI) maintained a positive and significant relationship with economic growth in the long run. However, population growth had negative and insignificant relationship with economic growth in the long run. his differs from the short-run findings, suggesting a potential adjustment or absorption effect over time. Finally, the money supply and the combined impact of foreign aid and corruption remained negative in the long run, this emphasises the need for careful monetary policy management as well as the reduction in corruption in the country.

4.4 Poverty Growth Equation

Table 5: Estimated Short-Run Coefficients using the ARDL Approach

Variable	Coefficient	Std. Error	t-Statistic	Prob.
D(LNFAID)	-0.179777	0.160536	-1.119855	0.2783
D(GDPG)	0.017246	0.010270	1.679254	0.1114
D(POPG)	-1.859052	1.010923	-1.838965	0.0835
D(LNINF)	0.171918	0.079721	2.156488	0.0457**
D(LNEXR)	0.108063	0.074966	1.441492	0.1676
D(LN_FAID_COR_)	0.130435	0.138918	0.938937	0.3609
CointEq(-1)	-0.273802	0.096085	-2.849569	0.0111**

Note * (**) (***) denotes null hypothesis at 10%, 5% and 1% respectively

In the short run, foreign aid shows a negative but statistically insignificant impact on poverty. This insignificant effect maybe associated with inefficiencies in the distribution and utilization of aid, or the time it takes for aid to translate into measurable poverty reduction. The GDP growth rate had a positive but insignificant effect on poverty. his result may reflect the phenomenon where economic growth benefits do not immediately trickle down to the poorest segments of the population, aligning with the Kuznets hypothesis, which posits that economic growth initially increases inequality before reducing it in the long term.

Population growth has a negative and marginally significant impact on poverty which indicates that rapid population growth can exacerbate poverty, likely due to the increased pressure on resources such as education, healthcare, and employment opportunities. Inflation had a positive impact on poverty in the short run which suggest that rising inflation directly increases poverty levels, likely through the erosion of real incomes and purchasing power, which is particularly detrimental to low-income households. The exchange rate and the interaction between foreign aid and corruption had a positive impact on poverty rate in the short run. This implies that, in the short term, fluctuations in the exchange rate and the negative influence of corruption on aid effectiveness do not have a direct or immediate impact on poverty reduction.

SJIF Impact Factor (2024): 8.282 Journal DOI: 10.36713/epra0003 ISSN: 2250 – 2017
International Journal of Global Economic Light (JGEL)
Volume: 10 | Issue: 11 | November 2024

Table 6: Estimated Long-Run Result Coefficients using the ARDL Approach

Variable	Coefficient	Std. Error	t-Statistic	Prob.
LNFAID	-0.169777	0.510329	-0.332682	0.7434
GDPG	0.042742	0.058689	0.728287	0.4764
POPG	2.471867	1.168230	2.115909	0.0494**
LNINF	0.627892	0.258569	2.428332	0.0266**
LNEXR	0.394677	0.179424	2.199693	0.0419**
LN_FAID_COR_	0.476386	0.411005	1.159075	0.2624
C	9.068424	3.585729	2.529032	0.0216**

Note * (**) (***) denotes null hypothesis at 10%, 5% and 1% respectively

In the long run, foreign aid had a negative and insignificant impact on poverty in the long run which indicates that foreign aid does not have a lasting, direct impact on reducing poverty. Economic growth and interaction term between foreign aid and corruption had a positive statistically insignificant effect on poverty in the long run. This suggests that corruption on the continues to undermine the effectiveness of foreign aid in reducing poverty, even in the long run, as resources may be diverted from productive uses. Population growth, inflation, and exchange rate all had a positive and significant impact on poverty growth during the period under consideration. This indicates that sustained inflationary pressures erode real income and worsen poverty over time, underscoring the critical need for stable monetary policies to protect the most vulnerable populations.

5. CONCLUSION AND RECOMMENDATIONS

5.1 Conclusion

The analysis reveals that foreign aid has complex and often mixed impacts on economic growth and poverty alleviation in Nigeria. Although foreign aid can stimulate economic growth in the short run, its effectiveness may reduce in the long run due to the high level of corruption and structural inefficiencies. In addition to this, persistent inflationary pressures exacerbate poverty highlighting the need for sound monetary policies and comprehensive economic reforms. The findings underscore the importance of implementing well-targeted and empirically backed policies that consider Nigeria's unique economic challenges.

5.2 Recommendations

1. **Policy Reforms and Transparency**: Strengthen governance and transparency mechanisms to ensure that foreign aid is channeled effectively into productive investments. Anti-corruption initiatives should be prioritized to reduce resource mismanagement.
2. **Diversifying the Economy**: Reduce over-reliance on oil exports by diversifying the economy through investments in sectors such as agriculture, manufacturing, and technology. This diversification can create more resilient and sustainable economic growth.
3. **Stable Monetary Policies**: Implement stable monetary policies aimed at controlling inflation. The Central Bank of Nigeria should adopt measures to stabilize prices and protect real income, thus safeguarding the most vulnerable populations.
4. **Investment in Human Capital**: Focus on skill development and education to improve job quality and reduce economic inequality. Vocational training and skill development programs can help bridge the gap between job quality and economic opportunity.
5. **Targeted Social Protection Programs**: Develop and expand social protection programs to support low-income households and mitigate the impact of economic shocks. Conditional cash transfers and subsidies for essential goods can provide immediate relief to those in need.
6. **Encourage Foreign Direct Investment (FDI)**: Create a conducive environment for foreign investors through favorable policies and infrastructure development. FDI can bring in much-needed capital, technology, and employment opportunities, boosting economic growth.

REFERENCES

1. *Adamu, I., Zasha, Z.T. and Umar, S., (2022) "Foreign aid and economic development in less developed countries (ldc): Nigeria at glance", Zamfara Journal of Politics and Development, 3(2), pp.14-14.*
2. *Adekunle, I.A., Ogunade, A.O., Ayantola, A.N. and Alabi, M.O., (2019) "Aids effectiveness and developmental outcomes in Nigeria", African Journal of Economic Review, 7(1), pp.206-218.*
3. *Adelowokan, O.A., Maku, O.E., Babasanya, A.O. and Adesoye, A.B., (2019) "Unemployment, poverty and economic growth in Nigeria", Journal of Economics and Management, 35(1), pp.5-17.*

4. *Ajisafe, R.A., (2017) "Macroeconomic Effects of Foreign Aids on Poverty Level in Nigeria", African Journal of Applied Research, 3(2), pp.1-14.*
5. *Akinyetun, T.S., (2022) Multidimensional Poverty in Nigeria. Springer Nature Switzerland AG 2022 A.*
6. *Farazmand (ed.), Global Encyclopedia of Public Administration, Public Policy, and Governance, https://doi.org/10.1007/978-3-319-31816-5_4363-1*
7. *Aluko, O.O., (2021) "An analysis of the nexus between foreign aid, economic growth and poverty alleviation in Nigeria from 1980-2019", Journal Of Development and Society, Faculty of Social Science - University of Abuja 5(2).*
8. *Azam, M., Haseeb, M. and Samsudin, S., (2016) "The impact of foreign remittances on poverty alleviation: Global evidence", Economics & Sociology, 9(1), p.264.*
9. *Chuba, M.A. and Ebhotemhen, W., (2019) "Savings, investment and economic growth nexus in Nigeria", Journal of Economics and Sustainable Development, 10(14), pp.73-82.*
10. *Ding, X., Huang, Y., Gao, W. and Min, W., (2021) "A comparative study of the impacts of human capital and physical capital on building sustainable economies at different stages of economic development", Energies, 14(19), p.6259.*
11. *Drăgoi, D., (2019) "Harrod-Domar economic growth model in classical and neoclassical theory", Annals of Constantin Brancusi University of Targu-Jiu. Economy Series, (6).*
12. *Efuntade, O.O., Efuntade, A.O. (2022) "Debt Servicing To Revenue Ratio (DSR) in the Context of Fiscal Space, Barro-Ricardian Equivalence and Debt Sustainability in Nigeria (General Outlook and Trend)", International Journal of Economics and Financial Management (IJEFM) 7(3)*
13. *Georgina, A. A. (2019) "Impact of foreign aid on poverty alleviation in Nigeria", International Journal of Advanced Economics, 1(3), pp.102-111.*
14. *Hassan, A.S., (2021) "Foreign aid and economic growth in Nigeria: The role of institutional quality", Studies of Applied Economics, 39(3).*
15. *Isiaka, N. A., & Makinde, W. A (2020) "Effect of Foreign Aids on Economic Growth in Nigeria",Canadian Social Science, 16(10), pp.26-36*
16. *Nigeria Multidimensional Poverty Index (2022) Available at MPI_web_Nov15_FINAL_2022 (5)[45].pdf (undp.org)*
17. *Offiong, A.I., Etim, G.S., Enuoh, R.O., Nkamare, S.E. and Bassey, G., (2020) "Foreign aid, corruption, economic growth rate and development index in Nigeria: The ARDL approach", Journal of Research in World Economy, 11 (5), 348.*
18. *Ogbodo, J.C. and Attamah, N., (2019) "Analysis of the Impact of Foreign Aid on Poverty Reduction in Nigeria, 1981-2017", Esut Journal Of Social Sciences, 4(1), pp. 120-139*
19. *Olayungbo, D.O., (2019) "Effects of oil export revenue on economic growth in Nigeria: A time varying analysis of resource curse", Resources Policy, 64, p.101469.*
20. *Ra, K.D.R., (2020) "Empirical Discussion of Technological Accumulation and Solow Growth Theory", Available at SSRN 3609294.*
21. *Ugwuanyi, U.B., Ezeaku, H.C. and Ibe, I.G., (2017) "The impact of official aid on poverty reduction: Empirical evidence from Nigeria (1981-2014) using the ARDL and bound test approach", European Journal of Sustainable Development, 6(2), pp.111-111.*